

To: The Manager
Announcements
Company Announcements Office
Australian Stock Exchange



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Public Announcement 2008 – 22AWC

Alumina Limited (“the Company” or “Alumina”) announces that its wholly owned finance subsidiary, Alumina Finance Limited, has launched an offering to raise approximately US\$300 million of senior, unsecured, guaranteed convertible bonds, due 2013 (“Convertible Bonds”). The Convertible Bonds will be guaranteed by Alumina and convertible into fully paid ordinary shares in Alumina.

The proceeds of the issue will be used to replace existing bank debt and to fund Alumina’s investment in AWAC’s current growth projects.

Alumina has recently extended the maturity profile of a number of its core banking facilities, and the addition of further term debt through the Convertible Bonds is consistent with the Company’s conservative financial policies.

Alumina Limited

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The bookbuild period for the Convertible Bonds will commence upon public release of this announcement and is currently expected to end before the Australian Securities Exchange opens for trading in Australia on 14 May 2008. At the request of the Company, its ordinary shares have been voluntarily halted from trading on the Australian Securities Exchange today 13 May 2008. It is expected that trading in the Company's American Depository Shares will also be halted from trading on the New York Stock Exchange during 13 May 2008. The Convertible Bonds are being offered to institutional, professional and sophisticated investors only and a final draft of the Offering Circular is attached to this announcement. The offering will occur outside the United States to non-US persons in accordance with Regulation S under the US Securities Act of 1933, as amended.

Approval in principle has been received for the listing of the Convertible Bonds on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Admission of the Convertible Bonds to the official list of the SGX-ST is not taken to be an indication of the merits of the Issuer, the Company or the Convertible Bonds.

Standard and Poor's Rating Services have assigned a BBB+ rating to the Convertible Bonds.

Goldman Sachs International is the Lead Manager and Sole Bookrunner to the issue.



Stephen Foster
Company Secretary

13 May 2008

Alumina Limited

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ALUMINA LIMITED

ACN 004 820 419

(Company)

(incorporated with limited liability in Australia under the Corporations Act 2001 (Cth))

Alumina Finance Limited

ACN 130 920 562

(Issuer)

(incorporated with limited liability in Australia under the Corporations Act 2001 (Cth))

US\$[*]00,000,000

[*]% Guaranteed Convertible Bonds Due 2013

Convertible into Shares of Alumina Limited

Issue Price: 100%

Alumina Finance Limited (ACN 130 920 562) (**Issuer**), a wholly owned subsidiary of Alumina Limited (ACN 004 820 419) (**Alumina** or **Company**), proposes to issue US\$[*]00,000,000 [*]% Guaranteed Convertible Bonds (the **Bonds**) due 2013 and convertible into fully paid ordinary shares (**Shares**) in the share capital of Alumina. The bonds will be unconditionally and irrevocably guaranteed (**Guarantee**) by Alumina. The Shares are currently quoted for trading on the financial market operated by ASX Limited (ACN 008 624 691) (**ASX**). The closing price of the Shares on ASX on 12 May 2008 was A\$6.42.

The Bonds will bear interest from and including 16 May 2008 at the rate of [*]% per annum payable semi-annually in arrear in equal instalments on 16 May and 16 November in each year (commencing 16 November 2008). Each Bond may be converted, at the option of the holder, into Shares at an initial conversion price of A\$[*] per Share (**Conversion Price**) at any time on or after 25 June 2008, and up to and including the date which is 10 Business Days (as defined in the Terms and Conditions of the Bonds (**Terms and Conditions**) in section 8 of this Offering Circular) prior to 16 May 2013 (the **Maturity Date**) or, if the Bonds have been called for redemption by the Issuer prior to the Maturity Date, then up to and including the date which is 10 Business Days prior to the date fixed for redemption. The Conversion Price is subject to adjustment in the circumstances described under "**Terms and Conditions of the Bonds – Conversion**".

Unless previously redeemed, converted, or purchased and cancelled, the Bonds will be redeemed on 16 May 2013 at 100% of their principal amount, together with accrued and unpaid interest thereon. At any time on or after 16 May 2011, the Issuer may redeem all but not some only of the Bonds at 100% of their principal amount, together with accrued and unpaid interest, if the VWAP (as defined in the Conditions) of the Shares for each of the 20 consecutive Trading Days ending not earlier than five Business Days prior to the date upon which notice of such redemption is given was greater than 130% of the Conversion Price then in effect. The Issuer may at any time redeem all but not some only of the Bonds for the time being outstanding at 100% of their principal amount, together with accrued and unpaid interest, if the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount of Bonds originally issued. Bondholders will have the right to require the Issuer to redeem all or some only of their Bonds on 16 May 2011 at 100% of their principal amount, together with accrued and unpaid interest. Bondholders will have the right to require the Issuer to redeem all but not some only of their Bonds at 100% of their principal amount, together with accrued and unpaid interest, upon the Delisting (as defined in the Conditions) of the Shares

or upon the occurrence of a Change of Control (as defined in the Conditions). All but not some only of the Bonds may be redeemed at the option of the Issuer at any time at 100% of their principal amount, together with accrued and unpaid interest, in the event of certain changes relating to Australian taxation, subject to the non-redemption option of each Bondholder as described in the Conditions. See "**Terms and Conditions of the Bonds**" in section 8 of this Offering Circular.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds, the Guarantee and the Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Company and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Bonds and Guarantee and on distribution of this Offering Circular and other offering material relating to the Bonds, the Guarantee and the Shares, see "**Subscription and Sale**" in section 11 of this Offering Circular.

The Bonds, the Guarantee and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933 (the **U.S. Securities Act**) or the laws of any State of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons. In addition, the Company is not registered as an "investment company" under

the Investment Company Act of 1940 (the **Investment Company Act**). The Bonds and the Guarantee are being offered and sold in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. In addition, an offer or sale of the Bonds and the Guarantee within the United States by any dealer that is not participating in the Offering may violate the registration requirements of the U.S. Securities Act and/or the Investment Company Act.

The Bonds and the Guarantee are not transferable into the United States or to the account or benefit of U.S. Persons. Any holder exercising its conversion right will be required to certify that it is not in the United States and it is not a U.S. Person and not acting for the account or benefit of a U.S. Person.

For a discussion of certain risks relating to the Issuer, the Company and the Bonds, see "Risk Factors" in section 5 of this Offering Circular.

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (**SGX-ST**). The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Company or the Bonds.

The Bonds will be in registered form in denominations of US\$10,000 or integral multiples thereof. The Bonds will be represented by beneficial interests in a global bond certificate (the **Global Certificate**) in registered form, without interest coupons attached. The Global Certificate will be deposited on or around 16 May 2008 (the **Closing Date**) with a common depositary, and registered in the name of a common nominee, for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream**). The Global Certificate will be exchangeable for definitive Bonds in registered form only in the limited circumstances set out therein and described herein. Interests in the Bonds will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream.

Information on this page is qualified in its entirety by the remainder of this Offering Circular, words and expressions defined elsewhere in this Offering Circular have the same meanings on this page.

Sole Bookrunner and Lead Manager

Goldman Sachs International

Important Notices

GENERAL

About this Offering Circular

This document (**Offering Circular**) is a Prospectus as that term is defined in the Corporations Act 2001 of Australia (**Corporations Act**). Any offering of Bonds in Australia is made under this Offering Circular and is open only to select investors who are sophisticated or professional investors within sections 708(8) or (11) of the Corporations Act.

This Offering Circular is dated [*] May 2008. A copy of this Offering Circular was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. No securities will be issued on the basis of this Offering Circular later than 31 May 2009 (the **Expiry Date**).

None of ASIC, ASX or their respective officers takes any responsibility for the contents of this Offering Circular or the merits of the investment to which this Offering Circular relates. The fact that ASX have quoted the Shares of the Company and may quote the Shares into which the Bonds are convertible is not to be taken in any way as an indication of the merits of the Shares, the Bonds, the Issuer or the Company.

The Issuer and the Company accept full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular should be read in its entirety. It contains general information only and does not take into account the specific objectives, financial situation or needs of investors. In the case of any doubt, investors should seek the advice of a stock broker or other professional adviser.

None of the Company, any member of its Group, or its respective associates or directors guarantees the success of the offering of the Bonds, the repayment of capital or any particular rate of capital or income return. Investment type products are subject to investment risk, including possible loss of income and capital invested.

Neither the Issuer nor the Company is providing investors with any legal, business or tax advice in this Offering Circular. Investors should consult their own advisers to assist them in making their investment decision and to advise themselves whether they are legally permitted to purchase the Bonds. Investors must comply with all laws that apply to them in any place in which they buy, offer or sell any Bonds or possess this Offering Circular. Investors must also obtain any consents or approvals that they need in order to purchase the Bonds. None of the Issuer, the Company, the Trustee or the Lead Manager is responsible for investors' compliance with these legal requirements.

Neither the Issuer nor the Company has authorised the making or provision of any representation or information regarding the Issuer, the Company or the Bonds other than as contained in this Offering Circular or as approved for such purpose by the Issuer or the Company. Any other representation or information should not be relied upon as having been authorised by the Issuer or the Company, the Lead Manager, the Trustee, the Paying and Conversion Agent or the Registrar.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bond shall in any circumstance create any implication that there has been no adverse change, or any event

reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer, Company or any Group member since the date of this Offering Circular.

In this Offering Circular, unless otherwise specified, references to **US\$** are to the lawful currency of the United States of America, references to **A\$** are to the lawful currency of Australia and references to **S\$** are to the lawful currency of Singapore.

No representations by persons other than the Issuer and the Company

The Issuer and the Company have prepared this Offering Circular and are solely responsible for its contents. Investors are responsible for making their own examination of the Issuer and the Company and their own assessment of the merits and risks of investing in the Bonds. By purchasing any Bonds, investors acknowledge that:

- they have reviewed this Offering Circular; and
- the Lead Manager is not responsible for, nor is making, any representation or warranty, express or implied, to investors concerning the future performance of the Issuer or the Company, or the accuracy or completeness of this Offering Circular.

The Lead Manager, the Trustee and the Paying and Conversion Agent have not separately verified the information contained in this Offering Circular. Each person receiving this Offering Circular acknowledges that such person has not relied on the Lead Manager, the Trustee, the Paying and Conversion Agent or any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision and each such person must rely on its own examination of the Issuer and the Company and the merits and risks involved in investing in the Bonds. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the Company, the Lead Manager, the Trustee, the Paying and Conversion Agent or any person affiliated with any of them, that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Bonds should be based upon such investigations as it deems necessary.

Restrictions in foreign jurisdictions

This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds, the Guarantee and the Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Bonds and the Guarantee on distribution of this Offering Circular and other offering material relating to the Bonds and the Guarantee, see "*Subscription and Sale*" in section 11 of this Offering Circular.

The Bonds, the Guarantee and the Shares to be issued upon conversion have not been and will not be registered under the U.S. Securities Act and the Company is not registered as an "investment company" under the Investment Company Act. The Bonds, Guarantee and the Shares may not be offered or sold within the United States of America or to, or for the account or benefit of, a U.S. Person (as defined in Regulation S under the U.S. Securities Act).

Stabilisation

In connection with the issue of the Bonds, Goldman Sachs International, (the **Lead Manager** or the **Stabilising Manager**) (or any person acting for the Stabilising Manager) may, outside Australia (and on a market operated outside Australia), and otherwise to the extent permitted by applicable law, over-allot and effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Bonds is made and, if begun, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

Further Information on the Company

The Company is a 'disclosing entity' for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules of ASX. Copies of documents regarding the Company lodged with ASIC or ASX respectively may be obtained from, or inspected at, any office of ASIC or ASX respectively.

In addition, investors have the right to obtain a copy of the following documents:

- the annual financial report of the Company for the year ended 31 December 2007;
- the annual financial report of the Company for the year ended 31 December 2006; and
- any continuous disclosure notices given by the Company to ASX after the lodgement of the 2007 annual financial report and before the lodgement of this Offering Circular with ASIC.

These documents may be obtained from the Company, free of charge, during the period up to and including the Closing Date by contacting the Company Secretary at the head office of the Company at Level 12, IBM Centre, 60 City Road, Southbank, Victoria, 3006, Australia, telephone +61 3 8699 2600. These documents, and all other future regular reporting and disclosure documents of the Company, should also be available electronically on the website of ASX, at www.asx.com.au.

Risk Factors

Prospective purchasers of Bonds should carefully consider the risks and uncertainties described or referred to in this Offering Circular in connection with an investment in the Bonds. See *Cautionary Statement Regarding Forward-Looking Statements* (below) and the "Risk Factors" outlined in section 5 of this Offering Circular.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements concerning anticipated developments in the Company's operations in future periods, planned development activities, the adequacy of the Company's financial resources and other events or conditions that may occur in the future.

Forward-looking statements are frequently, but not always, identified by words such as 'expects', 'anticipates', 'believes', 'intends', 'estimates', 'potential', 'targeted', 'plans', 'possible' and similar expressions, or statements that events, conditions or results 'will', 'may', 'could' or 'should' occur or be achieved.

Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to under the heading "*Risk Factors*" in section 5 of this Offering Circular. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Each of the Issuer, the Company, the Lead Manager, the Trustee, the Paying and Conversion Agent and the Registrar expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's or Company's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Table of Contents

1.	Key Features	8
2.	Selected Financial Information	15
3.	About the Issuer and the Company	21
4.	Management	30
5.	Risk Factors	32
6.	Use of Proceeds	42
7.	Capitalisation and Indebtedness	43
8.	Terms and Conditions of the Bonds	45
9.	Tax Implications – Australian Taxation	94
10.	Global Certificate Provisions	100
11.	Subscription and Sale	103
12.	Additional Information	109
13.	Glossary	115
14.	Index to the Company Directors' Remuneration Reports and Financial Statements	118

1. Key Features

1.1 Summary of Offer

The following is a summary of the principal features of the Bonds and the offering. Terms defined under "Terms and Conditions of the Bonds" in section 8 of this Offering Circular shall have the same respective meanings in this summary.

The following summary is qualified in its entirety by the more detailed information appearing in the Conditions.

Issuer	Alumina Finance Limited (ACN 130 920 562)
Guarantor	Alumina Limited (ACN 004 820 419)
Issue	US\$[*],000,000 aggregate principal amount of [*]% Guaranteed Convertible Bonds due 2013 and convertible into fully paid ordinary shares of the Company.
Guarantee	The due payment of all sums expressed to be payable by the Issuer and the due performance by the Issuer of its obligations under the Trust Deed and the Bonds will be unconditionally and irrevocably guaranteed by the Company.
Issue Price	100%
Form and Denomination	The Bonds will be issued in registered form in denominations of US\$10,000 or integral multiples thereof.
Interest	The Bonds bear interest from the Closing Date at [*]% per annum of the principal amount of each outstanding Bond, payable semi-annually in arrear on each Interest Payment Date, being 16 May and 16 November in each year.
Closing Date	16 May 2008
Maturity Date	16 May 2013
Negative Pledge	So long as any Bond remains outstanding, each of the Issuer and the Company (as Guarantor) undertakes that it will not create or permit to subsist, and undertakes to procure that none of its Subsidiaries will create or permit to subsist, any Security Interest, other than a Permitted Security Interest, upon the whole or any part of their present or future undertaking, assets or revenues (including any uncalled capital) to secure any Capital Markets Financial Indebtedness or to secure any guarantee of, or indemnity in respect of, any Capital Markets Financial Indebtedness, unless at the same time or prior thereto equal and ratable security as is created or subsisting is accorded to the Bonds or the Bonds are accorded such other security as shall be approved by a

	Special Resolution of the Bondholders.
Conversion Period and Conversion Right	The Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 25 June 2008 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the 10 th Business Day prior to the Maturity Date (both days inclusive), or, if the Bonds shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place where the Global Certificate evidencing such Bond is deposited for conversion) on the date which is 10 Business Days prior to the date fixed for redemption or if notice requiring redemption has been given by the holder of such Bond then up to the close of business (at the place where the Global Certificate is deposited for conversion) on the day prior to the giving of such notice.
Conversion Price	A\$[*] per Share which will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues, distributions and other dilutive events.
Final Redemption	Unless previously redeemed, converted or purchased and cancelled, each Bond will be redeemed at 100% of its principal amount together with accrued and unpaid interest on 16 May 2013.
Redemption at the Option of the Issuer	At any time on or after 16 May 2011, the Issuer may redeem the Bonds in whole but not in part at 100% of their principal amount, together with accrued and unpaid interest, if the VWAP (as defined in the Conditions) of the Shares for the 20 consecutive Trading Days ending not earlier than five Business Days prior to the date upon which notice of such redemption was given was greater than at least 130% of the Conversion Price then in effect. The Issuer may at any time redeem the Bonds in whole but not in part at 100% of their principal amount, together with accrued and unpaid interest, if the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount of Bonds originally issued.
Tax Redemption and Non-Redemption Right	All but not some only of the Bonds may be redeemed at any time at 100% of their principal amount, together with accrued and unpaid interest to such redemption date, in the event of certain changes relating to Australian taxation. If the Issuer exercises its tax redemption right, each holder of the Bonds shall have the right to elect that its Bonds shall not be redeemed. Upon the exercise of the non-redemption right with respect to such Bonds, no additional tax amounts shall be payable on the payments due on such Bonds and such payments shall be made subject to any deduction or withholding required under the laws or regulations of Australia.

Redemption at the Option of the Bondholders	Bondholders will have the right to require the Issuer to redeem all or some only of their Bonds on 16 May 2011, 100% of their principal amount, together with accrued and unpaid interest to such date.
Redemption upon Delisting or Change of Control	Bondholders will have the right to require the Issuer to redeem all but not some only of their Bonds at 100% of their principal amount, together with accrued and unpaid interest, upon the occurrence of a Change of Control or a Delisting of the Shares.
Non-Payment	The Bonds will contain a default provision covering failure to pay principal or interest in respect of the Bonds as further described in paragraph 11 of the Terms and Conditions (<i>Events of Default</i>).
Cross-Default	The Bonds will contain a cross default provision subject to a threshold of US\$25 million as further described in paragraph 11 of the Terms and Conditions (<i>Events of Default</i>).
Other Events of Default	For a description of certain other events that will permit acceleration of the Bonds, see paragraph 11 of the Terms and Conditions (<i>Events of Default</i>). If any event that will permit acceleration occurs, then the Trustee at its discretion may, and if so requested in writing by holders of not less than 25% of the aggregate principal amount of the outstanding Bonds or if so directed by a Special Resolution of the Bondholders shall, declare the Bonds to be immediately due and payable at 100% of their principal amount together with accrued interest.
Lock up	Each of the Company and the Issuer has agreed to certain restrictions on its ability to issue or dispose of Shares or related securities during the period commencing on the date of the Subscription Agreement and ending 90 days after the Closing Date (both days inclusive). See " <i>Subscription and Sale</i> " in section 11 of this Offering Circular.
Clearing Systems	The Bonds will, on issue, be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with a common depository for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, definitive certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Governing Law	English law
Trust Deed	The Bonds will be constituted by a trust deed expected to be dated 16 May 2008 between the Issuer, the Company and the Trustee.

Trustee	The Bank of New York, London Branch
Paying and Conversion Agent	The Bank of New York, London Branch
Registrar	The Bank of New York, Singapore Branch
Listing	<p>Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Bonds are listed on the SGX-ST.</p> <p>Upon conversion of the Bonds, application will be made for quotation of the Shares issuable upon conversion of the Bonds on the financial market operated by ASX.</p>
Sales Restrictions	For a description of certain restrictions on offers, sales and deliveries of the Bonds and on distribution of this Offering Circular and other offering material relating to the Bonds, see " <i>Subscription and Sale</i> " in section 11 of this Offering Circular.
Conversion Restrictions	The Bonds are not transferable into the United States or to the account or benefit of U.S. Persons. Any holder exercising its conversion right will be required to certify that it is not in the United States and it is not a U.S. Person and not acting for the account or benefit of a U.S. Person.
Clearing	<p>The Bonds have been accepted for clearance by Euroclear and Clearstream under the following Common Code and ISIN:</p> <p>Common Code: 036455691</p> <p>ISIN: XS0364556919</p>

1.2 Rights and Liabilities of Shares

The following is a broad summary (though not an exhaustive or definitive statement) of the rights attaching to fully paid Shares as set out in the Company's constitution (Constitution).

Future Issues

Without prejudice to any special rights previously conferred on the holders of Shares, any share in the capital of the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividends, voting, return of share capital, payment of calls or otherwise, as the Company's directors may from time to time determine and the rights attaching to shares of a class other than Shares shall be expressed at the date of issue. All unissued shares shall be under the control of the Company's directors who may in their discretion grant calls or options, issue option certificates or allot or otherwise dispose of the same to such persons on such terms and conditions and for such consideration and for or at such time as they think fit.

Modification of rights

All or any of the rights and privileges attached to any class of shares may be varied or abrogated, and any repayment of capital in respect of any class of shares may be effected, by special resolution approving the proposed variation, abrogation or repayment passed at a special meeting of the holders of shares of that class or by consent in writing signed by the holders of at least three-fourths of the issued shares of that class within two calendar months from the date of such special meeting. However, no approval or consent shall be required in respect of the redemption of any redeemable shares in accordance with the terms of their issue.

Transfer of shares

The Shares are transferable by:

- a written transfer in the usual or common form or in any form the Company's directors may prescribe or in a particular case accept, duly stamped (if necessary), being delivered to the Company;
- a proper instrument of transfer, which is to be in the form required or permitted by the Corporations Act or the ASTC Settlement Rules; or
- any other electronic system established or recognised by the Listing Rules in which the Company participates in accordance with the rules of that system.

The Company's directors may, subject to the requirements of the Corporations Act and the Listing Rules, refuse to register any transfer of shares in the following circumstances:

- if the registration would infringe any applicable laws or the

	<p>Listing Rules;</p> <ul style="list-style-type: none"> • if the transfer concerned shares over which Alumina Limited has a lien; or • if permitted to do so under the Listing Rules.
Alteration of share capital	The Company may, by resolution passed in general meeting, alter its share capital in any manner provided by the Corporations Act, including reducing its share capital.
Voting rights	<p>At a general meeting, subject to a number of specified exceptions, on a show of hands each shareholder present in person or by corporate representative, attorney or proxy has one vote. On a poll, each shareholder present in person or by corporate, attorney or proxy shall in respect of each share held by them:</p> <ul style="list-style-type: none"> • have one vote for each fully paid Ordinary share; and • have a vote in respect of each partly paid share equivalent to the proportion which the amount paid up bears to the total issue price of the share at the date the poll is taken.
Dividends	Subject to the rights of, or restrictions imposed upon, the holders of Shares in respect to the payment of dividends, dividends shall be payable on all shares in proportion to the amount of capital credited as paid up in respect of those shares, provided however that no amount paid on a share in advance of calls or the due date for the payment of any instalment shall be treated as paid on that share.
Winding up	If the Company is wound up, whether voluntarily or otherwise, with the sanction of a special resolution, the liquidator may divide among the contributories in specie or in kind, any part of the assets of the Company, and may vest any part of the assets of the Company in trustees upon such trusts for the benefit of the contributories or any of them as the liquidator thinks fit.
Foreign persons	The Company's directors may refuse to allot any share, or subject to the Corporations Act, the Listing Rules and the ASTC Settlement Rules, to register any transfer or transmission of a share, to any person if the allotment, transfer or transmission results in a foreign person, alone or together with any associate or associates, acquiring a substantial interest in the Company (15% or more of the voting power) or if it results in two or more foreign persons, together with any associate or associates of any of them, acquiring an aggregate substantial interest in the Company (40% or more of the voting power). The definition of 'foreign persons' and the percentages that constitute a substantial interest or aggregate substantial interest, are as provided by the Foreign Acquisitions and Takeovers Act 1975 (Cth) and may change over time.

