To: The Manager
Announcements
Company Announcements Office
Australian Stock Exchange

ALUMINA
LIMITED

Public Announcement 2005 – 7AWC

Attached, in accordance with Listing Rule 4.7, is a copy of Alumina Limited's Financial Annual Report 2004 that will be distributed to shareholders today.

Stephen Foster
Company Secretary

22 March 2005

Alumina Limited

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ALUMINA
LIMITED

Alumina Limited Financial Annual Report 2004

ALUMINA LIMITED AND CONTROLLED ENTITIES
FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

CONTENTS

The financial report covers both Alumina Limited as an individual entity and the consolidated entity of Alumina Limited and its controlled entities.

Alumina Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Alumina Limited, Level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006

STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2004

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
REVENUE FROM ORDINARY ACTIVITIES					
Proceeds from sale of investments in Specialty Chemicals assets	32	109.0	–	–	–
Other revenue from outside the operating activities		10.0	4.8	170.9	421.4
	2	119.0	4.8	170.9	421.4
EXPENSES FROM ORDINARY ACTIVITIES					
General and administrative		(8.4)	(12.6)	(7.5)	(11.3)
Costs of investment sold in Specialty Chemicals Business	32	(62.2)	–	–	–
Borrowing costs	3(a)	(8.1)	(8.7)	(8.3)	(9.0)
Share of net profits of associates accounted for using the equity method	10(i)	286.9	244.1	–	–
Profit from ordinary activities before related income tax		**327.2**	**227.6**	**155.1**	**401.1**
Income tax (expense)/credit	4(a)	(5.1)	9.3	(1.9)	2.5
Profit from ordinary activities after related income tax expense		**322.1**	**236.9**	**153.2**	**403.6**
Net (profit)/loss attributable to outside equity interest		–	–	–	–
Net profit attributable to members of Alumina Limited		322.1	236.9	153.2	403.6
Net exchange differences on translation of financial reports of self sustaining foreign operations	20(a)	2.2	28.4	–	–
Total revenues, expenses and valuation adjustments attributable to members of Alumina Limited and recognised directly in equity		**2.2**	**28.4**	–	–
Total changes in equity attributable to members of Alumina Limited other than from those resulting from transactions with owners as owners		**324.3**	**265.3**	**153.2**	**403.6**
Basic earnings per share	5	27.7c	20.9c	–	–
Diluted earnings per share	5	27.7c	20.9c	–	–
Dividends paid per share	6	20.0c	23.0c	20.0c	23.0c

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004

ALUMINA LIMITED AND CONTROLLED ENTITIES		Notes	Consolidated Entity $Million		Parent Entity $Million	
			2004	2003	2004	2003
CURRENT ASSETS	Cash assets	7	117.9	165.3	107.6	153.6
	Receivables	8	0.8	4.0	0.6	0.4
	Deferred tax assets		–	4.1	–	4.5
	Other	9	0.6	0.3	–	–
	Total current assets		**119.3**	**173.7**	**108.2**	**158.5**
NON-CURRENT ASSETS	Investments accounted for using the equity method	10	1,721.7	1,625.0	717.7	717.7
	Other financial assets	11	–	–	784.6	784.6
	Property, plant and equipment	12	0.3	0.4	0.3	0.4
	Total non-current assets		**1,722.0**	**1,625.4**	**1,502.6**	**1,502.7**
TOTAL ASSETS			1,841.3	1,799.1	1,610.8	1,661.2
CURRENT LIABILITIES	Payables	13	2.4	3.2	2.3	2.8
	Interest-bearing liabilities	14	397.9	467.0	397.9	467.0
	Current tax liabilities	15	–	2.5	–	2.5
	Provisions	16	0.1	0.1	0.1	0.1
	Other		10.7	2.3	2.1	2.4
	Total current liabilities		**411.1**	**475.1**	**402.4**	**474.8**
NON-CURRENT LIABILITIES	Payables	17	–	–	132.4	49.8
	Provisions	18	0.2	0.2	0.2	0.2
	Total non-current liabilities		**0.2**	**0.2**	**132.6**	**50.0**
TOTAL LIABILITIES			411.3	475.3	535.0	524.8
NET ASSETS			1,430.0	1,323.8	1,075.8	1,136.4
EQUITY	Parent entity interest:					
	Contributed equity	19	404.1	384.8	404.1	384.8
	Reserves:					
	- group	20	133.2	131.0	240.2	240.2
	Retained profits:					
	- group	20	358.5	400.3	431.5	511.4
	- associates	10(c)	534.2	407.7	–	–
TOTAL EQUITY			1,430.0	1,323.8	1,075.8	1,136.4

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees (inclusive of goods and services tax)		(13.5)	(7.9)	(12.6)	(6.7)
GST refund received		0.3	0.6	0.3	0.6
Proceeds from Guarantee		–	2.4	–	2.4
Dividends received from associates		160.4	284.2	148.0	266.9
Interest received		8.6	2.2	8.6	2.0
Borrowing costs		(7.8)	(8.3)	(7.8)	(8.3)
Income taxes refunded/(paid)		0.5	(4.7)	(0.2)	–
Net cash inflow from operating activities	21(a)	148.5	268.5	136.3	256.9
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		–	(0.3)	–	(0.3)
Proceeds from sale of Specialty Chemicals Business		109.0	–	–	–
Proceeds from share of premium reduction in associates		2.0	–	–	–
Loans to controlled entities		–	–	(41.1)	–
Payments for investment in associates		(41.1)	–	–	–
Other		3.5	–	(2.5)	–
Receipts from controlled entities		–	–	–	12.8
Net cash inflow/(outflow) from investing activities		73.4	(0.3)	(43.6)	12.5
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		19.3	56.2	19.3	56.2
Proceeds from borrowings		10.1	79.2	139.8	79.2
Repayment of borrowings		(64.7)	–	(64.7)	–
Dividends paid		(233.1)	(259.6)	(233.1)	(259.6)
Net cash outflow from financing activities		(268.4)	(124.2)	(138.7)	(124.2)
Net (decrease)/increase in cash held		**(46.5)**	**144.0**	**(46.0)**	**145.2**
Cash at the beginning of the financial year		165.3	23.2	153.6	8.4
Effects of exchange rate changes on cash		(0.9)	(1.9)	–	–
Cash at the end of the financial year	7(a)	117.9	165.3	107.6	153.6

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

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a Basis of accounting

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

b Principles of consolidation

The consolidated financial report is prepared on a consolidated entity basis for Alumina Limited (parent entity) and the entities it controls (controlled entities). Australian GAAP defines entity widely including any legal, administrative or fiduciary arrangement. All material controlled entities in the consolidated entity are companies. The economic entity consisting of Alumina Limited and its controlled entities is referred to in the financial report as 'the group'. In preparing the consolidated financial statements, the effects of all transactions between entities within the group are eliminated in full, including unrealised profits and losses on transactions with associates accounted for on an equity basis.

The allocation of profits, reserves and capital to outside equity interests is disclosed separately without any adjustments being made, except where the allocation of the outside equity share of losses would exceed the outside equity interest in capital and other reserves. In this case, the excess is borne by the parent entity shareholders until it is considered likely that the outside equity interest will make good the losses.

Where control of an entity is obtained during a financial year, 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 year, its results are included for that part of the year during which control existed. Interest in companies which the group does not control or exercise significant influence over are included in the accounts as investments, initially recorded at cost. Dividends receivable are taken into profits of the investing entity on the date of declaration. Associates are those entities over which the consolidated entity exercises significant influence, but not control. Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of financial performance, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

The group's share of the retained profits of associated entities is not available for payment of dividends to shareholders of Alumina Limited, except to the extent that those profits are later received as dividends from the associated entities concerned and such dividends do not represent a recoupment of the cost or revalued amount of the investments concerned.

Accounting policies adopted by associated entities are generally consistent with those of the group but, where necessary, the results of associated entities are restated in order to comply with the accounting policies of the group. Any remaining differences would not materially affect the amounts reflected in the consolidated results of the group.

The group does not use the cost method to account for any entities for which there is greater than 20% ownership.

c Income tax

The liability method of tax effect accounting is used, whereby the income tax expense for the year is matched with the accounting profit after allowing for permanent differences. The income tax effect of significant permanent differences on the tax expense for the year is set out in Note 4. Income tax set aside on cumulative timing differences is brought to account as either a provision for deferred income tax or an asset described as deferred tax asset at the rate of income tax applicable to the period in which the liability will become payable or the benefit will be received.

The deferred tax asset relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. The deferred tax asset relating to timing differences is not carried forward as an asset unless its realisation is assured beyond any reasonable doubt.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d Foreign currency translation

Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. The subsequent payment or receipt of funds relating to that transaction is translated at the rate applicable on the date of payment or receipt. Any such amounts outstanding at balance date are translated at the rate of exchange prevailing on the balance date. Resulting exchange differences that are related directly to property, plant and equipment under construction or development, net of the effects of a hedge of the monetary item, are recorded as part of the cost of property, plant and equipment, while all other exchange differences are brought to account in determining the profit or loss.

Controlled foreign entities

The accounts of self-sustaining controlled foreign entities that report in currencies other than Australian dollars are translated into Australian currency using rates of exchange current at balance date for assets and liabilities, and actual or an average of rates ruling during the reporting period for revenues and expenses. Equity is translated at historical rates. All exchange gains and losses arising on these translations are taken to the foreign currency translation reserve.

Upon disposal of a self-sustaining controlled foreign entity the balance of the foreign currency translation reserve relating to the operation is transferred to retained profits.

