

# December 2004 Preliminary Final ASX Report - 1

**Alumina Limited - ABN 85 004 820 419**

**Financial Year Ended 31 December 2004 ("Current Period")**

## **Results for Announcement to the Market**

		% change	\$A million
Revenues from ordinary activities	Up	Not applicable	119.0
Profit from ordinary activities after tax attributable to members	Up	36%	322.1
Profit from extraordinary items after tax attributable to members		-	-
<b>NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF ALUMINA LIMITED</b>	<b>Up</b>	<b>36%</b>	<b>322.1</b>

## **Dividends**

	Current Period Year ended 31 December 2004	Previous Corresponding Period Year ended 31 December 2003
Final dividend per share	10¢	10¢
Franked amount per share	7.5¢	10¢
Record date for determining entitlements to the dividend is 11 February 2005.		

**This year end report is to be read in conjunction with the most recent annual financial report.**

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## Condensed consolidated statement of financial performance

	Total \$A million	
	Year ended 31 Dec 2004	Year ended 31 Dec 2003
Proceeds from sale of investments in Specialty Chemical assets directly held by Alumina and its subsidiaries (refer Significant Items- Note 3)	109.0	-
Interest revenue	8.9	2.4
Foreign exchange gain realised	1.1	-
Guarantee income	-	2.4
<b>Revenue from ordinary activities</b>	<b>119.0</b>	<b>4.8</b>
Share of net profit of associates accounted for using the equity method <sup>1</sup>	286.9	244.1
<i><sup>1</sup> Twelve months to 31 December 2004 includes a loss of \$28.0m on sale of Specialty Chemical assets held directly by AWAC entities (refer Significant Items- Note 3).</i>		
Cost of investments sold in Specialty Chemical assets directly held by Alumina and its subsidiaries (refer Significant Items- Note 3)	(62.2)	-
General and administrative expenses	(8.4)	(12.6)
Borrowing costs	(8.1)	(8.7)
<b>Profit from ordinary activities before tax</b>	<b>327.2</b>	<b>227.6</b>
Income tax (expense)/credit on ordinary activities	(5.1)	9.3
<b>Profit from ordinary activities after tax</b>	<b>322.1</b>	<b>236.9</b>
Profit from extraordinary items after tax	-	-
<b>Net profit</b>	<b>322.1</b>	<b>236.9</b>
Net loss attributable to outside equity interests	-	-
<b>Net profit for the period attributable to members of Alumina Limited</b>	<b>322.1</b>	<b>236.9</b>
<b>Non-owner transaction changes in equity</b>		
Net exchange differences recognised in equity	2.2	28.4
Equity share movements in reserves of associates	-	-
Total transactions and adjustments recognised directly in equity	2.2	28.4
<b>Total changes in equity other than from those resulting from transactions with owners as owners</b>	<b>324.3</b>	<b>265.3</b>

## Earnings per share (EPS)

	Year ended 31 December 2004	Year ended 31 December 2003
Basic EPS	27.7¢	20.9¢
Diluted EPS	27.7¢	20.9¢

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## Condensed consolidated statement of financial position

	31 December 2004 \$A million	31 December 2003 \$A million
<b>Current Assets</b>		
Cash	117.9	165.3
Receivables – other	0.8	4.0
Deferred tax assets	-	4.1
Other	0.6	0.3
<b>Total current assets</b>	<b>119.3</b>	<b>173.7</b>
<b>Non-current Assets</b>		
Investments in associates	1,721.7	1,625.0
Other property, plant and equipment (net)	0.3	0.4
<b>Total non-current assets</b>	<b>1,722.0</b>	<b>1,625.4</b>
<b>Total assets</b>	<b>1,841.3</b>	<b>1,799.1</b>
<b>Current Liabilities</b>		
Payables	2.4	3.2
Interest bearing liabilities	397.9	467.0
Current tax liabilities	-	2.5
Provisions (excluding current tax liabilities)	0.1	0.1
Other	10.7	2.3
<b>Total current liabilities</b>	<b>411.1</b>	<b>475.1</b>
<b>Non-current Liabilities</b>		
Provisions (excluding deferred tax liabilities)	0.2	0.2
<b>Total non-current liabilities</b>	<b>0.2</b>	<b>0.2</b>
<b>Total liabilities</b>	<b>411.3</b>	<b>475.3</b>
<b>Net assets</b>	<b>1,430.0</b>	<b>1,323.8</b>
<b>Equity</b>		
Contributed equity	404.1	384.8
Reserves:		
- Group	133.2	131.0
Retained profits:		
- Group	358.5	400.3
- Associates	534.2	407.7
<b>Total equity</b>	<b>1,430.0</b>	<b>1,323.8</b>