Full details of the rights attaching to the Shares are set out in the Company's Constitution, a copy of which can be inspected at the Company's registered office at Level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006, Australia, telephone +61 3 8699 2600.

2. Selected Financial Information

2.1 The Issuer's Financial Information

The Issuer is a company that was incorporated on 5 May 2008 as a wholly owned subsidiary of the Company for the purpose of holding and managing the Group's borrowing program. See "Capitalisation and Indebtedness" in section 7 of this Offering Circular for a discussion of the Issuer's capitalisation and indebtedness immediately prior to and after the issuance of the Bonds.

2.2 The Company's Financial Information

As the Shares are listed on the ASX, the Company prepares:

- annual consolidated financial statements; and
- semi-annual consolidated financial statements.

The summary financial information as at and for the financial years ended 31 December 2005, 31 December 2006 and 31 December 2007 set out below has been extracted without material modification from, should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Company as at and for the financial years ended 31 December 2005, 31 December 2006 and 31 December 2007. A copy of this information may be obtained free of charge by contacting the Company at its registered office, Level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006, Australia, telephone +61 3 8699 2600.

The summary financial information presented below has been prepared in accordance with A-IFRS.

Consolidated income statement (A\$ in millions)	Audited 31 Dec 2007	Audited 31 Dec 2006	Audited 31 Dec 2005
Revenue from continuing operations	2.6	1.4	4.0
Other income	0.2	-	-
General and administrative expenses	(13.8)	(10.7)	(10.2)
Finance costs	(45.7)	(25.1)	(15.3)
Share of net profits of associates accounted for using the equity method	494.6	546.6	337.1
Profit before income tax	437.9	512.2	315.6
Income tax expense	(1.5)	(1.1)	-
Profit attributable to members of Alumina Limited	436.4	511.1	315.6

Note on underlying earnings within net profit for the period:

Included in the calculation of net profit for the period is the Company's equity share of non-cash entries related to the revaluation, under year end market conditions, of AWAC's future benefits and obligations arising from certain energy purchase contracts and retirement benefit obligations. In

order to analyse the Company's net profit it is important to understand those entries and the reasons for them.

For sound economic hedging purposes, some AWAC long term energy purchase contracts include an aluminium price component in the energy price so that costs are partially linked to the price of aluminium. In accordance with accounting standards the financial impact of the application of these pricing formulae has been estimated for the remainder of the contract life based on the aluminium price as quoted on the London Metal Exchange at period end. The resulting entries are included in AWAC's result for the period and, as a consequence, in the Company's net profit for the period although they do not relate to operations during the current reporting period.

A similar calculation, based on future costs of retirement benefit obligations, net of investment returns, is also reflected in the Company's equity share of AWAC's result.

The impact of these items in the Company's result for the twelve months to 31 December 2007 has been to increase net profit after tax by net \$30.8 million (2006 \$58.3 million decrease) as shown in the following table. Net profit after tax before these items is referred to as 'Underlying Earnings'.

(A\$ in millions)	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2005
Net profit for the period, after tax	436.4	511.1	315.6
Non-operating non-cash items:			
Equity share of AWAC retirement benefit obligations	(38.9)	(6.3)	(7.2)
Equity share of AWAC embedded derivatives	8.1	64.6	22.9
Underlying earnings for the period, after tax	405.6	569.4	331.3

As of the date of this Offering Circular, the aluminium price as quoted on the London Metal Exchange is higher than it was at 31 December 2007. That change would lead to a charge being booked in respect of the embedded derivative described above if it was brought to account at the current date.

Consolidated Balance Sheets (A\$ in millions)	Audited 31 Dec 2007	Audited 31 Dec 2006	Audited 31 Dec 2005
ASSETS			
Cash and cash equivalents	29.1	169.0	15.2
Receivables	0.1	0.1	0.5
Deferred tax assets	2.1	2.1	2.1
Other financial assets	-	-	0.5
TOTAL CURRENT ASSETS	31.3	171.2	18.3
Investments accounted for using the equity method	2,657.0	2,186.2	1,994.9
Property, plant and equipment	0.3	0.2	0.3
TOTAL NON-CURRENT ASSETS	2,657.3	2,186.4	1,995.2
TOTAL ASSETS	2,688.6	2,357.6	2,013.5
LIABILITIES			
Payables	15.8	12.7	3.1
Interest bearing liabilities	440.6	380.2	478.7
Current tax liabilities	1.0	1.1	-
Provisions	0.1	0.1	0.1
Other	1.1	0.7	1.2
TOTAL CURRENT LIABILITIES	458.6	394.8	483.1
Interest bearing liabilities	565.8	207.9	-
Provisions	0.3	0.3	0.2
TOTAL NON-CURRENT LIABILITIES	566.1	208.2	0.2
TOTAL LIABILITIES	1,024.7	603.0	483.3
NET ASSETS	1,663.9	1,754.6	1,530.2
EQUITY			
Parent Equity Interest:			
Contributed Equity	411.9	425.8	415.7
Treasury Shares	(0.7)	(0.6)	(0.6)
Reserves:			
Group	12.6	30.6	41.4
Associates	1.4	(15.3)	37.5
Retained profits:			
Group	736.0	861.1	608.7
Associates	502.7	453.0	427.5
TOTAL EQUITY	1,663.9	1,754.6	1,530.2

2.3 Financial Summary for the Company

(i) Full Year Review

The Company's net profit after tax was A\$436.4 million for 2007. Increased AWAC revenues from a strong global aluminium market were offset by higher AWAC operating costs for alumina and aluminium production and the negative impact of a stronger Australian dollar. The Company's return on equity was 25.5% in 2007 (31.1% in 2006). Return on equity based on underlying earnings was 23.7% in 2007 (34.7% in 2006). Earnings per share were A\$0.382 cents in 2007 (A\$0.438 cents per share in 2006). Earnings per share on underlying earnings were A\$0.355 cents per share in 2007 (A\$0.488 cents per share in 2006).

Underlying earnings for the year declined 29% to A\$405.6 million from A\$569.4 million in 2006. Underlying earnings has been calculated by subtracting from reported net profit for the period an amount of A\$30.8 million relating to the net value of non-cash entries which do not reflect the year's operations. These non-cash entries relate to mark-to-market valuations of AWAC embedded derivatives, which reflect higher future aluminium prices based on the forward market at the end of the period, and adjustments resulting from actuarial assessment of future costs of retirement benefit obligations, net of investment returns, of AWAC employee benefit plans.

(ii) Returns and Dividend

2007 earnings and cash generation declined from the record levels in 2006. During 2007 the Company received dividends from AWAC, in addition to the minimum 30% AWAC payout. 2007 dividends received were A\$444.9 million (A\$521.1 million in 2006) of which A\$424.0 million (A\$510.8 million in 2006) were fully franked dividends from Alcoa of Australia Ltd.

Directors declared a final dividend of 12 Australian cents per share fully franked, payable 31 March 2008. The Company paid a fully franked interim dividend in September 2007 of A\$0.12 per share. Dividends paid in respect of 2007 will total A\$0.24 per share (A\$0.22 per share in 2006).

The directors of the Company also announced the introduction of a new Dividend Reinvestment Plan (new DRP). Under the new DRP shareholders may elect to have their dividends invested in new shares issued by the Company. New shares will be issued under the new DRP at an undiscounted price relative to the market price during the pricing period. The Company contracted with an investment bank for the underwriting of the issue of shares for the dividend payable on 31 March 2008, and intends that the issue of shares for the 2008 Interim Dividend, expected to be paid in September 2008, would also be underwritten. The introduction of the new DRP, and underwriting of the issue of shares in relation to the two dividend payments, recognises the substantial investment the Company is currently making in new AWAC production capacity, and will assist in maintaining the Company's financial position while continuing the policy of promptly distributing franking credits.

(iii) Factors Influencing the 2007 Result

Global demand for aluminium and alumina continued to grow strongly, increasing by approximately 10% year on year in 2007. LME aluminium prices averaged US\$1.21 per pound in 2007, a 3.4% increase on the corresponding period.

However the weakening US\$ and higher AWAC operating costs more than offset the increase in the aluminium price.

The AUD/USD exchange rate averaged 84 cents in 2007 (75 cents in 2006). The first half 2007 rate was 81 cents and in the second half-year the A\$ strengthened considerably, averaging 87 cents. The appreciation of the A\$ to a year end rate of 88 cents resulted in Alcoa of Australia balance sheet revaluations, which decreased Alumina Limited's reported profit by A\$16 million.

AWAC's sales revenue increased by 2% compared with 2006, driven mainly by higher realised aluminium and alumina prices. Increased global demand for alumina and aluminium was largely attributable to stronger growth in consumption in China, where aluminium consumption rose more than 36% year-on-year. Global aluminium and alumina production also increased largely in line with the increased demand, particularly in the second half of 2007. The London Metal Exchange (*LME*) 3-month aluminium price increased by 8% during the first half of 2007 to average US\$1.26/lb, but fell during the second half to average US\$1.16/lb. The average LME aluminium price for 2007 was US\$1.21/lb (US\$1.17/lb in 2006).

AWAC's alumina production in 2007 was 14.3 million tonnes (14.3 million tonnes in 2006). Production was impacted in Q1 by power outages at two Western Australian refineries, and by a general strike in Guinea which curtailed bauxite mining and exports. Production was further disrupted in Q3 by severe hurricane damage to the Jamalco refinery, particularly the port and ship-loading facilities, preventing shipping movements for approximately 11 weeks. These disruptions were offset by additional production at other AWAC refineries. The Pinjarra refinery established a new production level at a rate of 4.2 mtpy in Q4, and Wagerup, Sao Luis and Suralco refineries also established annual production records.

2007 aluminium production was a record 387,350 tonnes (377,351 tonnes in 2006).

AWAC's average cost of alumina production increased by approximately US\$32/tonne year-on-year. The substantial weakening of the U.S. dollar against the currencies of major AWAC production locations, particularly Australia, contributed about 30% of this increase. Major operating cost increases which have impacted the alumina refining industry, including AWAC, were higher energy prices, which rose approximately 15% year-on-year and shipping freight rates. Maintenance and contractor costs were higher, mainly in the Australian operations, to enable high production at a time of strong demand. Average costs were also higher as production at the Point Comfort refinery was increased to recover the lost Q1 and Q3 production referred to above. Aluminium production costs at AWAC's two smelters increased mainly due to higher alumina and power prices.

It is AWAC's, and the Company's, current practice not to hedge its exposure to aluminium price risk or the currency exposures arising from operating activities. AWAC partially hedged energy prices to reduce volatility in natural gas and fuel oil prices.

(iv) *AWAC Capital Projects*

2007 was a year of substantial investment to grow the AWAC joint venture through expansion projects in bauxite mining and alumina refining.

AWAC's capital expenditure increased by 51% in 2007 to US\$1,289 million (US\$855 million in 2006), including sustaining capital expenditure of US\$350 million (US\$326 million in 2006). The majority of the expenditure increase related to construction costs in the growth projects in Brazil at Juruti and Alumar.

Construction advanced on the Alumar refinery expansion project (AWAC share 1.1 million tonnes per annum) and the development of the new Juruti bauxite mine, which will initially supply 2.6 million tonnes per annum of bauxite for AWAC's share of the Alumar refinery expansion. The Juruti and Alumar projects are scheduled to commence commissioning in early 2009.

The estimated capital costs of AWAC's current investment projects in Brazil have increased during the construction phase, principally due to the appreciation of the Brazilian currency, and also due to increased construction costs. The contracting market for major projects in Brazil is experiencing substantial cost increases for project engineering, construction equipment and labour. AWAC's share of the Alumar refinery expansion and development of the new Juruti mine, including the cost of infrastructure to support future capacity expansion, was estimated in January 2008 to be approximately US\$2.5 billion. A 146,000 tonnes per annum production capacity increase (100% AWAC) at the Jamaica refinery was completed in early 2007, and commissioned during the second quarter.

(v) *Debt*

The Company's debt, as at 31 December 2007, net of cash, of A\$977.3 million, was A\$558.2 million higher than at the beginning of 2007.

At year end, the Company's borrowings were A\$1,006.4 million, A\$418.3 million higher than at the beginning of 2007. The increase in debt at year-end mainly reflects the Company's equity contributions to fund the two AWAC growth projects in Brazil. Cash at year end was A\$29.1 million (A\$169.0 million in 2006).

Dividends from Alcoa of Australia are expected to continue to fund a significant proportion of the Company's investment in AWAC's growth projects in 2008. The Company's share of remaining funding requirements will be met by Company borrowings. Interest costs are expected to rise as a result. The nature of the Company's holdings of AWAC assets, as non-controlled associates of the Company, does not allow capitalisation of the interest paid on borrowings to fund capital investments in the period before the AWAC assets become operational. As a result, all interest paid on borrowings, \$45.7 million in 2007 (\$25.1 million in 2006) directly impact the Company's earnings, even though a substantial portion relates to the funding of assets which are not yet generating income.

During 2007 the Company drew funding from committed bank facilities, including a US\$700 million multi-currency one, three and five year debt syndicated facility established in 2006 and from bilateral bank facilities.

(vi) *Corporate Costs*

The Company's corporate costs totalled A\$13.8 million (A\$10.7 million in 2006). Additional costs were incurred relating mainly to the share buy-back, the Company's response to Alcoa Inc's ultimately unsuccessful bid for Alcan and arranging additional financing facilities. The Company's 2007 borrowing costs totalled A\$45.7 million (A\$25.1 million in 2006), due to higher average debt levels and higher average interest rates. The Company has no currency hedging or commodity derivatives in place.

3. About the Issuer and the Company

3.1 Alumina Finance Limited

Alumina Finance Limited (the **Issuer**) is registered in the State of Victoria, Australia, is a public company limited by shares incorporated under the Corporations Act and is a company with an indefinite life. The Issuer is domiciled in Australia, and its principal office and registered address is located at Level 12, 60 City Road, Southbank, Victoria, 3006, Australia (telephone +61 3 8699 2600). It is a wholly owned subsidiary of the Company.

3.2 Alumina Limited

Alumina Limited (**Alumina** or the **Company**) is a major Australian company whose Shares are listed on the Australian Securities Exchange. Alumina's strategy is to participate in bauxite mining, alumina refining and selected aluminium smelting operations globally, solely through its 40% ownership of the Alcoa World Alumina and Chemicals (**AWAC**) joint venture with Alcoa Inc..

Alumina was the holding company of the group of companies known as the WMC Group, which commenced operations in 1933 and was incorporated in 1970. In 2002, a court approved Scheme of Arrangement gave effect to the demerger of the WMC Group into two separately listed entities – Alumina Limited and WMC Resources Limited.

Following the demerger, Alumina's principal asset was, and continues to be, its 40% interest in the AWAC joint venture. AWAC is the world's largest alumina producer, representing approximately 19% of world production in 2007. It has interests in bauxite mining, eight alumina refineries and two aluminium smelters within the United States, Brazil, Suriname, Jamaica, Spain and Australia. Alumina's joint venture partner, Alcoa Inc., owns the remaining 60% of AWAC, and is the manager of AWAC.

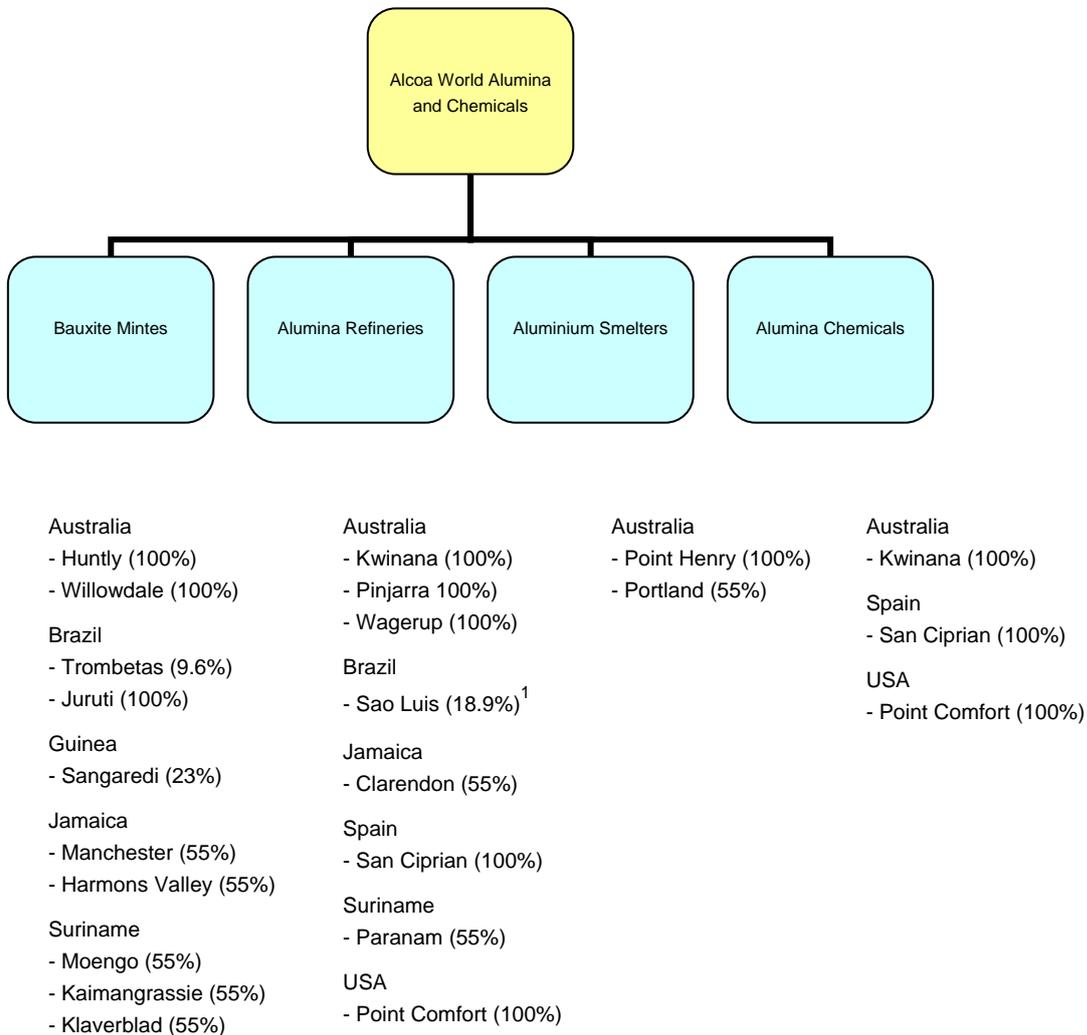
3.3 Principal Activities

AWAC has interests in the following assets:

- a 100% interest in the bauxite mining, alumina refining and aluminium smelting operations of Alcoa of Australia Limited (ACN 004 879 298) (**Alcoa of Australia**). Alcoa of Australia's principal operations comprise:
 - a 100% interest in two bauxite mines, Huntly and Willowdale (each in Western Australia), which each have long life reserves and are proximate to the Pinjarra, Kwinana and Wagerup alumina refineries;
 - a 100% interest in three alumina refineries, located at Pinjarra, Wagerup and Kwinana (each in Western Australia), which have an aggregate nameplate production capacity of over 8.8 million tonnes per annum (**mtpa**) of alumina;
 - a 100% interest in the 185,000 tonnes per annum Point Henry aluminium smelter and a 55% interest in the 352,000 tonnes per annum Portland aluminium smelter, both in Victoria; and

-
- a 20% interest in the Dampier to Bunbury Natural Gas Pipeline in Western Australia.
 - a 55% interest in assets in Jamaica, including various bauxite mines and a 1.4mtpa alumina refinery in Jamaica.
 - a 100% interest in the Point Comfort, Texas, USA, 2.3mtpa alumina refinery.
 - a 55% interest in assets in Suriname, including various bauxite mines and a 2.2mtpa alumina refinery in Suriname.
 - an 18.9% interest in the 1.4mtpa Sao Luis alumina refinery in Brazil and a 54% interest in the expansion of the refinery.
 - a 9.6% interest in the bauxite mining operations of Mineracao Rio Do Norte, which are located in Brazil.
 - a 100% interest in the Juruti bauxite deposit in Brazil.
 - a 100% interest in the San Ciprian, Spain, 1.5mtpa alumina refinery and alumina chemicals operation.
 - a 45% interest in Halco, a bauxite consortium that owns a 51% interest in Compagnie des Bauxites de Guinee, which owns and operates the Boké mining operations in Guinea, Africa.
 - a 100% interest in Alcoa Steamship which owns and operates six combination shipping vessels.

The chart below details AWAC's global mining, refining, smelting and chemicals interests as at 31 December 2007.



Note:

1. AWAC has a 54% interest in the expansion project for additional capacity.

The predominant source of AWAC's revenue is from the sale of alumina. Contracts for the sale of alumina are usually long term contracts, most of which are priced as a percentage of the price of aluminium traded on the London Metal Exchange.

AWAC's customers for the sale of smelter grade alumina include major aluminium smelters in Australia, North and South America, the Middle East, China, Russia, South Africa and Europe. AWAC's largest customer for its alumina production is Alcoa Inc.'s primary smelting group, which accounted in 2007 for approximately 45% of AWAC's alumina production. Sales by AWAC to Alcoa Inc. are on arm's length terms. The price Alcoa Inc. pays for alumina is currently the weighted average of the prices received by AWAC from the sale of alumina to unrelated third parties, save that for certain smelters acquired by Alcoa Inc. with existing supply contracts with AWAC, the terms of these contracts continue until their expiry.

3.4 Current Projects

AWAC is developing a new 100% owned bauxite mine at Juruti in Brazil. The mine will initially produce 2.6 million tonnes of bauxite per year to supply the expanded Sao Luis alumina refinery. First shipments of bauxite from the mine are anticipated to occur in early 2009.

A 2.1mtpa expansion of the Sao Luis alumina refinery in Brazil is underway and expected to be completed in the first half of 2009. AWAC is funding, and will be entitled to, 54% of the expansion project (being an entitlement to approximately 1.1mtpa of the expansion).

3.5 The AWAC Joint Venture and AWAC Agreements

AWAC was formed on 1 January 1995 by Alcoa Inc. and WMC Limited (now Alumina Limited) merging their respective bauxite, alumina and certain aluminium smelting interests into an enterprise owned 60% by Alcoa Inc. and 39.25% (now 40%) by WMC Limited.

AWAC is comprised of a series of 60/40 owned affiliated operating entities. Under the direction of AWAC's Strategic Council, Alcoa Inc. is the industrial leader and provides the operating management of AWAC and all affiliated operating entities within AWAC.

The material AWAC Agreements, establishing and governing the operation of AWAC, are the agreements known respectively as the Formation Agreement, the Charter of the Strategic Council and the Enterprise Funding Agreement. There are other ancillary agreements which relate to the AWAC structure and operations; however the key aspects of the AWAC Agreements which are set out below are contained in the aforesaid three agreements.