The exchange gains and losses arising on those foreign currency borrowings (net of gains and losses on any related specific hedge contracts) that are designated as hedges of investments in self-sustaining controlled foreign entities are offset in the foreign currency translation reserve against the exchange gains and losses arising on the translation of the net assets of those entities. These circumstances represent an effective natural hedge.

For integrated controlled foreign entities, monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in determining the profit or loss.

e Receivables

All trade debtors are recognised as the amounts receivable upon settlement. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision is raised when some doubt exists about collection.

f Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and out flows arising from its continued use and subsequent disposal. Recoverable amounts of non-current assets are assessed based on undiscounted future net cash flows expected to be generated from the assets. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The values of assets are reviewed on an ongoing basis and, where the carrying amount exceeds recoverable amount, the carrying amounts of non-current assets are written down to the lower of their recoverable amount or market value. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

g Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value.

h Intangible assets and expenditure carried forward

(i) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight-line basis over 20 years.

(ii) Mineral rights

Aquired exploration properties are carried as an asset.

If the aquired exploration property is developed, the acquisition cost will be amortised over the mine life. The carrying value of the acquisition payment will be subject to an ongoing impairment test.

If a decision is made not to develop an aquired exploration property, an immediate write-off of the carrying value would occur. If the full acquisition cost is recoverable (value of the project, including acquisition cost is greater than zero), then the acquisition cost will be amortised over the life of the mine. If the value is less than zero, then the shortfall will be written off against the carrying value and the balance amortised over the life of the mine.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land and investment properties) over its expected useful life to the consolidated entity.

Office furniture	8 years
Computers and other office equipment	4 years

j Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs relate to interest on short-term borrowings and certain exchange differences arising from foreign currency borrowings.

k Trade and other creditors

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

l Employee benefits

(i) Salaries and annual leave

Liabilities for salaries and annual leave are recognised in current provisions (i.e. expected to be settled in 12 months), and are measured as the amount unpaid at reporting date at expected pay rates in respect of employees' services up to that date, including related on-costs.

(ii) Long service leave

Long service leave is an additional form of compensated leave to which Australian employees become entitled after a qualifying period of generally ten years of continuous service. It accrues at the rate of 1.3 weeks leave per year of service.

A liability for long service leave is recognised in non current provisions (i.e. not expected to be settled within 12 months), and is measured as the present value based on expected pay rates in respect of services provided by employees up to the reporting date, including related on-costs.

(iii) Employee Shares and Bonus Plans

Liabilities for employee benefits in the form of employee shares and bonus plans are recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions are met:

- There are formal terms in the plan for determining the amount of the benefit,
- The amounts to be paid are determined before the completion of the financial report, or
- Past practices gives clear evidence of the amount of the obligation.

Liabilities for employee share plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iv) Superannuation

Since 27 July 2001, all employer contributions and ongoing management of employees' superannuation entitlements have been managed by the WMC Superannuation Plan, an independently managed sub-plan of the Plum Superannuation Fund. Alumina employees are members of a sub-plan of the WMC Superannuation Plan, created specifically for Alumina. The plan is an accumulation category plan which offers a minimum company contribution (subject to certain cashing out options and legislation) of 9 per cent of basic salary to each member's account. Members also have the option to make voluntary contributions to their account. Employer contributions to these funds are recognised as an operating cost.

Plan membership is compulsory for all Australian resident employees and Australian expatriates, and provides lump sum benefits on retirement, permanent disability, death, resignation and retrenchment.

m Interest-bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

n Dividends

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

o Earnings per share

(i) Basic earnings per share

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

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

p Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission (ASIC), relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or as otherwise indicated.

q International financial reporting standards

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS (AIFRS), and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 30 June 2005 and the year ending 31 December 2005.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 January 2004.

Assessment and Planning Phase

Alumina's AIFRS project is focused on three key areas:

1 Equity accounting for its 40% ownership of Alcoa of Australia. Alcoa of Australia will transition to AIFRS at the same time as Alumina Limited.

2 Equity accounting for its 40% ownership of the remaining AWAC entities, excluding Alcoa of Australia. Financial information supplied to Alumina from AWAC is currently prepared using US Generally Accepted Accounting Principles (US GAAP), with adjustments provided for the GAAP differences to allow Alumina to produce Australian GAAP reports.

3 Consolidated accounting for Alumina and its controlled entities.

Alumina's project is being managed by the Chief Financial Officer. The project to date has involved reviewing AIFRS for their impact on Alumina and monitoring Alcoa of Australia's progress via Alumina's Directorships on the Alcoa of Australia Board and interaction between the appropriate staff in Alcoa of Australia and Alumina Limited. In addition, Alumina is monitoring the IFRS project of the remaining AWAC entities through regular review of their progress and analysis papers prepared.

The progress of Alumina's own project is necessarily reliant on AWAC's project, as the majority of key impacts for Alumina will arise from its equity accounting of AWAC. Alcoa of Australia will transition to AIFRS concurrently with Alumina and will provide details of the changes from current Australian Accounting Standards to AIFRS as well as the key differences between AIFRS and US GAAP. Alcoa of Australia's AIFRS project is well advanced, and the information obtained from the project is currently being used to identify and quantify other AWAC entities' key GAAP differences.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on a review of AIFRS, a number of key differences in accounting policies are expected to arise from adopting the new standards. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity. The impact of the standards is in the process of being quantified but this process has not yet been completed.

To date we have identified the following key differences in accounting policies that are expected to arise from adopting AIFRS

Income Tax AASB 112	• Under AASB 112 Income Taxes, deferred tax balances are determined using the "balance sheet method" replacing the "income statement method" currently used. The new method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. Under the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting result and/or taxable income/(loss). • Alumina and AWAC have commenced individual projects to quantify the likely impacts. This process has yet to be completed.
Intangible Assets – Goodwill AASB 3	• Under AASB 3 Business Combinations, amortisation of goodwill will be prohibited, and will be replaced by impairment testing which will be performed at least annually. • This will result in a change to the current accounting policy. Previously, goodwill was amortised on a straight line basis over 20 years. Goodwill amortised in the year was $16.2 million.
Asset Impairment AASB 136	• AIFRS requires asset impairment testing based on a different method for aggregation of assets than the current standard AASB 1010. This could potentially lead to different impairment test outcomes. Under AIFRS aggregation is based on "cash generating units" which is deemed to be the smallest identifiable group of assets that generates independent cash inflows. The current standard uses "class of non-current assets", which aggregates non-current assets with a similar nature or function. • AIFRS also requires calculation of the present value of the future cash flows associated with the assets to determine recoverable amount. • The potential impact is increased volatility of earnings through the statement of financial performance if the impairment test is not met.
Employee Benefits AASB 119	• Under current Australian Standards, Alumina does not account for any excess or shortfall of the Superannuation Fund assets over accrued membership benefits. • AWAC has defined benefit pension/superannuation plans. • On adoption of AASB 119, Alumina will make a retrospective adjustment to opening balances (1 January 2004) for the net position of each plan. The adjustment will impact the statement of financial position line item "Investment in Associates" with a corresponding adjustment to opening retained earnings. After the transition adjustment, further movements in the net position of the scheme will be recognised in the statement of financial performance; however recent revisions to AASB 119 may result in actuarial gains and losses being taken to retained earnings, with no adjustment to reported profit.
Rehabilitation and Closedown costs AASB 137	• Under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", full provision for rehabilitation and closedown costs are required to be disclosed for the cost of treating current disturbance. It is not anticipated that the new standard will have any material impact on the disclosures in Alumina's financial statements, as it is consistent with Alumina's current accounting policy. • AWAC has assessed and documented, in detail, its obligations and provisions. • No significant impact is anticipated from this standard.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Currency
AASB 121

- Under AASB 121, "The Effects of Changes in Foreign Exchange Rates" an entity must determine its functional currency for measurement of all amounts within financial statements and also choose the currency in which it will present its financial statements.
- The standard also states that functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity.
- Alumina, through its investment in AWAC and its financing activities, has significant exposure to exchange rate fluctuations. As such, management has undertaken a comprehensive review of the functional and presentation currency options available under AASB 121.
- In the event that Alumina's functional and presentation currency is changed, it will apply the translation procedures applicable to the new functional and presentation currency, prospectively from the date of the change.
- The impact of these changes, should a change in functional currency and presentation currency be deemed appropriate, is yet to be quantified.

Financial Instruments
AASB 132
AASB 139

- Under AASB 132 Financial Instruments: "Disclosure and Presentation", the current classification of financial instruments issued by the entity is not anticipated to change.
- Alumina has a hedging relationship between its US dollar denominated investments in AWAC and its US dollar denominated debt. Alumina has adopted hedge accounting principles as governed by AASB 139. All relevant hedging documentation has been put in place.
- AIFRS recognises fair value hedge accounting when effectiveness tests are met. Ineffective portions will be recorded in the period incurred through the statement of financial performance.
- AWAC commenced a detailed review under the standard, including an analysis of the structure of key contracts and the valuation of embedded derivatives. Initial tests indicate the presence of embedded derivatives, however the impacts have not been quantified.
- There will be an initial impact on retained earnings and subsequently a potential increase in volatility of reported results if effectiveness tests are not met.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRS as not all standards have been analysed as yet, and decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to AIFRS on the consolidated entity's financial position and reported results.

Implementation Phase

The implementation phase will involve both implementation of the required changes to accounting and business procedures and processes, and training of operational staff to be able to enact them.

Alumina set up a project team to commence detailed work with the Alcoa of Australia project team from August 2004, to understand and obtain the key variances between AIFRS to US GAAP, and to work with Alcoa USA to obtain adjustments from US GAAP to AIFRS for the remainder of AWAC. It is anticipated that the project will be completed by 30 April 2005. Any changes to accounting policies will require Audit Committee approval.