There is no preference share capital.

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## Condensed consolidated statement of cash flows

	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
<b>Cash Flows Related to Operating Activities</b>		
Payments to suppliers and employees (inclusive of goods and service tax)	(13.5)	(7.9)
GST refund received	0.3	0.6
Proceeds from guarantees	-	2.4
Dividends received from associates	160.4	284.2
Interest received	8.6	2.2
Borrowing costs paid	(7.8)	(8.3)
Income taxes refunds/(payments)	0.5	(4.7)
<b>Net operating cash flows</b>	<b>148.5</b>	<b>268.5</b>
<b>Cash Flows Related to Investing Activities</b>		
Payments for property, plant and equipment	-	(0.3)
Payments for investment in associates	(41.1)	-
Proceeds from sale of Specialty Chemical assets directly held by Alumina and its subsidiaries	109.0	-
Proceeds from share premium reduction in associate	2.0	-
Other	3.5	-
<b>Net investing cash flows</b>	<b>73.4</b>	<b>(0.3)</b>
<b>Cash Flows Related to Financing Activities</b>		
Proceeds from issues of shares	19.3	56.2
Proceeds from borrowings	10.1	79.2
Repayment of borrowings	(64.7)	-
Dividends paid	(233.1)	(259.6)
<b>Net financing cash flows</b>	<b>(268.4)</b>	<b>(124.2)</b>
<b>Net (Decrease)/Increase in Cash Held</b>	<b>(46.5)</b>	<b>144.0</b>
Cash at beginning of period	165.3	23.2
Exchange rate adjustments	(0.9)	(1.9)
<b>Cash at end of period</b>	<b>117.9</b>	<b>165.3</b>

## Reconciliation of Cash

	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
Reconciliation of cash at the end of the period (as shown in the condensed consolidated statement of cash flows) to the related items in the accounts is as follows:		
Cash on hand and at bank	17.7	41.7
Money market deposits (with maturity on investment three months or less)	100.2	123.6
Cash assets	117.9	165.3
Bank overdraft	-	-
<b>Total cash at end of period</b>	<b>117.9</b>	<b>165.3</b>

## Notes to the condensed financial statements

### 1. Accounting Policies

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

#### International Financial Reporting Standards

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

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

#### Assessment and Planning Phase

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

1. Equity accounting for its 40% ownership of Alcoa of Australia. Alcoa of Australia will transition to AIFRS at the same time as Alumina Limited.
2. Equity accounting for its 40% ownership of the remaining AWAC entities, excluding Alcoa of Australia. Financial information supplied to Alumina from AWAC is currently prepared using US Generally Accepted Accounting Principles (USGAAP), with adjustments provided for the GAAP differences to allow Alumina to produce Australian GAAP reports.
3. Consolidated accounting for Alumina and its controlled entities.