(a) Enterprise Scope

The scope of AWAC includes the following:

Bauxite and alumina: the exploration, searching and prospecting for and the mining of bauxite and other aluminous ores as well as the refining and other processing of these ores into alumina and other necessary but ancillary facilities.

Industrial chemicals: the research, development, production, marketing and sale of industrial chemicals, comprised initially of the output of the existing Alcoa Inc. and Alcoa of Australia facilities for industrial alumina-based chemicals and other agreed mineral-based chemicals or as may be agreed from time to time.

Integrated operations: the ownership and operation of certain primary aluminium smelting, aluminium fabricating and other necessary but ancillary facilities that are run as part of an integrated operation at certain of the locations existing on the formation of AWAC.

(b) Formation

The formation of AWAC was completed on 1 January 1995.

(c) Role of the parties

Industrial leader

Under the general direction of the Strategic Council, Alcoa Inc. is the 'industrial leader' and provides the operational management of AWAC and of all affiliated operating entities within AWAC, unless Alcoa Inc. requests Alumina to manage a particular operation.

Strategic Council

The Strategic Council is the principal forum for Alcoa Inc. and Alumina to provide direction and counsel to the AWAC entities in respect of strategic and policy matters. The Alcoa Inc. and Alumina representatives on the boards of the AWAC entities are required, subject to their general fiduciary duties, to carry out the directions and the decisions of the Strategic Council. The Strategic Council has five members, three appointed by Alcoa Inc. (of which one is Chairman) and two by Alumina (of which one is the Deputy Chairman). Decisions are made by majority vote except for matters which require a 'super majority' vote, which is a vote of 80% of the members appointed to the Strategic Council.

The following decisions require a super majority vote:

- a change of the scope of AWAC;
- a change in the dividend policy;
- sale of all or a majority of the assets of AWAC;
- equity calls on behalf of AWAC totalling in any one year in excess of US\$1 billion; and
- loans to Alcoa Inc. or Alumina, or their respective affiliates, by AWAC.

The Strategic Council meets as frequently as the Chairman after consultation with the Deputy Chairman determines, but meetings of the Council must be held at least twice a year. The Deputy Chairman may require additional meetings to be held.

Other management and personnel roles

Alumina is entitled to representation in proportion to its ownership interest on the board of each entity in the AWAC structure, including Alcoa of Australia.

(d) Exclusive Vehicle

AWAC is the exclusive vehicle for the pursuit of Alumina's and Alcoa Inc.'s (and their affiliates as defined) interests in the bauxite, alumina and inorganic industrial (alumina-based) chemicals businesses included within the scope of AWAC, and neither party can compete, within that scope, with AWAC so long as they maintain an ownership interest in AWAC. In addition, Alumina Limited may not compete with the businesses of the integrated operations of AWAC (being the primary aluminium smelting and fabricating facilities and certain ancillary facilities that exist at the formation of AWAC).

If either party acquires a new business which has as a secondary component a bauxite, alumina or inorganic industrial chemicals business included within the scope of AWAC, that business must be offered to AWAC for purchase at its acquisition cost or, if not separately valued, at a value based on an independent appraisal of the business. If the companies within AWAC and the Strategic Council elect not to accept the offer, the business must be divested by Alcoa Inc. or Alumina (as the case may be) to a third party that is not an affiliate.

Smelting is not subject to these exclusivity provisions, although there are certain smelting assets in AWAC, primarily those in Alcoa of Australia in which Alumina already had an interest at the time AWAC was formed.

Any acquirer would become an 'affiliate' of Alumina or Alcoa Inc. (as relevant) for the purposes of the AWAC agreements and therefore the exclusive vehicle provisions of the AWAC agreements would apply in respect of the business and interests of that acquirer. If the acquirer already

operates a bauxite, alumina or industrial (alumina-based) chemicals business, the exclusive vehicle provisions would be contravened. However, the agreements are silent on the action that Alumina or Alcoa Inc. (as relevant) and the acquirer must take to avoid that contravention. The relevant business could be offered to AWAC for purchase, with the value to be agreed. Alternatively, the acquirer might divest itself of the relevant business or undertake some other action consistent with the exclusive vehicle provisions of the AWAC Agreements.

(e) *Capital requirements*

The cash flow of AWAC and borrowings are the preferred sources of funding for the needs of AWAC. Should the aggregate annual capital budget of AWAC require an equity contribution from Alcoa Inc. and Alumina, the following limits apply:

- (i) With respect to amounts up to US\$500 million in annual equity requested to be contributed in total by Alcoa Inc. and Alumina to AWAC (including amounts requested pursuant to paragraphs (e)(ii) and (e)(iii)), each party must contribute its proportionate share based on its current ownership in AWAC. If either party does not contribute its proportionate share, the other party may make up the contribution, in addition to its own contribution, and the non-contributing party's interest in AWAC will be diluted in accordance with an agreed formula.
- (ii) With respect to annual equity requests in excess of US\$500 million but less than US\$1 billion, each party must declare within 30 days of when the equity request is made if it has the ability to fund its share of the request and, if so, each party must contribute its proportionate share. Should Alumina be unable to contribute the full amount of the equity in the year required, the parties will work together to find alternative interim external financing arrangements reasonably acceptable to Alumina for AWAC or for Alumina, or Alumina may choose to have its interest in AWAC diluted in accordance with the formula noted above. If alternative external financing is not acceptable to Alumina, Alcoa Inc. may fund the Alumina proportionate share and this contribution will be deemed to be a loan by Alcoa Inc. to Alumina at the current market rate for Alcoa Inc.'s long-term borrowings. Alumina must repay the amount contributed on its behalf in a period not to exceed one year. If either party does not contribute its share or Alumina does not repay the loan after one year and contribute its share, the dilution provision referred to above applies.
- (iii) With respect to annual equity requests in excess of US\$1 billion approved by a super majority vote, each party must contribute its proportionate share. However, if Alumina is unable to contribute the full amount of the equity in the year required, the parties must work together to find alternative financing arrangements reasonably acceptable to Alumina for AWAC or for Alumina. If Alumina does not contribute the balance of its full proportionate share, Alcoa Inc. may make, and must be compensated for, all or part of the remaining contribution in Alumina's place. However, if this occurs, Alumina's interest in AWAC will only be diluted in accordance with the dilution provision referred to in paragraph (i) above in respect of Alcoa Inc.'s contribution to the capital requirements up to US\$1 billion. If Alcoa Inc. elects to proceed, Alcoa Inc. and Alumina will review the mechanism to

compensate Alcoa Inc. for its excess contribution, which may include a disproportionate allocation of returns associated with the excess contribution.

- (iv) The US\$500 million and US\$1 billion will be increased by the amount of quarterly dividends paid in the relevant financial year with respect to valid calls that are funded by equity contributions (or if funded only in part by equity contributions, to the extent of such equity funding) in accordance with the Enterprise Funding Agreement.

(f) *Dividend policy*

AWAC must distribute by way of dividends, in each financial year, at least 30% of the net income of the prior year of each of the entities comprising AWAC, unless the Strategic Council agrees by a super majority vote to pay a smaller dividend. AWAC must also endeavour to distribute dividends above 30% of the net income of AWAC, consistent with prudent financial management and in the context of the strategic and business objectives of AWAC.

(g) *Leveraging policy*

The affiliated operating entities within AWAC must maintain a limit of debt (net of cash) in the aggregate equalling not more than 30% of total capital, where total capital is defined as the sum of debt (net of cash) plus any minority interest plus shareholder equity.

(h) *Pre-formation liabilities*

Where AWAC sustains an extraordinary liability (described below), Alcoa Inc. and Alumina must, to the extent of their preformation ownership interest, indemnify, reimburse and hold harmless AWAC for such extraordinary liability. Certain matters including litigation, environmental and industrial hygiene matters, and non-compliances with government regulations or permits are identified and responsibility allocated in the AWAC Agreements. An extraordinary liability is:

- a liability to a third party claim at law or in equity;
- a claim by any government or governmental agency;
- an environmental liability; or
- an industrial disease or personal injury,

which relates to an act or omission that occurred totally or partially during a period prior to Formation date.

To be subject to the indemnity a claim or a series of quarterly related claims (other than those specifically identified and referred to in the AWAC Agreements) must exceed an initial threshold amount of US\$250,000. For liabilities that involve both activities or operations before and after the formation of AWAC, the liabilities are allocated by applicable methods as provided in schedules to the AWAC Agreements or, if none of those methods are relevant, by a fair and reasonable allocation of the responsibility for the extraordinary liability (based on an assessment of the respective contributions to the extraordinary liability by pre-formation and post-formation activities among AWAC, Alcoa Inc. and Alumina).

(i) *Alumina pre-payment for Alcoa of Australia liabilities*

By an amending agreement dated 31 December 1995, Alcoa Inc.'s purchase price for Alumina's 9% of Alcoa of Australia was adjusted, with such adjustment being in full satisfaction of Alumina's

indemnity obligations for environmental extraordinary liabilities' (as defined in the AWAC Agreements and described above) that should reasonably have been known, or for known environmental extraordinary liabilities, at plants in Australia, except for the cost of reclaiming spent pot lining stored at Portland. Alcoa Inc. assumed obligations to indemnify Alumina for any such extraordinary liabilities.

(j) Enterprise Funding Agreement Arrangements

Under the Enterprise Funding Agreement dated 18 September 2006, Alcoa of Australia pays dividends in excess of 30% of its net income, to the extent required, to fund capital requirements of the AWAC joint venture (including Alcoa of Australia's own capital funding requirements).

3.6 Operational Structure

Alumina is a holding company with its Shares listed on the Australian Securities Exchange. It is not directly or indirectly owned or controlled by any other corporation or entity. As a holding company, and with its cash flow being sourced from AWAC dividends, it is dependent on the performance of the AWAC operating subsidiaries.

Alumina's controlled entities as at 31 December 2007 are those entities set out in Note 25 to Alumina's Financial Statements contained in this Offering Circular.

3.7 Recent Developments

On 31 January 2008, Alumina announced that it was introducing a new dividend reinvestment plan allowing shareholders to reinvest dividends in additional fully paid Shares. It was further announced that Alumina intended to have fully underwritten the issue of shares equal to the total dividends payable in 2008.

On 27 February 2008, Alcoa Inc. received notice that Aluminium Bahrain B.S.C. (**Alba**) had filed suit against Alcoa Inc. and Alcoa World Alumina LLC (an AWAC operating entity and, collectively, **Alcoa**), and others, in the U.S. District Court for the Western District of Pennsylvania. Following a notification by Alcoa Inc. on 26 February 2008 to the U.S. Department of Justice (the **DOJ**) and the U.S. Securities and Exchange Commission (the **SEC**) that it recently became aware of the claims, it had already begun an internal investigation and intended to cooperate fully in any investigation that the DOJ or SEC may commence, on 17 March 2008 the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has been cooperating with the government. Further details are provided in section 5.6 of this Offering Circular.

The Company has approximately A\$1.4 billion of financing facilities. During 2008, the maturity of US\$450 million of these facilities has been extended from the second half of 2008 to the years 2009 and 2010.

3.8 Credit Ratings

Alumina has been rated on an interactive basis by Standard & Poor's. The ratings that are current at the date of this Offering Circular from Standard & Poor's are:

- an assigned Bond rating of BBB+; and
- a long-term credit rating of BBB+ (with a stable outlook).

The assigned Bond rating is an issue credit rating by Standard & Poor's and was issued on 12 May 2008. An issue credit rating is a current opinion of the creditworthiness of an obligor with respect to specific financial obligations, a specific class of financial obligations or a specific financial program.

Issues rated 'BBB-' or higher by Standard & Poor's are generally considered in capital markets to be investment grade. The Bonds have been assigned a BBB+ rating by Standard & Poor's and are therefore investment grade.

Alumina's long-term credit rating was lowered to 'BBB+' from 'A-' by Standard & Poor's on 11 March 2008. A long-term credit rating is a current opinion of an obligor's overall financial capacity to pay its financial obligations (that is, its creditworthiness).

An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or a minus (-) sign to show relative standing within the major rating categories. The rating outlook assesses the potential direction of an issuer's long-term debtor rating over the intermediate to longer term. Rating outlooks fall into the following four categories: positive, negative, stable and developing.

Credit ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Credit ratings may be changed, withdrawn or suspended at any time.

The credit ratings referred to in this document have been assigned without taking into account any recipients objectives, financial situation or needs. Before acting on any credit rating you should consider the appropriateness of the credit rating having regard to your own objectives, financial situation and needs.

In Australia, credit ratings are assigned by Standard & Poor's (Australia) Pty Limited, which does not hold an Australian financial services licence under the Corporations Act 2001 for the provision of credit ratings.

4. Management

4.1 Board of directors of the Issuer

The board of directors of the Issuer (the **Issuer Board**) consists of Donald Morley, John Marlay and Kenneth Dean, who are also directors and senior officers of the Company (see section 4.3 below).

4.2 Role of the board of directors of the Company

The board of directors of the Company (the **Alumina Board**) is accountable to shareholders for the Company's performance. Its role is to oversee and guide management of the company in protecting and enhancing the interests of shareholders and other stakeholders. The Alumina Board:

- appoints the CEO, and monitors performance of the CEO and senior executives;
- monitors and optimises business performance, including against approved plans and policies;
- formulates and establishes the strategic direction of the Company and monitors its execution;
- protects the interests of shareholders; and
- approves external financial reporting by the Company.

4.3 Alumina Board composition

The Company recognises the importance of having a board of directors of the appropriate composition, size and commitment to ensure it can adequately discharge its responsibilities and duties.

As at the date of this Offering Circular, details of members of the Alumina Board (and their principal activities outside of the Company) and the senior officers of the Company are as described below.

The business address of the directors and senior officers of the Company is Level 12, 60 City Road, Southbank, Victoria, 3006 Australia.

Name	Position	Principal Outside Activities
Donald Morley	Chairman	Director, SPARK Infrastructure Re Ltd Director, Iluka Resources Ltd
John Marlay	Executive Director Chief Executive Officer	Director, Incitec Pivot Ltd
Peter Hay	Non Executive Director	Director, Pacifica Group Ltd Chairman (Investment Banking), Lazard Carnegie Wylie & Co Pty Ltd
Ronald McNeilly	Non Executive Director	Deputy Chairman, Bluescope Steel Ltd Chairman, Worley Parsons Ltd

Name	Position	Principal Outside Activities
		Chairman, Melbourne Business School Limited
George John Pizzey	Non Executive Director	Director, Iluka Resources Ltd Director, Amcor Ltd Director, St Vincent's Institute of Medical Research Director, Air Liquide Australia Ltd Director, Ivanhoe Grammar School
Kenneth Dean	Chief Financial Officer	Director, Santos Limited Director, Santos Finance Limited
Stephen Foster	Company Secretary and General Counsel	Not applicable

In June 2008, Mr John Marlay will retire from the Alumina Board.

Mr John Bevan will commence as CEO of the Company from 16 June 2008.

The Company has appropriate processes to deal with any potential conflicts of interest that may arise in the future. The Company's Constitution expressly prohibits a director voting on a matter in which they have a direct or indirect material personal interest as defined in section 195 of the Corporations Act.

4.4 Audit committee

The Audit Committee is a sub-committee of the Alumina Board, and operates under its own charter and consists solely of the Alumina Board's non-executive directors. The Audit Committee's role is to assist the Alumina Board to fulfil its responsibilities for the Company's accounts and external reporting. This is achieved by ensuring that appropriate processes are in place to support the Alumina Board in fulfilling its responsibilities including in relation to:

- reporting of financial information to users of financial reports;
- application of accounting policies;
- financial management;
- internal financial control systems, including internal audit; and
- independent auditor qualifications, independence and performance.

Other responsibilities of the Audit Committee include managing the relationship with the external auditors, including appointment and compensation, as well as agreeing the scope and monitoring the performance and effectiveness of the annual internal and external audit plans. It also reviews, at least annually, the assessment of business risks for the Company, the strategies in place for managing key risks, and to determine whether there is appropriate coverage in the internal audit plans. The Committee also reviews other issues as requested by the Alumina Board or the Chief Executive Officer.

5. Risk Factors

The Issuer and the Company believe that the following factors may affect their ability to fulfil their obligations under the Bonds and the Guarantee. Most of these factors are contingencies which may or may not occur and the Issuer and the Company are not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which, although not exhaustive, are material for the purpose of assessing the market risks associated with the Bonds are described below.

The Issuer and the Company believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer (failing which, the Company, as Guarantor) to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons and the Issuer and the Company as Guarantor do not represent that the statements below regarding the risks of holding Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Specific factors that may affect the Issuer's and the Company's ability to fulfil their obligations under the Bonds and the Guarantee

5.1 The Company's net income is affected by movements in the prices of aluminium and alumina

The revenue of AWAC (being the primary asset of the Company), is derived from sales of alumina, alumina based chemicals and aluminium. The price that can be obtained for these commodities is influenced by the price of aluminium in the world market, and in particular, the London Metal Exchange price of primary aluminium. World aluminium prices are affected by numerous factors outside the Company's control, including the overall performance of world economies and the related cyclicity in particular industries that are significant consumers of aluminium.

The development of new alumina refineries and aluminium smelters, and increased production by new or existing alumina and aluminium producers may create overcapacity, which could reduce future prices of alumina, alumina-based chemicals and aluminium, thereby adversely affecting AWAC's, and hence the Company's, profitability.

AWAC's, and hence the Company's, financial performance and ability to service liabilities, pay dividends, undertake capital expenditure and finance further acquisitions would be adversely affected by a sustained material fall in the prices of alumina and aluminium.

AWAC earnings are also influenced by the accounting for embedded derivatives in Alcoa of Australia Limited's contracts for the supply of natural gas and electricity. If the aluminium price as quoted on the London Metal Exchange at a period end, and the estimate of long term aluminium prices in any relevant period beyond the period covered by London Metal Exchange prices, is higher than at the commencement of that period, a charge against income would result.

Conversely, a fall in those aluminium prices would result in a credit to income for the period. Those effects on AWAC income would have a corresponding proportional negative or positive impact on the Company's income for the period.

The Company does not separately hedge its exposure to aluminium prices. Alumina expects that volatility in prices and demand for AWAC's products will continue for the foreseeable future.

5.2 Fluctuations in the A\$/US\$ exchange rate can have a significant effect on earnings and profitability

Alcoa of Australia contributes the majority of AWAC's earnings, over 90% in 2006 and 2007. While a significant proportion of Alcoa of Australia's costs are incurred in A\$, sales are denominated in US\$. AWAC's future profitability, as expressed in A\$, and hence that of the Company may be adversely affected by a strengthening of the A\$ against the US\$. AWAC's profitability may also be adversely affected by a strengthening against the US\$ of other currencies in which operating or capital costs are incurred by AWAC's refineries outside Australia.

Throughout the financial year ending 31 December 2007, and as of the date of this Offering Circular, AWAC had no foreign exchange hedging contracts.

In addition, certain of the Company's liabilities and assets are denominated in US\$, particularly much of its borrowings and certain equity accounted assets. The accounts of certain foreign subsidiaries are also maintained in US\$. Thus a change in the A\$/US\$ exchange rate would have an effect on the net asset value of the Company.

5.3 An increase in AWAC's production costs could reduce the Company's profitability

Changes in AWAC's costs have a major impact on the Company's profitability. AWAC's mining, refining and smelting operations are subject to conditions beyond its or the Company's control that can delay deliveries or increase costs for varying lengths of time. These conditions include weather and natural disasters, unexpected maintenance or technical problems, key equipment failures, disruptions to or other problems with infrastructure, variations in geological conditions and increases in the cost of key inputs or the non-availability of key inputs. In addition, industrial disruptions, work stoppages, refurbishments and accidents at operations can result in production losses and delays in the delivery of product, which may adversely affect profitability. A key risk in the cost of production of alumina and aluminium is the cost of energy. Increases in world oil, coal and gas prices will increase the cost of production of alumina. Further key risks associated in the cost of production of alumina are the costs of bauxite, freight and the price of caustic soda. In 2007, AWAC's average cost of alumina production increased by approximately US\$32/tonne year-on-year. The alumina industry is continuing to experience significant increases in energy prices, shipping freight rates and caustic soda prices during 2008, as well as a continued weak U.S. dollar.

AWAC's alumina sales are made under medium to long term contracts largely linked to aluminium prices. AWAC's alumina sales contracts generally do not permit input cost increases to be passed through to customers during the life of the contract.

Certain costs are also affected by government imposts and regulations in the countries in which AWAC operates. AWAC's costs depend upon the efficient design and construction of mining, refining and smelting facilities and competent operation of those facilities.

The electricity supply contracts to AWAC's two smelters expire in 2014 and 2016. The cost of electricity is a substantial individual cost in the production of aluminium. The level of electricity tariffs available after the expiry of these contracts is material to the level of smelter production costs and profitability.

5.4 Changes to sales agreements could adversely affect the Company's results

AWAC's revenue from existing sales agreements depends on a variety of factors, such as price adjustments and other contract provisions. The modification or termination of a substantial portion of AWAC's sales volume could adversely affect its results and financial performance, to the extent that AWAC is unable to renew contracts or find alternate buyers for production at the same level of profitability.

5.5 Availability of bauxite

AWAC's production of alumina is dependent upon continuing availability of bauxite supply. AWAC obtains bauxite from bauxite resources to which it has access under mining leases and under short term and long term contracts. AWAC's present sources of bauxite are sufficient to meet the forecasted requirements of its alumina refining operations for the foreseeable future.

With respect to the Paranam refinery in Suriname (55% AWAC interest), it is likely that all currently operated eastern Suriname bauxite reserves will be exhausted during 2010. Alternative sources of bauxite are being evaluated in eastern and western Suriname.

5.6 AWAC is exposed to regulatory and court action, each of which could adversely affect the Company's results

Governments extensively regulate AWAC's mining and processing operations. National, state and local authorities in Australia and other countries in which AWAC operates regulate the mining industry with respect to matters such as employee health and safety, permitting and licensing requirements and environmental compliance, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, and the effects that mining has on groundwater quality and availability. Numerous governmental permits and approvals and leases are required for AWAC's mining and processing operations. AWAC is required to prepare and present to national, state or local authorities data pertaining to the effect or impact that any proposed exploration or production activities may have upon the environment. The costs, liabilities and requirements associated with these regulations may be costly and time-consuming and may delay commencement or continuation of exploration, expansion or production operations. Failure to comply with the laws regulating AWAC's businesses may result in sanctions such as fines or orders requiring positive action by AWAC which may involve capital expenditure or the removal of licences and/or the curtailment of operations. This relates particularly to environmental regulations.

AWAC has obligations under various laws, licences and permits for the rehabilitation (including remediation and/or restoration) of land used in bauxite mining, alumina refining, aluminium smelting and related activities. AWAC recognises these obligations and provides for Asset Retirement Obligations under U.S. GAAP. The Company recognises and provides for additional amounts for certain AWAC Asset Retirement Obligations as required by A-IFRS.

The possibility exists that new legislation or regulations may be adopted which may materially adversely affect AWAC's mining and processing operations or AWAC's cost structure. New legislation or regulations or more stringent interpretations or enforcement of existing laws and regulations may also require AWAC's customers to change operations or incur increased costs. These factors and legislation, if enacted, could have a material adverse effect on AWAC's, and hence the Company's, financial condition and results of operations.