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 2 REVENUE					
Proceeds from sale of investment in Specialty Chemicals assets	32	109.0	–	–	–
Other revenue from outside the operating activities					
Dividends received from associates		–	–	148.0	266.9
Interest received/receivable		8.9	2.4	8.8	2.2
Guarantee fee received		–	2.4	–	2.4
Foreign exchange gains (net)	3(b)	1.1	–	14.1	149.9
Total other revenue from outside the operating activities		10.0	4.8	170.9	421.4
Revenue from ordinary activities		119.0	4.8	170.9	421.4
NOTE 3 PROFIT FROM OPERATING ACTIVITIES					
Profit from ordinary activities before income tax includes the following expenses and net gains:					
Expenses					
Amortisation:					
- equity goodwill		16.2	17.7	–	–
Depreciation:					
- plant and equipment		0.1	–	0.1	–
Total amortisation and depreciation allocated		16.3	17.7	0.1	–
Borrowing costs	3(a)	8.1	8.7	8.3	9.0
Provision for employee entitlements*		–	0.1	–	0.1
Contributions to the superannuation fund:					
- accumulation category		0.2	0.1	0.2	0.1
Operating lease rentals		0.1	0.1	0.1	0.1
*Due to rounding, employee entitlements are shown as nil.					
a **Borrowing costs**					
Interest and finance charges paid/payable:					
- unrelated corporations		8.1	8.7	8.1	8.7
- related corporations		–	–	0.2	0.3
		8.1	**8.7**	**8.3**	**9.0**
Interest received/receivable:					
- unrelated corporations		(8.9)	(2.4)	(8.8)	(2.2)
	2	**(8.9)**	**(2.4)**	**(8.8)**	**(2.2)**
Net borrowing cost/(income)		(0.8)	6.3	(0.5)	6.8
b **Net gains**					
Net gain on disposal of Speciality Chemicals assets					
- Investments		18.8	–	–	–
Foreign exchange gains		1.1	–	14.1	149.9

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 4 INCOME TAX					
Income tax expense					
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:					
a Profit from ordinary activities before income tax		327.2	227.6	155.1	401.1
(Excess)/shortfall of dividends received/receivable over equity share of profits		(126.5)	40.1	–	–
Profit from ordinary activities before income tax expense		200.7	267.7	155.1	401.1
Prima facie tax expense at the rate of 30% (2003 – 30%)		(60.2)	(80.3)	(46.5)	(120.3)
The following items caused the total charge for income tax to vary from the above:					
Rebateable and exempt dividends		160.4	284.2	148.0	266.9
Exchange gains		–	–	13.6	136.0
Non-assessable capital gains		46.8	–	–	–
Non-deductible expenses		(7.9)	(10.0)	(7.9)	(10.0)
Net movement		199.3	274.2	153.7	392.9
Tax effect of the above adjustments at 30% (2003: 30%)		59.8	82.3	46.1	117.9
Recognition of deferred tax assets not previously brought to account		–	–	–	0.3
Attribution income tax on Speciality Chemicals asset sale		(4.0)	–	–	–
Withholding tax		(1.1)	(1.4)	–	–
Tax losses from prior years brought to account		0.4	4.6	0.4	4.6
Over provision of tax in prior years		–	4.1	(1.9)	–
Consequent reduction in charge for income tax		55.1	89.6	44.6	122.8
Aggregate Income tax (expense)/credit for the year		(5.1)	9.3	(1.9)	2.5
b Tax losses and other timing differences					
As at 31 December the following after tax effect of deferred tax assets has not been brought to account, and are attributable to:					
- income tax losses		49.2	35.5	2.1	0.7
- capital losses		321.3	321.2	321.2	321.2
		370.5	356.7	323.3	321.9

The benefits for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income within the prescribed time limit of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

c Tax Consolidation Regime

Alumina Limited and its' wholly owned Australian subsidiaries have decided to implement the tax consolidation regime as of 1 January 2004. The Australian Tax Office has not yet been notified of this decision but will be notified when Alumina Limited lodges its consolidated income tax return. No material adjustments are anticipated to result from the implementation of the legislation. The wholly owned Australian subsidiaries have not compensated Alumina Limited for deferred tax assets or liabilities tranferred to Alumina Limited. The entities have not yet entered into a tax sharing and funding agreement.

d Deferred tax balances

Due to rounding, deferred tax assets are shown as nil in 2004. Due to rounding, deferred tax liabilities are also shown as nil in the current year (2003: nil).

ALUMINA LIMITED AND CONTROLLED ENTITIES

		Consolidated Entity 2004	Consolidated Entity 2003
NOTE 5 EARNINGS PER SHARE			
Basic earnings per share	cents	27.7	20.9
Diluted earnings per share	cents	27.7	20.9

	Number of Shares 2004	Number of Shares 2003
Weighted average number of ordinary shares used as the denominator in the calculation of earnings per share		
Basic earnings per share	1,161,164,129	1,132,189,594
Effect of options and partly paid shares on issue	897,367	2,276,335
Diluted earnings per share	1,162,061,496	1,134,465,929

a Information concerning classification of securities

No employee options were issued during the year.
Options issued in previous financial years are considered dilutive.

b Conversion, call, subscription or issue after 31 December 2004

In the period from 31 December 2004 to 23 February 2005, the following movements in share capital and options on issue have taken place:

	Number of options	Exercise price
Options exercised	500,900	Various
Options lapsed	–	Various

c Net profit used in the calculation of earnings per share

	$Million 2004	$Million 2003
Net profit attributable to members of Alumina Limited used in the calculation of basic and diluted earnings per share	322.1	236.9

ALUMINA LIMITED AND CONTROLLED ENTITIES	Consolidated Entity $Million		Parent Entity $Million	
	2004	2003	2004	2003
NOTE 6 DIVIDENDS				
Interim dividend No. 50 of 10 cents fully franked at 30% per fully paid share declared 29 July 2004 and paid 6 September 2004 (2003: 10 cents fully franked at 30% per fully paid share, paid 10 September 2003).	116.1	112.9	116.1	112.9
Final dividend No. 49 of 10 cents fully franked at 30% per fully paid share, paid on 30 March 2004 (2003: 13 cents fully franked at 30% per fully paid on 8 April 2003).	116.1	146.7	116.1	146.7
	232.2	259.6	232.2	259.6

a **Dividends not recognised at year end**

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend No. 51 of 10 cents franked to 7.5 cents at 30% per fully paid share, declared 2 February 2005 and payable on 31 March 2005. The aggregate amount of the proposed dividend expected to be paid out of retained profits at 31 December 2004, but not recognised as a liability at year end (refer note 1(n)) is $116.3 million.

b **Franked dividends**

Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in these financial statements:

	Consolidated 2004	Consolidated 2003	Parent 2004	Parent 2003
Class ‘C’ (30%) franking credits available for subsequent financial years, based on a tax rate of 30% (2003: 30%)	1.9	38.3	1.9	38.3
The fully franked dividends received from Alcoa of Australia Limited (“AofA”) in the financial year were	148.0	266.9	148.0	266.9

The shortfall between the balance of the franking account credits and the franking credits required for final dividend 51 is obtained from the fully franked dividend from “AofA” due for payment during 2005.

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

a franking credits that will arise from the payment of the current tax liability;

b franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;

c franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and

d franking credits that may be prevented from being distributed in subsequent financial years.

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 7 CURRENT ASSETS – CASH ASSETS					
Cash at bank and on hand		17.7	41.7	7.4	30.0
Money market deposits (maturity of three months or less)		100.2	123.6	100.2	123.6
		117.9	165.3	107.6	153.6
a Reconciliation of cash					
For the purposes of the statements of cash flows, cash represents cash on hand, at the bank and on short-term deposit (maturity of three months or less) less bank overdrafts:					
Cash assets		117.9	165.3	107.6	153.6
		117.9	165.3	107.6	153.6
NOTE 8 CURRENT ASSETS – RECEIVABLES					
Interest Receivable		0.5	0.3	0.5	0.3
Australian Taxation Office – tax refund		–	3.6	–	–
Other debtors		0.3	0.1	0.1	0.1
		0.8	4.0	0.6	0.4
NOTE 9 CURRENT ASSETS – OTHER					
Employee share plan shares	29	0.6	–	–	–
Other		–	0.3	–	–
		0.6	0.3	–	–
NOTE 10 INVESTMENTS IN ASSOCIATES					
a Securities not quoted on a prescribed stock exchange					
Securities in entities forming Alcoa World Alumina and Chemicals (AWAC) with Alcoa Inc.					
Securities at cost:					
Balance brought forward		1,217.3	1,220.9	717.7	609.3
Investment in Juruti bauxite reserves in Brazil		51.1	–	–	–
Increase in investment in Alcoa of Australia		–	108.4	–	108.4
Decrease in investment following sale of Chemicals assets		(62.2)	–	–	–
Foreign currency revaluation		(18.7)	(112.0)	–	–
Equity accounted cost of AWAC		**1,187.5**	**1,217.3**	**717.7**	**717.7**
Equity in retained profits of AWAC	10(c)	534.2	407.7	–	–
Equity accounted carrying value of AWAC		1,721.7	1,625.0	717.7	717.7

