To: The Manager
Announcements
Company Announcements Office
Australian Stock Exchange

Public Announcement 2006 – 7AWC

Attached, in accordance with Listing Rule 4.7, is a copy of Alumina Limited's Financial Annual Report 2005 that will be distributed to shareholders today.

Stephen Foster
Company Secretary

24 March 2006

Alumina Limited

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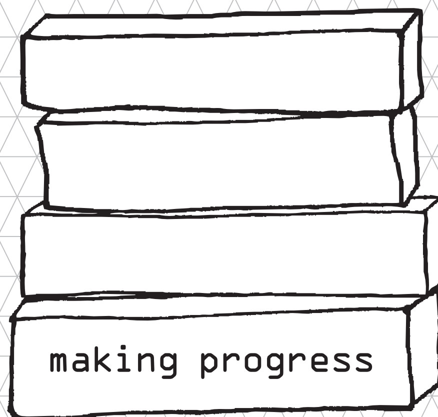

ALUMINA
LIMITED

FINANCIAL REPORT 2005

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The financial report covers both Alumina Limited as an individual entity and the consolidated entity of Alumina Limited and its subsidiaries.
The financial report is presented in the Australian currency.

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.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 25–29 and in the directors' report on page 47, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 28 February 2006. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company.
All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.aluminalimited.com.

		Consolidated Entity $Million		Parent Entity $Million	
	Notes	2005	2004	2005	2004
Revenue from continuing operations	4	4.0	8.9	416.9	156.8
Other income	5	-	44.5	-	14.1
General and administrative expenses		(10.2)	(8.7)	(10.2)	(7.8)
Other expenses	6	-	-	(26.2)	-
Finance costs	6(a)	(15.3)	(8.1)	(15.5)	(8.3)
Share of net profits of associates accounted for using the equity method	12(h)	337.1	283.5	-	-
Profit from continuing operations before income tax		**315.6**	**320.1**	**365.0**	**154.8**
Income tax expense	7(a)	-	(3.7)	-	(0.5)
Net profit attributable to members of Alumina Limited		**315.6**	**316.4**	**365.0**	**154.3**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:					
Basic earnings per share	8	**27.1c**	27.2c	-	-
Diluted earnings per share	8	**27.1c**	27.2c	-	-

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

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
CURRENT ASSETS					
Cash and cash equivalents	10	15.2	117.9	8.9	107.6
Receivables	11	0.5	0.8	0.2	0.6
Deferred tax assets		2.1	2.1	2.1	2.1
Other financial assets		0.5	-	0.5	-
Total current assets		**18.3**	**120.8**	**11.7**	**110.3**
NON-CURRENT ASSETS					
Investments accounted for using the equity method	12	1,994.9	1,702.1	1,037.7	717.7
Other financial assets	13	-	-	837.1	784.6
Property, plant and equipment	14	0.3	0.3	0.3	0.3
Total non-current assets		**1,995.2**	**1,702.4**	**1,875.1**	**1,502.6**
TOTAL ASSETS		**2,013.5**	**1,823.2**	**1,886.8**	**1,612.9**
CURRENT LIABILITIES					
Payables	15	3.1	2.4	3.1	2.3
Interest-bearing liabilities	16	478.7	397.9	478.7	397.9
Provisions	17	0.1	0.1	0.1	0.1
Other		1.2	10.7	1.1	2.1
Total current liabilities		**483.1**	**411.1**	**483.0**	**402.4**
NON-CURRENT LIABILITIES					
Payables	18	-	-	181.6	132.4
Provisions	19	0.2	0.2	0.2	0.2
Total non-current liabilities		**0.2**	**0.2**	**181.8**	**132.6**
TOTAL LIABILITIES		**483.3**	**411.3**	**664.8**	**535.0**
NET ASSETS		**1,530.2**	**1,411.9**	**1,222.0**	**1,077.9**
EQUITY					
Parent entity interest:					
Contributed equity	20	415.7	404.1	415.7	404.1
Treasury shares	22(f)	(0.6)	(0.6)	-	-
Reserves:					
- Group		41.4	52.6	241.0	240.7
- Associates	12(d)	37.5	2.4	-	-
Retained profits:					
- Group	22	608.7	441.5	565.3	433.1
- Associates	12(c)	427.5	511.9	-	-
TOTAL EQUITY		**1,530.2**	**1,411.9**	**1,222.0**	**1,077.9**

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

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
Total equity at the beginning of the financial year		**1,411.9**	**1,307.0**	**1,077.9**	**1,137.1**
Adjustment on adoption of AASB 2, net of tax, to Reserves	22(c)	(0.2)	1.6	0.3	0.3
Adjustment on adoption of AASB 139, net of tax, to Reserves	22(b)	35.6	-	-	-
Exchange differences on translation of foreign operations	22(a)	(11.5)	1.3	-	-
Net income recognised directly in equity		**23.9**	**2.9**	**0.3**	**0.3**
Profit from continuing operations after income tax		**315.6**	**316.4**	**365.0**	**154.3**
Total recognised income and expense for the year		**339.5**	**319.3**	**365.3**	**154.6**
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs		11.6	19.3	11.6	19.3
Treasury shares		-	(0.6)	-	-
Dividends provided for or paid		(232.8)	(233.1)	(232.8)	(233.1)
		(221.2)	(214.4)	(221.2)	(213.8)
Total equity at the end of the financial year		**1,530.2**	**1,411.9**	**1,222.0**	**1,077.9**

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

	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees (inclusive of goods and services tax)		(14.3)	(13.5)	(12.6)	(12.6)
GST refund received		0.5	0.3	0.5	0.3
Dividends received from associates		95.9	160.4	91.6	148.0
Interest received		4.5	8.6	4.5	8.6
Interest paid		(14.3)	(7.8)	(14.3)	(7.8)
Income taxes refunded/(paid)		0.1	0.5	-	(0.2)
Other		(0.4)	-	-	-
Net cash inflow from operating activities	23(a)	**72.0**	**148.5**	**69.7**	**136.3**
CASH FLOWS FROM INVESTING ACTIVITIES					
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		(8.2)	(41.1)	-	-
Other		-	3.5	-	(2.5)
Net cash (outflow)/inflow from investing activities		**(8.2)**	**73.4**	**-**	**(43.6)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		11.6	19.3	11.6	19.3
Proceeds from borrowings		52.8	10.1	52.8	139.8
Repayment of borrowings		-	(64.7)	-	(64.7)
Dividends paid		(232.8)	(233.1)	(232.8)	(233.1)
Net cash outflow from financing activities		**(168.4)**	**(268.4)**	**(168.4)**	**(138.7)**
Net decrease in cash and cash equivalents		**(104.6)**	**(46.5)**	**(98.7)**	**(46.0)**
Cash and cash equivalents at the beginning of the financial year		117.9	165.3	107.6	153.6
Effects of exchange rate changes on cash and cash equivalents		1.9	(0.9)	-	-
Cash and cash equivalents at the end of the financial year	10(a)	**15.2**	**117.9**	**8.9**	**107.6**

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Alumina Limited as an individual entity and the consolidated entity consisting of Alumina Limited and its subsidiaries.

A BASIS OF PREPARATION

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

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

These financial statements are the first Alumina Limited financial statements to be prepared in accordance with A-IFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

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

Reconciliations and descriptions of the effect of transition from previous AGAAP to A-IFRS on the Group's equity and its net income are given in Note 34.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities including derivative instruments at fair value through profit and loss.

Critical accounting estimates

The preparation of financial statements in conformity with A-IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

B PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial report is prepared on a consolidated entity basis for Alumina Limited (parent entity) and the entities it controls (controlled entities). A-IFRS defines controlled entities as existing where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement 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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Associates

Associates are those entities over which the consolidated entity exercises significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the financial statements of the parent entity using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The consolidated entity's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

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

The Group uses the cost method to account for any entities of which it holds less than 20% ownership.

C INCOME TAX

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

Deferred tax assets and liabilities are recognised for temporary differences using the balance sheet liability method, at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax assets or liabilities. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation legislation

Alumina Limited and its wholly-owned Australian controlled entities have implemented tax consolidation under the applicable legislation as of 1 January 2004.

The head entity, Alumina Limited, and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. These tax amounts are measured using the separate tax payer within Group approach.

In addition to its own current and deferred tax amounts, Alumina Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Assets and liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 7.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

The company completed a detailed review of the tax bases and carrying value of its investment in associates and concluded that recognition of deferred taxes was not required at transition.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Alumina Limited's functional and presentation currency.

Transactions and balances

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

Controlled foreign entities

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

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

E PROPERTY, PLANT AND EQUIPMENT

Owned Assets

Items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Leased Assets

The company leases office facilities under an operating lease agreement. Payments made under this agreement are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

F RECEIVABLES

All trade debtors are recognised at amortised cost less provision for doubtful debts, which in practice will equal 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 for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

G CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

H IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I ACQUISITION OF ASSETS

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange, unless the published market price is an unreliable indicator of fair value and other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(j)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

J INTANGIBLE ASSETS

Goodwill

Business combinations prior to 1 January 2004

Alumina has elected not to apply AASB 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to A-IFRS (1 January 2004). Alumina has applied the same classification as used under its previous GAAP financial report. There were no assets and liabilities recognised under previous GAAP that did not qualify for recognition as an asset or liability under A-IFRS. There were no resulting changes in the subsequent measurement of some assets and liabilities on the transition to A-IFRS. The carrying amount of goodwill in the opening A-IFRS balance sheet shall be its carrying amount under previous GAAP at the date of transition to A-IFRS. There were no adjustments required to goodwill in the opening A-IFRS balance sheet.

Business combinations since 1 January 2004

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

K DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation is calculated on a straight line basis to write off the net cost 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

L BORROWINGS

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

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

M BORROWING COSTS

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method and certain foreign exchange differences arising from foreign currency borrowings. Borrowing costs incured for the construction of any qualitfying asset are capitalised during the time required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N TRADE AND OTHER PAYABLES

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.

O REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

P 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. A discount rate equalling the yield at the balance sheet date on government bonds that have maturity dates approximately to the terms of the Group's obligations, is used.

(iii) Share-based payments

Shares options granted before or after 7 November 2002 and vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

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

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(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, except where the relevant employees elect for those contributions to be paid to an alternate 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Defined Benefit Plans

Alumina Limited's associates have defined benefit plans in place. The associates' net obligation in respect of defined benefit plans, iscalculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the associated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses are recognised in earnings of the associates.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Q DERIVATIVES

From 1 January 2004 to 31 December 2004

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Adjustments on transition date: 1 January 2005

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

From 1 January 2005

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an outgoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair value or cash flows of hedged items.

Cash flow hedge

The portion of a gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement.

Embedded Derivatives

Under A-IFRS, sale and purchase contracts may be considered to have financial derivative instruments embedded within them. This occurs when future transactions under such contracts are to be executed at prices which will depend on the market prices at the time of specified financial instruments which themselves are not closely related to the commodities which are the subjects of the contracts. AWAC has in place a number of long term contracts for the purchase of energy which have within their pricing formulae mechanisms to vary the price depending on the LME aluminium price at the time. Such contracts are considered to have embedded derivatives. A-IFRS requires the future purchases under these contracts to be marked-to-market at each balance date on the basis of the then-current best indicator of future LME aluminium price over the remaining terms of the contracts. The embedded derivative in relevant AWAC contracts has been assessed and marked to market on the balance date. Changes in the mark to market valuation from the opening of the period to the balance date are accounted for as gains or losses, as appropriate, in the accounts of the relevant AWAC entity. Alumina Limited accounts for its share of such transactions within its equity share of net profits of associates.

R DIVIDENDS

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

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

T SEGMENT REPORTING

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

U PROVISIONS

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

AWAC is required to rehabilitate bauxite mines and refineries upon cessation of operations.

Closedown and restoration costs include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas. Closedown and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure model. The cost estimates are calculated annually during the life of the operation to reflect known developments, and are subject to regular reviews.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to the profit and loss account in each accounting period. The amortisation of the discount is shown as a financing item. Other movements in the provisions for closedown and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to lives of operations and revisions to discount rates are capitalised within fixed assets. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance date. All costs of continuous rehabilitation work are charged to the provision as incurred.

V CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

W NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

The standards issued as at 31 December 2005 which are not mandatory are:

i)	AASB 7:	Financial Instruments – Disclosures
ii)	AASB 2005-1:	Amendments to AASB 139: cash flow hedge accounting of forecast intra-group transactions
iii)	AASB 2005-4:	Amendments to AASB 139, 132, 1, 1023, and 1038 – fair value option
iv)	AASB 2005-6:	Amendments to AASB 3 – business combinations involving entities under common control
v)	AASB 2005-9:	Amendments to AASB 4, 1023, 139, 142
vi)	AASB 2005-10:	Amendments to AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1028 – consequential amendments arising as a result of the release of AASB 7
vii)	AASB 2006-1:	Amendments to AASB 121 – clarification regarding monetary items forming part of the net investment in a foreign operation
viii)	UIG 4:	Determining whether an asset contains a lease
ix)	UIG 5:	Rights to interests from decommissioning restoration and environmental rehabilitation funds.

Alumina Limited has not yet adopted these new standards, nor has their impact on the Group been fully assessed.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

X 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.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including market risk, credit risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group manages this risk by borrowing in US dollars to provide a hedge for its US dollar denominated assets.

The Group operates internationally and is exposed to foreign exchange risk arising from exposures to various currencies, especially to the US dollar. The Group does not hedge its exposures other than through the near-term forward purchase of currency to meet operating requirements.

(ii) Price risk

The Group is exposed to commodity price risk through its investment in the AWAC joint venture. AWAC manages commodity price risk through long term purchase contracts for some input costs. Energy price risk is managed through short-term commodity hedges. AWAC does not hedge it's aluminium price risk.

(b) Credit risk

The Group has a significant concentration of credit risk to companies controlled by Alcoa Inc. This concentration is accepted as a consequence of the Group's participation in the AWAC joint venture. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to financial institutions of high credit quality. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from short-term borrowings. When managing interest rate risk, the Group seeks to reduce the overall cost of funds. A preference for floating rate exposure is sought by the Group.

(d) Liquidity risk

Prudent liquidity management requires maintaining sufficient cash and credit facilities to ensure the Group's commitments and plans can be met. This is managed by maintaining committed undrawn credit facilities to cover reasonable expected forward cash requirements.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Embedded deriviatives

The Group has recognised a liability for derivative financial instruments through its equity investment in AWAC in accordance with AASB 139. In the determination of the fair value of this liability, AWAC has applied management estimates for long-term commodity prices.

Retirement benefit obligations

The Group has recognised a net liability for retirement benefit obligations under the defined superannuation arrangements, through its investment in AWAC. All plans are valued in accordance with AASB 119. These valuations require actuarial assumptions to be made.

Asset retirement obligations

The estimated costs of rehabilitating mined areas and restoring operating sites is reviewed annually and fully provided at the present value. The amount of obligations recognised includes the cost of mined areas and residue areas rehabilitation and reclamation, plant closure and subsequent monitoring of the environment. Where rehabilitation and remediation is anticipated to occur within the next 12 months the provision in carried as a current liability. Any outflow greater than 12 months is held as a non-current liability.

For mined reclamation and residue areas the asset retirement obligations are based on deatailed studies of useful lives. The provisions have been estimated using existing technology, at current prices inflated by estimated future CPI and discounted at a rate appropriate for the asset location.

	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2005	2004	2005	2004
4. REVENUE					
From continuing operations					
Other revenue					
Dividends received from associates		-	-	411.6	148.0
Interest received/receivable		4.0	8.9	5.3	8.8
Total revenue		4.0	8.9	416.9	156.8
5. OTHER INCOME					
Net gain on sale of investments in Specialty Chemical assets		-	43.4	-	-
Foreign exchange gains		-	1.1	-	14.1
Total other income		-	44.5	-	14.1
6. EXPENSES					
Profit before income tax includes the following specific expenses:					
Depreciation on plant and equipment		-	0.1	-	0.1
Finance costs	6(a)	15.3	8.1	15.5	8.3
Contributions to the superannuation fund:					
- accumulation category		0.2	0.2	0.2	0.2
Operating lease rentals		0.1	0.1	0.1	0.1
Foreign exchange losses		-	-	26.2	-
(a) Finance costs					
Interest and finance charges paid/payable:					
- unrelated corporations		15.3	8.1	15.3	8.1
- related corporations		-	-	0.2	0.2
		15.3	8.1	15.5	8.3
Interest received/receivable:					
- unrelated corporations		(4.0)	(8.9)	(4.0)	(8.8)
- related corporations		-	-	(1.3)	-
	4	(4.0)	(8.9)	(5.3)	(8.8)
Net finance cost/(income)		**11.3**	**(0.8)**	**10.2**	**(0.5)**

7. INCOME TAX EXPENSE

	Consolidated Entity $Million		Parent Entity $Million	
	2005	2004	2005	2004
(a) Income tax expense				
Current tax	-	(1.7)	-	-
Deferred tax	-	(2.0)	-	(2.4)
(Under)/over provided in prior years	-	-	-	1.9
	-	(3.7)	-	(0.5)
Income tax expense is attributable to:				
Profit from continuing operations	-	(3.7)	-	(0.5)
Aggregate income tax expense for the year	-	(3.7)	-	(0.5)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	315.6	320.1	365.0	154.8
Shortfall/(excess) of dividends received/receivable over equity share of profits	78.8	(123.1)	-	-
Profit from continuing operations before income tax expense	394.4	197.0	365.0	154.8
Prima facie tax expense at the rate of 30% (2004 – 30%)	(118.3)	(59.1)	(109.5)	(46.4)
The following items caused the total charge for income tax to vary from the above:				
Rebateable and exempt dividends	415.9	160.4	411.6	148.0
Exchange (losses)/gains	-	-	-	13.6
Non-assessable capital gains	-	43.4	-	-
Tax losses not recognised	(6.3)	-	(31.4)	-
Expenses which are either non-deductible or against which no income was earned to claim a deduction	(15.2)	(8.2)	(15.2)	(8.2)
Net movement	394.4	195.6	365.0	153.4
Tax effect of the above adjustments at 30% (2004: 30%)	118.3	58.7	109.5	46.0
Attribution income tax on Specialty Chemical asset sale	-	(4.0)	-	-
Withholding tax	-	(1.1)	-	-
Tax losses from prior years brought to account	-	1.8	-	1.8
Over provision of tax in prior years	-	-	-	(1.9)
Consequent reduction in charge for income tax	118.3	55.4	109.5	45.9
Aggregate income tax expense for the year	-	(3.7)	-	(0.5)
(c) 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*	82.3	55.5	10.2	2.1
- capital losses*	321.3	321.3	321.2	321.2
	403.6	376.8	331.4	323.3

* The majority of the income tax losses and all the capital losses reported above are attributable to the Group's U.S. subsidiaries.

7 INCOME TAX EXPENSE (continued)

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.

(d) Tax consolidation legislation

Alumina Limited and its wholly-owned Australian subsidiaries have implemented tax consolidation under the applicable legislation as of 1 January 2004. The accounting policy in relation to this legislation is set out in Note 1(c).

As provided for under the tax consolidation legislation, the entities in the tax consolidated Group entered into a tax sharing agreement to limit the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Alumina Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Alumina Limited for the assumption of any current tax payable and are compensated by Alumina Limited for any current tax receivable, and for any deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Alumina Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

The parent entity has not recognised tax balances relating to subsidiary losses in 2004 and 2005, as these balances did not meet the recognition criteria.

8. EARNINGS PER SHARE

		Consolidated Entity 2005	Consolidated Entity 2004
(a) Basic earnings per share based on profit from continuing operations attributable to the ordinary holders of the Company	cents	27.1	27.2
(b) Diluted earnings per share based on profit from continuing operations attributable to the ordinary holders of the Company	cents	27.1	27.2

	Number of Shares 2005	Number of Shares 2004
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,164,075,671	1,161,164,129
Adjustments for calculation of diluted earnings per share:		
Options	637,553	897,367
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,164,713,224**	**1,162,061,496**

8 EARNINGS PER SHARE (continued)

(c) Information concerning classification of securities

Options granted to employees under the WMC Employee Share Scheme, prior to the Company's demerger, are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 21. There were no options issued to employees in the current year.

(d) Conversion, call, subscription or issue after 31 December 2005

In the period from 1 January 2006 to 28 February 2006, the following movements in share capital and options on issue have taken place:

	Number of options	Exercise price
Options exercised	344,500	$5.02

(e) Reconciliations of earnings used in calculating of earnings per share

	$Million	
	2005	2004
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	315.6	316.4

	Consolidated Entity $Million		Parent Entity $Million	
	2005	2004	2005	2004
9. DIVIDENDS				
Interim dividend No. 52 of 10 cents fully franked at 30% per fully paid share declared 4 August 2005 and paid 31 October 2005 (2004: 10 cents fully franked at 30% per fully paid share, paid on 6 September 2004).	116.5	116.1	116.5	116.1
Final dividend No. 51 of 10 cents franked to 7.5 cents at 30% per fully paid share, paid on 31 March 2005 (2004: 10 cents fully franked at 30% per fully paid share, paid on 30 March 2004).	116.3	116.1	116.3	116.1
	232.8	232.2	232.8	232.3
Dividends paid per share	20.0c	20.0c	20.0c	20.0c

(a) Dividends paid during the year

Dividend No. 52, paid on 31 October 2005, was the interim dividend for 2005. Dividend No. 51, paid on 31 March 2005, was the final dividend for 2004.

(b) 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. 53 of 10 cents a share fully franked, declared 1 February 2006 and payable on 31 March 2006. The aggregate amount of the proposed dividend expected to be paid out of retained profits at 31 December 2005, but not recognised as a liability at year end (refer Note 1(r)) is $116.6 million.

9 DIVIDENDS (continued)

	Consolidated Entity $Million		Parent Entity $Million	
	2005	2004	2005	2004
(c) Franked dividends				
The fully franked dividends received from Alcoa of Australia Limited ("AofA") in the financial year were	411.6	148.0	411.6	148.0
Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in these financial statements:				
Class 'C' (30%) franking credits available for subsequent financial years, based on a tax rate of 30% (2004: 30%)	93.5	1.9	93.5	1.9

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.

	Consolidated Entity $Million		Parent Entity $Million	
	2005	2004	2005	2004
10. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	15.2	17.7	8.9	7.4
Money market deposits (maturity of three months or less)	-	100.2	-	100.2
	15.2	117.9	8.9	107.6
(a) Reconciliation of cash at the end of the year				
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:				
Balances as above	15.2	117.9	8.9	107.6
Bank overdrafts	-	-	-	-
Balances as per cash flow statements	15.2	117.9	8.9	107.6

(b) Cash at bank and on hand
Average interest rate on cash holdings during 2005 was
4.9% (2004: 4.7%).

(c) Money market deposits
There were no interest bearing deposits at 31 December 2005
(2004: floating interest rates between 5.4% and 5.5%).

11. CURRENT ASSETS – RECEIVABLES

	2005	2004	2005	2004
Interest receivable	-	0.5	-	0.5
Other debtors	0.5	0.3	0.2	0.1
	0.5	0.8	0.2	0.6

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Securities not quoted on a prescribed stock exchange

(i) Securities in entities forming Alcoa World Alumina and Chemicals (AWAC) with Alcoa Inc.

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
Securities at cost:					
Balance brought forward		1,187.8	1,217.3	717.7	717.7
Alcoa of Australia- reinvestment of dividend		320.0	-	320.0	-
Investment in Juruti bauxite reserves in Brazil		-	51.1	-	-
Decrease in investment following sale of Chemical assets		-	(62.2)	-	-
Foreign currency revaluation		22.1	(18.4)	-	-
Equity accounted cost of AWAC		**1,529.9**	**1,187.8**	**1,037.7**	**717.7**
Equity in retained profits of AWAC	12(c)	427.5	511.9	-	-
Equity in reserves of AWAC	12(d)	37.5	2.4	-	-
Equity accounted carrying value of AWAC		**1,994.9**	**1,702.1**	**1,037.7**	**717.7**

(b) Equity accounted share of profits and dividends

	Notes	2005	2004
Equity share of profits before tax		501.1	460.2
Equity share of tax		(164.0)	(148.7)
Equity accounted share of profit after tax		337.1	311.5
Loss on sale of Specialty Chemical assets directly held by AWAC subsidiaries (net of tax)		-	(28.0)
Dividends received/receivable by the Group		(415.9)	(160.4)
(Shortfall) / excess of AWAC equity accounted profits over dividends received/receivable	12(c)	**(78.8)**	**123.1**

(c) Share of retained profits

	2005	2004
(Shortfall) / excess of AWAC equity accounted profit over dividends received/receivable	(78.8)	123.1
Transition to A-IFRS adjustments	(5.6)	-
Balance brought forward	511.9	388.8
Total equity share in retained profits carried forward	427.5	511.9

(d) Equity accounted share of reserves of associated entities

	2005	2004
Opening balance	2.4	1.1
Share based payments reserve	(0.5)	1.3
Unrealised gains on derivatives, net of tax	35.6	-
Total equity share of reserves	37.5	2.4

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(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 equivalents to International Financial Reporting Standards. 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, create an additional asset retirement obligation for dismantling, removal and restoration of each refinery, and to reverse any excesses or shortfalls of the superannuation fund assets over accrued membership benefits taken to the Income Statement.