In Australia, the Federal Government has announced its intention to establish a national emissions trading scheme to reduce greenhouse gas emissions. The Government has acknowledged that the design of any scheme must address the competitive challenges facing emission-intensive trade exposed industries in Australia. At present, it is not possible to assess the impact that a future national emissions trading scheme may have on AWAC and the Company, however, it may materially increase AWAC's capital expenditure and/or production costs. Electricity supplied to or purchased for the Portland smelter (AWAC 55% interest) and AWAC's Point Henry smelter is generated from brown coal deposits.

On 27 February 2008, Alcoa Inc. received notice that Alba had filed suit against Alcoa Inc. and Alcoa World Alumina LLC (an AWAC operating entity and, collectively, **Alcoa**), and others, in the U.S. District Court for the Western District of Pennsylvania (the **Court**), Civil Action number 08-299, styled Aluminium Bahrain B.S.C. v. Alcoa Inc., Alcoa World Alumina LLC, William Rice, and Victor Dahdaleh. The complaint alleges that certain Alcoa entities and their agents, including Victor Phillip Dahdaleh, have engaged in a conspiracy over a period of 15 years to defraud Alba. The complaint further alleges that Alcoa and its employees or agents (1) illegally bribed officials of the government of Bahrain and (or) officers of Alba in order to force Alba to purchase alumina at excessively high prices, (2) illegally bribed officials of the government of Bahrain and (or) officers of Alba and issued threats in order to pressure Alba to enter into an agreement by which Alcoa would purchase an equity interest in Alba, and (3) assigned portions of existing supply contracts between Alcoa and Alba for the sole purpose of facilitating alleged bribes and unlawful commissions. The complaint alleges that Alcoa and the other defendants violated the Racketeer Influenced and Corrupt Organizations Act (**RICO**) and committed fraud. Alba's complaint seeks compensatory, consequential, exemplary, and punitive damages, rescission of the 2005 alumina supply contract, and attorneys' fees and costs. Alba seeks treble damages with respect to its RICO claims.

Following a notification by Alcoa Inc. on 26 February 2008 to the U.S. Department of Justice (the **DOJ**) and the U.S. Securities and Exchange Commission (the **SEC**) that it recently became aware of the claims, it had already begun an internal investigation and intended to cooperate fully in any investigation that the DOJ or SEC may commence, on 17 March 2008 the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has been cooperating with the government. In response to a motion filed by the DOJ on 27 March 2008, the Court ordered the suit filed by Alba to be administratively closed and that all discovery be stayed to allow the DOJ to fully conduct an investigation without the interference and distraction of ongoing civil litigation. The Court further ordered that the case will be reopened at the close of the DOJ's investigation. The litigation and the DOJ investigation are in their preliminary stages and Alcoa Inc. is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

The Company understands that Alcoa Inc. is reviewing these allegations and intends to vigorously defend the claim. No member of the Group, nor any of its employees, are defendants in the litigation.

5.7 Political risks exist in some of the countries in which AWAC operates

AWAC operates in a number of countries, some of which have a higher political risk than Australia. Political activities in these countries may be destabilising and disruptive to AWAC's operations. The impact of any such disruption could range from a minor increase in operating costs or taxes to a material adverse impact, such as the closure of an operation.

5.8 Uncertainty of development projects and production performance could adversely affect AWAC's ability to sustain production and profitability levels

AWAC's ability to sustain or increase its current level of production, and therefore its (and hence the Company's) potential revenues and profits, in the medium to long-term is partly dependent on efficient operation of its facilities, the development of new projects and on the expansion of existing operations. No assurance can be given that the planned development and expansion projects will result in the anticipated construction cost being achieved, the entire anticipated additional production or that operation of existing facilities will be at desired rates of production. The economics of any project are based upon, among other factors, estimates of reserves, recovery rates, production rates, capital and operating costs and future commodity prices and exchange rates.

Capital costs for development of alumina refinery and other mineral resource projects have increased substantially in recent years, due to higher steel and other raw material prices and a significant increase in labour and contractor costs. In particular, shortages of skilled labour due to an increase in the number of mineral resource project developments, including in Australia and Brazil, has resulted in cost increases for the development of projects in those locations. Also, the U.S. dollar has fallen in value against currencies such as the Australian dollar, the Euro and Brazilian Real. Where development projects, such as AWAC's Sao Luis and Juruti projects, incur labour and material costs in the currency of the project country, a weaker U.S. dollar results in a higher project cost in U.S. dollar terms.

The estimated capital costs of AWAC's current investment projects in Brazil have increased during the construction phase, due to the appreciation of the Brazilian currency and also due to increased construction costs. The contracting market for major projects in Brazil is experiencing substantial cost increases for project engineering, construction equipment and labour. AWAC's share of the Alumar refinery expansion and development of the new Juruti mine, including the cost of infrastructure to support future capacity expansion, was estimated in January 2008 to be approximately US\$2.5 billion. Since January 2008 the two projects have been impacted by changes in the USD/Brazilian Real exchange rate, the impact of an unseasonally wet season on construction progress, and an extended construction schedule. The estimate of the capital costs for the two projects is currently undergoing a re-estimation process.

5.9 Native title in Australia could pose risks to the status of some of AWAC's properties

'Native title' describes the rights and interests of Aboriginal and Torres Strait Islander people in land and waters according to their traditional laws and customs that are recognised under Australian law. There are current claimant applications for native title determinations in the Federal Court of Australia over areas that include Alcoa of Australia's operations. Court decisions and various pieces of legislation make it evident that there are complex legal and factual issues affecting existing and future Alcoa of Australia interests. At this stage, the Issuer cannot make any assessment of the impact of the recent and pending court cases on AWAC's operations or the current claimant applications for native title over AWAC's operations.

5.10 The Company does not hold a majority interest in AWAC, and decisions made by majority vote may not be in the best interests of the Company

AWAC's strategic direction is determined by a five member Strategic Council, consisting of three Alcoa representatives and two Company representatives. An 80% majority is required to approve changes that effect:

- a change of the scope of AWAC;
- a change in the minimum 30% dividend policy;
- a sale of all, or a majority of, the assets of AWAC;
- equity calls on behalf of AWAC totalling, in any one year, in excess of US\$1 billion; and
- loans to Alcoa, Alumina or their affiliates by AWAC entities (including loans between AWAC entities).

AWAC's decisions are otherwise by majority vote. Alcoa has a 60% interest in AWAC and has a majority vote. Subject to the application of fiduciary duties, it may occur that AWAC decisions by majority vote are not in the best interests of the Company.

5.11 Company cash flows depend on the availability of dividends from AWAC

The Company's cash flows will be generated, primarily from distributions made by AWAC, by way of dividend or capital return. AWAC shareholders determine the timing and magnitude of AWAC dividends and capital returns, subject to the relevant provisions of the AWAC Agreements. The Company cannot unilaterally determine AWAC's dividend policy or the quantum or timing of dividends to be paid by AWAC. AWAC must distribute by way of dividends, in each financial year, at least 30% of the net income of the prior year of the entities comprising AWAC, unless the Strategic Council agree by an 80% majority vote to pay a smaller dividend.

During 2006, the AWAC joint venture partners entered into a new funding agreement with a five year term, under which capital expenditure during such term is to be funded by the joint venture partners contributing directly to cash calls issued by the relevant AWAC entity. When such cash calls are issued, additional dividends equal to the amount of the cash call will, subject generally to availability of cash and earnings, be paid by AWAC entities to the joint venture partners. The funding agreement is expected to substantially reduce the risk, during the term of the agreement, of only the minimum 30% dividend being paid during times of AWAC growth capital expenditure.

5.12 The Company is liable for further capital calls by Alcoa under the AWAC arrangements

AWAC may make an annual capital request of the partners of up to US\$1 billion following approval by a majority vote of AWAC's Strategic Council. Alcoa has a majority of the votes on the AWAC Strategic Council. The Company is required to fund its share of the request subject to the provisions of the agreement. If the Company is unable or unwilling to obtain equity or debt funding or has insufficient retained earnings (i.e. cash) to make this capital contribution, it may ultimately run the risk of its equity interest in AWAC being diluted. Accordingly, there is a risk that the Company will be unable to fund an AWAC capital request made unilaterally by Alcoa, in the future, and that its interest in AWAC could be diluted.

5.13 Constraints on availability of highly trained employees could have an adverse impact on AWAC's operations

AWAC manages its business with a number of key personnel, the loss of whom could have a material adverse effect on its business. AWAC's, and hence the Company's, future success will depend on AWAC's continued ability to attract and retain highly skilled and qualified personnel. There can be no assurance that key personnel will continue to be employed by AWAC or that AWAC will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on AWAC's, and hence Alumina's, business. These same issues exist with respect to the Company's key personnel, the loss of whom could have a material adverse effect on the Company's business and its ability to manage its joint venture interests in AWAC.

General risk factors which are material for the purpose of assessing the market risks associated with the Bonds

5.14 The secondary market generally

The Bonds are a new issue of securities for which there is currently no established trading market when issued, and one may never develop. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. However, there can be no assurance that the Issuer will be able to maintain such a listing or that, if listed, a trading market will develop for the Bonds on the SGX-ST. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of Bonds.

If an active trading market were to develop, the Bonds could trade at a price that may be lower than the initial offering price of the Bonds. Whether or not the Bonds will trade at lower prices depends on many factors, including:

- prevailing interest rates and the market for similar securities;
- general economic and political conditions; and
- the Issuer's financial condition, financial performance and future prospects.

5.15 Ability to redeem or repay the Bonds when due

In the event the Shares cease to be listed on ASX, holders of the Bonds may require the Issuer to redeem all of such Bondholder's Bonds. The Issuer may also be required to redeem all the Bonds upon the occurrence of a Change of Control. Following acceleration of the Bonds upon an Event of Default, the Issuer would be required to pay all amounts then due in accordance with the Conditions. Unless previously redeemed, converted or purchased and cancelled, the Issuer will be required to redeem the Bonds on 16 May 2013. The Issuer may not be able to redeem all or any of such Bonds or pay all or any amounts due under the Bonds if the Issuer does not have sufficient cash flows to do so.

The Issuer is a wholly owned subsidiary of Alumina. The Issuer may be used for some or all of the Company's future financings. If the Issuer is unable to redeem or repay any of the amounts due

with respect to the Bonds, Bondholders will be required to seek payment under the guarantee provided by Alumina.

5.16 Exercise of Conversion Right

The Company will apply for official quotation on ASX of the Shares to be issued upon conversion of the Bonds. Quotation will not be automatic, but will depend upon ASX exercising its discretion. The Company has already been admitted to the official list of the ASX and Shares of the same class as the Shares to be issued upon conversion of the Bonds are already quoted. However, the Company cannot guarantee, and does not represent or imply, that the Shares to be issued upon conversion of the Bonds will be quoted upon issue by the Company.

5.17 Trading price of Shares

To the extent there is a secondary market for the Bonds, the trading price of the Shares will directly affect the trading price of the Bonds. It is impossible to predict whether the price of the Shares will rise or fall.

There are various risks associated with investing in any form of business and with investing in the stock market generally. The value or trading price of Shares and the value of Shares issued upon conversion of the Bonds will depend upon the general stock market and economic conditions as well as other factors including, but not limited to, the Company's credit quality, operating results, economic and financial prospects and other factors. In addition, the price of the Shares is also subject to varied and often unpredictable influences on the market for equities, including, but not limited to:

- general economic conditions, including the performance of the Australian dollar and the U.S. dollar on world markets;
- inflation rates, foreign exchange rates and interest rates;
- changes to government policy, legislation or regulation;
- industrial disputes; and
- general operational and business risks.

There is no guarantee of profitability, dividends, return of capital, or the price at which the Shares will trade on the ASX after conversion of the Bonds. The past performance of the Shares is not necessarily an indication as to future performance as the trading price of shares can fluctuate.

In addition, the trading price of the Shares could be affected by possible sales of the Shares by investors who view the Bonds as a more attractive means of equity participation in the Issuer and by hedging or arbitrage trading activity that may develop involving the Shares. The hedging or arbitrage could, in turn, affect the trading price of the Bonds.

5.18 Economic and market conditions

The Issuer may be adversely impacted by many factors including changes in general economic conditions such as interest rates, inflation, retail spending levels, consumer confidence levels and general market levels. A number of factors affect the performance of the stock markets, which could affect the price at which the Shares trade on the ASX. Among other things, movements on international and domestic stock markets, in interest rates, inflation and inflationary expectations

and overall economic conditions, as well as government taxation and other policy changes may affect the demand for, and price of, the Shares. Volatility in the Australian or international financial markets may influence the trading price of the Shares on the ASX.

5.19 Regulatory environment

Changes in government legislation in Australia, including changes to the taxation laws, accounting standards and environmental laws may affect future earnings and the relative attractiveness of investing in the Issuer.

5.20 Bondholders have limited anti-dilution protection

The Conversion Price will be adjusted in the event that there is a Share subdivision or consolidation or reclassification, rights offering and equity issuances at less than 95% of the then Current Market Price, bonus issue, stock dividends, Extraordinary Dividends and other analogous dilutive events, but only in the circumstances and only to the extent provided in “Terms and Conditions of the Bonds – Conversion”. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Such events may adversely affect the value of the Shares and, therefore, where no adjustment is required to be made, adversely affect the value of the Bonds.

5.21 Bondholders will have no rights as holders of the Shares prior to conversion of the Bonds

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, they will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Upon conversion of the Bonds, these holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of conversion.

5.22 Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US\$ or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to U.S. dollars would decrease (1) the Investor’s Currency-equivalent yield on the Bonds, (2) the Investor’s Currency-equivalent value of the principal payable on the Bonds and (3) the Investor’s Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

5.23 Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

5.24 Credit ratings may not reflect all risks

Standard & Poor's has assigned a credit rating to the Bonds. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. In addition, real or anticipated changes in the credit rating of the Issuer or the Bonds will generally affect any trading market for, or the trading value of, the Bonds.

A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

5.25 Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk based capital or similar rules.

6. Use of Proceeds

The Bonds are being issued by the Issuer, who will on-lend proceeds obtained from the issue of the Bonds to the Company. The net proceeds of the issue of the Bonds, amounting to approximately US\$[*] million after deducting fees payable to the Lead Manager and other expenses relating to the Offering, will be applied by the Company for its general corporate purposes, including repayment of bank debt and funding of capital expenditure.

7. Capitalisation and Indebtedness

7.1 Issuer

The following table sets forth the capitalisation and indebtedness of the Issuer as at 5 May 2008 and as adjusted to give effect to the issue of the Bonds (assumed to be US\$300 million):

	As of 5 May 2008	
	Actual (A\$)	As Adjusted (A\$)
	(in millions)	
Total borrowings-current portion		
Short-term bank borrowings	-	-
Short-term other borrowings	-	-
Total borrowings-non-current portion		
Long-term bank borrowings	-	-
Long-term other borrowings.....	-	-
The Bonds to be issued	-	287.2 ²
Equity		
Parent entity interests.....	- ¹	31.9 ²
Reserve	-	-
Retained Profits	-	-
Total Capitalisation	- ¹	319.1

Note:

1. The Issuer was capitalised with \$2.00.
2. Adjustments to give effect to the issue of the Bonds have been based on A\$/US\$ exchange rate of US\$0.94.

Other than as disclosed above, there has been no material change in the capitalisation and indebtedness of the Issuer since 5 May 2008.

7.2 Consolidated

The following table sets forth the audited consolidated capitalisation and indebtedness of the Group as at 31 December 2007 and as adjusted to give effect to the issue of the Bonds (assumed to be US\$300 million):

	As of 31 December 2007	
	Actual (A\$)	As Adjusted (A\$)
	(in millions)	
Total borrowings-current portion		
Short-term bank borrowings	440.6	440.6
Short-term other borrowings	-	-
Total borrowings-non-current portion		
Long-term bank borrowings	565.8	565.8
Long-term other borrowings.....	-	-
The Bonds to be issued	-	287.2 ¹
Equity		
Equity interests	411.2	443.1 ¹
Reserve	14.0	14.0
Retained Profits	1,238.7	1,238.7
Total Capitalisation	2,670.3	2,989.4

Note:

1. Adjustments to give effect to the issue of the Bonds have been based on A\$/US\$ exchange rate of US\$0.94.

Other than as disclosed above, there has been no material change in the capitalisation and indebtedness of the Group since 31 December 2007, other than the refinancing of the majority of short-term bank borrowings, which would now be classified as long-term bank borrowings, and entries arising from operation of the Dividend Reinvestment Plan to reclassify the dividend amount from Retained Profits to Equity Interests.

8. Terms and Conditions of the Bonds

Conditions

The following, other than words in italics, is the text of the Terms and Conditions of the Bonds and will appear on the reverse of each of the Definitive Certificates evidencing the Bonds.

The issue of US\$[*]00,000,000 in aggregate principal amount of [*]% guaranteed convertible bonds due 2013 (the **Bonds**) of Alumina Finance Limited (the **Issuer**) was authorised by a resolution of the Board of Directors of the Issuer passed on 12 May 2008. The Bonds have the benefit of the Guarantee given by Alumina Limited (the **Guarantor**) in the Bonds Trust Deed. The Guarantee and the right of conversion into Shares of the Guarantor were authorised by a resolution of the Board of Directors of the Guarantor passed on 12 May 2008.

The Bonds will be issued on 16 May 2008 (the **Issue Date**) and are constituted by a trust deed (the **Bonds Trust Deed**) dated 16 May 2008 between the Issuer, the Guarantor and The Bank of New York, London Branch (the **Trustee**, which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Bonds Trust Deed), as trustee for the holders of the Bonds (the **Bondholders**). The Issuer and the Guarantor have also entered into an agency agreement (the **Agency Agreement**) dated 16 May 2008 with the Trustee, The Bank of New York, London Branch as paying agent (the **Paying Agent**), The Bank of New York, London Branch as conversion agent (the **Conversion Agent**) and The Bank of New York, Singapore Branch as registrar (the **Registrar**) (the Paying Agent, the Conversion Agent and the Registrar are referred to collectively as the **Agents** and individually as an **Agent**) in relation to the Bonds.

The statements in these terms and conditions (these **Conditions**) include summaries of, and are subject to, the detailed provisions of the Bonds Trust Deed. Copies of the Bonds Trust Deed, the Agency Agreement and the other Bond Documents are available for inspection by Bondholders at the registered office of the Trustee (being as of the date of this Offering Circular) at One Canada Square, London, E14 5AL, United Kingdom and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of and are bound by the Bonds Trust Deed and are deemed to have notice of, all the provisions of the Bonds Trust Deed, the Agency Agreement and the other Bond Documents applicable to them.

Definitions

Terms not otherwise defined in these Conditions have the meaning given in Schedule 1 to the Bonds Trust Deed. In addition, the following definitions apply unless the context determines otherwise.

ASX means ASX Limited (ABN 98 008 624 691).

AUD or **A\$** means the lawful currency for the time being of the Commonwealth of Australia.

Auditors means the auditors for the time being of the Guarantor or, if they are unable or unwilling to carry out any action requested of them under these Conditions, such other firm of internationally recognised chartered accountants (or an affiliate thereof) as may be selected by the Guarantor and approved in writing by the Trustee or, failing such appointment by the Guarantor, as may be selected by the Trustee for the purpose (at the cost and expense of the Issuer provided that nothing shall oblige the Trustee to do so unless the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction).

Authorisation includes any consent, authorisation, registration, filing, lodgement, agreement, notarisation, certificate, permission, licence, approval, authority or exemption from, by or with a Government Agency.

Authorised Officer means, in respect of the Issuer or the Guarantor, any director or secretary or any person from time to time nominated as an Authorised Officer by the Issuer or the Guarantor by a notice to the Trustee accompanied by certified copies of signatures of all new persons so appointed together with their contact details (including telephone number, facsimile number and email address).

AWAC means Alcoa World Alumina and Chemicals, the worldwide enterprise formed by Alcoa Inc. and the Guarantor and certain of their respective affiliates and subsidiaries by combining their interests in bauxite mining, alumina refining and Alcoa's inorganic industrial chemicals operations as well as certain integrated aluminium fabrication and smelting operations, as governed by the principles and policies in the Charter.

AWAC Agreements means the Formation Agreement, the LLC Agreement and the shareholders agreement made on 10 May 1996 between Alcoa International Holdings Company and the Guarantor in relation to Alcoa of Australia Limited and the Charter.

Bond Documents means:

- (a) the Bonds Trust Deed;
- (b) each Certificate;
- (c) the Agency Agreement;
- (d) any other document or agreement which the Trustee and the Issuer agree is a Bond Document; and

a document or agreement entered into or provided under or in connection with, or for the purpose of amending or novating, any of the above,

and **Bond Document** means any of them.

Business Day means a day, other than on a Saturday or Sunday, on which banks are open for general banking business in Melbourne, Singapore and London, the city where the specified office of the relevant Agent is located and, in the case of surrender of Certificates, the place where such Certificates are surrendered.

Certificate means a Definitive Certificate, a Global Certificate and includes any replacement Certificates issued pursuant to the Conditions.

Charter means the Charter of the Strategic Council executed on 21 December 1994 by Alcoa Inc. and the Guarantor.

Clearstream means Clearstream Banking, société anonyme, incorporated under the laws of the Grand Duchy of Luxembourg or any successor securities clearing agency.

Conversion Period means, in respect of any Bond, the period commencing on the date that is 40 days from the Issue Date up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the 10th Business Day prior to the Maturity Date (both days inclusive) or, if such Bond shall have been called for redemption by the Issuer prior to the Maturity Date, then up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date which is ten Business Days (in the place where the Certificate evidencing such Bond is deposited for conversion) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by the holder of such Bond pursuant to paragraph 7.4, 7.5 or 7.6 then up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the day prior to the giving of such notice.

Conversion Price means the Initial Conversion Price, as may be adjusted from time to time in accordance with these Conditions.

Corporations Act means the Corporations Act 2001 (Cth).

Default Rate means LIBOR plus 2% per annum.

Definitive Certificate means a definitive certificate in respect of Bonds, in substantially the form of Part 1 of Schedule 2 of the Bonds Trust Deed.

Disclosure Document means a disclosure document dated on or before the Issue Date which is a prospectus for the purposes of Chapter 6D of the Corporations Act and a product disclosure statement for the purposes of Part 7.9 of Chapter 7 of the Corporations Act in connection with the offer of the Bonds.

Dividend has the meaning given in paragraph 6.11(c).

Equivalent Amount has the meaning given in paragraph 6.9(e).

Enterprise Companies has the meaning given in Schedule 1.01 to the Formation Agreement and section 1(a) of the Charter, but does not include those companies referred to in sections 1(a)(iii) and 1(a)(iv) of the Charter.

Euroclear means Euroclear Banking S.A./N.V. or any successor securities clearing agency.

Excluded Subsidiaries means each of:

- (a) Westminer (Investments) B.V.,
- (b) Westminer Acquisition (UK) Limited; and
- (c) Westminer International (UK) Limited.

Fair Market Value means, with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Financial Institution; provided that:

- (a) the Fair Market Value of a cash Dividend paid or to be paid per Share shall be the amount of such cash Dividend per Share determined as at the date of announcement of such Dividend; and

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- (b) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such Independent Financial Institution) the Fair Market Value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five Trading Days on the relevant market immediately prior to the date on which the Fair Market Value is to be determined and, if no such period is available, the period of five Trading Days on the relevant market commencing on the first such Trading Day such options, warrants or other rights are publicly traded.