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

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

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

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

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|--|--|
| <p>Income Tax<br/>AASB 112</p>                 | <ul style="list-style-type: none"> <li>• Under AASB 112 Income Taxes, deferred tax balances are determined using the “balance sheet method” replacing the “income statement method” currently used. The new method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. Under the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting result and/or taxable income/ (loss).</li> <li>• Alumina and AWAC have commenced individual projects to quantify the likely impacts. This process has yet to be completed.</li> </ul>  |
| <p>Intangible Assets – Goodwill<br/>AASB 3</p> | <ul style="list-style-type: none"> <li>• Under AASB 3 Business Combinations, amortisation of goodwill will be prohibited, and will be replaced by impairment testing which will be performed at least annually.</li> <li>• This will result in a change to the current accounting policy. Previously goodwill was amortised on a straight line basis over 20 years. Goodwill amortised in the year was \$16.2 million.</li> </ul>  |
| <p>Asset Impairment<br/>AASB 136</p>           | <ul style="list-style-type: none"> <li>• AIFRS requires asset impairment testing based on a different method for aggregation of assets than the current standard AASB 1010. This could potentially lead to different impairment test outcomes. Under AIFRS aggregation is based on “cash generating units” which is deemed to be the smallest identifiable group of assets that generates independent cash inflows. The current standard uses “class of non-current assets”, which aggregates non-current assets with a similar nature or function.</li> <li>• AIFRS also requires calculation of the present value of the future cash flows associated with the assets to determine recoverable amount.</li> <li>• The potential impact is increased volatility of earnings through the statement of financial performance if the impairment test is not met.</li> </ul>                                    |
| <p>Employee Benefits<br/>AASB 119</p>          | <ul style="list-style-type: none"> <li>• Under current Australian Standards, Alumina does not account for any excess or shortfall of the Superannuation Fund assets over accrued membership benefits. AWAC has defined benefit pension/superannuation plans.</li> <li>• On adoption of AASB 119, Alumina will make a retrospective adjustment to opening balances (1 January 2004) for the net position of each plan. The adjustment will impact the statement of financial position line item “Investment in Associates” with a corresponding adjustment to opening retained earnings. After the transition adjustment, further movements in the net position of the scheme will be recognised in the statement of financial performance; however recent revisions to AASB 119 may result in actuarial gains and losses being taken to retained earnings, with no adjustment to reported profit.</li> </ul> |

- Rehabilitation and Closedown costs
- AASB 137
- Under AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”, full provision for rehabilitation and closedown costs are required to be disclosed for the cost of treating current disturbance. It is not anticipated that the new standard will have any material impact on the disclosures in Alumina’s financial statements, as it is consistent with Alumina’s current accounting policy.
  - AWAC has assessed and documented, in detail, its obligations and provisions.
  - No significant impact is anticipated from this standard
- Functional Currency
- AASB 121
- Under AASB 121, “The Effects of Changes in Foreign Exchange Rates” an entity must determine its functional currency for measurement of all amounts within financial statements and also choose the currency in which it will present its financial statements.
  - The standard also states that functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity.
  - Alumina, through its investment in AWAC and its financing activities, has significant exposure to exchange fluctuations. As such, management has undertaken a comprehensive review of the functional and presentation currency options available under AASB 121.
  - In the event that Alumina’s functional and presentation currency is changed, it will apply the translation procedures applicable to the new functional and presentation currency, prospectively from the date of the change.
  - The impact of these changes, should a change in functional currency and presentation currency be deemed appropriate, is yet to be quantified.
- Financial Instruments
- AASB 132
- AASB 139
- Under AASB 132 Financial Instruments: Disclosure and Presentation, the current classification of financial instruments issued by the entity is not anticipated to change.
  - Alumina has a hedging relationship between its US dollar denominated investments in AWAC and its US dollar denominated debt. Alumina has adopted hedge accounting principles as governed by AASB 139. All relevant hedging documentation has been put in place.
  - AIFRS recognises fair value hedge accounting when effectiveness tests are met. Ineffective portions will be recorded in the period incurred through the statement of financial performance.
  - AWAC commenced a detailed review under the standard, including an analysis of the structure of key contracts and the valuation of embedded derivatives. Initial tests indicate the presence of embedded derivatives; however the impacts have not been quantified.
  - There will be an initial impact on retained earnings and subsequently a potential increase in volatility of reported results if effectiveness tests are not met.