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 10 INVESTMENTS IN ASSOCIATES (continued)					
b Equity accounted share of profits and dividends					
Equity share of profits before tax and goodwill		486.7	383.5		
Equity goodwill amortisation		(16.2)	(17.7)		
		470.5	**365.8**		
Equity share of tax		(155.6)	(121.7)		
Equity accounted share of profit after tax		**314.9**	**244.1**		
Loss on sale of Specialty Chemicals assets directly held by AWAC subsidiaries (net of tax)		(28.0)	–		
Dividends received/receivable by Alumina		(160.4)	(284.2)		
Excess/(shortfall) of AWAC equity accounted profit over dividends received/receivable	10(c)	**126.5**	**(40.1)**		
c Share of retained profits					
Excess/(shortfall) of AWAC equity accounted profit over dividends received/receivable		126.5	(40.1)		
Transfer from reserves		–	101.3		
Balance brought forward		407.7	346.5		
Total equity share in retained profits carried forward		534.2	407.7		
d Equity accounted share of reserves of associated entities					
AWAC					
Opening balance		–	101.3		
Transfer to retained profits		–	(101.3)		
Total equity share of reserves		–	–		

e Accounting policies

(i) The audited consolidated financial statements of the entities forming AWAC are prepared in accordance with US Generally Accepted Accounting Principles (US GAAP). Except for Alcoa of Australia Limited ("AofA"), the reported profit after tax of AWAC is based on these US GAAP financial statements. Financial statements in US dollars have been translated to Australian dollars using average exchange rates for the period for profit and loss items, and closing rates for balance sheet items. Adjustments are made for accounting policies not allowed under Australian Generally Accepted Accounting Principles. The principal adjustments are to the valuation of inventories from last-in-first-out basis to a basis equivalent to weighted average cost, to treat the cost of stock options issued under the Alcoa employee long term incentive plan as a charge against profit and to reverse any excesses or shortfalls of the superannuation fund assets over accrued membership benefits taken to the statement of financial performance.

(ii) Included in the equity accounted carrying amount at which the equity investment in AWAC is recorded, are amounts for goodwill, including profits realised in forming AWAC, of A$136.5 million (2003: A$175.0 million) which are being amortised over periods out to 2014. During the year A$22.4 million of goodwill was disposed of following the sale of the Speciality Chemicals assets.

f On an equity accounted basis, the investment is recorded at net cost, and a share of profit is recognised after deduction of equity goodwill amortisation.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 10 INVESTMENTS IN ASSOCIATES (continued)

g Additional information on associated entities

Name	Principal activities	Percentage equity 2004	Percentage equity 2003
(i) Entities forming AWAC			
Alcoa of Australia Ltd	Fully integrated aluminium production	40	40
Alcoa World Alumina LLC	Production of alumina & alumina based chemicals	40	40
Alcoa Chemie Nederland BV*	Production of alumina based chemicals	–	40
Alcoa Chemie GmbH*	Production of alumina based chemicals	–	40
Abalco S.A.	Production of bauxite and alumina	40	40
Alcoa Caribbean Alumina Holdings LLC	Holding company	40	40
Alumina Espanola S.A.	Production of alumina & alumina based chemicals	40	40
Omnia Minerios Ltda.	Hold bauxite exploration rights	40	–
Matapu Sociedade de Mineracao Ltda.	Hold bauxite exploration rights	40	–
Mineracao Sao Jorge Ltda.	Hold bauxite exploration rights	40	–
(ii) Other associates			
Agnew Pastoral Company Pty. Ltd.	Manage pastoral leases	40	40
Weebo Pastoral Company Pty. Ltd.	Manage pastoral leases	40	40

* Both Alcoa Chemie Nederland BV and Alcoa Chemie GmbH were sold in December 2003, but only brought to account in 2004.

AWAC has a governing strategic council of five members of which Alumina appoints two members, including the Deputy Chairman.

	$Million 2004	$Million 2003
h Expenditure commitments and contingent liabilities		
Other expenditure commitments contracted for, including long term commitments for gas and electricity	2,279.2	1,930.9

Alcoa of Australia Ltd ("AofA") is party to a number of natural gas and electricity contracts that expire between 2005 and 2025. Under these take or pay contracts, AofA is obligated to pay for a minimum of natural gas or electricity even if these commodities are not required for operations.

Unascertainable unsecured contingent liabilities

Various lawsuits and claims and proceedings have been, or may be, instituted or asserted against entities within AWAC, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot be determined now because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on currently available facts, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on AWAC's financial position.

Pursuant to the terms of the AWAC Formation Agreement, Alcoa and Alumina have agreed to remain liable for Extraordinary Liabilities (as defined in the agreement) as well as for certain other pre-formation liabilities, such as existing environmental conditions, to the extent of their pre-formation ownership of the company or asset with which the liability is associated.

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	$Million 2004	$Million 2003
NOTE 10 INVESTMENTS IN ASSOCIATES (continued)			
i Alumina's share of aggregate incorporated joint ventures:			
Current assets		616.9	499.4
Non-current assets		1,678.3	1,811.7
Current liabilities		(448.1)	(379.2)
Non-current liabilities		(407.1)	(478.3)
Minority interest		–	(3.6)
Net assets		**1,440.0**	**1,450.0**
Mineral rights and bauxite assets		145.2	–
Goodwill		136.5	175.0
Carrying value	10(a)	**1,721.7**	**1,625.0**
Revenues		2,080.9	2,041.7
Expenses		(1,594.2)	(1,658.2)
Profit before income tax		**486.7**	**383.5**
Loss on sale of Specialty Chemicals Business		(28.0)	–
Income tax charge		(155.6)	(121.7)
Profit after income tax		303.1*	261.8*

* Excludes amortisation of goodwill of A$16.2 million (2003:A$17.7 million). Total share of net profit of associates accounted for using the equity method is A$286.9 million (2003: A$244.1 million).

	Notes	Consolidated Entity $Million 2004	Consolidated Entity $Million 2003	Parent Entity $Million 2004	Parent Entity $Million 2003
NOTE 11 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS					
Investments in controlled entities	24	–	–	**784.6**	**784.6**
Investments in controlled entities					
Cost				788.0	788.0
Provision for diminution in value of investments				(3.4)	(3.4)
				784.6	784.6

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 12 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT					
Plant and equipment	12(a)	0.3	0.4	0.3	0.4
a Plant and equipment					
Cost		0.4	0.4	0.4	0.4
Provisions for depreciation and write-off		(0.1)	–	(0.1)	–
		0.3	0.4	0.3	0.4
b Reconciliations					
Reconciliation of the carrying amount at the beginning and end of the current financial year is set out below:					
Carrying amount at 1 January 2004		0.4	–	0.4	–
Additions		–	0.4	–	0.4
Depreciation/amortisation expense*		(0.1)	–	(0.1)	–
Carrying amount at 31 December 2004		0.3	0.4	0.3	0.4

* Due to rounding, the depreciation for 2003 is shown as nil.

NOTE 13 CURRENT LIABILITIES – PAYABLES					
Trade creditors		1.5	2.6	1.4	2.2
Other creditors		0.9	0.6	0.9	0.6
		2.4	3.2	2.3	2.8
NOTE 14 CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES					
Unsecured:					
Borrowings	14(a)	397.9	467.0	397.9	467.0
These borrowing are under two 364 day rolling facilities, both of which have a three monthly maturity cycle. As a result all borrowings have been classified as being current liabilities.					
a Description					
Bank loans at floating interest rates applicable in the United States of America (Weighted average rate of 1.7% (2003 – 1.4%) and are repayable in one year or less.		397.9	467.0	397.9	467.0
b Currencies					
The above borrowings are due in the following currency:					
US dollars		311.0	351.0	311.0	351.0
A$ equivalent of above currency		397.9	467.0	397.9	467.0
c Exchange rates					
Exchange rates at balance date used in translations: A$1 = US$		0.7819	0.7516	0.7819	0.7516

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 15 CURRENT LIABILITIES – CURRENT TAX LIABILITIES					
Income tax		–	2.5	–	2.5
NOTE 16 CURRENT LIABILITIES – PROVISIONS					
Employee benefits	29	0.1	0.1	0.1	0.1
NOTE 17 NON-CURRENT LIABILITIES – PAYABLES					
Loans from controlled entities		–	–	132.4	49.8
NOTE 18 NON-CURRENT LIABILITIES – PROVISIONS					
Employee benefits	29	0.2	0.2	0.2	0.2
The aggregate of provisions for employee benefits as shown in Notes 16 and 18 are $0.3 million (2003: $0.3 million).					
NOTE 19 CONTRIBUTED EQUITY					
Ordinary share capital issued and fully paid					
Balance brought forward		384.8	220.2	384.8	220.2
Shares issued		19.3	56.2	19.3	56.2
Shares issued to acquire QBE's 0.75% share of Alcoa of Australia		–	108.4	–	108.4
Total issued capital		404.1	384.8	404.1	384.8

		Number of fully paid shares		Number of partly paid shares	
		2004	2003	2004	2003
Movements in ordinary share capital					
Opening number of shares		1,159,557,148	1,128,112,347	–	–
Issued under Employee Share Scheme	19(a)	3,553,900	13,071,920	–	–
Allotment for purchase of 0.75% of Alcoa of Australia	19(b)	–	18,372,881	–	–
Closing number of shares		1,163,111,048	1,159,557,148	–	–

Year of issue	Granted in 2004	Exercised in 2004	Outstanding as at 31 December 2004	Exercise Price	Expiry Date
1999	–	1,495,600	–	$4.52	20 December 2004
2000	–	777,100	1,209,300	$4.04	18 December 2005
2001	–	1,281,200	3,296,400	$5.02	30 November 2006
Total	–	3,553,900	4,505,700		

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 19 CONTRIBUTED EQUITY (continued)

a The establishment of the WMC Employee Share Scheme was approved by shareholders at the Annual General Meeting held on 12 December 1987. Under the Scheme a number of share plans have operated. Fully paid shares, partly paid shares and share options have been granted to employees since establishment of the Scheme. All permanent employees (including executive directors) of Alumina Limited and its subsidiaries who were employed by the company or a subsidiary were eligible to participate in the WMC Employee Share Scheme and be offered options for fully paid shares. Existing options allotted to Alumina employees remain exercisable until such time as their exercise periods expire. There is no ongoing option plan available to Alumina Limited directors or employees. Under the Scheme, no issues have been made during the current year.

b 18,372,881 fully paid shares were allotted at $5.90 per share to facilitate Alumina Limited's acquisition of QBE Limited's 0.75% interest in Alcoa of Australia in December 2003- refer note 21(d).

c Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of, and amounts paid on, the shares held.