Financial Indebtedness means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit, bill acceptance or bill endorsement facility (including any dematerialised equivalent of any of them);
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) the amount of any liability in respect of any lease or hire purchase contract;
- (f) any agreement treated as a finance or capital lease in accordance with the generally accepted accounting principles in the jurisdiction of that agreement;
- (g) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (h) the acquisition cost of any asset or service to the extent payable after its acquisition or possession by the party liable where the advance or deferred payment:
 - (i) is arranged primarily as a method of raising finance or financing the acquisition of that asset or the construction of that asset; or
 - (ii) involves a period of more than six months before or after the date of acquisition or supply;
- (i) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; or
- (l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in the above paragraphs.

Formation Agreement means the agreement so styled made as of 21 December 1994 between Alcoa Inc., Alcoa International Holdings Corporations, ASC Alumina, Inc., the Guarantor (previously known as Western Mining Corporation Holdings Limited), Alumina International Holdings Pty Ltd and Alumina Holdings (USA) Inc.

Global Certificate means a global certificate in respect of Bonds, in substantially the form of Part 2 of Schedule 2 of the Bonds Trust Deed.

Government Agency means any applicable government or any governmental, semi-governmental or judicial entity or authority. It also includes any applicable self-regulatory organisation established under statute or any stock exchange, including the ASX and SGX-ST.

Group means the Guarantor and its Subsidiaries.

Guarantee means the guarantee of the Guarantor constituted by clause 10 of the Bond Trust Deed.

Independent Financial Institution means an independent investment bank of international repute acting as an expert appointed by and at the expense of the Issuer for the purposes, and at the times, set out in the Bond Documents.

Initial Conversion Price means A\$[*].

LIBOR means, in relation to the Bonds:

- (a) the British Bankers' Association Interest Settlement Rate for the relevant currency and period, displayed on the appropriate page of the Reuters screen (the **Screen Rate**); or
- (b) if no Screen Rate is available for U.S. dollars, the rate determined by the Paying Agent as the arithmetic average quoted to the Paying Agent on request by at least three leading banks in the London interbank market,

as of 11:00 a.m. on a day on which Default Interest is to accrue for the offering of deposits in U.S. dollars and for a period of six months.

LLC Agreement means the Amended and Restated Limited Liability Company Agreement of Alcoa World Alumina LLC dated as of 31 December 1994 between Alcoa Inc., ASC Alumina, Inc., Alumina International Holdings Pty Ltd and Alumina Holdings (USA) Inc.

Material Adverse Effect means a material adverse effect on:

- (a) the business, operations, affairs, financial condition, assets or properties of the Guarantor and its Subsidiaries taken as a whole; or
- (b) the ability of the Issuer or Guarantor to perform its respective obligations under the Bonds or to perform its respective material obligations under the Bond Documents; or
- (c) the validity or enforceability of the Bond Documents or the Bonds.

Maturity Date means 16 May 2013.

Meeting Procedures means the procedures and other provisions contained in Schedule 4 of the Bonds Trust Deed.

Ordinary Resolution means a resolution which is passed, at a meeting of Bondholders convened and conducted in accordance with the Meeting Procedures, by more than 50%, of the total number of votes cast at that meeting by all persons present and entitled to vote.

outstanding means, in relation to the Bonds, all the Bonds issued except:

- (a) those which have been redeemed in accordance with the Conditions;

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- (b) those in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys and all accrued interest (if any) have been duly paid to the relevant Bondholder or on its behalf or to the order of the Trustee as provided in clause 4 of the Bonds Trust Deed or have been duly paid to the Paying Agent as provided in the Agency Agreement and remain available for payment following surrender of Certificates in respect of Bonds;
 - (c) those which have become void or those in respect of which claims have become prescribed under paragraph 12 of these Conditions;
 - (d) those which have been purchased and cancelled as provided in paragraph 7.7(c) of these Conditions;
 - (e) those in respect of which the Conversion Right has been duly exercised and discharged (and, for the avoidance of doubt, a Bond in respect of which a Conversion Date has occurred shall be deemed to remain outstanding for the purposes of paragraphs 11, 13 and 14 of these Conditions and the Meeting Procedures until the Conversion Right has been satisfied and discharged even if the name of the holder is removed from the Register during the conversion process);
 - (f) those mutilated or defaced Certificates which have been surrendered in exchange for replacement Certificates pursuant to clause 5.7 of the Bonds Trust Deed;
 - (g) (for the purpose only of determining how many Bonds are outstanding and without prejudice to their status for any other purpose) those Certificates alleged to have been lost, stolen and destroyed and in respect of which replacement Certificates have been issued pursuant to clause 5.7 of the Bonds Trust Deed; and
 - (h) the relevant Global Certificate to the extent that it shall have been exchanged for the relevant Definitive Certificates pursuant to its provisions; provided that for the purposes of (1) ascertaining the right to attend and vote at any meeting of the Bondholders, (2) determining how many Bonds are outstanding for the purposes of paragraphs 11, 13 and 14 of these Conditions and Schedule 4 of the Bonds Trust Deed, and (3) the exercise of any discretion, power or authority which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders, those Bonds which are beneficially held by or on behalf of the Issuer, the Guarantor or any of their affiliates and any of their respective Subsidiaries and not yet cancelled shall be deemed not to remain outstanding.

Payment Business Day means a day, other than on a Saturday or Sunday, on which banks are open for general banking business in New York City, and in the case of surrender of Certificates, the place where such Certificates are surrendered.

Principal Subsidiary means at any time a Subsidiary of the Guarantor:

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, are equal to) not less than 15% of the consolidated gross revenues and share of net profits of the Guarantor, or, as the case may be,

consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) (the **relevant accounts**) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor and its Subsidiaries, provided that in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Guarantor or its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such relevant accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Guarantor;

- (b) to which it is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, generate gross revenues equal to) not less than 15% of the consolidated gross revenues and share of net profits of the Guarantor or represent (or in the case aforesaid are equal to) not less than 15% of the total assets of the Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues equal to) not less than 15% of the consolidated gross revenues and share of net profits of the Guarantor, or its assets represent (or, in the case aforesaid, are equal to) not less than 15% of the consolidated total assets of the Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as

aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

The Trustee will be entitled to receive once in each financial year in accordance with the provisions of the Bonds Trust Deed and, within 14 days upon request, a certificate of two Authorised Officers stating which Subsidiaries are Principal Subsidiaries as at the last day of the financial year and, if on request, which Subsidiaries were Principal Subsidiaries as at the date requested in such certificate.

Register means a register of Bondholders maintained by the Registrar outside of the United Kingdom and the United States of America on behalf of the Issuer in which is entered the name and address of Bondholders whose Bonds are carried on that Register, the amount of Bonds held by each Bondholder and the date of issue and transfer of those Bonds and any other particulars which the Issuer sees fit or as required by the Agency Agreement.

Shares means:

- (a) shares of the class of share capital of the Guarantor which, at the Issue Date, are designated as ordinary shares with full voting rights in the capital of the Guarantor, together with shares of any class or classes resulting from any division, consolidation or re-classification thereof, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Guarantor, and
- (b) fully-paid and non-assessable shares of any class or classes of the share capital of the Guarantor authorised after the Issue Date which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Guarantor; provided that subject to the provisions of paragraph 6 of these Conditions, shares to be issued on a conversion of Bonds and the expression “Shares” when used in clauses 7.1, 7.2, 7.3, 7.4, and 7.5 of the Bonds Trust Deed shall mean only “Shares” as defined in paragraph (a) above.

SGX-ST means Singapore Exchange Securities Trading Limited.

Special Resolution means a resolution which is passed, at a meeting of Bondholders convened and conducted in accordance with the Meeting Procedures, by more than 75% of the total number of votes cast at that meeting by all persons present and entitled to vote.

Subsidiary means, in relation to the Issuer and the Guarantor any company or business entity of which the Issuer or the Guarantor owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or business entity but excludes the Excluded Subsidiaries. For the avoidance of doubt, AWAC is not a Subsidiary.

Trading Day means a day when the ASX is open for trading, provided that if no closing price is reported in respect of the relevant Shares on the ASX for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days.

U.S. Person has the meaning given in Regulation S of the U.S. Securities Act of 1933.

USD or **US\$** or **U.S. dollars** means the lawful currency for the time being of the United States of America.

VWAP means, in respect of a Share on any Trading Day, the daily volume-weighted average sale price (rounded to the nearest cent) of a Share sold on the ASX published or derived from the ASX provided that on any Trading Day where such price is not available or cannot otherwise be determined as provided above, the VWAP in respect of such Trading Day shall be the VWAP, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

1. Form, Denomination and Title

1.1 Bonds

- (a) The aggregate principal amount of the Bonds is US\$[*]00,000,000.
- (b) The Bonds will be issued in registered form and in denominations of US\$10,000 each or integral multiples thereof. A Certificate will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the Certificate and in the Register.

*Upon issue, the Bonds will be represented by a Global Certificate. The Global Certificate will be deposited with the Common Depository, on behalf of Euroclear and Clearstream and/or any other clearing system designated by the Issuer and approved by the Trustee (together with Euroclear and Clearstream, the **Clearing Systems**). The Bonds represented by the Global Certificate shall be registered in the name of a nominee of The Bank of New York, London Branch as a common depository for Euroclear and Clearstream.*

1.2 Title and Register

- (a) The Issuer shall at all times keep, or cause to be kept, at the specified office of the Registrar, at all times outside of the United Kingdom and the United States of America, and in accordance with the terms of the Agency Agreement, the Register which shall show the nominal amount of the Bonds, the date of issue and all subsequent transfers and changes of ownership, redemptions and exchanges thereof and the names and addresses of the Bondholders.
- (b) The Bondholder whose name appears in the Register shall, except as required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership or interest or any interest in it or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. Title to the Bonds passes only by transfer and registration in the Register as described in paragraph 3 below.
- (c) The Issuer need not take notice of any other interest in, or claim to, a Bond, except as ordered by a court of competent jurisdiction or required by law.

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- (d) In these Conditions, **Bondholder** and (in relation to a Bond) **holder** means the person in whose name a Bond is registered in the Register.

Accountholders with the Clearing Systems who hold interests in Bonds represented by the Global Certificate may be treated as the holders of the Bonds for certain purposes specified in the Global Certificate.

1.3 Manifest errors

The making of, or the giving effect to, a manifest error in an inscription into the Register will not avoid the constitution, issue or transfer of a Bond. The Registrar must correct any manifest error of which it becomes aware.

2. Status of the Bonds; Guarantee

- (a) The Bonds constitute direct, unsubordinated, unconditional and (subject to paragraph 5) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall (subject to paragraph 5) at all times rank at least equally with all present and future direct, unsubordinated, unconditional and unsecured debt of the Issuer other than debt preferred by operation of laws that are of mandatory application.
- (b) The ranking of Bonds is not affected by the date of registration of any Bondholder in the Register.
- (c) Each Bond is a separate debt of the Issuer and may be transferred separately from any other Bond in accordance with paragraph 3 below.
- (d) The Bonds are issued with the benefit of the unconditional and irrevocable Guarantee of the Guarantor. The due payment of all sums expressed to be payable by the Issuer and the due performance by the Issuer of its obligations under the Bonds and the Bonds Trust Deed have been unconditionally and irrevocably guaranteed by the Guarantor under the Guarantee. The obligations of the Guarantor under the Guarantee are contained in the Bonds Trust Deed and are direct, unconditional, unsubordinated and (subject to paragraph 5) unsecured obligations of the Guarantor and shall (subject to paragraph 5) rank at all times equally with all other unsubordinated and unsecured debt of the Guarantor other than debt preferred by operation of laws that are of mandatory application.

3. Transfers of Bonds; Issue of Certificates

3.1 Transfer of Bonds

- (a) Transfers and exchanges of Bonds are subject to paragraphs 3.4 and 3.5 and the terms of the Agency Agreement.
- (b) A Bond may be transferred or exchanged by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed (and, if applicable, duly stamped) in accordance with these Conditions.

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- (c) Every form of transfer must be signed by the holder and, where jointly held, by all joint holders or its or their attorney(s) duly authorised in writing and the holder(s) shall be deemed to remain the owner of the Bond to be transferred until the name of the transferee(s) is or are entered in the Register in respect of that Bond. On every form of transfer the transferee must represent, warrant and agree to the holder that it is not in the United States or a U.S. Person and is not acting for the account or benefit of a U.S. Person.
 - (d) Every form of transfer must be deposited at the specified office of the Registrar, accompanied by the Certificate for the Bond to be transferred and, if the form is executed by some other person on a holder's behalf, the written authority of that person to do so.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant Clearing System.

3.2 Delivery of new Certificates

- (a) Each new Certificate to be issued upon a transfer or conversion of Bonds will, within seven Business Days of receipt by the Registrar of the form of transfer duly completed and signed and the original Certificate, be made available for collection at the specified office of the Registrar or, if so requested in the form of transfer, be mailed (at the cost of the Issuer) by uninsured mail at the risk of the holder entitled to such Bonds to the address specified in the form of transfer. The form of transfer is available at the specified office of the Registrar.
- (b) Except in the limited circumstances described herein, owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.
- (c) Where only part of the principal amount of Bonds (being that of one or more Bonds) in respect of which a Certificate (other than a Global Certificate) is issued, is to be transferred, redeemed or converted, a new Certificate in respect of the Bonds not so transferred, redeemed or converted will, within seven Business Days of the delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or the relevant Agent or, if so requested in the form of transfer, redemption or conversion be mailed (at the cost of the Issuer) by uninsured mail at the risk of the holder of the Bonds not so transferred, redeemed or converted to the address of such holder appearing on the Register.

3.3 Formalities Free of Charge

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge to a Bondholder by or on behalf of the Issuer or the Registrar, but only upon:

- (a) receipt by the Registrar of the form of transfer duly completed and signed;
- (b) payment by such Bondholder (or the giving of such indemnity as the Issuer, the Registrar or any relevant Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; and

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- (c) the Issuer, the Registrar and any relevant Agent being satisfied that the regulations contained in, or made in accordance with the Agency Agreement, concerning such transfer of Bonds have been complied with.

3.4 Closed Periods

No Bondholder may require to be registered, and the Issuer is not required to arrange for the registration of, the transfer of a Bond:

- (a) during the period of ten Business Days ending on (and including) the Maturity Date or the dates for redemption pursuant to paragraphs 7.2 or 7.3;
- (b) after a Conversion Notice has been delivered with respect to such Bond;
- (c) after a Change of Control Put Exercise Notice (as defined in paragraph 7.4(b)) or a Delisting Put Notice (as defined in paragraph 7.5(c)) or a Put Exercise Notice (as defined in paragraph 7.6(b)) has been deposited in respect of such Bond; and
- (d) during the period of seven days ending on (and including) any Interest Record Date (as defined in paragraph 8.1(b)).

Each such period is referred to herein as a **Closed Period**.

3.5 Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer or the Guarantor, with the prior written approval of the Trustee and the Registrar. A copy of the regulations from time to time in force will be mailed (at the Issuer's expense) by the Registrar to any Bondholder upon written request and will also be available for inspection at the specified office of the Registrar.

4. Interest

4.1 Interest rate

The Bonds will bear interest from the Issue Date at the rate of [*]% per annum (the **Interest Rate**) on the principal amount outstanding of each Bond. Interest is payable semi-annually in arrear on 16 May and 16 November of each year (each an **Interest Payment Date**).

The first Interest Payment Date will be 16 November 2008.

Each Bond will cease to bear interest:

- (a) subject to paragraph 6.10, from and including the Interest Payment Date last preceding its Conversion Date (as defined below) (or if such Conversion Date falls on or before the first Interest Payment Date, since the Issue Date), subject to conversion of the relevant Bond in accordance with the provisions of paragraph 6; or
- (b) from the due date for redemption of the relevant Bond unless, upon surrender in accordance with paragraph 7, payment of the full amount due is improperly withheld or refused or default is otherwise made in respect of such payment. In such event, interest will continue to accrue at the rate specified in paragraph 10.

Except as provided in paragraph 6.10, no payment or adjustment will be made on conversion for any interest accrued on converted Bonds since the Interest Payment Date last preceding the relevant Conversion Date (as defined below) or if the Bonds are converted on or before the first Interest Payment Date, since the Issue Date.

4.2 Payment of interest

- (a) If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year of 12 30-day months and, in the case of an incomplete month, the actual number of days elapsed.
- (b) Interest payable under this paragraph will be paid in accordance with paragraph 8.1.

5. Negative Pledge

5.1 Negative Pledge

So long as any Bond remains outstanding, each of the Issuer and the Guarantor undertakes that it will not create or permit to subsist, and undertakes to procure that none of its Subsidiaries will create or permit to subsist, any Security Interest, other than a Permitted Security Interest, upon the whole or any part of their present or future undertaking, assets or revenues (including any uncalled capital) to secure any Capital Markets Financial Indebtedness or to secure any guarantee of, or indemnity in respect of, any Capital Markets Financial Indebtedness unless, at the same time or prior thereto:

- (a) equal and ratable security as is created or subsisting is accorded to the Bonds; or
- (b) the Bonds are accorded such other security as shall be approved by a Special Resolution of the Bondholders.

5.2 Interpretation

In this Condition:

Capital Markets Financial Indebtedness means any future and present indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (which for the avoidance of doubt shall not include bi-lateral loans, syndicated loans or club deal loans).

Security Interest means, with respect to any person, any mortgage, lien, pledge, charge, security interest or other encumbrance, claim or equity, or any interest or title of any vendor, lessor, lender or other secured party to or of such person under any conditional sale or other title retention agreement, upon or with respect to any property or asset of such person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

Permitted Security Interest means

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- (a) any Security Interest arising solely by operation of law;
 - (b) any Security Interest upon the whole or any part of the present or future undertaking, assets or revenues (including uncalled capital) of any company which is acquired by the Issuer or the Guarantor or any of their respective Subsidiaries after the Issue Date, and where such Security Interest was created prior to the date of such acquisition provided that such Security Interest was not created in contemplation of such acquisition and the amount thereby secured has not been increased in contemplation of, or since the date of, such acquisition; and
 - (c) any Security Interest created by any Subsidiary of the Issuer or the Guarantor to secure Capital Markets Financial Indebtedness incurred by such Subsidiary in connection with a specifically identifiable project relating to a specific asset where recourse for the Capital Markets Financial Indebtedness so secured is limited to such asset and the assets and cash flow generated by the specifically identifiable project.

6. Conversion

6.1 Conversion Right

Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares at any time during the Conversion Period. The right of a Bondholder to convert any Bond into Shares is called the ***Conversion Right***.

6.2 Aggregation

If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

6.3 Fractions of Shares

Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 13 May 2008 which reduces the number of Shares outstanding, the Issuer will, upon conversion of Bonds, pay in cash to the relevant Bondholder (in U.S. dollars by means of a U.S. dollar cheque drawn on a bank in New York City) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in paragraph 6.2, as correspond to any fraction of a Share not issued if such sum exceeds US\$10. Any such sum shall be paid not later than ten Payment Business Days after the relevant Conversion Date.

6.4 Conversion Price and Conversion Ratio

The number of Shares to be issued on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted (converted into Australian dollars at the fixed rate of A\$[*] = US\$1.00) by the Conversion Price in effect at the Conversion Date.

6.5 Revival and/or survival after Default

Notwithstanding the provisions of paragraph 6.1, if:

- (a) the Issuer or the Guarantor shall default in making payment in full in respect of any Bond which is due for redemption on the date fixed for redemption thereof;
- (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of an Event of Default; or
- (c) any Bond is not redeemed on the Maturity Date in accordance with paragraph 7.1 or the relevant date fixed for redemption in accordance with any of paragraphs 7.2, 7.3, 7.4, 7.5, or 7.6 ,

the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, subject to paragraph 11.2, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Paying Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of paragraph 6.1, any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Paying Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

6.6 No interest paid on Conversion

Except as provided in paragraph 6.10, no payment or adjustment will be made on conversion for any interest which otherwise would have accrued on the relevant Bonds since the Interest Payment Date last preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Issue Date).

6.7 Conversion Notice

- (a) To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense between 9:00 a.m. to 3.00 p.m., on any Business Day at the specified office of any Conversion Agent a notice of conversion (a **Conversion Notice**) in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate. A Conversion Notice deposited outside the hours specified above or on a day that is not a Business Day at the place of the specified office of a Conversion Agent shall for all relevant purposes be deemed to have been deposited with that Conversion Agent on the next day that is a Business Day during the hours

specified above. Any Bond submitted for conversion in circumstances where the resulting Conversion Date would fall on or after an Interest Record Date and prior to the following Interest Payment Date will not be treated as being so submitted until after 9:00 a.m. on the next Business Day after the relevant Interest Payment Date.

- (b) The conversion date in respect of a Bond (the **Conversion Date**) must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of paragraph 6.5) and will be deemed to be the Business Day immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents to such withdrawal.
- (c) A Conversion Notice will not be valid, unless the Bondholder delivering such Conversion Notice gives and is lawfully able to give the representations and warranties to the Issuer set out therein, which include representations and warranties that the Bondholder is, and will be upon the allotment or issue of Shares on conversion of the Bonds, in compliance with the Foreign Acquisitions and Takeovers Act 1975 of the Commonwealth of Australia and section 606 of the Corporations Act and that the Bondholder is not in the United States or a U.S. Person and is not acting for the account or benefit of a U.S. Person. For the avoidance of doubt, in the event that a Conversion Notice is not valid as a result of this paragraph (c), the Conversion Right shall be deemed not to have been exercised in respect of the Bonds subject to that Conversion Notice and those Bonds will remain outstanding and the Conversion Right in respect thereof shall remain exercisable in accordance with these Conditions. Neither the Trustee nor the Agents are under any obligation to determine whether a Bondholder delivering a Conversion Notice is able to give the representations and warranties set out in that Conversion Notice or for determining whether any of the representations and warranties so given are accurate or not.

6.8 Stamp duty and taxes

- (a) A Bondholder delivering a Certificate in respect of a Bond for conversion must pay:
 - (i) any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in Australia by the Guarantor in respect of the allotment and issue of Shares and listing of the Shares on the ASX on conversion); and
 - (ii) all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion,in each case directly to the relevant authorities.

The Issuer, failing whom, the Guarantor, shall pay all other expenses arising on issue of Shares on conversion of the Bonds.

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- (b) The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued) must provide the Conversion Agent with confirmation of (as provided in the Conversion Notice) payment to the relevant authorities of all taxes payable pursuant to paragraph 6.8(a).
 - (c) None of the Agents or the Trustee is under any obligation to determine:
 - (i) whether a Bondholder or the Issuer is liable to pay any taxes including stamp, issue, registration or similar taxes and duties;
 - (ii) the amounts payable (if any) in connection with this paragraph 6.8;
 - (iii) whether any Bondholder has made or failed to make any such payments to a relevant authority; or
 - (iv) the sufficiency or otherwise of any amounts so paid.