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



### **Implementation Phase**

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

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

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## 2. Consolidated retained profits

	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
Retained profits at the beginning of the financial period	808.0	729.4
Net profit attributable to members of Alumina Limited	322.1	236.9
Net transfers from reserves	(4.3)	101.3
Dividends and other equity distributions provided for or paid	(233.1)	(259.6)
<b>Retained profits at the end of financial period</b>	<b>892.7</b>	<b>808.0</b>

## 3. Significant items

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

	A\$ million
<b>Significant items for the year ended 31 December 2004</b>	
<b>Sale of Specialty Chemical Assets</b>	
Proceeds from sale of investments in Specialty Chemical assets directly held by Alumina and its subsidiaries	109.0
Cost of investments sold in Specialty Chemical assets directly held by Alumina and its subsidiaries <sup>1</sup>	(62.2)
Share of equity loss on sale of Specialty Chemical Assets (held directly by AWAC entities)	(28.0)
Profit on Sale of Specialty Chemical Assets	18.8
Income Tax Expense	(4.0)
<b>Profit on sale after tax</b>	<b>14.8</b>
<sup>1</sup> Includes goodwill of \$22.4million	

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### 4. Intangible and extraordinary items

Consolidated – Year ended 31 December 2004

	Before tax \$A million	Related tax \$A million	Related outside equity interests \$A million	Amount (after tax) attributable to members \$A million
Amortisation of goodwill: (equity associates)	16.2	-	-	16.2
<b>Total amortisation of intangibles</b>	<b>16.2</b>	<b>-</b>	<b>-</b>	<b>16.2</b>
Extraordinary items	There were no extraordinary items			

Consolidated – Year ended 31 December 2003

	Before tax \$A million	Related tax \$A million	Related outside equity interests \$A million	Amount (after tax) attributable to members \$A million
Amortisation of goodwill: (equity associates)	17.7	-	-	17.7
<b>Total amortisation of intangibles</b>	<b>17.7</b>	<b>-</b>	<b>-</b>	<b>17.7</b>
Extraordinary items	There were no extraordinary items			

### 5. Income Tax

	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
Profit from ordinary activities before tax	327.2	227.6
Add: (surplus)/shortfall of equity share of profits over dividends received	(126.5)	40.1
	<b>200.7</b>	<b>267.7</b>
<i>Prima facie tax expense for the period at the rate of 30%</i>	<b>(60.2)</b>	<b>(80.3)</b>
The following items caused the total charge for income tax to vary from the above:		
Rebateable and exempt dividends	160.4	284.2
Non-assessable capital gains <sup>1</sup>	46.8	-
Non-deductible expenses	(7.9)	(10.0)
<b>Net movement</b>	<b>199.3</b>	<b>274.2</b>
Tax effect of the above adjustments at 30%	59.8	82.3
Withholding tax	(1.1)	(1.4)
Attribution income tax on Specialty Chemical asset sale	(4.0)	-
Tax losses from prior years brought to account	0.4	4.6
Over provision of tax in prior years	-	4.1
Consequent reduction in charge for income tax	55.1	89.6
<b>Income tax (expense)/credit for the period</b>	<b>(5.1)</b>	<b>9.3</b>

<sup>1</sup> Gain on sale of Specialty chemicals assets held by Alumina's foreign subsidiaries is exempt from Australian capital gains tax.