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, which is unchanged from 2004 amounting to A$152.7 million (2004: A$152.7 million). Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired, and is carried at cost less accumulated impairment losses. Refer Note 1(j).

(f) Additional information on associated entities

Name	Principal activities	Country of incorporation	Percentage equity	
			2005	**2004**
(i) Entities forming AWAC				
Alcoa of Australia Ltd	Fully integrated aluminium production	Australia	40	40
Alcoa Alumina & Chemicals LLC	Production of alumina & alumina based chemicals	America	40	40
Abalco S.A.	Production of bauxite and alumina	Brazil	40	40
Alcoa Caribbean Alumina Holdings LLC	Holding company	America	40	40
Alumina Espanola S.A.	Production of alumina & alumina based chemicals	Spain	40	40
Omnia Minerios Ltda.	Hold bauxite exploration rights	Brazil	40	40
Matapu Sociedade de Mineracao Ltda.	Hold bauxite exploration rights	Brazil	40	40
Mineracao Sao Jorge Ltda.	Hold bauxite exploration rights	Brazil	40	40
(ii) Other associates				
Agnew Pastoral Company Pty. Ltd.	Manage pastoral leases	Australia	40	40
Weebo Pastoral Company Pty. Ltd.	Manage pastoral leases	Australia	40	40

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

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

	$Million 2005	$Million 2004
(g) Expenditure commitments and contingent liabilities		
- other expenditure commitments contracted for, including long term commitments for gas and electricity		
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.	2,854.4	2,279.2

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.

(h) Alumina' share of aggregate associates:	Notes	$Million 2005	$Million 2004
Current assets		834.7	616.9
Non-current assets		1,942.9	1,658.6
Current liabilities		(661.3)	(438.7)
Non-current liabilities		(419.7)	(432.6)
Net assets		**1,696.6**	**1,404.2**
Mineral rights and bauxite assets		145.6	145.2
Goodwill		152.7	152.7
Carrying value	12(a)	**1,994.9**	**1,702.1**
Revenues		2,451.0	2,080.9
Expenses		(1,949.9)	(1,620.7)
Profit before income tax		**501.1**	**460.2**
Loss on sale of Specialty Chemicals Business		-	(28.0)
Income tax charge		(164.0)	(148.7)
Profit after income tax		**337.1**	**283.5**

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004

13. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Notes	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Investments in controlled entities[1]	26	-	-	837.1	784.6
Investments in controlled entities					
Cost				840.5	788.0
Provision for diminution in value of investments				(3.4)	(3.4)
				837.1	784.6

[1] Note 26 discloses the entities comprising the Alumina Consolidated Group

14. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Notes	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Plant and equipment	14(a)	0.3	0.3	0.3	0.3
(a) Plant and equipment					
Cost		0.5	0.5	0.5	0.5
Accumulated depreciation		(0.2)	(0.2)	(0.2)	(0.2)
		0.3	0.3	0.3	0.3
(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 2005		0.3	0.4	0.3	0.4
Depreciation expense		-	(0.1)	-	(0.1)
Carrying amount at 31 December 2005		0.3	0.3	0.3	0.3

15. CURRENT LIABILITIES – PAYABLES

	Notes	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Trade payables		1.1	1.5	1.1	1.4
Other payables		2.0	0.9	2.0	0.9
		3.1	2.4	3.1	2.3

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
16. CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES					
Unsecured:					
Borrowings	16(a)	478.7	397.9	478.7	397.9
These borrowings are under two 364 day rolling facilities, both of which have a three monthly maturity cycle. As a result all borrowings have been classified as being current liabilities. These facilities will be refinanced during the course of 2006.					
(a) Description					
Bank loans at floating interest rates applicable in the United States of America (Weighted average rate of 3.5% (2004 – 1.7%) and are repayable in one year or less.		478.7	397.9	478.7	397.9
(b) Currencies					
The above borrowings are due in the following currency:					
US dollars		351.0	311.0	351.0	311.0
A$ equivalent of above currency		478.7	397.9	478.7	397.9
(c) Exchange rates					
Exchange rates at balance date used in translations:		0.7333	0.7819	0.7333	0.7819
A$1 = US$					
17. CURRENT LIABILITIES – PROVISIONS					
Employee benefits – provision for annual leave		0.1	0.1	0.1	0.1
18. NON-CURRENT LIABILITIES – PAYABLES					
Loans from controlled entities		-	-	181.6	132.4
19. NON-CURRENT LIABILITIES – PROVISIONS					
Employee benefits – provision for long service leave		0.2	0.2	0.2	0.2

The aggregate of provisions for employee benefits as shown in Notes 17 and 19 are $0.3 million (2004: $0.3 million).

20. CONTRIBUTED EQUITY

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
Ordinary share capital issued and fully paid					
Balance brought forward		404.1	384.8	404.1	384.8
Shares issued		11.6	19.3	11.6	19.3
Total issued capital		415.7	404.1	415.7	404.1

Movements in ordinary share capital		Number of fully paid shares 2005	Number of fully paid shares 2004
Opening number of shares		1,163,111,048	1,159,557,148
Issued under WMC Employee Option Plan	20(a)	2,534,600	3,553,900
Closing number of shares		1,165,645,648	1,163,111,048

WMC Employee Share Scheme

Year of issue	Granted in 2005	Exercised in 2005	Outstanding as at 31 December 2005	Exercise Price	Expiry Date
2000	-	1,209,300	-	$4.04	18 December 2005
2001	-	1,325,300	1,971,100	$5.02	30 November 2006
Total	**-**	**2,534,600**	**1,971,100**		

(a) Prior to the demerger, 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 operated. Fully paid shares, partly paid shares and share options were granted to employees since establishment of the Scheme. Currently one Alumina Limited employee holds such options. These options remain exercisable until such time as their exercise periods expire. No issues have been made under this Scheme since the demerger. There is no ongoing option plan available to Alumina Limited directors or employees.

(b) 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.

21. SHARE-BASED PAYMENTS

(a) Alumina Employee Share Plan

This is a plan under which employees may be invited to participate in in the grant of a conditional entitlement to fully paid ordinary shares (a Performance Right). 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 participate in the Plan and to be granted performance rights under the Plan if they are an employee, and have satisfied the criteria that the Board decides for participation in the Plan.

Generally, each offer has a three year performance period, with performance tested at the end of this period to determine the number of performance rights to vest to the employee, if any. 50% of the performance rights 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 Total Shareholder Returns (TSR) of Alumina Limited, compared to two specific comparator groups.

An invitation is not transferable. An employee may only apply for performance rights in his or her name and not in the name of, or on behalf of, another person or entity. On vesting, each performance right is an unconditional entitlement to one fully paid ordinary share.

On termination of employment of any individual, their participation in the Plan is finalised and any performance rights not vested lapse unless the Director's decide otherwise.

Set out below are summaries of performance rights granted under the Plan:

2005

Grant date	Expiry date	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Balance at end of the year Number
26/3/2003	3/12/2004	46,500	-	(11,626)	(34,874)	-
26/3/2003	3/12/2005	97,200	-	-	(62,900)	34,300
19/1/2004	21/12/2006	141,050	-	-	(40,300)	100,750
25/1/2005	16/12/2007	-	139,850	-	(37,000)	102,850
Total		284,750	139,850	(11,626)	(175,074)	237,900

2004

Grant date	Expiry date	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Balance at end of the year Number
26/3/2003	3/12/2004	95,900	-	-	(49,400)	46,500
26/3/2003	3/12/2005	100,200	-	-	(3,000)	97,200
19/1/2004	21/12/2006	-	143,550	-	(2,500)	141,050
Total		196,100	143,550	-	(54,900)	284,750

21. SHARE-BASED PAYMENTS (continued)

Expenses arising from share-based payment transactions in the Alumina Employee Share Plan

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated Entity $Million		Parent Entity $Million	
	2005	2004	2005	2004
Performance rights granted under the Alumina Employee Share Plan	0.3	0.3	0.3	0.3

(b) Employee Share Scheme

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.

Employee option plan

All permanent employees (including executive directors) of Alumina Limited and its subsidiaries who were employed, prior to demerger, by the company or a subsidiary were eligible to participate in the WMC Employee Share Scheme and be offered options for fully paid shares. Options allotted, prior to the demerger, 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.

The major provisions of the option plans provide that the employee may request that the options be converted after one year from the date of allotment. Options are exercisable at their strike price. Restrictions exist for certain employees on the number of options which can be exercised in any year. If the request to convert the options to shares has not been made, the Company must make the call at the completion of five years from the date of issue or termination of employment. Certain designated officers are not permitted to exercise options or buy and sell shares in the period between the end of the company's half or full financial year and the release of the respective result.

Employee share options carry no rights to dividends and no voting rights. When exercised, each option results in a beneficial entitlement to one fully paid ordinary share.

Year of issue	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable end of the year Number
Consolidated and parent entity – 2005								
2000	18 Dec 2005	$4.04	1,209,300	-	(1,209,300)	-	-	-
2001	30 Nov 2006	$5.02	3,296,400	-	(1,325,300)	-	1,971,100	1,971,100
Total			4,505,700	-	(2,534,600)	-	1,971,100	1,971,100
Weighted average exercise price:			$4.76		$4.55		$5.02	$5.02
Consolidated and parent entity – 2004								
1999	20 Dec 2004	$4.52	1,495,600	-	(1,495,600)	-	-	-
2000	18 Dec 2005	$4.04	1,986,400	-	(777,100)	-	1,209,300	1,209,300
2001	30 Nov 2006	$5.02	4,577,600	-	(1,281,200)	-	3,296,400	3,296,400
Total			8,059,600	-	(3,553,900)	-	4,505,700	4,505,700
Weighted average exercise price:			$4.69		$4.60		$4.76	$4.76

21. SHARE-BASED PAYMENTS (continued)

Stock appreciation plan

In various years since approval of the WMC Employee Share Scheme in 1987, until the demerger of the company, the company established stock appreciation plans (SAPs) for the benefit of employees mainly 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 Options Plans, with benefits similar to those conferred by the Option Plans.

Under the terms of the WMC Stock Appreciation Plan (SAP), employees were invited to apply for the grant by WMC Limited. The employees were not required to pay any amount for the grant, but each WMC Limited SAP has a notional allotment exercise price, equal to the weighted average sale price of WMC shares on the ASX on the trading day that the invitation to apply for the WMC Limited SAP was made to the employee. Subject to certain exceptions, the WMC Limited SAP was not able to be redeemed until after a period of 12 months from the date of allotment and lapse on the fifth anniversary of the date of allotment. Upon redemption of a WMC Limited SAP before its expiry by the holder, the holder is entitled to a payment equal to the difference between the closing share price of WMC Limited (or, post-demerger Alumina Limited) on the ASX on the trading day immediately before redemption, and the notional allotment price (assuming the former is higher).

