Alumina Limited - ABN 85 004 820 419

Six Months ended 30 June 2004 ("Current Period")

Results for announcement to the market

			% change	$A million
1.4	Revenues from ordinary activities	Up	Not applicable	116.0
1.11	Profit from ordinary activities after tax attributable to members	Up	42.1%	167.5
1.12	Profit from extraordinary items after tax attributable to members		-	-
1.15	NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF ALUMINA LIMITED	Up	42.1%	167.5

Dividends

		Current Period Six months ended 30 June 2004	Previous Corresponding Period Six months ended 30 June 2003
9.3	Interim dividend per share	10¢	10¢
9.4	Franked amount per share	10¢	10¢
9.2	Record date for determining entitlements to the dividend is 10 August 2004.		

This half yearly report is to be read in conjunction with the most recent annual financial report.

Condensed consolidated statement of financial performance

		Total $A million Six months to 30 June 2004	Six months to 30 June 2003
1.1	Proceeds from sale of investments in Specialty Chemical assets directly held by Alumina and its subsidiaries *(refer Significant Items- Page 3)*	109.0	-
1.2	Interest revenue	4.4	0.8
1.3	Foreign exchange gain realised	2.6	-
1.4	Revenue from ordinary activities	116.0	0.8
1.5	Share of net profit of associates accounted for using the equity method (item 10.9) [1]	125.6	127.2
	[1] Six months to 30 June 2004 includes a loss of $28.0m on sale of Specialty Chemical assets held directly by AWAC entities (refer Significant Items- Page 3). Excluding this loss, Alumina's share of net profits was $153.6m.		
1.6	Cost of investments sold in Specialty Chemical assets directly held by Alumina and its subsidiaries *(refer Significant Items- Page 3)*	(62.2)	-
1.7	General and administrative expenses	(3.1)	(5.6)
1.8	Borrowing costs	(3.5)	(4.4)
1.9	Profit from ordinary activities before tax	172.8	118.0
1.10	Income tax on ordinary activities	(5.3)	(0.1)
1.11	Profit from ordinary activities after tax	167.5	117.9
1.12	Profit from extraordinary items after tax	-	-
1.13	Net profit	167.5	117.9
1.14	Net loss attributable to outside equity interests	-	-
1.15	**Net profit for the period attributable to members of Alumina Limited**	167.5	117.9

Non-owner transaction changes in equity

1.16	Net exchange differences recognised in equity	(6.7)	25.1
1.17	Equity share movements in reserves of associates	-	-
1.18	Total transactions and adjustments recognised directly in equity (item 1.16 and 1.17)	(6.7)	25.1
1.19	Total changes in equity other than from those resulting from transactions with owners as owners	160.8	143.0

Earnings per share (EPS)

		Six months ended 30 June 2004	Six months ended 30 June 2003
1.20	Basic EPS	14.4¢	10.4¢
1.21	Diluted EPS	14.4¢	10.4¢

Notes to the condensed consolidated statement of financial performance

Consolidated retained profits

		Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
1.21	Retained profits at the beginning of the financial period	808.0	729.4
1.22	Net profit attributable to members of Alumina Limited (item 1.15)	167.5	117.9
1.23	Net transfers from reserves	(4.3)	101.3
1.24	Dividends and other equity distributions provided for or paid	(116.8)	(146.6)
1.25	Retained profits at the end of financial period	854.4	802.0

Significant items

The following non-recurring items are included in profit from ordinary activities.

		A$ million
Significant items for the six months to 30 June 2004		
	Sale of Specialty Chemical Assets	
1.26	Proceeds from sale of investments in Specialty Chemical assets directly held by Alumina and its subsidiaries	109.0
1.27	Cost of investments sold in Specialty Chemical assets directly held by Alumina and its subsidiaries [1]	(62.2)
1.28	Share of equity loss on sale of Speciality Chemical Assets (held directly by AWAC entities)	(28.0)
1.29	Profit on Sale of Specialty Chemical Assets	18.8
1.30	Income Tax Expense	(4.0)
1.31	Profit on sale after tax	14.8