	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 20 RESERVES AND RETAINED PROFITS					
Reserves					
Asset revaluation reserve		34.3	34.3	141.4	141.4
Asset realisation reserve		–	–	84.9	84.9
Capital reserve		16.5	16.5	13.9	13.9
Foreign currency translation reserve	20(a)	82.4	80.2	–	–
		133.2	131.0	240.2	240.2
a Foreign currency translation reserve					
Balance brought forward		80.2	51.8		
Transfers to retained earnings		4.3	–		
Difference on translation of self sustaining foreign entities		(17.5)	(118.6)		
Revaluation of naturally hedged net monetary liabilities		15.4	147.0		
Balance carried forward		82.4	80.2		

b **Nature and purpose of reserves**

(i) Asset revaluation reserve

The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares and is only available for the payment of cash dividends in limited circumstances as permitted by law.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of self sustaining controlled foreign entities are taken to the foreign currency translation reserve as described in accounting policy note 1(d).

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 20 RESERVES AND RETAINED PROFITS (continued)					
c **Retained profits**					
Retained profits at the beginning of the financial year:					
- group		400.3	382.9	511.4	367.4
- associates/jointly controlled entities		407.7	346.5	–	–
		808.0	**729.4**	**511.4**	**367.4**
Net profit/(loss) attributable to the members of Alumina Limited		322.1	236.9	153.2	403.6
Dividend provided for or paid		(233.1)	(259.6)	(233.1)	(259.6)
Transfer from reserves following sale of Speciality Chemicals assets		(4.3)	–	–	–
Transfer from reserves following revaluation of non current assets in Alcoa of Australia		–	101.3	–	–
Retained profits at the end of the financial year		892.7	808.0	431.5	511.4
Retained profits at the end of the financial year:					
- group		358.5	400.3		
- associates	10(c)	534.2	407.7		
		892.7	808.0		
NOTE 21 NOTES TO THE STATEMENTS OF CASH FLOWS					
a **Reconciliation of operating profit after income tax to net cash inflow from operating activities**					
Operating profit after income tax and earnings of associates		322.1	236.9	153.2	403.6
(Excess)/shortfall of equity accounted profits over dividends received (gross of goodwill amortisation)		(142.8)	22.3	–	–
Depreciation and amortisation	3	16.3	17.7	0.1	–
Profit on sale of Speciality Chemicals assets	32	(46.8)	–	–	–
Net exchange differences		(1.1)	(4.8)	(14.1)	(149.9)
Sub total		**147.7**	**272.1**	**139.2**	**253.7**
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:					
(Increase)/decrease in:					
- receivables		0.3	(1.7)	(0.2)	1.9
- deferred tax assets		4.1	(4.1)	4.5	(4.5)
- other assets		(0.3)	0.6	–	0.9
(Decrease)/increase in:					
- payables		(0.8)	0.7	(4.4)	0.5
- current tax liabilities		(2.5)	0.8	(2.5)	2.5
- deferred tax liabilities		–	(2.2)	–	(0.5)
- other liabilities		–	2.3	(0.3)	2.4
Net cash inflow from operating activities		148.5	268.5	136.3	256.9

b **Acquisition/disposal of controlled entities**

On 30 December 2004, a 100% interest in a new subsidiary, Butia Participaçoes SA was acquired.

c **Financing facilities** Refer to Note 22.

d **Non cash financing and investing activities**

There were no non-cash financing and investing activities in 2004. In 2003 consideration of 18,372,881 shares in Alumina Limited was issued to acquire 0.75% of Alcoa of Australia.

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 22 FINANCING FACILITIES					
The total facilities available at balance date were as follows:					
Short term loan facilities	22(b)	700.0	700.0	700.0	700.0
Used at balance date		397.9	467.0	397.9	467.0
Available at balance date		302.1	233.0	302.1	233.0
a The loan facilities are denominated in currencies as follows:					
Short term loan facilities					
Denominated in Australian dollars		50.0	50.0		
Denominated in United States dollars		650.0	650.0		

b The short term bank loan facilities are available for general corporate purposes. All facilities are 364 day facilities. The short term facilities will be refinanced during the course of 2005.

NOTE 23 FINANCIAL INSTRUMENTS

A Interest rate risk

The group is exposed to interest rate risk on its outstanding interest bearing liabilities and investments.

a *Interest rate risk exposure*

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

As at 31 December 2004 — Fixed interest maturing in:

$Million	Note	Floating interest	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial Assets							
Cash assets	7	117.9	–	–	–	–	117.9
Receivables	8	–	–	–	–	0.8	0.8
		117.9	–	–	–	0.8	118.7
Weighted average interest rate		5.3%					
Financial Liabilities							
Payables	13	–	–	–	–	2.4	2.4
Bank loans	14	397.9	–	–	–	–	397.9
		397.9	–	–	–	2.4	400.3
Weighted average interest rate		1.7%					
Net financial (liabilities)		(280.0)	–	–	–	(1.6)	(281.6)

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 23 FINANCIAL INSTRUMENTS (continued)

As at 31 December 2003

$Million	Note	Floating interest	Fixed interest maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial Assets							
Cash assets	7	165.3	–	–	–	–	165.3
Receivables	8	–	–	–	–	4.0	4.0
		165.3	–	–	–	4.0	169.3
Weighted average interest rate		5.4%					
Financial Liabilities							
Payables	13	–	–	–	–	3.2	3.2
Bank loans	14	467.0	–	–	–	–	467.0
		467.0	–	–	–	3.2	470.2
Weighted average interest rate		1.4%					
Net financial (liabilities)		(301.7)	–	–	–	0.8	(300.9)

B **Carrying amounts and estimated fair values of financial instruments**
The carrying amounts and estimated fair values of the company's financial instruments, referred to in Note 23A above were as follows:

	Notes	Consolidated Carrying amount $Million 2004	Fair value $Million 2004	Carrying amount $Million 2003	Fair value $Million 2003
Recognised in the Statement of financial position					
Financial assets					
Cash assets	7	117.9	117.9	165.3	165.3
Current receivables	8	0.8	0.8	4.0	4.0
Financial liabilities					
Current payables	13	2.4	2.4	3.2	3.2
Short term interest bearing liabilities	14	397.9	397.9	467.0	467.0

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate a value:

Cash assets and current other financial assets

The carrying amount approximates fair value because of the short maturity of these instruments.

Debtors and creditors

Other current debtors and creditors mainly represent financial obligations incurred in exchange for goods and services provided and received by the group in the normal course of its operations, net of provisions for doubtful debts. Due to the short term nature of these financial obligations, their carrying values are estimated to equal their fair values.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 24 INVESTMENTS IN CONTROLLED ENTITIES

Entities consolidated	Notes	Place of Incorporation
NAME		
Alumina Limited		VIC, Australia
All controlled entities are wholly owned, unless otherwise indicated		
Controlled entities		
Albion Downs Pty. Ltd.	C,F	WA, Australia
Alumina Holdings (USA) Inc.	A,D	Delaware, USA
Alumina International Holdings Pty. Ltd.	B,E	VIC, Australia
Alumina (U.S.A.) Inc.	A,D	Delaware, USA
Westminer (Investments) B.V.	A,D	Netherlands
Westminer Acquisition (U.K.) Limited	D	UK
Butia Participaçoes SA	A,D,G	Brazil
Westminer International (U.K.) Limited	D	UK

These controlled entities:

A have not prepared audited accounts as they are non-operating or audited accounts are not required in their country of incorporation;

B has been granted relief from the necessity to prepare accounts pursuant to Australian Securities and Investment Commission ("ASIC") Class Order 98/1418. This company, which is also referred to in the Directors' Declaration is, with Alumina Limited, a member of a "Closed Group" as defined in the Class Order and are parties to a deed of cross guarantee which has been lodged with and approved by ASIC. Under the deed of cross guarantee, each of these companies guarantees the debts of the other companies party to the deed of cross guarantee. The consolidated assets and liabilities of these companies, and their consolidated net profits after tax for the year then ended (after eliminating inter-company investments and other inter-company transactions) are set out in the table below;

C this is a small proprietary company, and is not required to prepare a financial report;

D has been translated as a self-sustaining entity;

E this company, while a small proprietary company, is included on the deed of cross guarantee;

F this company is deemed to be a controlled entity because of an option held by Alumina Limited to purchase all of the shares in the Company;

G On 30 December 2004, Alumina Limited, through a controlled subsidiary, acquired 100% interest in Butia Participaçoes SA, a Brazilian entity for a nominal amount. The Company had no net assets and made no contribution to the Group result.