Set out below are summaries of allotments made under SAP's:

Year of issue	Expiry date	SAP allotment price	Balance at start of the year Number	Allotted during the year Number	Redeemed during the year Number	Expired during the year Number	Balance at end of the year Number	Redeemable at end of the year Number
Consolidated and parent entity – 2005								
2000	18 Dec 05	$4.04	15,400	-	(15,400)	-	-	-
2001	30 Nov 06	$5.02	113,900		(56,800)	-	57,100	57,100
2002	30 Nov 06	$5.02	400,000	-	(400,000)	-	-	-
Total			529,300	-	(472,200)	-	57,100	57,100
Weighted average exercise price:			$4.99		$4.99		$5.02	$5.02
Consolidated and parent entity – 2004								
1999	20 Dec 04	$4.52	11,000	-	(10,000)	(1,000)	-	-
2000	18 Dec 05	$4.04	58,300	-	(42,900)	-	15,400	15,400
2001	30 Nov 06	$5.02	197,600	-	(83,700)	-	113,900	113,900
2002	30 Nov 06	$5.02	650,000	-	(250,000)	-	400,000	400,000
Total			916,900	-	(386,600)	(1,000)	529,300	529,300
Weighted average exercise price:			$4.95		$4.90	$4.52	$4.99	$4.99

22. RESERVES, RETAINED PROFITS AND TREASURY SHARES

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
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	22(a)	(10.2)	1.3	-	-
Cash-flow hedge reserve	22(b)	35.6	-	-	-
Share-based payments reserve	22(c)	2.7	2.9	0.8	0.5
		78.9	55.0	241.0	240.7
(a) Foreign currency translation reserve					
Balance brought forward		1.3	-	-	-
Currency translation differences arising during the year		(11.5)	1.3	-	-
Balance carried forward		(10.2)	1.3	-	-
(b) Cash flow hedge reserve					
Balance brought forward		-	-	-	-
Gains for the period		35.6	-	-	-
Balance carried forward		35.6	-	-	-
(c) Share-based payments reserve					
Balance brought forward		2.9	1.3	0.5	0.2
Option expense		(0.2)	1.6	0.3	0.3
Balance carried forward		2.7	2.9	0.8	0.5

(d) 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).

(iii) Cash flow hedge reserve

Gains on instruments used to hedge a net investment in a foreign operation determined to be an effective hedge as described in accounting policy Note 1(q).

(iv) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

22. RESERVES, RETAINED PROFITS AND TREASURY SHARES (continued)

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
(e) Retained profits					
Retained profits at the beginning of the financial year:					
- Group		441.5	481.3	433.1	511.9
- Associates		511.9	388.8	-	-
		953.4	870.1	433.1	511.9
Net profit attributable to the members of Alumina Limited		315.6	316.4	365.0	154.3
Dividend provided for or paid		(232.8)	(233.1)	(232.8)	(233.1)
Retained profits at the end of the financial year		1,036.2	953.4	565.3	433.1
Retained profits at the end of the financial year:					
- Group		608.7	441.5		
- Associates	12(c)	427.5	511.9		
		1,036.2	953.4		
(f) Treasury shares[1]					
Balance brought forward		(0.6)	-	-	-
Movement for the period		-	(0.6)	-	-
Balance carried forward		(0.6)	(0.6)	-	-

[1] Under AASB 132, if an entity reacquires its own equity instruments, those instruments shall be deducted from equity. Alumina Limited purchased shares for its long term incentive plan.

23. NOTES TO THE STATEMENTS OF CASH FLOWS

	Notes	Consolidated Entity $Million 2005	Consolidated Entity $Million 2004	Parent Entity $Million 2005	Parent Entity $Million 2004
(a) Reconciliation of operating profit after income tax to net cash inflow from operating activities					
Operating profit from continuing operations after income tax		315.6	316.4	365.0	154.3
Shortfall/(excess) of equity accounted profits over dividends received		78.8	(123.1)	-	-
Depreciation and amortisation	6	-	0.1	-	0.1
Non-cash employee benefits expense-share based payments		0.3	0.3	0.3	0.3
Non-cash dividends received		(320.0)	-	(320.0)	-
Profit on sale of Specialty Chemical assets	5	-	(43.4)	-	-
Net exchange differences	5,6	-	(1.1)	26.2	(14.1)
Sub total		74.7	149.2	71.5	140.6
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	0.2	0.4	(0.2)
-deferred tax assets		-	2.7	-	3.1
-other assets		(0.5)	(0.3)	(0.5)	-
(Decrease)/increase in:					
-payables		0.7	(0.8)	0.8	(4.4)
-current tax liabilities		-	(2.5)	-	(2.5)
-other liabilities		(3.2)	-	(2.5)	(0.3)
Net cash inflow from operating activities		72.0	148.5	69.7	136.3

23. NOTES OF THE STATEMENT OF CASH FLOWS (continued)

(b) Acquisition/disposal of controlled entities

During the year the Company did not acquire or dispose of any material controlled entities.

(c) Financing facilities

Refer to Note 24.

(d) Non cash financing and investing activities

	Consolidated Entity $Million		Parent Entity $Million	
	2005	2004	2005	2004
Dividend received from associate*	320.0	-	320.0	-
Investment in associate*	(320.0)	-	(320.0)	-

* During 2005 Alcoa of Australia, of which Alumina Limited owns 40% declared a special dividend of A$800 million (Alumina Limited share A$320 million), all of which was immediately subscribed to Alcoa of Australia for the purchase of new shares.

24. FINANCING FACILITIES

	Notes	Consolidated Entity $Million		Parent Entity $Million	
		2005	2004	2005	2004
The total facilities available at balance date were as follows:					
Short term loan facilities	24(b)	700.0	700.0	700.0	700.0
Used at balance date		478.7	397.9	478.7	397.9
Available at balance date		221.3	302.1	221.3	302.1
(a) The loan facilities are denominated in currencies as follows:					
Short term loan facilities					
Australian dollar facility		50.0	50.0		
Multi-currency facility[1]		650.0	650.0		

[1] Comprising two multi-currency facilities drawn in US dollars with an aggregate limit with A$650 million.

(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 2006.

25. FINANCIAL INSTRUMENTS

(a) Interest rate risk

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

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 2005

			Fixed interest maturing in:				
$ million	**Notes**	**Floating interest**	**1 year or less**	**Over 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Financial Assets							
Cash and cash equivalents	10	15.2	-	-	-	-	15.2
Receivables	11	-	-	-	-	0.5	0.5
		15.2	-	-	-	0.5	15.7
Weighted average interest rate		4.9%					
Financial Liabilities							
Payables	15	-	-	-	-	3.1	3.1
Bank loans	16	478.7	-	-	-	-	478.7
		478.7	-	-	-	3.1	481.8
Weighted average interest rate		3.5%					
Net financial (liabilities)		(463.5)	-	-	-	(2.6)	(466.1)

As at 31 December 2004

			Fixed interest maturing in:				
$ million	**Notes**	**Floating interest**	**1 year or less**	**Over 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Financial Assets							
Cash and cash equivalents	10	117.9	-	-	-	-	117.9
Receivables	11	-	-	-	-	0.8	0.8
		117.9	-	-	-	0.8	118.7
Weighted average interest rate		5.3%					
Financial Liabilities							
Payables	15	-	-	-	-	2.4	2.4
Bank loans	16	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)

25. FINANCIAL INSTRUMENTS (continued)

(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 24(a) above were as follows:

		Consolidated Entity			
		Carrying amount	Fair value	Carrying amount	Fair value
		$Million		$Million	
	Notes	2005	2005	2004	2004
Recognised in the Balance Sheet					
Financial assets					
Cash and cash equivalents	10	15.2	15.2	117.9	117.9
Current receivables	11	0.5	0.5	0.8	0.8
Financial liabilities					
Current payables	15	3.1	3.1	2.4	2.4
Short term interest bearing liabilities	16	478.7	478.7	397.9	397.9

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 and cash equivalents

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.

26. 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	Notes	Place of Incorporation
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

26. INVESTMENTS IN CONTROLLED ENTITIES (continued)

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) have 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 (Westminer (Investments) B.V.), acquired 100% interest in Butia Participaçoes SA, a Brazilian entity for a nominal amount. Ownership of Butia Participaçoes SA was transferred from Westminer (Investments) B.V. to Alumina Limited on 16 September 2005.

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 balance sheet is set out below:

	Closed Group $Million	
	2005	2004
Balance sheets of closed Group		
Current assets		
Cash and cash equivalents	9.0	107.7
Receivables	8.2	51.3
Deferred tax assets	2.1	2.1
Other assets	0.5	
Total current assets	19.8	161.1
Non-current assets		
Investments in associates/subsidiaries	1,474.3	1,101.7
Property, plant and equipment	0.3	0.3
Total non-current assets	1,474.6	1,102.0
Total assets	1,494.4	1,263.1
Current liabilities		
Payables	3.1	2.3
Interest-bearing liabilities	478.7	397.9
Provisions	0.1	0.1
Other	1.2	2.1
Total current liabilities	483.1	402.4
Non-current liabilities		
Payables	120.1	119.3
Provisions	0.2	0.2
Total non-current liabilities	120.3	119.5
Total liabilities	603.4	521.9
Net assets	891.0	741.2
Equity		
Contributed equity	415.7	404.1
Reserves	241.0	240.7
Retained profits	234.3	96.4
Total equity	891.0	741.2

26. INVESTMENTS IN CONTROLLED ENTITIES (continued)

Set out below is a consolidated statement of financial performance for the closed Group:

Income statements of closed Group	Closed Group $Million 2005	2004
Revenue from ordinary activities	**416.8**	**204.2**
General and administrative expenses	(10.2)	(7.8)
Other expenses	(17.6)	(10.1)
Borrowing costs	(18.3)	(10.6)
Profit from ordinary activities before income tax	**370.7**	**175.7**
Income tax expense	-	(0.5)
Net profit	**370.7**	**175.2**

Set out below is a summary of movements in consolidated retained profits of the closed Group:

	2005	2004
Retained profits at the beginning of the financial year	**96.4**	**154.3**
Net profit	370.7	175.2
Dividend provided for or paid	(232.8)	(233.1)
Retained profits at the end of the financial year	**234.3**	**96.4**

27. CONTINGENT LIABILITIES

There have been no changes to contingent liabilities during the reporting period.

Cross guarantees given by Alumina Limited and Alumina International Holdings Pty. Ltd are described in Note 26. There are no deficiencies of assets in any of these companies.

These guarantees may give rise to liabilities in the parent entity if the subsidiary does not meet their obligations under the terms of the overdrafts, loans or other liabilities subject to the guarantees.

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

28. COMMITMENTS FOR EXPENDITURE

Lease commitments

	Consolidated Entity $Million 2005	2004	Parent Entity $Million 2005	2004
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
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	0.2	0.2
	0.3	0.3	0.3	0.3

The company leases office facilities under non-cancellable operating leases expiring within two to five years. The office lease on expiry is expected to be renewed or replaced by another lease.

29. 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 26. Transactions between Alumina Limited and other entities in the wholly-owned Group during the years ended 31 December 2005 and 2004 consisted of:

- loan advanced/repaid to/by Alumina Limited
- interest paid/received on the above loans (refer Notes 4 and 6)
- the payment of dividends to Alumina Limited (refer Note 4)
- 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.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned Group:

	Parent Entity $Million	
	2005	2004
Interest expense	0.2	0.2
Interest income	(1.3)	-
Aggregate amounts payable to entities in the wholly-owned Group at balance date:		
Non-current payables	181.6	132.4

Directors and Other Key Management Personnel

Disclosures relating to directors and other key management personnel are set out in Note 30.

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 26; and

(b) associates – Note 12.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) 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

K A Dean, Chief Financial Officer (Alternate director from 1 November 2005)[1]

R D J Davies, Chief Financial Officer (Alternate director until 31 October 2005)

[1] Mr Ken Dean suceeded Mr Bob Davies as Chief Financial Officer on 1 November 2005

Non-executive directors

P A F Hay
R J McNeilly
M R Rayner

(b) Other key management personnel

In addition to executive directors, the following person also had authority for the strategic direction and management of the company and the consolidated entity ("specified executives") during the financial year:

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

Except as noted above, all of the persons above were also key management persons during the year ended 31 December 2004.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Remuneration of key management personnel

(i) Principles used to determine the nature and amount of remuneration

Alumina Limited's remuneration policy is to establish a clear link between performance and remuneration. In doing so we committed to ensuring that our remuneration process is aligned with shareholder interests and is also designed to reward and recognise superior Senior Executive performance.

The process ensures that specific and measurable individual objectives and targets that are consistent with business objectives are set for executives and employees.

Senior executive remuneration is reviewed annually by the Compensation Committee. Senior Executive rewards are influenced by three factors: individual performance, Company performance, and market position.

The CEO, Chief Financial Officer and General Counsel/Company Secretary are the executives who exercise the greatest control over the management and strategic direction of the Group and are the most highly remunerated executives of the Company and the Alumina Group. These executives are the only employees of the Company who exercise control over the Group's management and strategic direction and therefore fewer than five executives are listed in this report.

Individual performance

Remuneration reflects individual performance based on the Senior Executive's performance against specific goals and individual objectives set for each Senior Executive for the year under review.

The performance of individual Senior Executives, against their objectives is assessed half yearly and yearly. The Compensation Committee also obtains independent remuneration information for comparative purposes. Salary reviews and short-term incentives (STIs) are determined by assessing performance against both individual performance objectives and peer group total shareholder return (TSR) performance. Long-term incentives (LTIs) are assessed against the Company's TSR compared with that of Australian and international peer group companies.