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## 6. Earnings per share (EPS)

	Year ended 31 Dec 2004	Year ended 31 Dec 2003
Calculation of basic and fully diluted EPS in accordance with AASB 1027: <i>Earnings per Share</i>		
Earnings in cents per ordinary share		
Basic EPS	27.7¢	20.9¢
Diluted EPS	27.7¢	20.9¢
Weighted average number of shares outstanding during the year used in the calculation of earnings per share		
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share	1,161,164,129	1,132,189,594
Effect of options	897,367	2,276,335
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in the calculation of diluted earnings per share	1,162,061,496	1,134,465,929

## 7. Net tangible asset backing per security

Net tangible asset backing per ordinary security	\$0.99	\$0.99
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## 8. Details of entities over which control has been lost or gained

On 30 December 2004, Alumina Limited, through a controlled subsidiary, acquired a 100% interest in Butia Participações S.A., a Brazilian entity indirectly holding a 40% share of the Juruti exploration leases. Butia had no impact on group results during 2004.

There was no loss of control of entities for the year ended 31 December 2004.

## 9. Dividends

An interim dividend has been declared payable on 31 March 2005

Record date to determine entitlements to the dividend is 11 February 2005

## 10. Amount per share

Final dividend per share (cents)		
Amount per share	10¢	10¢
Franked amount per share at 30% tax rate	7.5¢	10¢

## 11. Total dividend on all shares

	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
Interim dividend paid on ordinary shares	116.1	112.9
Final dividend to be paid on ordinary shares	116.3	146.7
<b>Total</b>	<b>232.4</b>	<b>259.6</b>

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## 12 . Details of aggregate share of results of associates

	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
<b>Alumina's share of associates:</b>		
Profit from ordinary activities before income tax and goodwill amortisation	486.7	383.5
Amortisation of equity goodwill	(16.2)	(17.7)
Profit from ordinary activities before tax	470.5	365.8
Income tax on ordinary activities	(155.6)	(121.7)
<b>Profit from ordinary activities after income tax</b>	<b>314.9</b>	<b>244.1</b>
Loss on Sale of Specialty Chemicals Assets directly held by AWAC subsidiaries (net of tax)	(28.0)	-
<b>Net profit</b>	<b>286.9</b>	<b>244.1</b>
Outside equity interests	-	-
<b>Net profit attributable to members of Alumina Limited</b>	<b>286.9</b>	<b>244.1</b>
Dividends received/receivable by Alumina Limited	(160.4)	(284.2)
<b>Surplus/(Shortfall) of equity share of profits over dividends received</b>	<b>126.5</b>	<b>(40.1)</b>

## 13. Material interests in entities which are not controlled entities

The economic entity has an interest in the following entities:

	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit	
	Year ended 31 Dec 2004	Year ended 31 Dec 2003	Year ended 31 Dec 2004 \$A million	Year ended 31 Dec 2003 \$A million
<b>Equity accounted associates and joint venture entities</b>				
AWAC (including Alcoa of Australia Ltd) <sup>(a)</sup>	40%	40%	303.1	261.8
<sup>(a)</sup> Alcoa of Australia Ltd	40%	40%		
Amortisation of goodwill	n/a	n/a	(16.2)	(17.7)
<b>Total</b>			<b>286.9</b>	<b>244.1</b>
Other material interests			Nil	Nil

## 14. Ratios

	Year ended 31 Dec 2004 %	Year ended 31 Dec 2003 %
<b>Profit after tax/equity interests (annualised)</b>		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of members' equity at the end of the period	22.5	17.9

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## 15. Issued and quoted securities at end of current period

Category of Securities	Number issued	Number quoted	Issue price per share (\$)	
<b>Ordinary shares</b>				
Fully paid	1,163,111,048	1,163,111,048		
Partly paid	Nil	Nil		
<b>Ordinary Shares -</b>				
<b>Changes during current period:</b>				
Increase in fully paid shares following:				
(i) exercise of options	3,553,900	3,553,900	Various	
<b>Unquoted employee options to acquire fully paid ordinary shares</b>	<b>Number issued</b>	<b>Number Quoted</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	1,209,300	Nil	\$4.04	18 December 2005
	3,296,400	Nil	\$5.02	30 November 2006
	<u>4,505,700</u>			
Issued during the current period	Nil			
Exercised during the current period	1,495,600	Nil	\$4.52	20 December 2004
	777,100	Nil	\$4.04	18 December 2005
	1,281,200	Nil	\$5.02	30 November 2006
	<u>3,553,900</u>			
Expired/lapsed during the current period	Nil			

## 16. Segment Information

### Business Segment

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

## 17. Rounding of Amounts

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

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## Comments by Directors

The Directors of Alumina Limited present their comments on the consolidated entity consisting of Alumina Limited and the entities it controlled at the end of, or during, the year ended 31 December 2004.