ALUMINA LIMITED AND CONTROLLED ENTITIES	Closed group $Million	
	2004	2003
NOTE 24 INVESTMENTS IN CONTROLLED ENTITIES (continued)		

Deed of cross guarantee

Entities which are party to a Deed of Cross Guarantee, entered into in accordance with ASIC Class Order 98/1418 are indicated above in this note. A consolidated statement of financial position is set out below:

	2004	2003
Statements of financial position of closed group		
Current assets		
Cash assets	107.7	153.6
Receivables	51.3	18.1
Deferred tax asset	–	8.7
Total current assets	**159.0**	**180.4**
Non-current assets		
Investments in associates/subsidiaries	1,101.7	1,101.7
Property, plant and equipment	0.3	0.4
Total non-current assets	**1,102.0**	**1,102.1**
Total assets	1,261.0	1,282.5
Current liabilities		
Payables	2.3	2.8
Interest-bearing liabilities	397.9	467.0
Current income tax liabilities	–	9.2
Provisions	0.1	0.1
Other	2.1	2.2
Total current liabilities	**402.4**	**481.3**
Non-current liabilities		
Payables	119.3	22.2
Provisions	0.2	0.2
Total non-current liabilities	**119.5**	**22.4**
Total liabilities	521.9	503.7
Net assets	**739.1**	**778.8**
Equity		
Contributed equity	404.1	384.8
Reserves	240.2	240.2
Retained profits	94.8	153.8
Total equity	739.1	778.8

ALUMINA LIMITED AND CONTROLLED ENTITIES	Closed group $Million	
	2004	2003
NOTE 24 INVESTMENTS IN CONTROLLED ENTITIES (continued)		
Set out below is a consolidated statement of financial performance for the closed group:		
Statements of financial performance of closed group		
Revenue from ordinary activities	**204.2**	**451.9**
General and administrative	(7.5)	(11.3)
Other expenses from ordinary activities	(10.1)	(449.0)
Borrowing costs	(10.6)	(9.0)
Profit/(loss) from ordinary activities before income tax	**176.0**	**(17.4)**
Income tax expense	(1.9)	4.1
Net profit/(loss)	**174.1**	**(13.3)**
Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity	–	–
Total changes in equity other than from those resulting from transactions with owners as owners	**174.1**	**(13.3)**
Set out below is a summary of movements in consolidated retained profits of the closed group:		
Retained profits at the beginning of the financial year	**153.8**	**426.7**
Net profit/(loss)	174.1	(13.3)
Transfer of entities during year	–	–
Dividend provided for or paid	(233.1)	(259.6)
Retained profits at the end of the financial year	94.8	153.8

NOTE 25 CONTINGENT LIABILITIES

Alumina Limited provided a guarantee in 1998 for foreign exchange transactions and in 2000 for gold derivative transactions undertaken by its wholly owned subsidiary at that time, WMC Finance Limited ("WMCF"). WMCF was sold to WMC Resources Ltd as part of the demerger and is no longer a subsidiary of Alumina Limited. On 4 December 2003, WMC Resources announced that it had closed-out its currency hedge book for the period 2005 to 2008, eliminating that portion of Alumina's contingent liability. On 21 December 2004, WMC Resources novated the gold hedging positions to a third party. The guarantee provided by Alumina Limited is no longer applicable.

	Consolidated Entity $Million		Parent Entity $Million	
	2004	2003	2004	2003
NOTE 26 COMMITMENTS FOR EXPENDITURE				
Lease commitments contracted for operating leases other than mineral and exploration leases				
The company leases office facilities. The office lease on expiry is expected to be renewed or replaced by another lease. The following is the rental expense and the future minimum rental commitments.				
Lease commitments payable at balance date				
Within one year	0.1	0.1	0.1	0.1
Later than one year but not later than 5 years	0.2	–	0.2	–
	0.3	**0.1**	**0.3**	**0.1**

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 27 RELATED PARTY TRANSACTIONS

Related parties of the group fall under the following categories:

Wholly-owned group

The wholly-owned group consists of Alumina Limited and its wholly owned controlled entities as disclosed in note 24. Transactions between Alumina Limited and other entities in the wholly-owned group during the years ended 31 December 2004 and 2003 consisted of:

- loan advanced/repaid to/by Alumina Limited
- interest paid/received on the above loans (refer notes 2 and 3)
- the payment of dividends to Alumina Limited (refer note 2)
- payment of administrative/general expenses on behalf of Alumina Limited

The above transactions were made on normal commercial terms and conditions and at market rates.

	Parent Entity $Million	
	2004	2003
Interest expense	0.2	0.3
Aggregate amounts payable to entities in the wholly-owned group at balance date:		
Non-Current payables	132.4	49.8

Directors and Specified Executives

Disclosures relating to directors and specified executives are set out in Note 28.

Other related parties

There are no other related party transactions.

Ownership Interests in Related Parties

Interests held in the following classes of related parties are set out in the following notes:

a controlled entities – Note 24; and
b associates – Note 10.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 28 DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

The following persons were directors of Alumina Limited during the financial year:

Chairman – non-executive

D M Morley

Executive directors

J Marlay, Chief Executive Officer

R D J Davies, Chief Financial Officer

Non-executive directors

P A F Hay
R J McNeilly
M R Rayner

Executives

In addition to executive directors the following person was the executive with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

Name	Position	Employer
S C Foster	General Counsel and Company Secretary	Alumina Limited

There are no other persons employed by the Group, other than the two executive directors listed above, who meet the definition of an executive under AASB 1046.

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

Alumina Limited makes a clear link between performance and remuneration. In doing so we are able to ensure that remuneration is aligned with shareholder interests. It also helps us to ensure that superior employee performance is recognised and rewarded.

The process aligns business objectives with specific and measurable individual objectives and targets. Performance by individual employees against these objectives is assessed half yearly and yearly. The Board Compensation Committee also obtains independently assessed remuneration information for comparative purposes. Salary reviews and short-term incentives (STIs) are determined by assessing performance against objectives and peer group Total Shareholder Returns (TSR) performance. Long-term incentives (LTIs) are assessed against the Company's TSR compared with that of peer group companies.

Individual performance

This element of remuneration is based on the employee's relative performance against the goals and individual objectives that have been set for them for the year under review.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 28 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Individual performance

This element of remuneration is based on the employee's relative performance against the goals and individual objectives that have been set for them for the year under review.

Company performance

A percentage component of total cash remuneration is based on the performance of the company measured against peer group companies TSR.

Market position

The directors believe that Alumina Limited's remuneration levels need to be competitive with those of other comparable Australian organisations so that the company can attract and retain quality people. The Board Compensation Committee appoints an external compensation adviser to advise on appropriate salary and benefits, and reviews these on an annual basis.

The board agreed not to increase executive and staff remuneration for 2004 based on the Chief Executive Officer's review of an independent expert analysis of executive and employee remuneration.

Non-executive directors

Total remuneration for non-executive directors is determined by resolution of shareholders. The maximum aggregate remuneration approved for non-executive directors is currently $950,000.

Alumina Limited's non-executive directors receive a fee for being a director. No additional fees are paid to directors for participating on Board Committees. Non-executive directors' fees are reviewed annually and are determined by the Board of Directors based on comparative advice received from independent advisers and taking into account the directors' responsibilities and time spent on company business.
Non-executive director fees are not performance linked.

It was determined not to grant fee increases during 2004. A total of $255,462 was paid to non-executive directors in 2004.

Retirement benefits

Non-executive directors receive a superannuation guarantee contribution required by government regulation which is currently 9 per cent of their fees, and do not receive any other retirement benefits.

Executive pay

The executive pay and reward framework has two components:

- fixed remuneration; and
- variable incentive payments.

The combination of these comprises the executive's total remuneration.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 28 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Base pay

- fixed remuneration – this is referred to as 'fixed annual reward' (FAR - *cash salary and superannuation*) and is the component of total remuneration specified in an employee's contract of employment and subsequent periodic salary reviews. It is inclusive of superannuation contributions (both company contributions and salary sacrifice contributions).
- variable (incentive) payments – contracts for executive and professional employees include a component of remuneration linked to short-term incentives (STIs) and long-term incentives (LTIs). Policies defining STIs and LTIs are established by the Board Compensation Committee and reviewed on an annual basis.

Short-term incentives

Short-term incentives offered by Alumina Limited link achievement to reward by encouraging executives and staff to meet or exceed measurable tasks and objectives in their work. These tasks and objectives ultimately support Alumina Limited's objectives and therefore shareholder interests. Performance is measured against a scorecard of key tasks and responsibilities and agreed objectives and targets. Individual performance against the measures is assessed. Objectives are reviewed and revised if necessary, and new objectives are established annually. The STI also has a component linked to company TSR as measured against peer group TSR. The reward attributed to the TSR performance fluctuates according to the relative performance of the Company and an entitlement is triggered if the Company TSR result registers in the second quartile of the peer group.

Short-term incentives are calculated as a percentage of an employee's fixed remuneration. The Compensation Committee determines the maximum percentage that is potentially available to executives and approves, after reviewing assessments, whether short-term incentives should be paid. STI percentages payable in 2004 were up to 45% of FAR for executives, of which 20% related to performance against individual objectives and 25% measured against company TSR performance.

During 2004, STIs paid to executives averaged 16% of FAR. No payment was attributed to short-term relative TSR performance with Company relative performance registering in the lowest quartile against peer group performance.

Long-term incentives

Alumina Limited employees have the opportunity to participate in the Alumina Employee Share Plan (ESP). The ESP is designed to link employee rewards with the strategic long-term goals and performance of Alumina Limited, consistent with the generation of shareholder returns.