Company performance

A percentage component of both total cash and share-based remuneration for Senior Executives is based on the performance of the company measured against peer group companies' TSR.

Market position

Accordingly, Alumina Limited's remuneration levels need to be competitive with comparable Australian organisations to ensure that the company can attract and retain high performing employees. The Board Compensation Committee appoints external compensation advisers to provide appropriate salary and benefits reviews on an annual basis.

Non-executive directors

Alumina Limited's non-executive Directors receive a fee for fulfilling their director's duties. No additional fees are paid to directors for participating on Board Committees. Non-executive Directors' fees are reviewed annually and are determined by the committee based on comparative analysis and advice received from remuneration consultants, and take into account the directors' responsibilities and time spent on company business. The level of fees reflects the need to attract directors with the necessary skills and experience.

Total remuneration for non-executive Directors is determined by resolution of shareholders. The maximum aggregate remuneration approved for non-executive Directors is $950,000 per annum. A total of $591,325 was paid to Alumina Limited Directors in non-executive Director fees in 2005.

There were no fee increases to non-executive Directors from March 2002 until 1 January 2005. Non-executive Directors (other than the Chairman) fees were increased from $85,000 per annum to $110,000 per annum as from 1 January 2005. The Chairman's fee remained unchanged for 2005.

In 2005, the Compensation Committee approved an increase in non-executive Directors' fees of 5 per cent, effective from 1 January 2006. The Chairman's fee was set in 2002 at $212,500, at a multiple of approximately 2.5 times of non-executive Directors' fees. The Chairman's fee had not been changed since early 2002. In the course of the review undertaken in 2005, it was decided, based on the remuneration consultant's advice, that the Chairman's fee level should be $287,500 from 1 January 2006, which bore the same proportion to non-executive Directors' current fees as that which applied to the fees when originally set in 2002.

Retirement benefits

Non-executive Directors receive, in addition to their fees, a superannuation guarantee contribution which for 2005 was 9 per cent of their fees, being $19,125 for the Chairman and $9,900 for other non-executive Directors, but do not receive any other retirement benefits. From 1 January 2006, the superannuation guarantee contribution is capped at $12,139 for the Chairman.

Share acquisitions

Alumina Limited's non-executive Directors participate in a share plan that requires the Directors to allocate a minimum of 10 per cent of their annual fees to acquiring shares in the Company. Those shares are purchased on-market on behalf of the Directors and all expenses in relation to the purchase are paid by the Directors. Shares are not allocated on performance but in lieu of receiving cash remuneration.

Senior Executives

Senior executive remuneration comprises:

(1) **fixed remuneration** – 'fixed annual reward' (FAR) is the component of total remuneration specified in an employee's contract of employment and in periodic salary reviews. It includes salary and superannuation contributions (both company and salary sacrifice contributions).

(2) **variable (incentive) payments** – contracts for Senior Executives 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 annually.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(1) Fixed Remuneration

The Committee reviews and determines the FAR for the CEO. The CEO annually reviews and recommends to the Committee the FAR for the other Senior Executives.

The Committee undertook a review in 2005 of CEO and Senior Executive remuneration. The remuneration structure for the Company's CEO and Senior Executives had previously been set in 2002, prior to the Company's demerger. As part of the review in 2005, the responsibilities and requirements of these positions were updated and advice was sought from a remuneration consultant to ensure CEO and Senior Executive remuneration continues to be appropriate, taking into account the Company's size, market movements and the complexity of executive responsibilities. Given the small number of employees at Alumina Limited, it is critical that Senior Executives perform at a high level. For Senior Executives, the Company seeks to set FAR at the third quartile of comparable companies.

The Committee determined that, the CEO's FAR be increased from $750,000 per annum to $850,000 per annum, effective 1 January 2006 (further details of the CEO's remuneration are provided below). Mr Davies' FAR increased from $378,000 per annum to $575,000 per annum, and Mr Foster's FAR increased from $273,000 per annum to $350,000 per annum, effective 1 August 2005.

The FAR of Mr Ken Dean, appointed as Chief Financial Officer to succeed Mr Davies effective 1 November 2005, is $540,000 per annum.

(2) Variable Payments

During the year, the Company arranged for an independent consultant to review the structure of its STI and LTI plans. After considering the review, the structure of the STI and LTI were modified, to be effective from 1 January 2006. Details of the arrangements applying during 2005 are set out below. Changes implemented to 1 January 2006 are not outlined in a seperate paragraph below.

Short-term incentives

The amount of STI awarded varies according to a combination of individual and Company performance criteria. For the STI, Company performance has been measured using the TSR for a one year period.

Short-term incentive opportunities are calculated as a percentage of the Senior Executive's fixed remuneration and are paid in the form of cash. The Committee reviews performance assessments and approves all STI payments to all employees. In 2005, the maximum payable to Senior Executives was 45 per cent of FAR, of which 25 per cent related to performance against individual objectives, and 20 per cent related to the Company's relative TSR performance during the 2005 year. The STI was designed to encourage superior performance and link Senior Executive remuneration to the returns achieved by shareholders.

Performance against individual objectives links achievement to reward for Senior Executives for meeting or exceeding measurable objectives in their work. Specific tasks and objectives relate to AWAC joint venture matters and strategy, capital management and dividends which ultimately support Alumina Limited's objectives and shareholder interests.

These objectives in 2005 related to completion of the acquisition of the Juruti bauxite deposit, implementing a funding plan to ensure Alumina's participation in AWAC's growth projects, undertaking action to release franking credits from Alcoa of Australia, the basis for any participation in the Pingguo bauxite and alumina assets and implementation of A-IFRS.

Performance is measured against a scorecard of agreed objectives and targets. Individual performance against the measures was assessed for each Senior Executive for 2005 and an average of 20 per cent of FAR was awarded for this component of STI.

The TSR component of the 2005 STI plan was measured against the same two comparator peer groups used for the 2005 LTI plan (see below).

The STI reward attributed to the TSR performance fluctuates according to the relative performance of the Company. An entitlement is triggered according to the scale set out in the following table.

Executive STI Rewards	Scorecard	Performance Measures	Potential STI per cent of FAR 2005
		TSR in top quartile	20
Company Performance	Company 12 month TSR	TSR in third quartile	12
	comparison to peer group	TSR in second quartile	8
		TSR in first quartile	-

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

For 2005, an STI component of 8 per cent of FAR was attributed to short-term relative TSR performance, with Company relative performance registering in the second quartile against peer group performance.

Company TSR and individual performance objectives provide an incentive to achieve high levels of personal performance and contribute to high levels of Company performance. TSR has been used as a performance hurdle in the STI plan because it was considered an appropriate means of measuring Company performance. The STI is paid in December in respect of the performance within that year.

Long-term Incentives

Senior Executives are invited to participate in the Alumina Employee Share Plan (ESP). The ESP is designed to link Alumina employee rewards with the long-term goals and performance of Alumina Limited, and the generation of shareholder returns.

Each year Senior Executives may be offered (at the Board's discretion) a conditional entitlement (a performance right) under the ESP, to fully paid ordinary shares in the Company, which are purchased on market. The performance rights vest to Senior Executives at the end of the performance period if the performance tests are achieved over that performance period.

An initial grant of three tranches of performance rights, approved by the Board in early 2003, covered a three year period 2003–2005. The first tranche was tested in December 2003, the second tranche in December 2004 and the third tranche was tested in December 2005. Beyond the initial grant, future grants have a three year performance period, with performance tests at the end of this period. The LTI grant value for Senior Executives was set at 30 per cent of FAR for the initial three year grant and 55 per cent for the subsequent grant in December 2004, when the STI percentage was reduced to 45 per cent. The LTI grant value is divided by the prevailing Company share price at the time of the offer to determine the number of performance rights offered to Senior Executives under the ESP.

The performance criteria and testing period for each annual offer under the ESP are determined by the Committee at the time of issue of each tranche of performance rights.

Re-testing

If less than 100 per cent of the performance rights in a tranche vest when tested initially, a second test is conducted six months after the initial test. No further testing is undertaken after this second test six months after the initial test. This second test applies only to 50 per cent of the performance rights that did not initially vest (for example, if 60 per cent of the performance rights initially vest, the second test will apply only to half of the 40 per cent of performance rights that did not initially vest). The remaining 50 per cent of the performance rights that did not vest will lapse.

The number of performance rights of the re-tested portion that vest will be determined according to Alumina Limited's relative TSR performance over the period from the commencement of the performance period to the re-test date, according to the same scale used at the initial test.

Entitlements will generally lapse on cessation of employment. Mr Davies' performance rights that had not vested, lapsed on the date of his resignation in October 2005.

In the event of a change in control, the Board shall determine whether any outstanding performance rights for which performance hurdles are met at that time shall vest to Senior Executives. A change of control is generally an entity acquiring more than 50 per cent of the issued shares of the Company.

Overview of ESP Performance Measurement

Two comparator group tests are applied to determine the number of performance rights which vest under the ESP, with each accounting for 50 per cent of the maximum possible grant of performance rights under the ESP. The performance tests compare Alumina Limited's TSR performance with the TSR performance of each of the entities in two comparator groups over the performance period. The results of the performance tests are calculated by a consultant engaged for this purpose.

TSR was chosen as the performance measure because it is the most appropriate means of measuring Company performance, as it incorporates both capital growth and dividends.

The comparator groups selected by the Committee include companies which are in similar industries to the Company or compete for capital with the Company, taking into account the size of the Company. The methodology behind tests 1 and 2 is identical, apart from the difference in the comparator groups. The performance tests are defined as follows:

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 metals and mining entities listed on stock exchanges inside and outside Australia (i.e. 30 entities excluding Alumina Limited) (Test 2 – International Comparator Group).

Under the performance tests, the TSR for each entity in the comparator groups and for Alumina Limited is calculated according to a standard methodology decided upon and applied by remuneration consultants Mercer Human Resource Consulting, engaged for this purpose. The entities (or securities, as appropriate) in the comparator group are then ranked by TSR performance. The number of performance rights for which senior executives receive an Alumina Limited share (i.e. that 'vest') is then determined according to the following scale:

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Performance Right Vesting Treatment

Alumina Limited TSR compared to median of comparator groups	Vesting
If Alumina Limited's TSR is less than the TSR of the company at the 50th percentile of the comparator group, ranked by TSR performance	0 per cent
If Alumina Limited's TSR is equal to the TSR of the company at the 50th percentile of the comparator group, ranked by TSR performance*	50 per cent
If Alumina Limited's TSR is equal to or greater than the TSR of the company entities at the 75th percentile of the comparator group, ranked by TSR performance*	100 per cent

* If Alumina Limited's TSR performance is between that of the entities (or securities, as appropriate) at the median (i.e. the 50th percentile) and the 75th percentile of the comparator group ranked by TSR performance, the number of performance rights in a tranche that vest will increase by 2 per cent for each 1 per cent by which Alumina Limited's percentile ranking is higher than the 50th percentile.

Changes to Variable Remuneration from 2006

The structure of the STI and LTI plans were reviewed in 2005 to ensure they were meeting the intended purpose and to take account of changes in market practice and executive responsibilities. As a result of the review of the structure of the STI and LTI plans, the variable incentive payments for Executives have been weighted more to the LTI, with the LTI percentage increasing to 60 per cent of FAR (from 55 per cent) and the STI percentage reducing to 40 per cent of FAR (from 45 per cent), effective 1 January 2006. The CEO's remuneration structure has also been weighted more to the LTI, with the LTI percentage increasing to 75 per cent of FAR (from 55 per cent) and the STI increasing to 50 per cent of FAR (from 45 per cent), effective 1 January 2006.

The STI structure has also been modified to reduce duplication of performance criteria under both the STI and LTI. The element of the STI award relating to the Company's TSR performance (up to 20 per cent) has been replaced for senior executives with measurement against achievement of two financial objectives (up to 15 per cent). The remaining 25% of the STI relates to performance against individual objectives. The STI structure for the Chief Executive Officer from 1 January 2006 is for an STI of 50 per cent of FAR, with 30 per cent relating to performance against personal objectives and 20 per cent measured against achievement of the same two financial objectives specified for Senior Executives. These are the achievement of the AWAC Operating Plan return on capital for the twelve month performance period and on earnings per share target for Alumina Limited, based on the AWAC operating plan and Alumina Limited's corporate budget for the period (normalised for changes in the aluminium price index and AUD/USD effects).