[1] Includes goodwill of $22.4million

There were no significant items for the six months to 30 June 2003

Intangible and extraordinary items

	Consolidated-Six months to 30 June 2004	Before tax $A million	Related tax $A million	Related outside equity interests $A million	Amount (after tax) attributable to members $A million
2.1	Amortisation of goodwill: (equity associates)	8.3	-	-	8.3
2.2	Total amortisation of intangibles	8.3	-	-	8.3
2.3	Extraordinary items	There were no extraordinary items			

	Consolidated-Six months to 30 June 2003	Before tax $A million	Related tax $A million	Related outside equity interests $A million	Amount (after tax) attributable to members $A million
2.1	Amortisation of goodwill: (equity associates)	8.9	-	-	8.9
2.2	Total amortisation of intangibles	8.9	-	-	8.9
2.3	Extraordinary items	There were no extraordinary items			

Income Tax

		Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
(a)	Profit from ordinary activities before tax (item 1.9)	172.8	118.0
	Add: (surplus)/shortfall of equity share of profits over dividends received	(15.2)	2.3
		157.6	120.3
	Prima facie tax expense for the period at the rate of 30%	(47.3)	(36.1)
	The following items caused the total charge for income tax to vary from the above:		
	Rebateable and exempt dividends	110.4	129.5
	Non-assessable capital gains [1]	46.8	-
	Non-deductible expenses	(3.4)	(4.5)
	Net movement	153.8	125.0
	Tax effect of the above adjustments at 30%	46.1	37.5
	Variance between Australian and foreign tax rates	-	-
	Future income tax benefits not brought to account	-	(1.4)
	Withholding tax	(1.0)	(0.1)
	Attribution income tax on Specialty Chemical asset sale	(4.0)	-
	Tax losses from prior years brought to account	0.9	-
	Consequent reduction in charge for income tax	42.0	36.0
	Income tax expense for the period (item 1.10)	(5.3)	(0.1)

[1] Gain on sale of Specialty Chemical assets held by Alumina's foreign subsidiaries is exempt from Australian capital gains tax.

Condensed consolidated statement of financial position

		30 June 2004 $A million	31 Dec 2003 $A million	30 June 2003 $A million
Current Assets				
3.1	Cash	216.2	165.3	81.2
3.2	Receivables – other	1.1	4.0	0.9
3.3	Deferred tax assets	-	4.1	-
3.4	Other	0.6	0.3	0.6
3.5	Total current assets	217.9	173.7	82.7
Non-current Assets				
3.6	Investments in associates	1,597.1	1,625.0	1,605.8
3.7	Other property, plant and equipment (net)	0.4	0.4	0.2
3.8	Total non-current assets	1,597.5	1,625.4	1,606.0
3.9	Total assets	1,815.4	1,799.1	1,688.7
Current Liabilities				
3.10	Payables	6.3	3.2	2.1
3.11	Interest bearing liabilities	434.0	467.0	526.9
3.12	Current tax liabilities	-	2.5	0.1
3.13	Provisions (excluding current tax liabilities)	0.1	0.1	0.3
3.14	Other	1.5	2.3	3.4
3.15	Total current liabilities	441.9	475.1	532.8
Non-current Liabilities				
3.16	Deferred tax liabilities	-	-	0.5
3.17	Provisions (excluding deferred tax liabilities)	0.2	0.2	-
3.18	Other	-	-	-
3.19	Total non-current liabilities	0.2	0.2	0.5
3.20	Total liabilities	442.1	475.3	533.3
3.21	Net assets	1,373.3	1,323.8	1,155.4
Equity				
3.22	Contributed equity	394.6	384.8	225.7
	Reserves:			
3.23	- Group	124.3	131.0	127.7
	Retained profits:			
3.24	- Group	431.6	400.3	355.6
3.25	- Associates	422.8	407.7	446.4
3.26	Total equity	1,373.3	1,323.8	1,155.4

There is no preference share capital.