### Directors

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

**D M Morley**

**J Marlay**

**P A F Hay**

**R J McNeilly**

**M R Rayner** (Alternate R D J Davies)

### Basis of financial report preparation

This report is for the twelve months ended 31 December 2004 and has been prepared in accordance with the Australian Stock Exchange Listing Rules as they relate to Appendix 4E and in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act 2001. It is recommended that this report be read in conjunction with any public announcements made by Alumina Limited and its controlled entities during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Information relating to Alumina's International Financial Reporting Standards project is provided on page 5.

Comments are for the year ended 31 December 2004 with comparatives for the year ended 31 December 2003 shown in parentheses. Comparative information is reclassified where appropriate to enhance comparability.

## Review of Operations

The financial results for Alumina Limited include the full year results of AWAC and associated corporate activities.

The Group's net profit attributable to Alumina Limited increased 36% to \$322.1 million (\$236.9 million). The net profit includes a profit of \$14.8 million from the sale by AWAC of its Specialty Chemical business. Excluding this profit, Alumina's profit was 30% higher than 2003. The higher profit was driven by higher alumina and aluminium prices and higher production offset, to some extent, by a stronger Australian dollar, along with higher energy and raw materials prices.

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

Return on Equity increased to 22.5% (17.9%).

Directors have declared a dividend of 10 cents per share franked to 7.5 cents (10 cents). The interim and final dividend totalled 20 cents (2003: 20 cents) franked to 17.5 cents.

## Outlook

Most market commentators are forecasting continuing aluminium and alumina supply deficits in 2005, which are expected to provide support for aluminium and alumina prices.

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AWAC is anticipating further cost pressure in 2005 with significantly higher caustic soda prices and continuing high energy and raw material prices expected to add \$15.00 per tonne to alumina production costs. Partly offsetting these costs increases will be a targeted 800,000 tonne increase in alumina production. AWAC has also negotiated better contract prices, equivalent to 2% of LME metal prices, for about one third of long term supply agreements with third party customers. The overall average better third party price will also improve the price AWAC receives for alumina purchased by Alcoa Inc.

Based on the average aluminium price and exchange rate for 2004, Alumina's 2005 NPAT sensitivity to a US1 cent movement in the metal price is A\$14.7 million and sensitivity to the exchange rate is A\$10.8 million for each 1 cent movement.

### Production

AWAC's alumina production increased by 4% to 13.6 million tonnes (13.1 million tonnes), through production capacity creep, Point Comfort returning to full capacity and increased production from the recent Jamaican expansion. The project to expand production capacity in Suriname by 250,000 tonnes has been completed (AWAC's share 137,500 tonnes) and a project to upgrade the Pinjarra refinery capacity in Western Australia by 600,000 tonnes is underway.

### Costs

AWAC's total cost of sales increased by 10% to US\$2,673.7 million (US\$2,422.6 million) due, in part, to higher sales volumes, but also to higher energy and raw materials prices and a weaker US dollar.

Alumina's corporate costs totalled \$8.4 million (\$12.6 million). Costs were lower in part due to a focus on cost reduction and process efficiency and \$0.8 million reduction in the provision for the WMC Resources Ltd employee Stock Appreciation Plan (based on a lower closing Alumina Limited share price). In addition, the first half of 2003 included costs relating to the start-up of Alumina Limited as a separate group. The Company continues to maintain low staffing levels, with a clear focus on protecting and adding value for Alumina's shareholders.