The ESP involves the on market purchase of the company's shares which can vest to employees provided certain performance tests are achieved. The initial grant of three tranches of shares approved by the Board in 2003 covered a three year period with the tranche vesting dates at Years 1, 2 and 3. Eligibility for vesting of these shares is tested each year commencing on 3 December 2003 for Year 1. Shares for Year 1 were acquired in early 2003. The LTI award for executives was set at 30 per cent for the initial 3 year grant and 55 per cent for subsequent grants. Beyond the initial grant, future grants will have a three year performance period with performance tests at the end of this period. The criteria are the company's Total Shareholder Return (TSR) performance against a comparator group of 50 Australian-listed entities and a comparator group of 30 international entities listed on stock exchanges inside and outside Australia. If all of the performance criteria are not achieved then the shares which do not vest are treated as treasury shares in shareholder equity.

Overview of performance condition

The performance test to be used to determine the number of shares that vest compares Alumina Limited's total shareholder return (TSR) performance (calculated by an independent consultant engaged by the board for these purposes) with the TSR performance of each of the entities in a comparator group of entities.

Comparator groups

Two tests are applied and each accounts for 50% of the possible grant of shares under the ESP.

Test 1 relates to performance of Alumina Limited against a comparator group of 50 Australian-listed entities (i.e. 50 entities/securities excluding Alumina Limited and Property Trusts) **(Test 1 - ASX Comparator Group)**.

Test 2 relates to performance against a comparator group of 30 international entities listed on stock exchanges outside Australia (i.e. 30 entities excluding Alumina Limited) **(Test 2 - International Comparator Group)**.

The methodology behind tests 1 and 2 is identical, apart from the difference in the comparator groups. The performance tests are defined as follows:

The TSR for each entity in the comparator group and for Alumina Limited is calculated according to a standard methodology decided upon and applied by an independent consultant engaged by the board for these purposes over the defined time period(s). The entities (or securities, as appropriate) in the comparator group are then ranked by TSR performance.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 28 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Details of remuneration

Details of the remuneration of each director of Alumina Limited and specified executive of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors of Alumina Limited

2004	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	SAP/Share Rights $	Total $
D M Morley	191,250	–	21,250	19,125	–	(254,113)	(22,488)*
P A F Hay	–	–	85,000	7,650	–	–	92,650
R J McNeilly	63,750	–	21,250	7,650	–	–	92,650
M R Rayner	76,500	–	8,500	7,650	–	–	92,650
J Marlay	688,707	126,000	–	11,293	–	115,297	941,297
R D J Davies	348,707	54,000	–	11,293	–	59,206	473,206
	1,368,914	180,000	136,000	64,661	–	(79,610)	1,669,965

Total remuneration of directors of Alumina Limited for the year ended 31 December 2003 is set out below. Information for individual directors is not shown as this is the first financial report prepared since the issue of AASB 1046 *Director and Executive Disclosures by Disclosing Entities*.

* Mr Morley, a previous employee of WMC Limited, held 250,000 stock appreciation rights at an allocation price of $5.02 per right which were due to lapse in October 2004. Mr Morley redeemed his rights for a total redemption value of $133,150. The average redemption value was $0.51 per right. In 2003 the cost of the SAP rights for Mr Morley was accrued and reported based on the Alumina Limited closing share price at 31 December 2003 of $6.57. The difference between the accrued amount reported in 2003 and the actual redemption value was $254,113.

2003	Primary			Post-employment		Equity	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	SAP/Share Rights $	Total $
Total	1,484,460	551,200	49,854	63,595	–	671,755	2,820,864

Specified executives of the consolidated entity

2004	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Share Rights $	Total $
S C Foster	248,707	36,400	–	11,293	–	42,928	339,328
	248,707	36,400	–	11,293	–	42,928	339,328

Total remuneration of specified executives for the year ended 31 December 2003 is set out below. Information for individual specified executives is not shown as this is the first financial report prepared since the issue of AASB 1046 *Director and Executive Disclosures by Disclosing Entities.*

2003	Primary			Post-employment		Equity	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Share Rights $	Total $
Total	238,480	135,200	4,277	10,760	–	69,646	458,363

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 28 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Service agreements

Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer and the Group Counsel and Company Secretary are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including car parking. Other major provisions of the agreements relating to remuneration are set out below.

J Marlay, Chief Executive Officer

- Term of agreement – commenced 19 August 2002 to 19 August 2005.
- Base salary, inclusive of superannuation, for the year ended 31 December 2004 of $700,000, to be reviewed annually by the Remuneration Committee.
- If employment with the Company is terminated prior to 19 August 2005 for reasons other than for cause, a termination payment of the balance of the base salary component of the remaining contract term, or in accordance with the Alumina redundancy policy, whichever is greater, will be paid in full.

R D J Davies, Chief Financial Officer

- Term of agreement – commenced 1 December 2002.
- Base salary, inclusive of superannuation, for the year ended 31 December 2004 of $360,000, to be reviewed annually by the Remuneration Committee.
- If employment is terminated, benefits will be available in accordance with Alumina Limited's redundancy policy. Contract can be terminated by either party by providing 3 months notice.

S C Foster, Group Counsel and Company Secretary

- Term of agreement – commenced 6 November 2002.
- Base salary, inclusive of superannuation, for the year ended 31 December 2004 of $260,000.
- If employment is terminated, benefits will be available in accordance with Alumina Limited's redundancy policy. Contract can be terminated by either party by providing 3 months notice.

Share-based compensation - options

Alumina Limited does not have any ongoing option plans available to non-executive directors, directors, executive and senior managers or staff. Some former WMC Limited employees who are continuing employment in or are otherwise engaged by Alumina Limited, including the Chairman Mr Morley, held options in Alumina Limited that were granted prior to the demerger of WMC Limited in December 2002. During the course of 2004, Mr Morley exercised all of his remaining options.

Stock appreciation plan

Prior to the demerger of WMC Limited, stock appreciation plans (SAPs) were established primarily for, but not restricted to, employees in countries outside Australia. The purpose of the SAPs was to provide such employees, who due to securities law constraints were not eligible to participate under the option plans, with benefits similar to those conferred by the option plans.

Employees were not required to pay any amount for the grant of the SAP Rights. Each has a notional allotment price, which is equal to the weighted average sale price of WMC Limited's shares on the ASX on the trading day that the invitation to apply for the relevant SAP Right was made to the relevant employee (as adjusted as part of the demerger). Upon redemption of a SAP Right before its expiry by the holder, the holder is entitled to a payment equal to the difference between the closing price of WMC Limited (or, post-demerger Alumina Limited) shares on the ASX on the trading day immediately before redemption, and the allotment price (assuming the former amount is higher). Compensation cost is measured as the amount by which the quoted market value of the shares covered by the grant exceeds the allotment price.

Shareholdings

The numbers of shares in the company held during the financial year by each director of Alumina Limited and the specified executive of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Alumina Limited				
Ordinary shares				
D M Morley	314,028	100,000	3,304	417,332
P A F Hay	2,200	–	13,230	15,430
R J McNeilly	20,000	–	3,304	23,304
M R Rayner	20,000	–	6,467	26,467
J Marlay	84,500	–	–	84,500
R D J Davies	90,762	–	–	90,762
	531,490	100,000	26,305	657,795

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 28 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Name	No held at 1 Jan 2004	No granted during the year as remuneration	No exercised during the year	No lapsed during the year	No held at 31 Dec 2004
D M Morley	270,000	–	270,000	–	–

Name	Balance at the start of the year	Received during the year on the exercise of shares	Other changes during the year	Balance at the end of the year
Specified executives of the consolidated entity				
Ordinary shares				
S C Foster	26,500	–	–	26,500
	26,500	–	–	26,500

Options and performance share rights holdings

The number of options and share performance rights over ordinary shares in the company held during the financial year by each director of Alumina Limited and the specified executive of the consolidated entity, including their personally related entities, is set out below:

Name	Type of equity-based instrument	Number of share rights or options held at 1 Jan 2004 (1)	Number granted during the year as remuneration (2)	Number vested during the year	Number lapsed during the year (3)	Number held at 31 Dec 2004	Vested and exercisable at the end of the year
J Marlay	Share Option	-	-	-	-	-	-
	Performance rights (LTI)	166,500	70,800	-	23,350	213,950	-
R D J Davies	Share Option	50,000	-	-	-	50,000	50,000
	Performance rights (LTI)	85,500	36,500	-	12,000	110,000	-
S C Foster	Share Option	-	-	-	-	-	-
	Performance rights (LTI)	62,000	26,300	-	8,700	79,600	-

(1) The number of share performance rights granted for 2004 (tested in December 2004), 2005 (tested in December 2005) and 2006 (tested in December 2006) but not yet vested. Share performance rights are only issued once vesting criteria are met.

(2) Share performance rights granted in 2004 for the 3 year performance test period concluding in December 2007.

(3) 2004 Share performance right conditions were not met and under the Employee Share Plan rules 50% of the entitlement lapsed with the remaining 50% to be re-tested in June 2005.

Loans to directors and executives

No loans were made to directors or specified executives of Alumina Limited, including their personally-related entities in 2004 and 2003.

Other transactions with directors and specified executives

Directors of Alumina Limited

A director Mr P A F Hay, is the Chief Executive Officer of Freehills. Freehills has provided legal services to Alumina Limited and a number of Alumina Limited controlled entities for several years on normal commercial terms and conditions. The total of those services for 2004 amounts to $3,279 (2003: $106,149).

Mr J Meck and Ms A E Seneshen are shareholders in a US based law firm Welborn Sullivan Meck & Tooley, P.C and are directors of a number of Alumina Limited's controlled entities. Welborn Sullivan Meck & Tooley, P.C has provided legal services for several years on normal commercial terms and conditions. The total of those services for 2004 amounts to $8,674 (2003: $14,031).