6.9 Registration

- (a) Shares to be issued on exercise of Conversion Rights will be issued in uncertificated form through the securities settlement and transfer system known as the Clearing House Electronic Sub-register System operated by ASX Settlement and Transfer Corporation Pty Ltd (**CHES**) (or any successor licensed clearance and settlement facility applicable to the Shares). The Shares to be delivered through CHES will be delivered to the account specified by the Bondholder exercising such Conversion Right in the Conversion Notice by the date falling three Business Days after the relevant Conversion Date.
- (b) Statements of holding of Shares allotted on exercise of Conversion Rights will be dispatched to the converting Bondholder by the Guarantor by mail free of charge as soon as practicable but in any event within ten Business Days after the relevant Conversion Date.
- (c) If the Conversion Date in relation to any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to paragraph 6.11, 6.12 or 6.13, but before the relevant adjustment becomes effective under the relevant paragraph, upon the relevant adjustment becoming effective the Guarantor shall issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares as, together with the Shares issued or to be issued on conversion of the relevant Bond, is equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective immediately after the relevant record date (as calculated by the Issuer).
- (d) The person or persons designated in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is, or they are, registered as such in the Guarantor's register of members (the **Registration Date**). The Shares issued upon conversion of the Bonds will be fully paid and will in all respects rank *pari passu* with the Shares in issue on the

relevant Registration Date. Save as set out in these Conditions, a holder of Shares issued on conversion of Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

- (e) If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in paragraph 6.9(c) prior to the time such retroactive adjustment shall have become effective), the Issuer will calculate and pay to the converting Bondholder or their designee an amount (the **Equivalent Amount**) in U.S. dollars equal to the Fair Market Value (converted into U.S. dollars at the fixed rate of A\$[*] = US\$1.00) of any such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a U.S. dollar cheque drawn on a bank in New York City and sent to the address specified in the relevant Conversion Notice.

6.10 Interest Accrual

If any notice requiring the redemption of any Bonds is given pursuant to paragraph 7.2 or paragraph 7.3 during the period beginning on the fifteenth day prior to the record date in respect of any dividend payable in respect of the Shares and ending on the Interest Payment Date next following such record date, where such notice specifies a date for redemption falling on or prior to the date which is 14 days after such next following Interest Payment Date, interest shall (subject as hereinafter provided) accrue on any Bonds where the Certificates have been delivered for conversion and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date, interest shall accrue on the Bonds from the preceding Interest Payment Date (or, if the relevant Conversion Date falls on or before the first Interest Payment Date, from and including the Issue Date) to, but excluding, the relevant Conversion Date; provided that no such interest shall accrue on any Bond in the event that the Shares issued on conversion thereof shall carry an entitlement to receive such dividend or in the event the Bond carries an entitlement to receive an Equivalent Amount. Any such interest shall be paid by the Issuer, failing whom the Guarantor, not later than 14 days after the relevant Conversion Date by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, in accordance with instructions given by the relevant Bondholder. Neither the Trustee nor the Agents will have any responsibility or liability in respect of such payments.

6.11 Adjustments to the Conversion Price

The Conversion Price will be subject to adjustment upon the occurrence of any of the events described in paragraphs 6.11(a) to (j) below.

- (a) If and whenever there shall be an alteration to the number of issued Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be

adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of issued Shares immediately before such alteration; and
- B is the aggregate number of issued Shares immediately after, and as a result of, such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

- (b) If and whenever the Guarantor shall issue any Shares credited as fully paid to its Shareholders by way of capitalisation of profits or reserves including Shares paid up out of distributable profits or reserves issued, (save where Shares are issued in lieu of the whole or any part of a specifically declared cash dividend (the **Relevant Cash Dividend**), being a dividend which the Shareholders concerned would or could otherwise have elected to receive (a **Scrip Dividend**)) and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of issued Shares immediately before such issue; and
- B is the aggregate number of issued Shares immediately after such issue.

In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price on the day before such Scrip Dividend is declared of such Shares exceeds 105% of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of issued Shares immediately before such issue;
- B is the aggregate number of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price on the day before such Scrip Dividend is declared of the Shares issued by way of Scrip Dividend in

respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

C is the aggregate number of Shares issued by way of such Scrip Dividend; or by making such other adjustment as an Independent Financial Institution shall certify to the Trustee is fair and reasonable.

Such adjustment under this paragraph 6.11(b) shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

- (c) If and whenever the Guarantor shall pay or make any Capital Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under 6.11(b)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day immediately preceding the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Capital Distribution attributable to one Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase, redemption or buy back of Shares or any depositary or other receipts or certificates representing Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Shares, or any Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date, or, if later, the first date upon which the Fair Market Value of the relevant Capital Distribution is capable of being determined as provided herein.

In this condition:

Capital Distribution means any Non-Cash Dividend and any Extraordinary Dividend.

Cash Dividend means (i) any Dividend which is to be paid or made in cash (in whatever currency), and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (i) of the definition of "Dividend", and for the avoidance of doubt, a Dividend falling within paragraph (iii) or (iv) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend.

Effective Date means the first date on which the Shares are traded on the ASX ex-the relevant Dividend or in the case of a purchase, redemption or buy back of Shares or any depositary or other receipts or certificates representing Shares, the date on which such purchase, redemption or buy back is made.

Non-Cash Dividend means any Dividend which is not a Cash Dividend.

Dividend means any dividend or distribution to Shareholders whether of cash, assets or other property, and however described and whether payable out of profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Shares or other securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

- (i) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of the greater of (i) such cash amount and (ii) the Current Market Price of such Shares or, as the case may be, Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or if later, the date on which the number of Shares (or amount of property or assets, as the case may be) which may be issued or transferred and delivered is determined);
- (ii) any issue of Shares falling within paragraph 6.11(b) shall be disregarded;
- (iii) a purchase or redemption or buy back of share capital of the Guarantor by the Guarantor or any of its Subsidiaries shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Shares by or on behalf of the Guarantor or any of its Subsidiaries, the weighted average price per Share (before expenses) on any one day (a **Specified Share Day**) in respect of such purchases or redemptions or buy backs exceeds by more than 5% of the VWAP of the Shares on the five Trading Days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Shares at some future date at a specified price, on the five Trading Days immediately preceding the date of such announcement, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend to the extent that the aggregate price paid (before expenses) in respect of such Shares purchased, redeemed or bought back by the Guarantor or, as the case may be, any of its

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- Subsidiaries exceeds the product of (i) 105% of the VWAP of the Shares and (ii) the number of Shares so purchased, redeemed or bought back;
- (iv) if the Guarantor or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Shares, the provisions of paragraph (iii) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Institution; and
- (v) a purchase or redemption or buy back of any redeemable preference shares of the Guarantor which are issued after the Issue Date by the Guarantor or any of its Subsidiaries in accordance with the terms of such redeemable preference share shall not constitute a Dividend.

Extraordinary Dividend means any Cash Dividend paid or made in respect of a financial year of the Guarantor (the **Relevant Financial Year**), if (a) the Fair Market Value of the relevant Cash Dividend per Share or (b) the sum of (i) Fair Market Value of the relevant Cash Dividend per Share and (ii) an amount equal to the aggregate of the Fair Market Value or Values of any other Cash Dividends per Share paid or made in respect of the Relevant Financial Year, exceeds the Threshold Amount in respect of such Relevant Financial Year, provided that the amount of the Capital Distribution shall only be the amount of such excess.

Threshold Amount means in respect of any Relevant Financial Year, A\$0.24 per Share (adjusted pro rata for any adjustments to the Conversion Price made pursuant to the provisions of this paragraph 6.11).

For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (i) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined on the day as at the Effective Date.

In making any calculations for the purposes of this paragraph 6.11(c), such adjustments (if any) shall be made as an Independent Financial Institution may determine in good faith to be appropriate to reflect (i) any consolidation or subdivision of any Shares or the issue of Shares by way of capitalisation of profits or reserves (or any like or similar event) or any increase in the number of Shares in issue in relation to the financial year of the Guarantor in question, or (ii) any change in the financial year of the Guarantor.

- (d) Except where the Conversion Price falls to be adjusted under paragraph 6.11(c), if and whenever the Guarantor shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares, in each case at less than 95% of the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants (as the case may be).

- (e) If and whenever the Guarantor shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class, by way of rights, or grant to all or substantially all Shareholders as a class by way of rights, of any options, warrants or other rights to subscribe for, purchase or otherwise acquire, any securities (other than Shares or options, warrants or other rights to subscribe, or purchase Shares or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day immediately preceding the date on which Shares are traded on ASX ex-rights, ex-options or ex-warrants (the 'ex-date'); and
- B is the Fair Market Value on the date immediately preceding the ex-date of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants (as the case may be).

- (f) If and whenever the Guarantor shall issue (otherwise than as mentioned in paragraph 6.11(d)) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for or purchase of, Shares) or shall issue or grant (otherwise than as mentioned in paragraph 6.11(d)) any options, warrants or other

rights to subscribe for, purchase or otherwise acquire Shares, in each case at a price per Share which is less than 95% of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such option, warrants or other rights to subscribe for, purchase or otherwise acquire Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares, or for the Shares to be issued on exercise of such option, warrants or other rights to subscribe for Shares, would purchase at such Current Market Price; and
- C is the number of Shares in issue immediately after the issue of such additional Shares or which would be in issue immediately after the exercise of such options, warrants or other rights to subscribe for shares.

Provided that if at the time of issue or grant of any such options, warrants or rights (as used in this paragraph 6.11(f), the **Specified Date**) such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such rights of subscription are exercised or at such other time as may be provided) then for the purposes of this paragraph 6.11(f), 'C' shall be determined by application of such formula or variable feature or as if the relevant event occurs or has occurred as at the Specified Date and as if such conversion, exchange, subscription or purchase had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of any such options, warrants or other rights.

- (g) Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this paragraph 6.11(g), in the event of the issue by the Guarantor or any Subsidiary (otherwise than as mentioned in paragraphs 6.11(d), (e) or (f)) or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary) by any other company, person or entity of any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Guarantor upon conversion, exchange or subscription at a consideration per Share which is less than 95% of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the

Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Guarantor for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Provided that if at the time of issue of the relevant securities or date of grant of such rights (as used in this paragraph 6.11(g), the **Specified Date**) such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such securities are exchanged or rights of subscription are exercised or, as the case may be, such securities are re-designated or at such other time as may be provided) then for the purposes of this paragraph 6.11(g), 'C' shall be determined by application of such formula or variable feature or as if the relevant event occurs or has occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, re-designation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such securities.

- (h) In the event of any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in paragraph 6.11(g) (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95% of the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such modification;

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- B is the number of Shares which the aggregate consideration (if any) receivable by the Guarantor for the Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription attached to the securities, in each case so modified, would purchase at such Current Market Price or, if lower, the existing conversion, exchange or subscription price of such securities; and
- C is the maximum number of Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange, subscription or purchase price or rate but giving credit in such manner as an Independent Financial Institution considers appropriate (if at all) for any previous adjustment under this paragraph 6.11(h) or paragraph 6.11(g).

Provided that if at the time of issue of the relevant securities or date of grant of such rights (as used in this paragraph 6.11(h), the **Specified Date**) such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such securities are exchanged or rights of subscription are exercised or, as the case may be, such securities are re-designated or at such other time as may be provided) then for the purposes of this paragraph 6.11(h), 'C' shall be determined by application of such formula or variable feature or as if the relevant event occurs or has occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, re-designation had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

- (i) In the event of any issue, sale or distribution by or on behalf of the Guarantor or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary) any other company, person or entity of any securities in connection with an offer by or on behalf of the Guarantor or any Subsidiary or such other company, person or entity pursuant to which offer the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them, then (except where the Conversion Price falls to be adjusted under paragraphs 6.11(d), (e), (f) or (g)) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue, sale or distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price on the last Trading Day preceding the date on which such issue, sale or distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or distribution of the securities.

- (j) If a Change of Control occurs, then upon any exercise of Conversion Rights where the Conversion Date falls during the period (the **Change of Control Period**) commencing on the occurrence of the Change of Control and ending 30 calendar days following the Change of Control or, if later, 30 calendar days following the date on which a Change of Control Notice as required by paragraph 6.14 is given, the Conversion Price shall be determined pursuant to the following formula:

$$\text{Conversion Price} = \text{OCP} / (1 + (\text{CP} \times c/t))$$

where:

OCP means the Conversion Price in effect on the day before the Change of Control occurs, disregarding the application of this paragraph 6.11(j);

CP means the Conversion Premium which is [*]%, expressed as a fraction;

c means the number of days from and including the date the Change of Control occurs to but excluding the Maturity Date; and

t means the number of days from and including the Issue Date to but excluding the Maturity Date.

In this condition:

control means (i) the acquisition or holding or legal or beneficial ownership or control of more than 50% of the voting rights of the Guarantor or (ii) the right to appoint and/or remove all or the majority of the members of the Guarantor's Board of Directors, whether obtained directly or indirectly and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, and "controlled" shall be construed accordingly.

a **Change of Control** occurs when:

- (i) any Person or Persons acting together acquires control of the Guarantor if such Person or Persons does not or do not have, and would not be deemed to have, control of the Guarantor on the Issue Date;
- (ii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity; or
- (iii) one or more Persons (other than any Person referred to in sub-paragraph (i) above) acquires the legal or beneficial ownership of all or substantially all of the Guarantor's issued share capital.

Person includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the

Guarantor's or the Issuer's board of directors or any other governing board and does not include the Guarantors or the Issuer's wholly-owned direct or indirect Subsidiaries.

(k) In this paragraph 6.11 **Current Market Price** means, in respect of a Share at a particular time on a particular date, the average of the VWAP of one Share (being a Share carrying full entitlement to dividends) for the 10 consecutive Trading Days ending on the Trading Day immediately preceding such date; provided that if at any time during the said 10 Trading Day period the Shares shall have been quoted ex-dividend (or ex- any other entitlement) and during some other part of that period the Shares shall have been quoted cum-dividend (or cum- any other entitlement) then:

- (i) if the Shares to be issued in such circumstances do not rank for the dividend (or entitlement) in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend (or entitlement) per Share as at the date of the first public announcement of such dividend (or entitlement); or
- (ii) if the Shares to be issued in such circumstances rank for the dividend (or entitlement) in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Shares on each of the said 10 Trading Days have been quoted cum-dividend (or cum- any other entitlement) in respect of a dividend (or entitlement) which has been declared or announced but the Shares to be issued do not rank for that dividend (or entitlement), the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend (or entitlement) per Share as at the date of the first public announcement of such dividend (or entitlement),

and provided further that:

- (i) if such closing prices are not available on each of the 10 Trading Days during the relevant period, then the arithmetic average of such closing prices which are available in the relevant period shall be used (subject to a minimum of two such closing prices); and
- (ii) if only one or no such closing prices is available in the relevant period, then the Current Market Price shall be determined in good faith by an Independent Financial Institution.

6.12 Other adjustment events

If one or more events or circumstances not referred to in any provisions of paragraph 6.11 have occurred in respect of which the Issuer determines that an adjustment should be

made to the Conversion Price, the Issuer shall at its own expense request an Independent Financial Institution to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination provided that where the circumstances giving rise to any adjustment pursuant to this paragraph 6 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this paragraph 6 as may be advised by an Independent Financial Institution to be in their opinion appropriate to give the intended result.

6.13 Other provisions relating to conversion

- (a) No adjustment shall be made to the Conversion Price where Shares or other securities (including rights, warrants or options) are issued, offered, exercised, allotted, appropriated, modified or granted to or for the benefit of employees or former employees (including directors holding or formerly holding executive offices) of the Guarantor, or its Subsidiaries and associated companies or other eligible persons (as set out in any share option scheme or plan) pursuant to its share option scheme or plan (including any dividend reinvestment plan) duly adopted by the Guarantor and in compliance with the rules of the ASX.
- (b) Neither the Trustee nor the Agents shall be under any duty or obligation to monitor whether any event or circumstances has happened or exists pursuant to paragraphs 6, 7 or 11. Two Authorised Officers of the Issuer or the Guarantor will, on the occurrence of any adjustment occurring in accordance with these Conditions, certify to the Trustee the details of such adjustment, the event giving rise to it, the new Conversion Price and such other information as the Trustee shall require in connection with such adjustment. The Trustee shall be entitled to rely on such certificate and any opinion, determination or the views of any Independent Financial Institution without investigation or liability.
- (c) On any adjustment, the relevant Conversion Price, if not an integral multiple of one hundredth of one Australian cent, shall be rounded down to the nearest hundredth of one Australian cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1% of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time.
- (d) Notice of any adjustment shall be given by the Issuer to Bondholders in accordance with paragraph 15 as soon as practicable after the determination thereof.

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- (e) Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Financial Institution the foregoing provisions of this paragraph 6 would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Financial Institution to be in their opinion appropriate in order to give such intended result.
 - (f) All calculations of any nature whatsoever under the Bonds Trust Deed, the Conditions and the Agency Agreement shall be performed by the Guarantor unless otherwise specified. Neither the Trustee nor the Agents shall be liable in any respect for the accuracy or inaccuracy in any calculation or formulae under the Bonds Trust Deed, the Conditions or the Agency Agreement whether by the Guarantor, the Auditors or any Independent Financial Institution or any other person so nominated or authorised by the Issuer or the Guarantor for such purposes.
 - (g) No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of Shares as referred to in paragraph 6.11(a).

6.14 Notice of Change of Control

Following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Trustee and the Bondholders in accordance with paragraph 15 (a ***Change of Control Notice***) within 14 calendar days of the first day on which it becomes so aware. Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and the Conversion Price applicable in consequence of the Change of Control as set out in paragraph 6.11(j), as adjusted where appropriate and their entitlement to require the Issuer to redeem their Bonds as provided in paragraph 7.4. The Change of Control Notice shall also specify:

- (a) all information material to Bondholders concerning the Change of Control;
- (b) the Conversion Price immediately prior to the occurrence of the Change of Control and the Conversion Price applicable pursuant to paragraph 6.11(j) during the Change of Control Period;
- (c) the VWAP of the Shares as at the latest practicable date prior to the publication of such notice;
- (d) the Change of Control Put Date and the last day of the Change of Control Period; and
- (e) such other information relating to the Change of Control as the Trustee may require.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and shall not be liable for any loss that may arise through failure by it to do so.

6.15 Undertakings in Bonds Trust Deed

The Guarantor has undertaken in the Bonds Trust Deed, amongst other things, that so long as any Bond remains outstanding:

- (a) **(Maintenance of listing)** It will use all reasonable endeavours to maintain a listing for all the Shares, and to obtain and maintain a listing for all the Shares issued pursuant to the exercise of the Conversion Rights, on the ASX and will forthwith give notice to the Bondholders of any such listing or delisting of the Shares (as a class) by the ASX.
- (b) **(Listing expenses)** It will pay any expenses levied by the ASX and any taxes levied in the jurisdiction in which the ASX is located relating to the issue of, and all expenses of obtaining listing for, Shares arising pursuant to any conversion of the Bonds;
- (c) **(Reduction of capital)** It will not make any reduction or redemption of, or buyback any of, its issued share capital or any uncalled liability in respect thereof except, in each case:
 - (i) pursuant to the terms of issue of any redeemable preference shares issued after the Issue Date; or
 - (ii) where the reduction, redemption or buyback is permitted by applicable law and the Trustee is advised by an Independent Financial Institution, acting as expert, that the interests of the Bondholders in the Conversion Rights will not be prejudiced by such reduction; or
 - (iii) where the reduction, redemption or buyback is permitted by applicable law and results in (or would, but for the provisions of paragraph 6.11 of the Conditions relating to the carry forward of adjustments, result in) an adjustment to the Conversion Price.
- (d) **(Conversion Rights)** It will reserve, free from any pre-emptive or similar rights, out of its ordinary share capital the full number of Shares liable to be issued on full conversion of the Bonds and will ensure that all Shares will be duly and validly issued as fully-paid upon such conversion and shall ensure that all Shares deliverable upon conversion of Bonds will be duly and validly issued as fully-paid and non-assessable and shall rank *pari passu* with and will be fully fungible with the Shares then outstanding.
- (e) **(Listing of Bonds)** It will use all reasonable endeavors to maintain the listing on the official list of SGX-ST of those Bonds which are listed on the official list of SGX-ST.
- (f) **(Non-disposal)** Except for any dealings between Group members, the Guarantor will not reduce its direct or indirect ownership interest in AWAC below 40% if such reduction would have a Material Adverse Effect.

7. Redemption

7.1 Redemption on the Maturity Date

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Issuer shall redeem each outstanding Bond on the Maturity Date at 100% of the principal amount of each such Bond, together with accrued and unpaid interest.

The Issuer may not redeem the Bonds at its option prior to the Maturity Date except as provided in paragraphs 7.2 or 7.3.

7.2 Redemption at the option of the Issuer

- (a) On giving not less than 30 nor more than 60 days' notice (an **Optional Redemption Notice**) to the Trustee and the Bondholders in accordance with paragraph 15, the Issuer may redeem all but not some only of the Bonds on the date (the **Optional Redemption Date**) specified in the Optional Redemption Notice at 100% of their principal amount together with accrued and unpaid interest up to but excluding the Optional Redemption Date, if at any time on or after 16 May 2011, on each of the 20 consecutive Trading Days ending not earlier than five Business Days prior to the giving of the relevant Optional Redemption Notice, the VWAP of a Share on each such Trading Day exceeds 130% of the Conversion Price (as adjusted) in effect (or deemed to be in effect) on such Trading Day.

If there shall occur an event giving rise to a change in the Conversion Price during any such 20 consecutive Trading Day period, appropriate adjustments for the relevant days approved by an Independent Financial Adviser, shall be made for the purpose of calculating the VWAP of a Share for such Trading Days.

Any Optional Redemption Notice shall be irrevocable. Any such notice shall specify:

- (i) the Optional Redemption Date;
 - (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the VWAP of a Share, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice; and
 - (iii) the last day on which Conversion Rights may be exercised by Bondholders.
- (b) On giving not less than 30 nor more than 60 days' notice (a **Clean-up Redemption Notice**) to the Trustee and the Bondholders in accordance with paragraph 15, the Issuer may at any time redeem all but not some only of the Bonds on the date (the **Clean-up Redemption Date**) specified in the Clean-up Redemption Notice at 100% of their principal amount together with accrued and unpaid interest up to but excluding the Clean-up Redemption Date, if at any time prior to the date on which the Issuer issues the Clean-up Redemption Notice, the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued.

Any Clean-up Redemption Notice shall be irrevocable. Any such notice shall specify:

- (i) the Clean-up Redemption Date;
- (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the VWAP of a Share, in each case as at the latest practicable date prior to the publication of the Clean-up Redemption Notice; and
- (iii) the last day on which Conversion Rights may be exercised by Bondholders.