(ii) Details of remuneration

	2005	2004
Short-term employee benefits	2,448,785	1,970,021
Post-employment benefits	84,411	75,954
Share based payments	198,123	(36,682)
	2,731,319	2,009,293

Details of the remuneration of the directors and key management personnel of Alumina Limited and the Alumina Limited Group, including their personally-related entities, are set out in the following tables.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Directors of Alumina Limited

2005	Short term			Post-employment		Share based	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	SAP/Performance rights/Options $	Total $
D M Morley	191,250	-	21,250	19,125	-	-	231,625
P A F Hay	-	-	110,000	9,900	-	-	119,900
R J McNeilly	82,500	-	27,500	9,900	-	-	119,900
M R Rayner	99,000	-	11,000	9,900	-	-	119,900
J Marlay	727,638	217,500	-	11,862	-	200,821	1,157,821
K A Dean	102,515	-	-	2,023	-	-	104,538
R D J Davies	354,411	120,000	-	9,839	-	(77,486)	406,764
Total for each component	1,557,314	337,500	169,750	72,549	-	123,335	2,260,448
Total by category	2,064,564			72,549		123,335	2,260,448

2004	Short term			Post-employment		Share based	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	SAP/Performance rights/Options $	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
Total for each component	1,368,914	180,000	136,000	64,661	-	(79,610)	1,669,965
Total by category	1,684,914			64,661		(79,610)	1,669,965

* 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.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Key management personnel of Alumina Limited and the Group

2005	Short term			Post-employment		Share based	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	SAP/Performance rights/Options $	Total $
S C Foster	293,221	91,000	-	11,862	-	74,788	470,871
Total for each component	293,221	91,000	-	11,862	-	74,788	470,871
Total by category	384,221			11,862		74,788	470,871

2004	Short term			Post-employment		Share based	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	SAP/Performance rights/Options $	Total $
S C Foster	248,707	36,400	-	11,293	-	42,928	339,328
Total for each component	248,707	36,400	-	11,293	-	42,928	339,328
Total by category	285,107			11,293		42,928	339,328

(iii) Service agreements

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

J Marlay, Chief Executive Officer

- Initial agreement for a three-year term, expired in August 2005.
- From August 2005, employment contract became a continuing contract subject to 12 months' notice to terminate, from either the Company or Mr Marlay.
- Fixed annual reward increased to $732,000 on 1 January 2005, with a further increase to $750,000 in August 2005.
- In December 2005, Mr Marlay entered into a new employment contract with a FAR, inclusive of superannuation, of $850,000, an STI of up to 50 per cent of FAR (with "at target" performance likely to achieve 30–42 per cent), and potential for an annual grant of performance rights at the Board's discretion with a value up to 75 per cent of FAR per annum (which will vest according to the extent to which the performance tests are satisfied).
- 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 12 months notice.

K A Dean, Chief Financial Officer

- Term commenced 24 October 2005 and is an ongoing agreement.
- Fixed annual reward, inclusive of superannuation, for the year ending 31 December 2005 of $540,000 per annum, to be reviewed annually by the Compensation Committee.
- If employment is terminated, benefits will be available in accordance with Alumina Limited's redundancy policy. Contract can be terminated by the Company providing six months notice to terminate the contract, or three months' written notice of termination by Mr Dean

S C Foster, General Counsel and Company Secretary

- Term commenced 6 November 2002 and is an ongoing agreement.
- Fixed annual reward, inclusive of superannuation, for the year ended 31 December 2005 of $350,000.
- Mr Foster's fixed annual reward, inclusive of superannuation, increased from $273,000 per annum to $350,000 per annum on 1 August 2005.
- If employment is terminated, benefits will be available in accordance with Alumina Limited's redundancy policy. Contract can be terminated by the Company providing six months notice to terminate the contract, or three months' written notice of termination by Mr Foster.

R D J Davies, Chief Financial Officer (resigned 31 October 2005)

- Term of agreement – commenced 6 November 2002 and resigned 31 October 2005.
- Mr Davies' fixed annual reward, inclusive of superannuation, increased from $378,000 per annum to $575,000 per annum on 1 August 2005.
- Total remuneration for the period until resignation amounted to $406,764.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) 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 and former CFO Mr Davies held options in Alumina Limited that were granted under the WMC Employee Share Scheme prior to the demerger of WMC Limited in December 2002. During the course of 2004, Mr Morley exercised all of his remaining options. During the course of 2005, Mr Davies exercised all of his remaining options.

(ii) 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.

(iii) Alumina employee share plan

Senior Executives maybe invited (at the Board's discretion) to participate in the Alumina Employee Share Plan (ESP).

The ESP is designed to link Alumina employee rewards with the long-term goals and performance of Alumina Limited, and the generation of shareholder returns.

Each year Senior Executives maybe offered (at the Board's disccretion) a conditional entitlement (a performance right) under the ESP, to fully paid ordinary shares in the Company, which are purchased on market. The performance rights vest to Senior Executives at the end of the performance period if the performance tests are achieved over that performance period.

The terms and conditions of each grant or right affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	End of performance period	Value per right at grant date[1]
26/3/2003	3/12/2003	2.44
26/3/2003	3/12/2004	2.49
26/3/2003	3/12/2005	2.49
19/1/2004	21/12/2006	3.01
25/1/2005	16/12/2007	3.68

[1] Value is determined by a calculation performed by Mercer Finance and Risk Consulting using an option pricing model which accomodates the exercise, forfeiture and performance hurdle conditions of Alumina Limited's ESP.

Performance rights do not carry dividend or voting rights prior to any vesting of the performance rights.

When vesting, each performance right results in a beneficial entitlement to one ordinary share.

Details of performance rights over ordinary shares in the company provided as remuneration to each director of Alumina Limited and each of the key management personnel of the Group are set out below.

	Number of rights granted during the year		Number of rights vested during the year	
Name	2005	2004	2005	2004
Directors of Alumina Limited				
R D J Davies	36,500	37,300	3,000	-
J Marlay	70,600	72,500	5,838	-
K A Dean	-	-	-	-
Other key management personnel of the Group				
S C Foster	26,300	27,000	2,175	-

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(iv) Options and performance 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 key management personnel of the company and the consolidated entity, including their personally related entities, is set out below:

2005

Name	Type of equity based instrument	Number of performance rights or options held at 1 January 2005[1]	Number granted during the year as remuneration[2]	Number vested/exercised during the year	Number lapsed during the year[3]	Number held at 31 December 2005	Vested and exercisable at the end of the year
J Marlay	Share Option	-	-	-	-	-	-
	Performance rights	144,750	70,600	(5,838)	(41,962)	167,550	-
R D J Davies	Share Option	50,000	-	(50,000)[4]	-	-	-
	Performance rights	74,300	36,500	(3,000)	(107,800)	-	-
S C Foster	Share Option	-	-	-	-	-	-
	Performance rights	53,900	26,300	(2,175)	(15,625)	62,400	-
K A Dean	Share Option	-	-	-	-	-	-
	Performance rights	-	-	-	-	-	-

[1] Includes the number of performance rights granted for testing in December 2004 (re-tested in June 2005), December 2005, December 2006 but not yet vested.

[2] Performance rights granted in January 2005 for the 3 year performance test period concluding in December 2007.

[3] Performance right conditions were not met for tranche 3 of the March 2003 grant and under the ESP Rules, 50 per cent of the entitlement lapsed with the remaining 50 per cent to be re-tested in June 2006. In addition, a portion of tranche 2 of the March 2003 grant re-tested in June 2005 lapsed. Mr Davies' remaining performance rights lapsed on his resignation on 31 October 2005.

[4] Mr Davies exercised his options and sold the shares he obtained from exercising his options.

2004

Name	Type of equity based instrument	Number of performance rights or options held at 1 January 2004[1]	Number granted during the year as remuneration[2]	Number vested/exercised during the year	Number lapsed during the year[3]	Number held at 31 December 2004	Vested and exercisable at the end of the year
J Marlay	Share Option	-	-	-	-	-	-
	Performance rights	95,600	72,500	-	(23,350)	144,750	-
R D J Davies	Share Option	50,000	-	-	-	50,000	50,000
	Performance rights	49,000	37,300	-	(12,000)	74,300	-
S C Foster	Share Option	-	-	-	-	-	-
	Performance rights	35,600	27,000	-	(8,700)	53,900	-

[1] The number of performance rights granted for testing in December 2004, December 2005 and December 2006 but not yet vested.

[2] Performance rights granted in 2004 for the 3 year performance test period concluding in December 2006.

[3] Performance right conditions were not met for tranche 2 of the March 2003 grant and under the ESP Rules, 50 per cent of the rights lapsed with the remaining 50 per cent to be re-tested in June 2005.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(v) Shareholdings

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

2005

Name *Directors of Alumina Limited*	Balance at the start of the year	Received during the year on the exercise options/rights	Other changes during during the year	Balance at the end of the year
Ordinary shares				
D M Morley	413,796	-	3,548	417,344
P A F Hay	15,430	-	16,270	31,700
R J McNeilly	23,304	-	4,066	27,370
M R Rayner	26,467	-	1,627	28,094
J Marlay	84,500	5,838	-	90,338
R D J Davies[1]	90,762	53,000	(143,762)	-
Other key management personnel of the company and consolidated entity				
Ordinary shares				
S C Foster	26,500	2,175	-	28,675

[1] Mr Davies resigned from the Company on 31 October 2005.

2004

Name *Directors of Alumina Limited*	Balance at the start of the year	Received during the year on the exercise options/rights	Other changes during during the year	Balance at the end of the year
Ordinary shares				
D M Morley	310,492	100,000	3,304	413,796
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
Other key management personnel of the company and consolidated entity				
Ordinary shares				
S C Foster	26,500	-	-	26,500

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(e) Loans to directors and executives

No loans were made to directors or specified executives of Alumina Limited and other key management personnel of the Group, including their personally-related entities in 2005 and 2004.

(f) Other transactions with key management personnel

Directors of Alumina Limited

A director Mr P A F Hay, was the Chief Executive Officer of Freehills until July 2005. 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. No services were provided during 2005 (2004: $3,279).

Aggregate amounts of each of the above types of transactions were:

	2005	2004
	$	$
Amounts recognised as expense		
Legal fees	-	3,279

31. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:

	Consolidated Entity $Thousand		Parent Entity $Thousand	
	2005	2004	2005	2004
(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	283	252	252	223
Additional 2003 costs incurred in 2004	-	2	-	2
Audit of Annual Report on US Form 20-F – fees for annual audit	105	112	105	112
Advice on accounting standards (including transition to A-IFRS)	321	30	321	30
	709	396	**678**	367
(b) Remuneration for other assurance services:				
Other	-	5	-	5
(c) Remuneration for taxation services:				
Overseas tax services	101	174	-	-
Total	**810**	575	**678**	372

It is the consolidated entity's policy only 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.

32. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

There have been no significant events since 31 December 2005.

33. FINANCIAL REPORTING BY SEGMENT

(a) Business segments

Year ended 31 December 2005 and 31 December 2004

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 2005 Consolidated	Australia	North America	$Million Europe	Caribbean Sth America & Africa*	Total
Segment revenue by location of customer**	-	-	-	-	-
Unallocated revenue	4.0				4.0
Consolidated revenue					**4.0**
Investments in Associates	1,030.2	356.0	54.8	553.9	1,994.9
Segment assets	12.6	1.3	4.7	-	18.6
Segment liabilities	483.2	0.1	-	-	483.3
Consolidated net assets					**1,530.2**
Acquisitions of non-current assets	-	-	-	-	-
Total acquisitions of non-current assets					-

Year ended 31 December 2004 Consolidated	Australia	North America	$Million Europe	Caribbean Sth America & Africa*	Total
Segment revenue by location of customer**	-	-	-	-	-
Unallocated revenue	8.9				8.9
Consolidated revenue					**8.9**
Investments in Associates	758.0	352.3	50.9	540.9	1,702.1
Segment assets	110.9	1.4	0.4	8.4	121.1
Segment liabilities	402.8	0.1	-	8.4	411.3
Consolidated net assets					**1,411.9**
Acquisitions of non-current assets	-	-	-	51.1	51.1
Total acquisitions of non-current assets					**51.1**

* 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.

34. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (A-IFRS)

(a) At the date of transition to A-IFRS: 1 January 2004

		Consolidated Entity $Million			Parent Entity $Million		
	Notes	Previous AGAAP	Effect of transition to A-IFRS	A-IFRS	Previous AGAAP	Effect of transition to A-IFRS	A-IFRS
CURRENT ASSETS							
Cash and cash equivalents		165.3	-	165.3	153.6	-	153.6
Receivables		4.0	-	4.0	0.4	-	0.4
Deferred tax assets	(d)	4.1	0.7	4.8	4.5	0.7	5.2
Other		0.3	-	0.3	-	-	-
Total current assets		**173.7**	**0.7**	**174.4**	**158.5**	**0.7**	**159.2**
NON-CURRENT ASSETS							
Investments accounted for using the equity method	(b),(f), (g)	1,625.0	(17.5)	1,607.5[1]	717.7	-	717.7
Other financial assets		-	-	-	784.6	-	784.6
Property, plant and equipment		0.4	-	0.4	0.4	-	0.4
Total non-current assets		**1,625.4**	**(17.5)**	**1,607.9**	**1,502.7**	**-**	**1,502.7**
TOTAL ASSETS		**1,799.1**	**(16.8)**	**1,782.3**	**1,661.2**	**0.7**	**1,661.9**
CURRENT LIABILITIES							
Payables		3.2	-	3.2	2.8	-	2.8
Interest bearing liabilities		467.0	-	467.0	467.0	-	467.0
Current tax liabilities		2.5	-	2.5	2.5	-	2.5
Provisions		0.1	-	0.1	0.1	-	0.1
Other		2.3	-	2.3	2.4	-	2.4
Total current liabilities		**475.1**	**-**	**475.1**	**474.8**	**-**	**474.8**
NON-CURRENT LIABILITIES							
Payables		-	-	-	49.8	-	49.8
Provisions		0.2	-	0.2	0.2	-	0.2
Total non-current liabilities		**0.2**	**-**	**0.2**	**50.0**	**-**	**50.0**
TOTAL LIABILITIES		**475.3**	**-**	**475.3**	**524.8**	**-**	**524.8**
NET ASSETS		**1,323.8**	**(16.8)**	**1,307.0**	**1,136.4**	**0.7**	**1,137.1**
EQUITY							
Parent entity interest:							
Contributed equity		384.8	-	384.8	384.8	-	384.8
Reserves:							
- Group	(a),(b), (f),(g)	131.0	(80.3)	50.7	240.2	0.2	240.4
- Associates	(b)	-	1.4	1.4	-	-	-
Retained profits:							
- Group	(b),(i)	400.3	81.0	481.3	511.4	0.5	511.9
- Associates	(i)	407.7	(18.9)	388.8	-	-	-
TOTAL EQUITY		**1,323.8**	**(16.8)**	**1,307.0**	**1,136.4**	**0.7**	**1,137.1**

[1] The transitional adjustments applicable to the Balance Sheet at 1 January 2004, as shown in the Group's June 2005 Half-Year ASX Report have been amended to reflect changes made in the accounts of AWAC entities. Those changes, amounting to $4.2 million increase of net assets, have been recognised through the Group's equity investment in the AWAC Joint Venture.

34. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (A-IFRS)

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

	Notes	Consolidated Entity $Million			Parent Entity $Million		
		Previous AGAAP	Effect of transition to A-IFRS	A-IFRS	Previous AGAAP	Effect of transition to A-IFRS	A-IFRS
CURRENT ASSETS							
Cash and cash equivalents		117.9	-	117.9	107.6	-	107.6
Receivables		0.8	-	0.8	0.6	-	0.6
Deferred tax assets	(d)	-	2.1	2.1	-	2.1	2.1
Other	(e)	0.6	(0.6)	-	-	-	-
Total current assets		**119.3**	**1.5**	**120.8**	**108.2**	**2.1**	**110.3**
NON-CURRENT ASSETS							
Investments accounted for using the equity method	(b), (c),(f),(g)	1,721.7	(19.6)	1,702.1[1]	717.7	-	717.7
Other financial assets		-	-	-	784.6	-	784.6
Property, plant and equipment		0.3	-	0.3	0.3	-	0.3
Total non-current assets		**1,722.0**	**(19.6)**	**1,702.4**	**1,502.6**	**-**	**1,502.6**
TOTAL ASSETS		**1,841.3**	**(18.1)**	**1,823.2**	**1,610.8**	**2.1**	**1,612.9**
CURRENT LIABILITIES							
Payables		2.4	-	2.4	2.3	-	2.3
Interest bearing liabilities		397.9	-	397.9	397.9	-	397.9
Provisions		0.1	-	0.1	0.1	-	0.1
Other		10.7	-	10.7	2.1	-	2.1
Total current liabilities		**411.1**	**-**	**411.1**	**402.4**	**-**	**402.4**
NON-CURRENT LIABILITIES							
Payables		-	-	-	132.4	-	132.4
Provisions		0.2	-	0.2	0.2	-	0.2
Total non-current liabilities		**0.2**	**-**	**0.2**	**132.6**	**-**	**132.6**
TOTAL LIABILITIES		**411.3**	**-**	**411.3**	**535.0**	**-**	**535.0**
NET ASSETS		**1,430.0**	**(18.1)**	**1,411.9**	**1,075.8**	**2.1**	**1,077.9**
EQUITY							
Parent entity interest:							
Contributed equity		404.1	-	404.1	404.1	-	404.1
Treasury shares	(e)	-	(0.6)	(0.6)	-	-	-
Reserves:							
- Group	(a),(b),(f),(g)	133.2	(80.6)	52.6	240.2	0.5	240.7
- Associates	(b)	-	2.4	2.4	-	-	-
Retained profits:							
- Group	(i)	358.5	83.0	441.5	431.5	1.6	433.1
- Associates	(i)	534.2	(22.3)	511.9	-	-	-
TOTAL EQUITY		**1,430.0**	**(18.1)**	**1,411.9**	**1,075.8**	**2.1**	**1,077.9**

[1] The transitional adjustments applicable to the Balance Sheet at 31 December 2004, as shown in the Group's June 2005 Half-Year ASX Report have been amended to reflect changes made in the accounts of AWAC entities. Those changes, amounting to $4.2 million increase of net assets, have been recognised through the Group's equity investment in the AWAC Joint Venture.

34. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (A-IFRS)

(c) Adjustments on transition to AASB 132 Financial Instruments: Disclosures and Presentation and AASB 139 Financial Instruments: Recognition and Measurement: 1 January 2005

		Consolidated Entity $Million			Parent Entity $Million		
	Notes	A-IFRS 31 December 2004	Adjustment	1 January 2005	31 December 2004	Adjustment	1 January 2005
CURRENT ASSETS							
Cash and cash equivalents		117.9	-	117.9	107.6	-	107.6
Receivables		0.8	-	0.8	0.6	-	0.6
Deferred tax assets		2.1	-	2.1	2.1	-	2.1
Other		-	-	-	-	-	-
Total current assets		**120.8**	**-**	**120.8**	**110.3**	**-**	**110.3**
NON-CURRENT ASSETS							
Investments accounted for using the equity method	(h)	1,702.1	2.1	1,704.2[1]	717.7	-	717.7
Other financial assets		-	-	-	784.6	-	784.6
Property, plant and equipment		0.3	-	0.3	0.3	-	0.3
Total non-current assets		**1,702.4**	**2.1**	**1,704.5**	**1,502.6**	**-**	**1,502.6**
TOTAL ASSETS		**1,823.2**	**2.1**	**1,825.3**	**1,612.9**	**-**	**1,612.9**
CURRENT LIABILITIES							
Payables		2.4	-	2.4	2.3	-	2.3
Interest bearing liabilities		397.9	-	397.9	397.9	-	397.9
Provisions		0.1	-	0.1	0.1	-	0.1
Other		10.7	-	10.7	2.1	-	2.1
Total current liabilities		**411.1**	**-**	**411.1**	**402.4**	**-**	**402.4**
NON-CURRENT LIABILITIES							
Payables		-	-	-	132.4	-	132.4
Provisions		0.2	-	0.2	0.2	-	0.2
Total non-current liabilities		**0.2**	**-**	**0.2**	**132.6**	**-**	**132.6**
TOTAL LIABILITIES		**411.3**	**-**	**411.3**	**535.0**	**-**	**535.0**
NET ASSETS		**1,411.9**	**2.1**	**1,414.0**	**1,077.9**	**-**	**1,077.9**
EQUITY							
Parent entity interest:							
Contributed equity		404.1	-	404.1	404.1	-	404.1
Treasury shares		(0.6)	-	(0.6)	-	-	-
Reserves:							
- Group		52.6	-	52.6	240.7	-	240.7
- Associates	(h)	2.4	2.1	4.5	-	-	-
Retained profits:							
- Group		441.5	-	441.5	433.1	-	433.1
- Associates		511.9	-	511.9	-	-	-
TOTAL EQUITY		**1,411.9**	**2.1**	**1,414.0**	**1,077.9**	**-**	**1,077.9**

[1] The transitional adjustments applicable to the Balance Sheet at 1 January 2005, as shown in the Group's June 2005 Half-Year ASX Report have been amended to reflect changes made in the accounts of AWAC entities. Those changes, amounting to $12.1 million increase of net assets, have been recognised through the Group's equity investment in the AWAC Joint Venture.

34. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(2) Reconciliation of profit for the year ended 31 December 2004

		Consolidated Entity $Million			Parent Entity $Million		
	Notes	Previous AGAAP	Effect of transition to A-IFRS	A-IFRS	Previous AGAAP	Effect of transition to A-IFRS	A-IFRS
Revenue from ordinary activities		8.9	-	8.9	156.8	-	156.8
Other income	(a)	47.9	(3.4)	44.5	14.1	-	14.1
General and administrative expenses	(b)	(8.4)	(0.3)	(8.7)	(7.5)	(0.3)	(7.8)
Borrowing costs		(8.1)	-	(8.1)	(8.3)	-	(8.3)
Share of net profits of associates accounted for using the equity method	(b),(c),(f),(g)	286.9	(3.4)	283.5	-	-	-
Profit from ordinary activities before tax		**327.2**	**(7.1)**	**320.1**	**155.1**	**(0.3)**	**154.8**
Income tax expense	(d)	(5.1)	1.4	(3.7)	(1.9)	1.4	(0.5)
Net profit attributable to members of Alumina Limited		**322.1**	**(5.7)**	**316.4**	**153.2**	**1.1**	**154.3**

(3) Reconciliation of cash flow statement for the year ended 31 December 2004

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

(4) Notes to the reconciliations

(a) Foreign currency translation reserve: cumulative translation differences

The Group has elected to apply the exemption in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to A-IFRS. The effect is:

(i) At 1 January 2004

For the Group the balance of the $80.5 million credit in the foreign currency translation reserve is reduced to zero. Retained earnings are increased by this amount.

(ii) At 31 December 2004

For the Group the balance of the $82.4 million credit in the foreign currency translation reserve is reduced to a credit of $1.0 million, representing the movement in the translation reserve for 2004. Retained earnings are increased by this amount.

(iii) For the year ended 31 December 2004

A-IFRS requires the cumulative translation reserve to be recycled through the income statement on the disposal of a foreign operation when the gain or loss on disposal is recognised. Given that Alumina Limited sold its investment in the Specialty Chemical assets, there is an impact of $3.4 million for the comparative period, and $0.9 million against retained earnings.

(b) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the Group is required to recognise an expense for those performance rights that were issued to employees under the Alumina Employee Share Plan after 7 November 2002 but had not vested by 1 January 2005 and for two significant share based payment schemes in place in AWA Atlantic. The effect of this is:

(i) At 1 January 2004

For the Group there has been a decrease in retained earnings of $1.3 million and a corresponding increase in reserves. For the Group there has also been an increase in Alumina's investment in associates and a corresponding increase in retained earnings of $11.9 million.

(ii) At 31 December 2004

For the Group there has been an increase in retained earnings of $2.2 million, a corresponding increase in reserves of $3.0 million and an increase in Alumina's investments in associates of $5.2 million.

(iii) For the year ended 31 December 2004

For the Group there has been an increase in employee benefits expense of $0.3 million and a decrease in Alumina's share of net profits of associates accounted for under the equity method of $7.9 million.

34. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(4) Notes to the reconciliations (continued)

(c) Business combinations

Under AASB 3, amortisation of goodwill is prohibited, and replaced by impairment testing performed at least annually. Previously, goodwill was amortised on a straight line basis over 20 years. AASB 3 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. The treatment of past business combinations (business combinations that occurred before the date of transition to Australian equivalents to IFRS) would be restated to comply with AASB 3. Goodwill at transition date (1 January 2004) is fixed and used as deemed cost given that the exemption option in AASB 3 not to restate past business combinations is taken. The effect of this is:

(i) At 1 January 2004

There is no effect on the Group.