Notes to the condensed consolidated statement of financial position

Condensed consolidated statement of cash flows

		Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
Cash Flows Related to Operating Activities			
4.1	Payments to suppliers and employees (inclusive of goods and services tax)	(3.8)	(3.9)
4.2	GST refund received	0.2	0.3
4.3	Proceeds from guarantees	-	2.4
4.4	Dividends received from associates	110.4	129.5
4.5	Interest received	3.6	0.8
4.6	Borrowing costs paid	(3.6)	(4.3)
4.7	Income taxes refunds/(payments)	0.7	(4.1)
4.8	Net operating cash flows	107.5	120.7
Cash Flows Related to Investing Activities			
4.9	Payments for property, plant and equipment	-	(0.2)
4.10	Proceeds from sale of Specialty Chemical assets directly held by Alumina and its subsidiaries	109.0	-
4.11	Proceeds from share premium reduction in associate	2.0	-
4.12	Other	3.5	-
4.13	Net investing cash flows	114.5	(0.2)
Cash Flows Related to Financing Activities			
4.14	Proceeds from issues of shares	9.8	5.5
4.15	Proceeds from borrowings	-	79.2
4.16	Repayment of borrowings	(64.7)	-
4.17	Dividends paid	(116.8)	(146.6)
4.18	Net financing cash flows	(171.7)	(61.9)
Net (Decrease)/Increase in Cash Held		50.3	58.6
4.19	Cash at beginning of period	165.3	23.2
4.20	Exchange rate adjustments to Item 4.19 above	0.6	(0.6)
4.21	Cash at end of period	216.2	81.2

Reconciliation of Cash

		Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
	Reconciliation of cash at the end of the period (as shown in the condensed consolidated statement of cash flows) to the related items in the accounts is as follows:		
5.1	Cash on hand and at bank	6.9	31.1
5.2	Money market deposits (with maturity on investment three months or less)	209.3	50.1
5.3	Cash assets (Item 3.1)	216.2	81.2
5.4	Bank overdraft	-	-
5.5	Total cash at end of period (Item 4.21)	216.2	81.2

Other notes to the condensed financial statements

Earnings per share (EPS)

		Six months to 30 June 2004	Six months to 30 June 2003
	Calculation of basic and fully diluted EPS in accordance with AASB 1027: *Earnings per Share*		
	Equity accounted earnings in cents per ordinary share		
6.1	Basic EPS	14.4¢	10.4¢
6.2	Diluted EPS	14.4¢	10.4¢

Net tangible asset backing per security

7.1	Net tangible asset backing per ordinary security	$1.06	$0.86

Loss of control of entities having material effect

8.1 There was no loss of controlled entities for the six months ended 30 June 2004.

Dividends

9.1 An interim dividend has been declared payable on 6th September 2004

9.2 Record date to determine entitlements to the dividend is 10th August 2004

Amount per share

	Interim dividend per share (cents)		
9.3	Amount per share	10¢	10¢
9.4	Franked amount per share at 30% tax rate	10¢	10¢

Interim dividend on all shares

		Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
9.5	Dividend to be paid on ordinary shares	116.1	112.9
9.6	Total	116.1	112.9

Details of aggregate share of results of associates

		Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
Alumina's share of associates:			
10.1	Profit from ordinary activities before income tax and goodwill amortisation	238.0	186.3
10.2	Amortisation of equity goodwill	(8.3)	(8.9)
10.3	Profit from ordinary activities before tax	229.7	177.4
10.4	Income tax on ordinary activities	(76.1)	(50.2)
10.5	Profit from ordinary activities after income tax	153.6	127.2
10.6	Loss on Sale of Specialty Chemical assets directly held by AWAC subsidiaries (net of tax)	(28.0)	-
10.7	Net profit	125.6	127.2
10.8	Outside equity interests	-	-
10.9	Net profit attributable to members of Alumina Limited	125.6	127.2
10.10	Dividends received/receivable by Alumina Limited	(110.4)	(129.5)
10.11	Surplus/(Shortfall) of equity share of profits over dividends received	15.2	(2.3)

Material interests in entities which are not controlled entities

The economic entity has an interest in the following entities:

			Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit	
			Six months to 30 June 2004	Six months to 30 June 2003	Six months to 30 June 2004 $A million	Six months to 30 June 2003 $A million
11.1		Equity accounted associates and joint venture entities				
	(i)	AWAC (including Alcoa of Australia Ltd)[(a)]	40%	40%	133.9	136.1
		[(a)]Alcoa of Australia Ltd	40%	39.25%		
		Amortisation of goodwill	n/a	n/a	(8.3)	(8.9)
11.2		Total			125.6	127.2
11.3		Other material interests			Nil	Nil