Alumina's goodwill amortisation reduced to \$16.2 million (\$17.7 million), following the sale of the Specialty Chemicals business, which had \$22.4 million of goodwill.

### Markets

The year 2004 continued to reflect increased demand for aluminium, particularly in the US and Japan, along with continued growth in domestic aluminium consumption in China. LME aluminium prices were higher, averaging 78 cents a pound (65 cents), increasing earnings by approximately \$147 million. LME inventories decreased by 51% during the year to 698,000 tonnes at year end. Alumina supply was tight, with spot prices significantly above historical averages, reaching above US\$500 per tonne in March and April before falling to around US\$350 per tonne during May and June. In the second half, spot prices recovered to above US\$400 per tonne. Substantially all of AWAC's alumina production is sold under long term contracts at prices unrelated to the spot alumina market.

### Currency Exchange Rate Movements

The AUD/USD exchange rate averaged 73.7 cents (65.3 cents). The higher average exchange rate offset the effect of higher US dollar aluminium prices, reducing AWAC earnings by approximately \$103 million.

The difference in the spot exchange rate from the beginning to the end of the year, affects the Australian dollar carrying value of US dollar assets held by Alcoa of Australia. During 2004 the Australian dollar rose from 75 cents at 31 December 2003 to 78 cents at 31 December 2004, reducing profit by \$7 million.

### Hedging

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



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### Capital Expenditure

Alumina Limited has acquired a 40% interest in the Juruti bauxite deposit in Brazil at a cost of US\$40 million. A decision to develop the deposit as a source of supply for the expansion of the Alumar refinery at Sao Luis will be made later in 2005. Juruti is also a potential source of supply for other AWAC and third party refining operations.

AWAC is well positioned to grow production capacity in response to the increased market demand and has announced that studies are underway to increase AWAC's production capacity by up to 5 million tonnes over the next several years. Capital expenditure will increase significantly.

During 2004, dividends received from AWAC totalled \$160.4 million, compared with \$284.2 million in the previous year. The reduced dividend is the result of increased capital expenditure for the expansions at Jamalco, Suralco and Pinjarra, and the increase in cash on hand to US\$226 million in anticipation of further growth funding in 2005 and beyond.

### Dividend

The final dividend declared of 10 cents (10 cents) a share will be paid on 31 March 2005, with 7.5 cents franked at the 30 per cent tax rate. When determining the level of franking, the Board considered the minimum dividend payout required by the AWAC Agreement and the funding needs for AWAC's significant growth plans. Throughout this period of expansion, the Board's intention, subject to business conditions, is to maintain dividends similar to 2004. The level of franking of any additional dividends paid by Alumina Limited in 2005 and beyond will be subject to the outcome of funding discussions between the partners for AWAC's extensive growth projects. The Company is working with Alcoa on alternatives to release the significant franking credits accumulated in Alcoa of Australia.

### Debt

After receiving \$109.0 million from the sale of AWAC's Specialty Chemical business, Alumina reduced its USD borrowings by US\$48.0 million to US\$303.0 million.

Alumina's debt, net of cash, was \$280 million, \$22 million lower than the beginning of the year. Receipt of the funds from the Specialty Chemical sale was partially offset by the payment of US\$33.4 million (the remaining US\$6.6 million was paid on 4 January 2005) for a 40% interest in the Alcoa entities holding the Juruti bauxite deposit. The movement in the exchange rate during the year reduced Alumina's USD borrowings, when translated to Australian dollars, by \$18 million.

### Changes to Contingent Liabilities

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

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

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### **Compliance Statement**

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views.
2. This report gives a true and fair view of the matters disclosed.
3. This report is based on accounts which are in the process of being audited.
4. Alumina Limited has a formally constituted Audit Committee.

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John Marlay  
Chief Executive Officer

2 February 2005