(ii) At 31 December 2004

For the Group there has been an increase in Alumina's Investments in associates of $16.2 million. Retained earnings also increased by this amount.

(iii) For the year ended 31 December 2004

For the Group there has been an increase in Alumina's share of net profits of associates accounted for under the equity method of $16.2 million.

(d) Deferred tax assets

Under AASB 112, a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The effect of this is:

(i) At 1 January 2004

For the Group, $2.4 million of Group losses will be recognised as a deferred tax asset of $0.7 million.

(ii) At 31 December 2004

For the Group, $7.1 million of Group losses will be recognised as a deferred tax asset of $2.1 million.

(iii) For the year ended 31 December 2004

For the Group, there has been recognition of $4.8 million of Group losses resulting in a deferred tax asset of $1.4 million with a resulting decrease in income tax expense.

(e) Treasury shares

Under AASB 132, if an entity reacquires its own equity instruments those instruments (treasury shares) shall be deducted from equity. Alumina Limited had purchased shares for its long term incentive plan and classified the cost as other assets. Under A-IFRS, a separate component in equity is required to disclose treasury shares. The effect of this is:

(i) At 1 January 2004

There is no effect on the Group.

(ii) At 31 December 2004

For the Group there has been a decrease in other current assets of $0.6 million and a corresponding decrease in equity.

(iii) For the year ended 31 December 2004

There is no effect on the Group.

(f) Retirement benefit obligations

Alcoa of Australia and AWA Atlantic are both sponsors of superannuation plans with defined benefit entitlements. Under previous AGAAP, cumulative gains and losses on the defined benefit section were not recognised on the balance sheet by Alumina Limited.

At the date of transition, a liability is recognised in the provision for employee benefits. It is measured as the difference between the present value of the employees' accrued benefits at that date and the net market value of the superannuation fund's assets at that date.

Alumina Limited will early adopt AASB 119 using the "full recognition of actuarial gains and losses through profit" approach. The effect of this is:

(i) At 1 January 2004

For the Group, there has been a decrease in Alumina's investments in associates of $1.1 million with a resulting increase in retained earnings of $0.5 million and a corresponding decrease in the translation reserve of $1.6 million.

(ii) At 31 December 2004

For the Group, there has been a decrease in Alumina's investments in associates of $11.9 million with a resulting decrease in retained earnings of $10.3 million and a corresponding decrease in the translation reserve of $1.6 million.

(iii) For the year ended 31 December 2004

For the Group there has been a reduction in Alumina's share of net profits of associates accounted for under the equity method of $10.9 million.

34. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(4) Notes to the reconciliations (continued)

(g) Asset retirement obligations

The provisions for dismantling, removal and restoration of each refinery owned by Alumina's associates are required to be recalculated in the light of AASB 116 and AASB 138. This will impact the associates property, plant and equipment, accumulated depreciation, deferred tax balances and provisions at transition date. The effect of this is:

(i) At 1 January 2004

For the Group, there has been a decrease in Alumina's investments in associates of $28.2 million with a resulting decrease in retained earnings of $30.2 million and a corresponding increase in the translation reserve of $2.0 million.

(ii) At 31 December 2004

For the Group, there has been a decrease in Alumina's investments in associates of $29.1 million with a resulting decrease retained earnings of $31.0 million and a corresponding increase in the translation reserve of $0.1 million.

(iii) For the year ended 31 December 2004

For the Group there has been a decrease in Alumina's share of net profits of associates accounted for under the equity method of $0.9 million.

(h) Financial instruments

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

(i) Retained earnings

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

	Notes	1 January 2004 $Million	31 December 2004 $Million
Foreign currency translation reserve	(a)	80.5	81.4
Share-based payments	(b)	10.6	2.2
Business combinations	(c)	-	16.2
Deferred tax assets	(d)	0.7	2.1
Retirement benefit obligations	(f)	0.5	(10.3)
Asset retirement obligations	(g)	(30.2)	(30.9)
		62.1	60.7
Attributable to:			
Retained profits-Group		81.0	83.0
Retained profits-Associates		(18.9)	(22.3)
		62.1	60.7

(j) Tax consolidation

Alumina Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 January 2004. Under previous AGAAP, the parent entity did not recognise tax amounts relating to transactions, events and balances of the tax consolidated entities as if these were its own.

Under A-IFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation Group.

(i) At 1 January 2004

There is no effect on the Group.

(ii) At 31 December 2004

There is no effect on the Group.

(iii) For the year ended 31 December 2004

There is no effect on the Group.

In the directors' opinion:

a) the financial statements and notes set out on pages 1 to 51 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

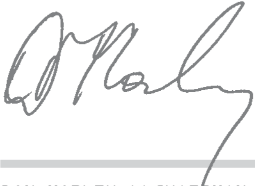
(ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date;

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 26 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 26.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporation Act 2001.

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



DON MORLEY // CHAIRMAN
28 FEBRUARY 2006

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 2005, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

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

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, 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 2005. 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 further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

We 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

TIM GOLDSMITH MELBOURNE
PARTNER 28 FEBRUARY 2006

Geographic location of registered shareholders as at 22 February 2006

Area or Country	Shareholders	% of Total	Shares held	% of Total
Northern Territory	272	0.31	395,829	0.03
Australian Capital Territory	1,803	2.08	4,560,684	0.39
New South Wales	21,912	25.32	512,018,246	43.91
Victoria	27,245	31.48	533,046,320	45.72
Queensland	12,608	14.57	56,837,179	4.87
South Australia	8,478	9.80	24,957,317	2.14
Western Australia	8,218	9.50	19,955,741	1.71
Tasmania	1,369	1.58	3,489,838	0.30
Total Australia	81,905	94.64	1,155,261,154	99.08
United Kingdom	1,957	2.26	3,582,789	0.31
United States of America	267	0.31	345,318	0.03
New Zealand	1,343	1.55	3,662,926	0.31
Singapore	162	0.19	790,909	0.07
Other	907	1.05	2,340,252	0.20
Total International	4,636	5.36	10,722,194	0.92
Total	86,541	100.00	1,165,983,348	100.00

Holders of less than a marketable parcel (market value less than $500) 22 February 2006 2,103

Size of Shareholdings as at 22 February 2006

Range of shares held	Shareholders	%	Shares held	%
1 – 1,000	37,750	43.62	18,885,402	1.62
1,001 – 5,000	38,590	44.59	89,931,874	7.71
5,001 – 10,000	6,446	7.45	46,974,645	4.03
10,001 – 100,000	3,558	4.11	78,019,716	6.69
100,001 – Over	197	0.23	932,171,711	79.95
	86,541	100.00	1,165,983,348	100.00

Twenty Largest Shareholders as at 22 February 2006

Shareholder	Shares held	% of Total issued
National Nominees Limited	178,989,591	15.35
Westpac Custodian Nominees Limited	173,362,557	14.87
J P Morgan Nominees Australia Limited	167,744,238	14.39
Citicorp Nominees Pty Limited	118,662,527	10.18
ANZ Nominees Limited	101,974,761	8.75
Cogent Nominees Pty Limited	19,746,272	1.69
Queensland Investment Corporation	16,937,639	1.45
RBC Global Services Australia Nominees Pty Limited	15,531,602	1.33
Australian Foundation Investment Company Limited	12,926,512	1.11
UBS Nominees Pty Ltd	12,602,226	1.08
Amp Life Limited	10,344,309	0.89
HSBC Custody Nominees (Australia) Limited	10,206,677	0.88
Westpac Financial Services Limited	5,625,116	0.48
Victorian Workcover Authority	4,967,014	0.43
NRMA Group	4,961,483	0.43
Suncorp Custodian Services Pty Limited	4,426,185	0.38
PSS Board	3,792,107	0.33
Perpetual Trustees Company Limited	3,439,331	0.29
Transport Accident Commission	3,128,258	0.27
Australian United Investment Company Limited	3,000,000	0.26
Total held by 20 largest shareholders	872,368,405	74.82

Each ordinary shareholder is entitled on a show of hands to vote and on a poll one vote for each share held.

1,633,400 options are held by 431 option holders of the WMC Employee Share Scheme.

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

Alumina Limited has 73,551 Ordinary Restricted shares. These shares represented the shares vested to employees under the terms and conditions of the Alumina Employee Share Plan and are held on Trust by the Alumina Employee Share Plan Pty Ltd.

The Company does not have a current on market buy back of its shares.

Substantial shareholding as at 22 February 2006

Commonwealth Bank Group	83,562,783	7.21%

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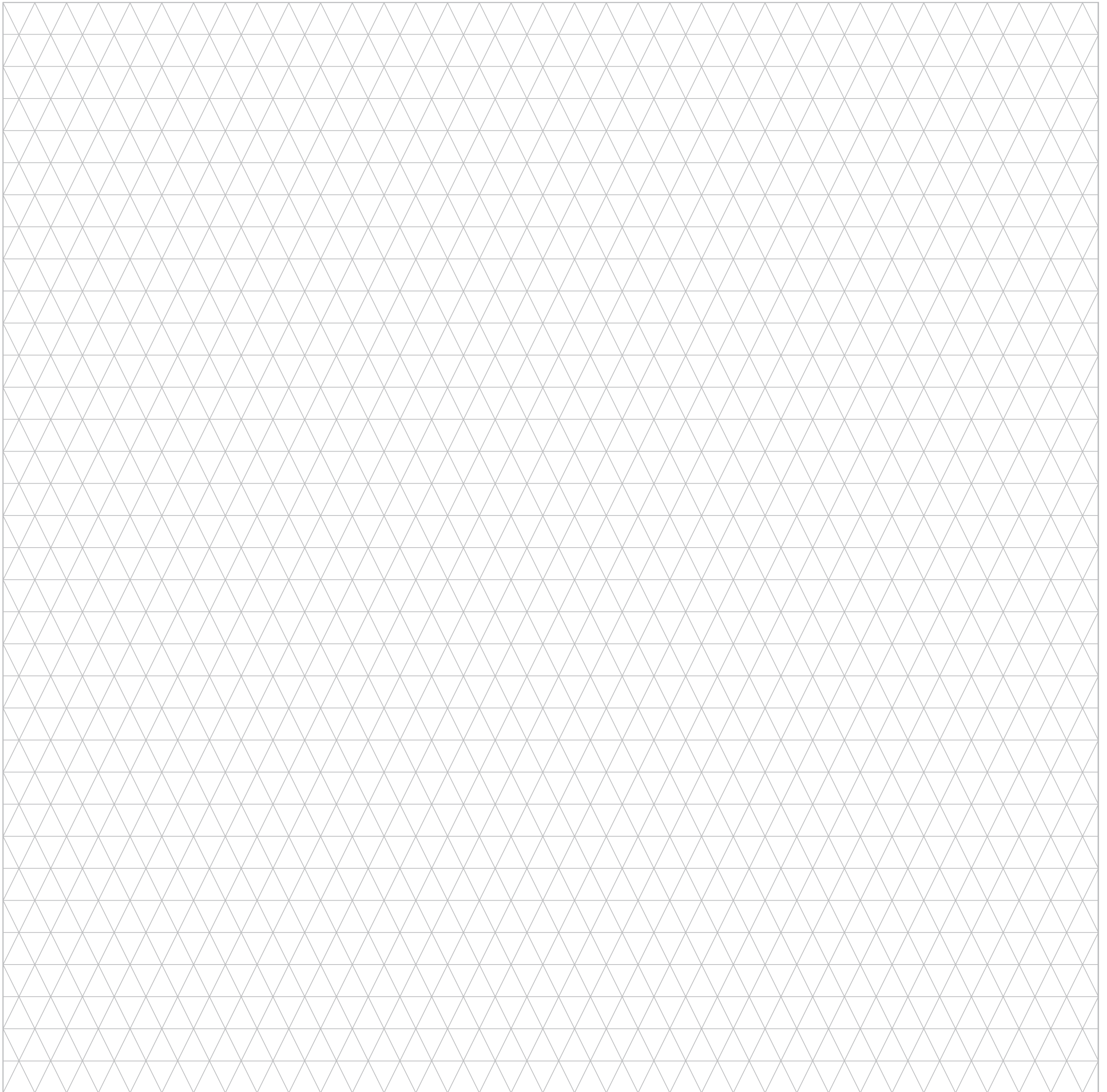

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