Ratios

		Six months to 30 June 2004 %	Six months to 30 June 2003 %
Profit after tax/equity interests (annualised)			
12.1	Consolidated net profit from ordinary activities after tax attributable to members (Item 1.15) as a percentage of members' equity at the end of the period (Item 3.26)	24.4	20.4

Issued and quoted securities at end of current period

	Category of Securities	Number issued	Number quoted	Issue price per share ($)
12.1	Ordinary shares			
	Fully paid	1,161,012,548	1,161,012,548	
	Partly paid	Nil	Nil	
12.2	Ordinary Shares -			
	Changes during current period:			
	Increase in fully paid shares following:			
	(i) exercise of options	1,450,500	1,450,500	Various

		Number issued	Number Quoted	Exercise Price	Expiry Date
12.3	Unquoted employee options to acquire fully paid ordinary shares	1,250,500	Nil	$4.52	20 December 2004
		1,607,700	Nil	$4.04	18 December 2005
		3,750,900	Nil	$5.02	30 November 2006
		6,609,100			
12.4	Issued during the current period	Nil			
12.5	Exercised during the current period	245,100	Nil	$4.52	20 December 2004
		378,700	Nil	$4.04	18 December 2005
		826,700	Nil	$5.02	30 November 2006
		1,450,500			
12.6	Expired/lapsed during the current period	Nil			

Segment Information

Business Segment

Alumina Limited's primary assets are its 40% interest in the series of operating entities forming AWAC. The company predominately operates in the alumina/aluminium business through its equity interests in AWAC. Refer to Directors' Report for further explanation.

Rounding of Amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission. Amounts shown in this Directors' Report and the financial report have been rounded off to the nearest hundred thousand dollars, or as otherwise indicated.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 1 to 9:

a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

b) give a true and fair view of the consolidated entity's financial position as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

a) the financial statements and notes are in accordance with the Corporations Act 2001: and

b) there are reasonable grounds to believe that Alumina Limited will be able to pay its debts as and when they become due and payable.

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

John Marlay

Director

Melbourne

29 July 2004

Directors' Report

The Directors of Alumina Limited present their report on the consolidated entity consisting of Alumina Limited and the entities it controlled at the end of, or during, the half-year-ended 30 June 2004.

Directors

The following persons were Directors of Alumina Limited during the half-year and up to the date of this report.

D M Morley

J Marlay

P A F Hay

R J McNeilly

M R Rayner (Alternate R D J Davies)

Basis of financial report preparation

This half-yearly general purpose financial report is for the interim six months ended 30 June 2004 and has been prepared in accordance with the Australian Stock Exchange Listing Rules as they relate to Appendix 4D and in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act 2001.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the financial year ended 31 December 2003 and any public announcements made by Alumina Limited and its controlled entities during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Information relating to Alumina's International Financial Reporting Standards project is provided on page 13.

Comments are for the six months ended 30 June 2004 with comparatives for the six months ended 30 June 2003 shown in parentheses. Comparative information is reclassified where appropriate to enhance comparability.

Review of Operations

The financial results for Alumina Limited include the six months results of AWAC and associated corporate activities.

The Group's net profit attributable to Alumina Limited increased 42% to $167.5 million ($117.9 million). The net profit includes a profit of $14.8 million profit from the sale by AWAC of its Specialty Chemical business. Excluding this profit, Alumina's profit was 30% higher than the corresponding 2003 period. The higher profit was driven by higher alumina and aluminium prices and higher production offset, to some extent, by a stronger Australian dollar.

The profit result includes, for the first time, the additional 0.75 per cent interest in Alcoa of Australia acquired in December 2003.

Directors have declared an interim fully franked dividend of 10 cents a share (10 cents).

Production

AWAC's alumina production increased by 6.7% to 6,772 million tonnes (6,345 million tonnes), through production capacity creep, Pt Comfort at full capacity and increased production from the Jamaican expansion. Projects are currently underway to expand production in Suriname by 250,000 tonnes (AWAC's share 137,500 tonnes) and to expand the Pinjarra refinery in Western Australia by 600,000 tonnes.