Aggregate amounts of each of the above types of other transactions with directors of Alumina Limited:

	2004 $	2003 $
Amounts recognised as expense		
Legal fees	11,953	120,180

ALUMINA LIMITED AND CONTROLLED ENTITIES	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2004	2003	2004	2003
NOTE 29 EMPLOYEE BENEFITS					
Employee Benefits and related on-costs liabilities					
Current - provision for annual leave	16	0.1	0.1	0.1	0.1
Non current - provision for long service leave	18	0.2	0.2	0.2	0.2
Aggregate employee benefit and related on-costs liabilities		0.3	0.3	0.3	0.3
Employee Numbers					
Number of employees at end of financial year		8	8	8	8

Employee Share Scheme

A scheme under which employees may be invited to participate in issue of shares. The Board's intention is to make offers to every employee, but this is subject to annual determination by the Board in respect of each individual for each grant. The CEO of the Company may recommend variation in participation.

A person is only eligible to apply for participation in the Plan and to acquire shares under the Plan if they are an employee, and have satisfied the criteria that the Board decides for participation in the Plan.

The timing of the offer will broadly be from 1 January each year, subject to minor variations for administration and convenience. Generally, each offer has a three year performance period, with performance tested at the end of this period. 50% of the share not vested at the three year performance test can be re-tested six months after the end of the three year performance period. The performance testing is carried out by an independent party and is based on the Relative (TSR) of Alumina Limited, compared to two specific comparator groups.

An invitation is not transferable and, unless the Board determines otherwise, an employee may only apply for shares in his or her name and not in the name of, or on behalf of, another person or entity.

On termination of employment of any individual, there will need to be a finalisation of their participation in the Plan. Vested shares should be released with unvested shares, generally lapsing.

	Consolidated Entity		Parent Entity	
	2004 Number	2003 Number	2004 Number	2003 Number
Shares issued under the Plan to participating employees on 11 February 2003	–	91,300	–	91,300

NOTE 30 REMUNERATION OF AUDITORS	Consolidated Entity $thousand		Parent Entity $thousand	
	2004	2003	2004	2003
a Remuneration for audit or review of the parent entity or any entity in the consolidated entity:				
Audit of parent entity – PricewaterhouseCoopers – fees for annual audit	252	269	223	233
Additional 2002 costs incurred in 2003	–	147	–	147
Additional 2003 costs incurred in 2004	2	–	2	–
	254	**416**	**225**	**380**
b Remuneration for other assurance services:				
Annual Report on US Form 20-F				
Fees for annual audit	112	93	112	93
Additional 2002 costs incurred in 2003	–	100	–	100
Advice on accounting standards	30	–	30	–
Other	5	–	5	–
	147	**193**	**147**	**193**
c Remuneration for taxation services:				
Australian tax services	–	–	–	–
Overseas tax services	174	205	–	–
	174	**205**	**–**	**–**
Total	575	814	372	573

It is the consolidated entity's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 31 EVENTS SUBSEQUENT TO BALANCE DATE

On 4 January 2005, Alumina Limited paid the second tranche, amounting to US$6.6 million, in relation to the 40% interest in the Juruti bauxite deposit acquisition.

	Consolidated Entity $Million		Parent Entity $Million	
	2004	2003	2004	2003
NOTE 32 SIGNIFICANT ITEMS				
Profit from ordinary activities after income tax, includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity due to their size or nature:				
Proceeds from sale of investments in Specialty Chemicals assets directly held by Alumina and its subsidiaries	109.0	–	–	–
Cost of investments sold in Specialty Chemicals assets directly held by Alumina and its subsidiaries[1]	(62.2)	–	–	–
Share of equity loss on sale of Specialty Chemicals Assets (held directly by AWAC entities)	(28.0)	–	–	–
Profit on sale of Specialty Chemicals Assets	**18.8**	–	–	–
Income Tax Expense	(4.0)	–	–	–
Profit on sale after tax	**14.8**			
Total significant items after tax	14.8	–	–	–

[1] Includes goodwill of $22.4 million

NOTE 33 FINANCIAL REPORTING BY SEGMENT

a **Business segments**

Year ended 31 December 2004 and 31 December 2003

Alumina Limited's primary assets are its 40% interest in the series of operating entities forming AWAC. The company operates in the Alumina/aluminium business through its equity interests in AWAC.

b **Geographical segments**

	Year ended 31 December 2004 $Million					
	Australia	Nth America	Europe	Asia	Other*	Total
Consolidated						
Segment revenue by location of customer **	–	–	–	–	–	–
Unallocated revenue						–
Consolidated revenue						–
Segment assets by location of assets	1,126.2	213.3	100.6	–	401.2	1,841.3
Consolidated total assets						1,841.3
Acquisitions of non-current assets	–	–	–	–	51.1	51.1
Total acquisitions of non-current assets						51.1

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTE 33 FINANCIAL REPORTING BY SEGMENT (continued)

	Year ended 31 December 2003 $Million					
	Australia	Nth America	Europe	Asia	Other*	Total
Consolidated						
Segment revenue by location of customer	–	–	–	–	–	–
Unallocated revenue						–
Consolidated revenue						–
Segment assets by location of assets	821.7	365.2	162.6	–	449.6	1,799.1
Consolidated total assets						1,799.1
Acquisitions of non-current assets	0.3	–	–	–	–	0.3
Total acquisitions of non-current assets						0.3

* Other predominantly includes assets in Jamaica, Brazil, Suriname and Guinea.

** The Group had no sale of goods and services for the year, therefore no segment revenue is disclosed.

DIRECTOR'S DECLARATION

ALUMINA LIMITED AND CONTROLLED ENTITIES

In the directors' opinion:

a the financial statements and notes set out on pages 1 to 36 are in accordance with the Corporations Act 2001, including:

i complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

ii giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date;

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

c at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 24 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 24.

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

Donald M Morley
Chairman

24 February 2005

ALUMINA LIMITED AND CONTROLLED ENTITIES

Audit opinion

In our opinion, the financial report of Alumina Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Alumina Limited and the Alumina Limited Group (defined below) as at 31 December 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

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

Scope and summary of our role

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Alumina Limited (the company) and the Alumina Limited Group (the consolidated entity), for the year ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Goldsmith

Tim Goldsmith
Partner

Melbourne
24 February 2005

ALUMINA LIMITED AND CONTROLLED ENTITIES

Substantial shareholding as at 14 February 2005		
Commonwealth Bank Group	83,562,783	7.21%

GEOGRAPHIC LOCATION OF REGISTERED SHAREHOLDERS AS AT 14 FEBRUARY 2005

Area or Country	Shareholders	% of Total	Shares held	% of Total
Northern Territory	314	0.33	467,646	0.04
Australian Capital Territory	2,055	2.15	5,250,872	0.45
New South Wales	24,064	25.12	511,666,545	43.97
Victoria	30,129	31.45	510,612,231	43.88
Queensland	14,289	14.92	69,965,898	6.01
South Australia	9,372	9.78	26,853,714	2.31
Western Australia	9,159	9.56	22,735,321	1.95
Tasmania	1,525	1.59	3,792,895	0.33
Total Australia	90,907	94.91	1,151,345,122	98.94
United Kingdom	2,046	2.14	3,828,856	0.33
United States of America	287	0.30	408,677	0.04
New Zealand	1,399	1.46	4,069,555	0.35
Singapore	184	0.19	1,727,309	0.15
Other	962	1.00	2,340,753	0.20
Total International	4,878	5.09	12,375,150	1.06
Total	95,785	100.00	1,163,720,272	100.00

Holders of less than a marketable parcel (market value less than $500) as at 14 February 2005 2,366

SIZE OF SHAREHOLDINGS AS AT 14 FEBRUARY 2005

Range of shares held	Shareholders	% of Total	Shares held	% of Total
1 - 1,000	40,879	42.68	20,905,446	1.80
1,001 - 5,000	43,549	45.47	101,965,651	8.76
5,001 - 10,000	7,225	7.54	52,779,891	4.54
10,001 - 100,000	3,911	4.08	85,021,781	7.31
100,001 - Over	221	0.23	903,047,503	77.60
	95,785	100.00	1,163,720,272	100.00

ALUMINA LIMITED AND CONTROLLED ENTITIES

TWENTY LARGEST SHAREHOLDERS AS AT 14 FEBRUARY 2005

Shareholder	Shares held	% of Total issued
J P Morgan Nominees Australia Limited	175,456,838	15.08
National Nominees Limited	168,845,279	14.51
Westpac Custodian Nominees Limited	151,634,328	13.03
Citicorp Nominees Pty Limited	118,913,786	10.22
ANZ Nominees Limited	67,377,163	5.79
Queensland Investment Corporation	23,089,284	1.98
RBC Global Services Australia	21,926,591	1.88
Cogent Nominees Pty Limited	18,617,115	1.60
UBS Nominees Pty Ltd	12,335,195	1.06
AMP Life Limited	11,524,519	0.99
Australian Foundation Investment Company Limited	10,739,154	0.92
HSBC Custody Nominees (Australia) Limited	8,201,944	0.70
Westpac Financial Services Limited	7,177,618	0.62
National Australia Trustees Limited	6,154,490	0.53
Suncorp Custodian Services Pty Limited	5,035,663	0.43
PPS Board	3,302,519	0.28
Australian United Investment Company Limited	3,200,000	0.27
Government Superannuation Office	3,059,366	0.26
Djerriwarrh Investments Limited	2,998,000	0.26
Washingon H Soul Pattinson	2,617,393	0.22
Total held by 20 largest shareholders	822,206,245	70.63

Each ordinary shareholder is entitled on a show of hands to vote and on a poll one vote for each share held.
4,023,700 options are held by 1,660 option holders of the WMC Employee Share Scheme.

Employee share options carry no rights to dividends and no voting rights.

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