Costs

AWAC's total cost of sales increased by 6% to US$1,229.0 million (US$1,156.5 million) due, in part, to higher sales volumes, but also to higher energy prices, increased raw materials costs and a weaker US dollar.

Alumina's corporate costs totalled $3.1 million ($5.6 million). Costs were lower in part due to a $1.1 million reduction in the provision for the WMC Resources Ltd employee Stock Appreciation Plan (based on a lower closing Alumina Limited share price). In addition, the first half of 2003 included costs relating to the start-up of Alumina Limited as a separate group.

Alumina's goodwill amortisation reduced to $8.3 million ($8.9 million), following the disposal of $22.4 million of Goodwill as part of the Specialty Chemical sale.

Markets

The first half of 2004 continued to reflect increased demand for aluminium, particularly the US and Japan, along with continued growth in domestic aluminium consumption in China. LME aluminium prices were stronger, averaging 76 cents a pound (63 cents). Alumina supply was tight, with spot prices significantly above historical averages, reaching above USD500 per tonne in March and April before falling to around USD350 per tonne during May and June. The majority of AWAC's alumina production is sold under long term contracts at prices unrelated to the spot alumina market.

Currency Exchange Rate Movements

The AUD/USD exchange rate averaged 74.0 cents (61.6 cents). The higher average exchange rate offset the effect of higher US dollar aluminium prices. The movement in exchange rate also affects the Australian dollar carrying value of US dollar assets held by Alcoa of Australia. The Australian dollar fell from 75 cents at 31 December 2003 to 70 cents at 30 June 2004, increasing profit by $7 million following a revaluation of US dollar assets. In the first half of 2003 the Australian dollar rose from 57 cents at 31 December 2002 to 67 cents at 30 June 2003, reducing profit by $12 million. The net $19 million favourable impact of the revaluation of assets was largely offset by the benefit in 2003 of a non-recurring $13 million reduction in tax expense following a change to Australian tax legislation.

Hedging

Alumina Limited has no currency or commodity derivatives in place. AWAC has no currency or aluminium hedging in place but does maintain limited short term energy price hedging to reduce volatility in relation to commodities such as natural gas, fuel oil and electricity.

Dividend

The Board's previously stated intention, subject to certain conditions, was to maintain a dividend payout ratio for 2004 similar to 2003. The continuing strong outlook for increasing aluminium consumption will drive demand for alumina, and it is now clear that substantial new alumina production capacity will be required. AWAC is well positioned to grow production capacity in response to the increased market demand, with attractive returns. Capital expenditure will increase significantly. Directors have now decided to reserve financial capacity to fund this growth and to maintain a level of declared dividends for 2004 similar to last year, subject to AWAC's business performance.

The interim dividend declared of 10 cents (10 cents) a share will be paid on 6 September 2004 and be fully franked at the 30 per cent tax rate. The amount and timing of this dividend takes into account a fully franked dividend of $50 million to be received from Alcoa of Australia in the third quarter.

As at 30 June 2004, there were $30.2 million franking credits available. The potential to frank future dividends will depend upon the amount of the dividend and the available franking credits.

Debt

After receiving $109.0 million from the sale of AWAC's Specialty Chemical business, Alumina reduced its USD borrowings by US$48.0 million to USD303.0 million.

Alumina's debt, net of cash was $217.8 million, $83.9 million lower then the beginning of the year. Receipt of the funds from the Specialty Chemical sale was partially offset by the exchange rate impact which increased Alumina's USD borrowings when translated to Australian dollars by $30.9 million.

Changes to Contingent Liabilities

The only change to contingent liabilities since the 2003 annual report has been in relation to the following guarantee:

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. The guarantee remains applicable for foreign exchange transactions entered by WMCF and Union Bank of Switzerland with 2004 maturity dates and gold derivative transactions with maturity dates in 2005. The outstanding transactions had a negative mark to market value of $0.8 million at 30 June 2004. Alumina Limited has rights to obtain additional credit support if WMC Resources Ltd's credit rating is lower than BBB (and it would not cause a breach of WMC Resources Ltd's debt obligations). Alumina Limited is also indemnified by WMC Resources in relation to the guarantee.

Accounting Policies

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 will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS 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 Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 January 2004.

Assessment and Planning Phase

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

1. Equity accounting for its 40% ownership of Alcoa of Australia. Alcoa of Australia will transition to the Australian equivalents to IFRS at the same time as Alumina Limited.
2. Equity accounting for its 40% ownership of the Global AWAC entities. Financial information supplied to Alumina from AWAC is prepared using US Generally Accepted Accounting Principles (USGAAP), 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, who reports to the Board. The project to date has involved reviewing the draft Australian equivalents to IFRS for their impact on Alumina and monitored

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.

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 Australian equivalents to IFRS concurrently with Alumina and will provide details of the changes from current Australian Accounting Standards to the Australian equivalents to IFRS as well as the key differences between the Australian equivalents to IFRS and USGAAP. This information will be used to identify other AWAC entities' key GAAP differences.

Based on a review of the draft Australian equivalents to IFRS, 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 International Financial Reporting Pronouncements. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity. The impact of the draft standards has yet to be quantified.

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

Income Tax AASB 112	• Under the Australian equivalent to IAS 12 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). • The impact of these changes has yet to be quantified.
Intangible Assets – Goodwill AASB 136	• Under the Australian equivalent to IFRS 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 first half of 2004 was $8.3 million.
Asset Impairment AASB 136	• The Australian equivalent to IFRS requires asset impairment testing based on a different method for aggregation of assets than the current standard AASB1010. This could potentially lead to different impairment test outcomes. In the Australian equivalent to IFRS, 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. • The Australian equivalent to IFRS also requires calculation of the present value of the future cash flows associated with the assets to determine recoverable amount. AASB1010 permits, but does not require future cash flows to be discounted. • The potential impact is increased volatility of earnings through the statement of financial performance if impairment test is not met.

Employee Benefits AASB 119	• AWAC has defined benefit pension/superannuation plans. Under current Australian standards, Alumina does not account for any excess or shortfall of the Superannuation Fund assets over accrued membership benefits. • On adoption, 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. • There will be an initial impact on retained earnings and subsequently a potential increase in volatility through the statement of financial performance in future periods.
Rehabilitation and Closedown costs AASB 137	• Under the Australian equivalent to IAS 37 "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, nor will it result in a change to the accounting policy, as Alumina has already adopted FAS 143 "Accounting for Asset Retirement Obligations", which has similar recognition criteria to IAS 37. • No significant impact is anticipated from this standard
Financial Instruments AASB 132 AASB 139	• Under the Australian equivalent to IAS 32 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 denominated investments in AWAC and its US dollar denominated debt. • Also, AWAC holds derivatives as part of a formally documented risk management (hedging) programme. The fair values of all outstanding derivative instruments will be recorded in the line item "Investment in Associates" in the statement of financial position. • The Australian equivalent to IFRS 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. • 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 Australian equivalents to IFRS, 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 Australian equivalents to IFRS 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 has 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 the Australian equivalents to IFRS to US GAAP, and to work with Alcoa USA to obtain adjustments from US GAAP to Australian equivalents to IFRS for the remainder of AWAC. It is anticipated that the project will be completed by early December 2004. Any changes to accounting policies will require Audit Committee approval.

Donald M Morley	John Marlay
Chairman	Chief Executive Officer

Melbourne

29 July 2004

Independent review report to the members of Alumina Limited

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Alumina Limited (the company) for the half-year ended 30 June 2004 included on the Alumina Limited web site. The company's directors are responsible for the integrity of the Alumina Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified below. It does not provide any assurance on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Alumina Limited:

- does not give a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of the Alumina Limited Group (defined below) as at 30 June 2004 and of its performance for the half-year ended on that date, and

- is not presented in accordance with the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This statement must be read in conjunction with the rest of our review report.

Scope

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 the Alumina Limited Group (the consolidated entity) for the half-year ended 30 June 2004. The consolidated entity comprises both Alumina Limited (the company), and the entities it controlled during that half-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.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

When this review report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Goldsmith

Tim Goldsmith Melbourne

Partner 29 July 2004