7.3 Redemption for taxation reasons

- (a) At any time the Issuer may, having given not less than 30 nor more than 60 days' notice (a **Tax Redemption Notice**) to the Bondholders, and the Trustee redeem (subject to the second following paragraph) all, and not some only, of the Bonds on the date (the **Tax Redemption Date**) specified in the Tax Redemption Notice at 100% of their principal amount, together with accrued and unpaid interest to such date, if the Issuer satisfies, in accordance with sub-paragraph (b), the Trustee that:
 - (i) immediately prior to the giving of such Tax Redemption Notice that the Issuer, or if the guarantee was called, the Guarantor, has or will become obliged to pay additional amounts in respect of payments on the Bonds pursuant to paragraph 9 as a result of any change in, or amendment to, the laws or regulations of the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 13 May 2008; and
 - (ii) such obligation cannot be avoided by the Issuer or the Guarantor (as relevant) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor (as relevant) would be obliged to pay such additional amounts were a payment in respect of the Bonds then due.
- (b) Prior to the publication of any Tax Redemption Notice pursuant to this paragraph, 7.3 the Issuer or the Guarantor (as relevant) shall deliver to the Trustee:
 - (i) a certificate signed by two Authorised Officers of the Issuer or the Guarantor (as relevant) stating that the obligation referred to in paragraph (a) above cannot be avoided by the Issuer or the Guarantor (as relevant) taking reasonable measures available to it; and
 - (ii) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred and that the Issuer or the Guarantor (as relevant) has or will be obliged to pay

such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective),

and the Trustee shall accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out above and which shall be conclusive and binding on the Bondholders.

- (c) On the Tax Redemption Date, the Issuer shall (subject to the next following paragraph) redeem the Bonds at 100% of their principal amount, together with accrued interest to such date.
- (d) If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that their Bond(s) shall not be redeemed and that the provisions of paragraph 9 shall not apply in respect of any payment to be made on such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to paragraph 9 and payment of all amounts on the Bonds shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent or Conversion Agent a duly completed and signed notice of election (**Tax Election Notice**), in the form for the time being current, obtainable from the specified office of any Paying Agent or Conversion Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.
- (e) Any Tax Redemption Notice shall be irrevocable. Any such notice shall specify:
 - (i) the Tax Redemption Date;
 - (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the VWAP of a Share, in each case as at the latest practicable date prior to the publication of the Tax Redemption Notice; and
 - (iii) the last day on which Conversion Rights may be exercised by Bondholders.

7.4 Redemption by Bondholders upon a Change of Control

- (a) Following the occurrence of a Change of Control, the holder of each Bond will have the right to require the Issuer to redeem that Bond in whole but not in part on the Change of Control Put Date at 100% of its principal amount, together with accrued and unpaid interest to such date.
- (b) To exercise such right, the holder of the relevant Bond must, at any time in the Change of Control Period, deliver a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent or Conversion Agent (a **Change of Control Put Exercise Notice**) to the specified office of any Paying Agent or Conversion Agent.
- (c) The **Change of Control Put Date** shall be the 14th calendar day after the expiry of the Change of Control Period.

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- (d) Payment in respect of any such Bond shall be made by transfer to a U.S. dollar account with a bank in New York City specified by the relevant Bondholder in the Change of Control Put Exercise Notice.
 - (e) A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the relevant Change of Control Put Date.
 - (f) The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred.

7.5 Delisting put right

- (a) In the event:
 - (i) the Shares cease to be listed on the ASX; or
 - (ii) the Shares cease to be admitted to, or are suspended from trading or cease to be quoted on the ASX and such suspension or cessation of quotation is for a period of 20 consecutive Trading Days,(each, a **Delisting**) each Bondholder shall have the right (the **Delisting Put Right**), at such Bondholder's option, to require the Issuer to redeem in whole but not in part such Bondholder's Bonds on the 20th Business Day after notice has been given to Bondholders regarding the Delisting under paragraph 7.5(b) or, if such notice is not given, the 20th business day after the Delisting (the **Delisting Put Date**) at 100% of their principal amount together with accrued and unpaid interest up to the Delisting Put Date (the **Delisting Put Price**).
- (b) Promptly after becoming aware of a Delisting, the Issuer shall procure that notice regarding the Delisting Put Right (a **Delisting Notice**) shall be given to Bondholders (in accordance with paragraph 15) stating:
 - (i) the Delisting Put Date;
 - (ii) the date of such Delisting and, briefly, the events causing such Delisting;
 - (iii) the date by which the Delisting Put Notice (as defined below) must be given;
 - (iv) the Delisting Put Price and the method by which such amount will be paid;
 - (v) the names and addresses of all Paying Agents and Conversion Agents;
 - (vi) briefly, the Conversion Right and the then current Conversion Price;
 - (vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Delisting Put Right or Conversion Right; and
 - (viii) that a Delisting Put Notice, once validly given, may not be withdrawn.
- (c) To exercise its rights to require the Issuer to purchase its Bonds, a Bondholder must deliver a written irrevocable notice of the exercise of such right (a **Delisting Put Notice**), in the then current form obtainable from the specified office of any

Paying Agent or Conversion Agent, to any Paying Agent or Conversion Agent on any Business Day prior to the close of business at the location of such Paying Agent or Conversion Agent, as the case may be on such day and which day is not less than 10 Business Days prior to the Delisting Put Date.

- (d) A Delisting Put Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Delisting Put Notices delivered as aforesaid on the Delisting Put Date.
- (e) The Trustee shall not be required to take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred and shall not be liable for any loss that may arise through its failure to do so.

7.6 Bondholders' Put Option

- (a) On 16 May 2011 (the **Put Option Date**), the holder of each Bond will have the right at such holder's option to require the Issuer to redeem all or some only of such holder's Bonds on the Put Option Date at 100% of their principal amount (the **Put Option Price**) together with accrued and unpaid interest to the Put Option Date.
- (b) To exercise its rights to require the Issuer to redeem the relevant Bonds, a Bondholder must complete, sign and deliver a written irrevocable notice of the exercise of such right (a **Put Exercise Notice**), in the then current form obtainable from the specified office of any Paying Agent or Conversion Agent, to any Paying Agent or Conversion Agent together with the Certificate evidencing the Bonds to be redeemed no earlier than 60 days and no later than 30 days prior to the Put Option Date on any Business Day prior to the close of business at the location of such Paying Agent or Conversion Agent.
- (c) A Put Exercise Notice, once delivered shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds which are the subject of Put Exercise Notices delivered on the Put Option Date at the Put Option Price.

7.7 Purchase

- (a) Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Issuer, the Guarantor, or any Subsidiary of the Issuer, the Guarantor may at any time purchase Bonds in the open market or otherwise at any price.
- (b) Any purchase by tender shall be made available to all Bondholders alike.
- (c) Any Bonds so purchased shall be immediately cancelled and cannot be resold or reissued.

7.8 Cancellation

All Bonds which are redeemed or in respect of which Conversion Rights are exercised will be cancelled and may not be reissued or resold.

7.9 Multiple notices

If more than one notice of redemption (which shall include any notice given by the Issuer pursuant to paragraphs 7.2 or 7.3 or any notice given by the Bondholder pursuant to paragraphs 7.4, 7.5 and 7.6) is given by the same person, the first of such notices to be given shall prevail.

8. Payments

8.1 Principal and interest

- (a) Payment of principal and interest due other than on an Interest Payment Date will be made by transfer to the registered account of the relevant Bondholder or by a U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of such Bondholder if it does not have a registered account. Payment of principal will only be made after surrender of the relevant Certificate at the specified office of any Agent.
- (b) Interest on Bonds due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the seventh Payment Business Day before the due date for the payment of interest (the **Interest Record Date**). Payments of interest on each Bond will be made by transfer to the registered account of the Bondholder or by a U.S. dollar cheque drawn on a bank in New York City mailed (at the Issuer's expense) to the registered address of the Bondholder if it does not have a registered account.

8.2 Registered accounts and addresses

For the purpose of this paragraph 8, a Bondholder's **registered account** means the U.S. dollar account maintained by it or on its behalf with a bank in New York City, details of which appear on the Register at the close of business on the seventh Payment Business Day before the due date for payment, and a Bondholder's **registered address** means its address appearing on the Register at that time.

8.3 Fiscal Laws

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of paragraph 9, no commissions or expenses shall be charged to the Bondholders in respect of such payments.

8.4 Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the written request of the Bondholder otherwise than by ordinary mail, expense of the Bondholder) on the due date for payment (or, if it is not a Payment Business Day, the immediately following Payment Business Day) or, in the case of a payment of principal, if later, on the Payment

Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

8.5 Delay in Payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so), or if a cheque mailed in accordance with this paragraph 8 arrives after the due date for payment.

9. Taxation

9.1 Additional payments

- (a) All payments (including principal, interest and premium (if any)) made by on or behalf the Issuer, or if the Guarantee was called, the Guarantor in respect of the Bonds or the Trust Deed will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law.
- (b) In the event that any such withholding or deduction is required to be made, the Issuer or the Guarantor will pay such additional amounts as will result in the receipt by the Bondholders of the amounts that would otherwise have been receivable had no such withholding or deduction been required, except that no such additional amount shall be payable in respect of any Bond:
 - (i) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Commonwealth of Australia otherwise than merely by holding the Bond; or
 - (ii) (in the case of a payment on redemption) if the Certificate in respect of a Bond is surrendered more than 30 days after the relevant date, except to the extent that the holder would have been entitled to such additional amount had the Issuer been obliged, following the surrendering of the Certificate (in the case of payment on redemption) to make the payment on the last day of the period of 30 days following the relevant date; or
 - (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

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- (iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent or Conversion Agent in a Member State of the European Union; or
 - (v) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges by reason of the holder being an associate of the Issuer for the purposes of section 128F of the Income Tax Assessment Act 1936 of Australia (as amended).
- (c) For the purpose of this paragraph 9, **relevant date** means the date on which such payment first becomes due (or would have become due had any required Certificate, document or information been provided) except that, if the full amount payable has not been received by the Trustee or the Paying Agent on or prior to such due date, it shall mean the date on which, such full amount payable having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.
- (d) References in these Conditions and the Bonds Trust Deed to principal and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefore pursuant to the Bonds Trust Deed.
- (e) This paragraph 9.1 shall not apply in respect of payments on any Bonds which are the subject of an election by the relevant Bondholder pursuant to paragraph 7.3(d).

9.2 Stamp duties

- (a) The Issuer shall pay or reimburse each Bondholder and the Trustee for all stamp, transaction, registration and similar fees (including fines and penalties) on or in relation to the execution, delivery, or enforcement of any Bond Document or any payment, receipt or other transaction contemplated by any Bond Document, except in relation to any transfer by the Bondholders pursuant to paragraph 3.
- (b) The Issuer shall indemnify each Bondholder and the Trustee against any liability resulting from delay or omission to pay the fees referred to in paragraph 9.2(a) , except to the extent the liability results from failure by the relevant Bondholder or the Trustee, as the case may be, to pay any fee after having been put in funds (with all necessary documents) to do so by the Issuer.

9.3 Survival of obligations

The obligations of the Issuer under this paragraph 9 survive the repayment of the principal amount of each Bond and the termination of any Bond Document.

10. Interest on Overdue Amounts

10.1 Accrual

Interest (**Default Interest**) accrues on each unpaid amount (other than unpaid Default Interest) which is due and payable by the Issuer under or in respect of any Bond Document:

- (a) on a daily basis up to the date of actual payment from the due date or, in the case of an amount payable by way of reimbursement or indemnity, the date payment was made or loss was suffered by the claimant, if earlier;
- (b) both before and after judgment (as a separate and independent obligation); and
- (c) at the Default Rate.

10.2 Payment

The Issuer shall pay interest accrued under this paragraph 10 on demand by the relevant Bondholder or any other day on which the principal is paid.

11. Event of Default

11.1 Events of Default

For so long as any Bond remains outstanding the Trustee at its discretion may (but shall not be obliged to) and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by a Special Resolution shall (subject, in each case, to being indemnified and/or provided with security by the Bondholders to its satisfaction), give notice to the Issuer, that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at 100% of their principal amount plus accrued and unpaid interest (including any accrued and unpaid Default Interest) with respect to the Bonds (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds) if any of the following events (each an **Event of Default**) has occurred and is continuing, subject to the proviso at the end of this paragraph 11.1:

- (a) **(Obligations under Bond Documents):**
 - (i) The Issuer or the Guarantor fails to pay any amount payable by it to a Bondholder under a Bond Document when due and such default continues for 5 days; or
 - (ii) the Issuer or the Guarantor fails to deliver Shares as and when such Shares are required to be delivered following the conversion of a Bond and such default continues for 10 days; or
 - (iii) the Issuer or the Guarantor fails to comply with any of its obligations under a Bond Document (other than as covered in sub-paragraphs (i) or (ii) above), such failure cannot be remedied within 30 days or, if in the opinion of the Trustee, that failure can be remedied within 30 days, the Issuer or the Guarantor (as relevant) does not remedy the failure within that period.

(b) **(Winding up, arrangements, insolvency etc)**

- (i) Except for the purpose of a solvent reconstruction or amalgamation previously approved by, in the case of the Guarantor or the Issuer, a Special Resolution of Bondholders, and, in the case of a Principal Subsidiary, an Ordinary Resolution of Bondholders:
- (A) where an application or an order is made, proceedings are commenced, a resolution is passed or proposed by the Issuer or the Guarantor or any of their Principal Subsidiaries in a notice of meeting or other steps are taken for:
- (1) the winding up, dissolution, liquidation, judicial management, or administration or any analogous process, of, or in relation to, the Issuer, the Guarantor or any of their Principal Subsidiaries (other than frivolous or vexatious applications, proceedings, notices and steps which are contested by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be, in good faith and by appropriate means); or
- (2) the Issuer, the Guarantor or any of their Principal Subsidiaries enters into an arrangement, compromise or composition with or assignment for the benefit of its creditors or a class of them in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of the debt of the Issuer, the Guarantor or any Principal Subsidiaries (other than frivolous or vexatious applications, proceedings, notices and steps which are contested by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be, in good faith and by appropriate means); or
- (B) where the Issuer, the Guarantor or any of its Principal Subsidiaries ceases, suspends or threatens to cease or suspend the conduct of all or substantially all of its business or disposes of or threatens to dispose of all or substantially all of its assets.
- (ii) The Issuer, the Guarantor or any of their Principal Subsidiaries:
- (A) is, or under legislation is presumed or taken to be, insolvent (other than as the result of a failure to pay a debt or claim the subject of a good faith dispute) or bankrupt or unable to pay its debts; or
- (B) stops or suspends or threatens to stop or suspend payment of all or a class of its debts or makes any agreement for the deferral, rescheduling or other adjustments of all (or all of a class of) its debts.
- (iii) AWAC is dissolved, whether voluntarily or involuntarily.

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- (c) **(Cross default)** A payment default, event of default or similar event (however defined) occurs in relation to any Financial Indebtedness of the Issuer or the Guarantor or any of their Subsidiaries in an amount equal to or in excess of US\$25,000,000 or its equivalent in any currency or currencies (as determined by the Trustee on the basis of the middle spot rate for the relevant currency against the dollar as quoted by any internationally recognised bank of good repute on the day on which payment default, event of default or similar event occurs).
- (d) **(Revocation of Authorisation)** An Authorisation, contract or agreement which is required for:
- (i) the performance by the Issuer or the Guarantor of a Bond Document, or to the validity and enforceability of a Bond Document; or
 - (ii) the conduct of the Issuer's, or the Guarantor's or any of their Principal Subsidiaries' business,
- is repealed, revoked or terminated or expires, or is modified or amended or conditions are attached to it in a manner which is, or could reasonably be expected to be, in the opinion of the Trustee, materially prejudicial to the interest of Bondholders and is not replaced by another Authorisation, contract or agreement previously approved by an Ordinary Resolution of Bondholders.
- (e) **(Vitiation of documents)**
- (i) All or any rights or obligations under a Bond Document are terminated or are or become void, illegal, invalid, unenforceable or of limited force and effect;
 - (ii) a party becomes entitled to terminate, rescind or avoid all or any part of a Bond Document;
 - (iii) the Issuer alleges or claims that an event described in sub-paragraph (i) has occurred or that it is entitled as described in sub-paragraph (ii); or
 - (iv) the Guarantee is unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor.
- (f) **(Illegality, etc.)** A law or anything done by a Government Agency wholly or partially renders illegal, prevents or restricts the performance or effectiveness of a material right or obligation under a Bond Document or it is or will become otherwise unlawful or illegal for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bond Documents.
- (g) **(Enforcement against assets)**
- (i) A receiver and manager, receiver or similar officer is appointed to call in or manage;
 - (ii) a Security Interest is enforced over; or
 - (iii) a distress, attachment or other execution is levied or enforced over,

all or in the opinion of the Trustee, a material part of the assets and undertaking of the Issuer, the Guarantor and their Principal Subsidiaries taken as a whole.

- (h) **(Litigation)** Any litigation, arbitration or proceeding is initiated against the Issuer, the Guarantor or any of their Subsidiaries.
- (i) **(AWAC Agreements)**
 - (i) Any of the events of dissolution listed in section 10.01 of the Formation Agreement occurs.
 - (ii) Any of the "Liquidating Events" listed in section 14.2 of the LLC Agreement occurs.
 - (iii) Any of the events referred to in paragraph 11.1(b) (Winding up, arrangements, insolvency etc) inclusive occurs in relation to any of the Enterprise Companies.
 - (iv) If:
 - (A) all or any part of an AWAC Agreement is terminated or is or becomes void, illegal, invalid, unenforceable or of limited force and effect;
 - (B) a party to an AWAC Agreement is or becomes entitled to terminate, rescind or avoid all or any part of an AWAC Agreement; or
 - (C) there is any amendment to any of the AWAC Agreements which would, in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.
- (j) **(Analogous Events)** Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

Provided always that in the case of paragraphs 11.1(a)(iii), 11.1(d), 11.1(e), 11.1(f), 11.1(h), 11.1(i)(iv) and 11.1(j), the Trustee shall have first certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

11.2 Default Cure Amount

- (a) Notwithstanding receipt of any payment after the acceleration of the Bonds, a Bondholder may exercise its Conversion Right by depositing a Conversion Notice with a Conversion Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in paragraph 11.1(a)(ii) (at which time the Issuer will notify the Bondholders of the number of Shares per Bond to be delivered upon conversion, assuming all the then outstanding Bonds are converted) to and including the 30th Business Day after such payment.
- (b) If any converting Bondholder deposits a Conversion Notice pursuant to this paragraph 11.2 on the Business Day prior to, or during, a Closed Period, the Bondholder's Conversion Right shall continue until the Business Day following the last day of the Closed Period, which shall be deemed the Conversion Date, for the

purposes of such Bondholder's exercise of its Conversion Right pursuant to this paragraph 11.2.

- (c) If the Conversion Right attached to any Bond is exercised pursuant to this paragraph 11.2, the Guarantor will deliver Shares (which number will be disclosed to such Bondholder as soon as practicable after the Conversion Notice is given) in accordance with the Conditions, except that the Issuer shall have twelve Business Days before it is required to procure that the Guarantor register the converting Bondholder (or its designee) in its register of members as the owner of the number of Shares to be delivered pursuant to this Condition and an additional five Business Days from such registration date to make payment in accordance with the following paragraph.
- (d) If the Conversion Right attached to any Bond is exercised pursuant to this paragraph 11.2, or if the Bonds have become due and payable pursuant to paragraph 11.1(a)(ii), the Issuer shall, at the request of the converting Bondholder, pay to such Bondholder an amount in U.S. dollars (the **Default Cure Amount**), equal to the product of (x) (i) the number of Shares that are required to be delivered by the Issuer to satisfy the Conversion Right in relation to such converting Bondholder minus (ii) the number of Shares that are actually delivered by the Issuer pursuant to such Bondholder's Conversion Notice and (y) the Share Price (as defined below) on the Conversion Date; provided that if such Bondholder has received any payment under the Bonds pursuant to this paragraph 11, the amount of such payment shall be deducted from the Default Cure Amount. Any Bond in respect of which a Default Cure Amount is paid in accordance with this paragraph, will be redeemed and cancelled to the extent of such payment.
- (e) The Share Price means the VWAP of the Shares as quoted by the ASX on the Conversion Date (translated into U.S. dollars at the fixed rate of A\$[*] = US\$1.00) or, if no reported sales take place on such date, the average of the VWAP for the last 20 Trading Days immediately prior to the Conversion Date (translated into U.S. dollars at the fixed rate of A\$[*] = US\$1.00).

12. Prescription

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years in the case of principal and five years in the case of interest and Default Interest, if any, from the relevant date (as defined in paragraph 9) in respect thereof. Neither the Trustee nor the Agents shall be responsible or liable in any manner whatsoever for any amounts so prescribed.

13. Enforcement

At any time after the Bonds have become due and repayable, then the Trustee may, at its discretion and without further notice, take such proceedings (including proceedings against the Issuer or the Guarantor) as it may think fit to enforce repayment of the Bonds at their principal amount, together with accrued interest (including any Default Interest) and to

enforce the provisions of the Bonds Trust Deed, but it will not be bound to take any such proceedings unless:

- (a) it shall have been so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or shall have been so directed by a Special Resolution of the Bondholders; and
- (b) it shall have been indemnified and/or provided with security to its satisfaction.

No Bondholder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period of being so bound, and such failure shall be continuing.

14. Meetings of Bondholders, Modification and Waiver

14.1 Meetings

- (a) The Bonds Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Special Resolution of a modification of the Bonds or the provisions of the Bonds Trust Deed. The quorum at any meeting for passing an Ordinary Resolution or a Special Resolution will be two or more persons holding or representing over 50% of the principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals to do any of the things listed in sub-paragraphs (b)(i) to (v) (inclusive) or as mentioned in the Bonds Trust Deed, in which case the necessary quorum will be two or more persons holding or representing not less than 75%, or at any adjourned such meeting not less than 25%, of the principal amount of the Bonds then outstanding.
- (b) A Special Resolution is required at a meeting of Bondholders if the intention is:
 - (i) to modify the due date for any payment in respect of the Bonds;
 - (ii) to reduce or cancel the amount of principal or premium or rate of interest and any accrued and unpaid interest with respect to the Bonds or Threshold Amount in respect of the Bonds;
 - (iii) to change the currency of payment of the Bonds,
 - (iv) to modify or cancel the Guarantee, the Conversion Rights (except for any unilateral and unconditional reduction of the Conversion Price by the Issuer) or the put options specified in paragraph 7 or to modify the Issuer's redemption rights in paragraph 7;
 - (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass a Special Resolution or an Ordinary Resolution; or
 - (vi) to pass a resolution in respect of any other matter specified as requiring a Special Resolution in these Conditions or in any of the Bonds Documents.

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- (c) A resolution passed at any meeting of Bondholders will be binding on all Bondholders or, whether or not they are present or represented at the meeting.
 - (d) The Bonds Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds then outstanding shall be as valid and effective as a duly passed resolution (irrespective of whether such resolution is an Ordinary Resolution or a Special Resolution).

14.2 Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to:

- (a) any modification (except as mentioned in paragraph 14.1 above or as set out in the Bonds Trust Deed) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds Documents which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders; or
- (b) any modification to the Bonds Documents which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law or any Government Agency.

Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter.

14.3 Interests of Bondholders

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation or waiver), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, nor shall any Bondholder be entitled to claim from the Issuer, the Guarantor or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in paragraph 9 and/or any undertakings given in addition thereto or in substitution thereof pursuant to the Bonds Trust Deed.

14.4 Certificates/Reports

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purpose of the Bond Documents may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in the absence of manifest error, be conclusive and binding on all parties, including without limitation the Bondholders).

15. Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register maintained by the Registrar or published in a leading newspaper having general circulation in London and so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, published in a leading newspaper having general circulation in Singapore. Any such notice shall be deemed to have been given on the later

of the dates of such publications (if applicable) or the seventh day after being so mailed, as the case may be.

16. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer, the Registrar and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. Agents

The names of the initial Agents, the Registrar and the Trustee and their specified offices are set out below:

the Trustee:

The Bank of New York, London Branch

One Canada Square

London, E14 5AL, United Kingdom

Fax No: +44 20 7964 6369

Attention: Global Corporate Trust

the Paying Agent:

The Bank of New York, London Branch

One Canada Square

London, E14 5AL, United Kingdom

Fax No: +44 20 7964 6369

Attention: Global Corporate Trust

the Conversion Agent:

The Bank of New York, London Branch

One Canada Square

London, E14 5AL, United Kingdom

Fax No: +44 20 7964 6369

Attention: Global Corporate Trust

the Registrar:

The Bank of New York, Singapore Branch

One Temasek Avenue

#02-01 Millenia Tower

Singapore 039192

Fax No: +65 6883 0338

Attention: Global Corporate Trust

The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) a Paying Agent, (ii) a Registrar, (iii) a Conversion Agent and (iv) in the event it becomes necessary and at the request of the Trustee, a Paying Agent and Conversion Agent with a specified office in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Trustee and of any change in the identity of the Registrar or the Paying Agent or Conversion Agent will be given promptly by the Issuer to the Bondholders in accordance with paragraph 15.

Subject to the terms of the Agency Agreement, in acting hereunder and in connection with the Bonds, the Agents shall act solely as agents of the Issuer and the Guarantor and will not thereby assume any obligations towards, or relationship of agency or trust for, any of the Bondholders.

18. Indemnification

- (a) The Bonds Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or secured to their satisfaction.
- (b) The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Guarantor or their Subsidiaries without accounting for any profit.
- (c) The Trustee shall not be responsible for the performance by any other person appointed by the Issuer or the Guarantor in relation to the Bonds and, unless notified in writing to the contrary, shall assume that the same are being duly performed.
- (d) The Trustee shall not be liable to any Bondholder or any other person for any action taken by the Bondholders or the Trustee in accordance with the instructions of the Bondholders.
- (e) The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders to have been duly given by holders of the requisite principal amount of Bonds outstanding or duly passed at a meeting of Bondholders duly convened and held in accordance with the Bonds Trust Deed.
- (f) Whenever the Trustee is required or entitled by the terms of the Bonds Trust Deed and these Conditions to exercise any discretion or power, take any action, make

any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Bondholders by way of a Special Resolution, and to be indemnified and/or secured to its satisfaction before acting on any direction and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law

- (a) The Bonds, the Bonds Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England.
- (b) In relation to any legal action or proceedings arising out of or in connection with the Bonds Trust Deed, the Agency Agreement or the Bonds, the Issuer and the Guarantor have in the Bonds Trust Deed irrevocably submitted to the courts of England and in relation thereto appointed Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX, as their respective agent for service of process in England.

9. Tax Implications – Australian Taxation

9.1 Introduction

The following is a general summary of the material Australian tax consequences arising under Australian tax laws and any relevant regulations, rulings, or judicial or administrative pronouncements as at the date of this Offering Circular in relation to an investment in the Bonds by a purchaser of the Bonds (**Bondholder**).

This general summary is not intended to be, nor should it be construed as legal or tax advice to any particular investor. Prospective investors should contact their tax advisers for specific advice relating to their particular circumstances, including in relation to local taxes in their home jurisdictions.

While the Company has sought legal advice on the Australian taxation implications of the Bonds, it has not sought, and does not intend to seek, a ruling from the Australian Taxation Office or any other revenue authority in relation to this matter.

The Bonds should be properly characterised as debt interests in the Company for Australian income tax purposes on the basis that the Company is under an effectively non-contingent obligation to pay the Bondholders (in the form of interest and the redemption price) an amount at least equal to the amount paid by Bondholders for the Bonds. Accordingly, payments made under the Bonds will for income tax purposes be treated as interest or amounts in the nature of interest in the hands of the Bondholders.

9.2 Non-Resident Investors

The following paragraphs deal with the consequences to a Bondholder who:

- is:
 - (i) a resident of Australia for tax purposes who holds the Bonds in connection with a business carried on outside Australia through a permanent establishment; or
 - (ii) not a resident of Australia for tax purposes and does not hold the Bonds in connection with a business carried on in Australia through a permanent establishment (each a **non-resident investor**); and
- purchased the Bonds pursuant to the offer detailed in this Offering Circular; and
- is not a dealer in securities and does not hold the Bonds as custodian or trustee.

(a) *Interest withholding tax*

Australian interest withholding tax is payable at a rate of 10% of the gross amount of any interest paid by an Australian tax resident company to a non-resident investor. An exemption from that withholding tax will apply to interest paid on the Bonds if the following requirements are satisfied:

- the Bonds are issued in a way that satisfies the "public offer" test in section 128F of the Income Tax Assessment Act 1936 of Australia. The public offer test can be satisfied by any one of the following five methods:

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- an offer to at least ten persons who are carrying on a business of providing finance or investing or dealing in securities in the course of operating in financial markets as long as no person to whom the Bonds are offered is known, or suspected, to be an associate of any other person to whom the Bonds are offered;
 - an offer to at least 100 investors;
 - an offer of Bonds that have been accepted for listing on a stock exchange;
 - an offer resulting from negotiations being initiated publicly in electronic form or any other form used by financial markets for dealing in debentures; and
 - an offer to a dealer, manager or underwriter who offers to sell the Bonds within 30 days in one of the four ways set out immediately above;
- the Issuer does not know or have reasonable grounds to suspect at the time of issue of the Bonds that the Bonds, or an interest in the Bonds, will be acquired by an associate of the Issuer (other than certain associates permitted by section 128F); and
 - at the time that any interest is paid on the Bonds the Issuer does not know, or have reasonable grounds to suspect, that the person to whom the interest is paid is an associate of the Issuer (other than certain associates permitted by section 128F).

The Issuer intends to issue the Bonds in a manner that will satisfy the public offer test in section 128F and that will comply with the other requirements of section 128F summarised above. If this is done, section 128F should apply to exempt any interest paid to non-resident investors from interest withholding tax.

(b) Other withholding tax

Section 12-140 of the Taxation Administration Act 1953 of Australia imposes a type of withholding tax at a rate of 46.5% on the payment of interest on certain registered securities if the payee has not quoted an Australian tax file number or, in certain circumstances, an Australian Business Number. If the requirements of section 128F are satisfied, section 12-140 would not apply to a non-resident investor who does not hold the Bonds in connection with the carrying on of a business at or through a permanent establishment in Australia.

(c) Profits or Gains on Disposal or Redemption of the Bonds

Any profit or gain made on a disposal or a redemption of the Bonds will only be subject to Australian tax if the profit or gain has an Australian source. Whether a profit or gain on a disposal or a redemption of the Bonds has an Australian source is a question of fact that will be determined on the basis of the circumstances existing at the time of the disposal or redemption.

A profit or gain arising on the sale of Bonds by a non-resident investor to another non-resident investor where the sale occurs outside Australia, all negotiations occur outside Australia, and all documentation is executed outside Australia, should not have an Australian source. Profits or gains arising on redemption of the Bonds should generally not have an Australian source.

If the profit or gain on disposal of a Bond has an Australian source, a Bondholder may be eligible for relief from Australian tax on such profit or gain under a double tax treaty between Australia and the Bondholder's country of residence. Prospective purchasers should consult their tax advisers regarding their entitlement to benefits under a tax treaty.

If a profit or gain on disposal of Bonds has an Australian source and protection from Australian tax is not available under a tax treaty, it would be necessary to take into account movements in the exchange rate between the U.S. dollar and Australian dollar during the period that the Bonds were held in calculating the amount of profit or gain. Relevant investors should consult their tax advisers if they need to apply Australia's foreign exchange tax rules.

(d) Conversion of Bonds into Shares

A Bondholder will be entitled to exercise Conversion Rights and receive Shares upon surrendering the relevant Bonds to the Company. For income tax and capital gains tax (**CGT**) purposes, no taxable gain or profit should arise to the Bondholder on the conversion of the Bonds into Shares, as the conversion is not regarded as a taxable event.

(e) Tax Treatment of Shares

The Shares issued to a Bondholder on an exercise of the Conversion Rights will be CGT assets. The cost base of the Shares for CGT purposes will be the cost base of the Bonds at the time of conversion plus any amounts paid to convert the Bonds. Capital gains or losses made by non-residents will only be subject to Australian capital gains tax if the CGT asset being sold is "taxable Australian property".

Shares in the Company will be taxable Australian property if they constitute an indirect Australian real property interest. A non-resident has an indirect Australian real property interest where it has shares in a company that satisfy:

- the non-portfolio interest test; and
- the principal asset test.

The non-portfolio interest test is satisfied if the non-resident (and its associates) has a direct shareholding of 10% or more in the company at the time the shares are disposed of or throughout any 12 month period in the 2 years before disposal.

The principal asset test looks at the underlying property of the Company. The principal asset test is satisfied if, at the time of the CGT event, the Company has more than 50% of its underlying value attributable to real property situated in Australia and mining, quarrying or prospecting rights where the minerals, petroleum or quarrying materials are situated in Australia.

(f) Dividends

Australia has an imputation system where tax paid at the company level is imputed to shareholders in determining the taxation consequences of dividends paid by the company. A dividend will be treated as "franked" where the dividend is paid out of profits of the company that have already been subject to tax.

The Bondholders would be subject to Australian dividend withholding tax at a rate of 30% to the extent that the dividends paid by the Company on its Shares were unfranked (the rate of withholding tax may be reduced in accordance with any double tax treaty between the Bondholder's home jurisdiction and Australia). However, the Bondholders would not be subject to Australian dividend withholding tax to the extent that dividends paid on the Shares are franked.

No Australian income tax will be payable by the Bondholders on dividends received.

9.3 Resident Investors

The following paragraphs deal with the consequences to a Bondholder who:

- is not a non-resident investor (as defined further above); and
- purchased the Bonds pursuant to the offer detailed in this Offering Circular; and
- is not a dealer in securities and does not hold the Bonds as custodian or trustee.

(a) *Interest*

Interest income paid under the Bonds will be included in a Bondholder's assessable income after it has been translated to Australian currency at the exchange rate applicable when the interest was derived. A forex realisation gain or loss may also arise to a Bondholder who accounts for the interest income on an accruals basis.

(b) *Profits or Gains on Disposal or Redemption of the Bonds*

Any profit or gain made on a disposal or a redemption of the Bonds (which may include a forex realisation gain) will be included in a Bondholder's assessable income. Before calculating this profit or gain, the amount paid to acquire the Bond must be translated to Australian currency at the exchange rate applicable at the time of the payment. Similarly, the amount received on disposal or redemption must be translated to Australian currency at the exchange rate applicable at the time of receipt.

(c) *Conversion of Bonds into Shares*

A Bondholder will be entitled to exercise Conversion Rights and receive Shares upon surrendering the relevant Bonds to the Company. For income tax and CGT purposes, no taxable gain or profit should arise to the Bondholder on the conversion of the Bonds into Shares as the conversion is not regarded as a taxable event.

(d) *Tax Treatment of Shares*

The Shares issued to a Bondholder on an exercise of the Conversion Rights are CGT assets. The cost base of the Shares for CGT purposes will be the cost base of the Bonds at the time of conversion plus any amounts paid to convert the Bonds. A subsequent disposal of Shares by a Bondholder may give rise to ordinary income or capital gains on disposal.

If a gain arising on disposal is taxed under the CGT provisions, a CGT discount may be available where the investor is an individual or superannuation entity. The discount would apply if the shares were held for at least 12 months. If the discount applies, individuals would be taxed only on half of any gain, and superannuation entities would be taxed on one third of their gain.

(e) *Dividends*

Dividends paid by the Company will be included in the investor's assessable income. If the dividends are fully or partly franked, then the investor must also include the amount of the franking credit which is attached to that franked dividend in their assessable income. The investor would then generally be entitled to a tax offset equal to the franking credit subject to certain "at risk" rules that can deny franking credit tax offsets where part of the risks and benefits arising from the shares are not borne or received by the shareholder. In the event that the credit exceeds the investor's tax liability, a tax refund of the excess is available to a limited category of taxpayers.

9.4 Goods and Services Tax (GST)

GST should not be payable by the Bondholders in respect of the issue, disposal or redemption of Bonds, or the conversion of Bonds into Shares, or any subsequent disposal of the Shares.

9.5 Stamp Duty

The issue or transfer of the Bonds will not be subject to stamp duty in any Australian jurisdiction. As the Company is listed on the ASX and its shares are quoted, the conversion of the Bonds into any Shares, or the transfer of the Shares after conversion, will not be subject to stamp duty except in certain circumstances. Where the Shares remain quoted on the ASX, stamp duty may be chargeable if the Company is "land rich" in Western Australia and the conversion or transfer results in a person and its defined associates holding 90% or more of the shares on issue in the Company.

In the event that the Shares are no longer quoted, stamp duty may be assessed in an Australian jurisdiction where the Company holds interests in land at the time of the conversion or transfer if the Company is "land rich" and the conversion or transfer results in a person and its defined associates holding 50% or more of the shares on issue in the Company.

In general, a company will be land rich in a particular jurisdiction if it is entitled to land in that jurisdiction with a value equal to or greater than a specified amount (usually A\$1 million) and its worldwide land has a total value equal to or greater than a specified percentage (usually 60%) of the value of all property (other than certain excluded items) to which it is entitled.

Further stamp duty advice should be sought before any conversion of Bonds or transfer of Shares which may result in a person and its associates holding 50% or more of the shares on issue in the Company.

9.6 EU Directive on the Taxation of Savings Income

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Member States are required from 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments unless during such period they elect otherwise.

10. Global Certificate Provisions

This section summarises certain provisions relating to the Bonds while represented by the Global Certificate.

10.1 Initial Issue of Bonds

Upon the initial registration of the Bonds in the name of a nominee of Euroclear and Clearstream and delivery of the Global Certificate to a common depository for Euroclear and Clearstream (**Common Depository**), Euroclear or Clearstream will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

10.2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream as the holder of a Bond represented by the Global Certificate must look solely to Euroclear or Clearstream (as the case may be) for their share of each payment made by the Issuer to the holder of the underlying Bond and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream. Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the underlying Bond in respect of each amount so paid.

10.3 Exchange

The Global Certificate will be exchangeable for individual Definitive Certificates if either: (a) the Common Depository or any successor to the Common Depository notifies the Issuer in writing that it is at any time unwilling or unable to act as a depository and a successor depository is not appointed by the Issuer within 90 days of receipt of such notice by the Issuer; or (b) Euroclear or Clearstream (or any other clearing system (an **alternative clearing system**) as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances (i) the Issuer will cause sufficient individual Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Bondholders and (ii) any person with a beneficial interest in the Bonds in respect of which the Global Certificate is issued who wishes to have title to its Bonds registered in its name and to receive a Definitive Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to effect such registration in accordance with the regulations specified in the Agency Agreement and to complete, execute and deliver such individual Definitive Certificate and must procure the presentation of the Global Certificate to the Registrar for annotation in respect of the Bonds so transferred.

10.4 Conversion

Subject to the requirements of Euroclear and Clearstream, and any Other Clearing System, the Conversion Rights attaching to the Bonds represented by the Global Certificate may be exercised

by the presentation of one or more Conversion Notices duly completed by or on behalf of the beneficial owner of such Bonds. The exercise of the Conversion Right shall be notified by the Paying and Conversion Agent to the Registrar and the holder of the Bonds represented by the Global Certificate. Deposit of the Global Certificate with the Paying and Conversion Agent together with the relevant Conversion Notice(s) shall not be required. Any holder exercising its Conversion Right will be required to certify that it is not in the United States and it is not a U.S. Person and not acting for the account or benefit of a U.S. Person.

10.5 Redemption at the Option of the Company

The options of the Issuer provided for in paragraphs 7.2 and 7.3 of the Terms and Conditions shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in, and containing the information required by, those Conditions.

10.6 Tax Election Option of the Bondholders

The option of the Bondholders provided for in paragraph 7.3 of the Terms and Conditions may be exercised by the holder of the Bonds evidenced by the Global Certificate by giving notice to any Paying and Conversion Agent within the time limits set out in Condition 7.3(d) and substantially in the form of the Bondholders Tax Election Notice as set out in Schedule 4 to the Agency Agreement. Such notice shall be obtainable from the specified office of any Paying and Conversion Agent and shall state the number of Bonds in respect of which the option is exercised. Upon exercise of the option the relevant Bondholder shall present the Global Certificate to the Registrar for annotation in Schedule A thereto accordingly.

10.7 Redemption at the Option of the Bondholders

The Bondholders' put options in paragraphs 7.4 and 7.5 of the Terms and Conditions may be exercised by the holder of the Bonds represented by the Global Certificate giving notice to the Paying and Conversion Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in such Conditions and the principal amount of the Bonds will be reduced in the Register accordingly.

10.8 Trustee's Powers

In considering the interests of Bondholders the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of the beneficial owners (either individually or by way of category) of Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds represented by the Global Certificate.

10.9 Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the accountholders of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder as if they were themselves the holders of Bonds in such principal amounts.

10.10 Payments

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made without presentation or, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Paying and Conversion Agent or such other Agent as shall have been notified to the holder of the Bonds represented by the Global Certificate for such purpose.

10.11 Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of a Euroclear, Clearstream or an alternative clearing system, notice to holders of the Bonds may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions and such notice will be deemed to have been given on the day after delivery thereof except that so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, notices shall also be published in a leading daily newspaper having general circulation in Singapore (and, in the event that the Bonds are listed on any other stock exchange, notices shall be published in accordance with the rules of such stock exchange).

10.12 Prescription

Claims against the Company in respect of principal and interest on the Bonds while the Bonds are represented by the Global Certificate will become prescribed after a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

10.13 Redemption or Purchase and Cancellation

Cancellation of any Bonds following its redemption, conversion or purchase will be effected by reduction in the principal amount of the Bonds in the Register maintained in respect of the Bonds and endorsement by or on behalf of the Paying and Conversion Agent of each reduction on the Global Certificate.

10.14 Meetings

The holder of the Bonds represented by the Global Certificate will be treated as two persons for the purposes of quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US\$10,000 in principal amount of the Bonds represented by the Global Certificate.

The Trustee may allow to attend and speak (but not vote) at any meeting of Bondholders any accountholder (or the representative of any such person) of a clearing system with an interest in the Bonds represented by the Global Certificate on confirmation of entitlement and proof of identity.

11. Subscription and Sale

This section summarises the Subscription Agreement entered into by the Issuer, the Company and the Lead Manager. It also sets out restrictions on the Offering in various jurisdictions.

Subscription Agreement

The Lead Manager has entered into a subscription agreement dated 13 May 2008 with the Issuer and the Company (**Subscription Agreement**). Upon the terms and subject to the conditions contained therein, the Lead Manager has agreed with the Issuer and the Company to subscribe or procure subscribers either directly or through any of its affiliates for the aggregate principal amount of the Bonds at the issue price of 100% of their principal amount (**Issue Price**).

The Issuer has agreed to pay to the Lead Manager a combined management, underwriting and selling commission of 1.75% of the principal amount of the Bonds.

The Issuer has also agreed to reimburse the Lead Manager for certain of its expenses (as separately agreed with the Lead Manager) incurred in connection with the management of the issue of the Bonds.

In connection with the offering of the Bonds, the Lead Manager may purchase and sell Bonds in the open market. These transactions may include short sales, stabilising transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Lead Manager of a greater amount of the Bonds than it is required to purchase in the offering of the Bonds. "Covered" short sales are sales made in an amount not greater than the Lead Manager's option to purchase an additional amount of the Bonds from the Issuer in the offering. The Lead Manager may close out any covered short position by either exercising its option to purchase additional amounts of the Bonds or purchasing Bonds in the open market. In determining the source of Bonds to close out the covered short position, the Lead Manager will consider, among other things, the price of the Bonds available for purchase in the open market as compared to the price at which it may purchase the Bonds through an over-allotment option. "Naked" short sales are any sales in excess of such option. The Lead Manager must close out any naked short position by purchasing Bonds in the open market. A naked short position is more likely to be created if the Lead Manager is concerned that there may be downward pressure on the price of the Bonds in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilising transactions consist of various bids for or purchases of the Bonds made by the Lead Manager in the open market prior to the completion of the offering of the Bonds.

Purchases to cover a short position and stabilising transactions may have the effect of preventing or retarding a decline in the market price of the Bonds and together with the imposition of a penalty bid, may stabilise, maintain or otherwise affect the market price of the Bonds. As a result, the price of the Bonds may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on a market operated outside Australia and in other jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulations.

In connection with the offering of the Bonds, the Lead Manager or any of its affiliates may purchase the Bonds for their own account and enter into transactions, including (i) credit derivatives

(including convertible asset swaps, repackaging transactions and credit default swaps) relating to the Bonds and/or the Company's securities, and (ii) equity derivatives and stock loan transactions relating to the Company's Shares. Such transactions may occur either at the same time as the offer and sale of the Bonds, or in secondary market transactions. Such transactions would be carried out as bilateral transactions with selected counter-parties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counter-parties may also be purchasers of the Bonds). In connection with the offering of the Bonds, the Issuer and/or the Company may enter into a derivative transaction with the Lead Manager (or an affiliated entity designated by it) to hedge its foreign currency risk.

Investors who purchase Bonds from the Lead Manager may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this Offering Circular.

Each of the Company and the Issuer has undertaken that during the period commencing on the date of the Subscription Agreement and ending 90 days after the Closing Date, it will not, and each of the Company and the Issuer has undertaken to procure that none of its subsidiaries or affiliates over which it exercises management or voting control nor any person acting on their behalf, will, without the prior written consent of the Lead Manager issue, offer, pledge, sell, contract to sell or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible into or exercisable or exchangeable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise). The foregoing sentence shall not apply (a) to Shares issued pursuant to conversion of the Bonds or (b) in connection with any transaction which has already been publicly announced or (c) to the terms of any bonds or other securities convertible into, or exchangeable for, Shares issued and in force, as at the date of the Subscription Agreement or pursuant to the Bonds, or (d) to the exercise of an existing option in respect of the Shares or (e) to the terms of any employee share option scheme complying in all respects with the laws of any applicable Government Agency, including ASX or (f) to consideration for any acquisition of shares and/or assets of another person on terms approved by Majority Bondholders.

The Lead Manager and each of its affiliates have or may have, in the past, performed investment banking and advisory services for the Company and the Group, for which they have received customary fees and expenses. The Lead Manager and each of its affiliates may, from time to time, engage in further transactions with, and perform services for, the Company and the Group in the ordinary course of their businesses, for which they expect to receive customary fees and expenses.

Sale Restrictions

11.1 United States of America

The Bonds, Guarantee and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act or the laws of any State of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons. The Bonds are being offered and sold in offshore transactions outside the United

States in reliance on Regulation S under the U.S. Securities Act. The Lead Manager has represented that it has not offered or sold, and has agreed that it will not offer or sell, any Bonds within the United States or to, or for the account or benefit of, U.S. Persons. The Lead Manager, its affiliates and any person acting on its or their behalf have not and will not engage in any directed selling efforts with respect to the Bonds and Guarantee.

In addition, an offer or sale of Bonds and the Guarantee within the United States by any dealer that is not participating in the offering may violate the Investment Company Act or the registration requirements of the U.S. Securities Act.

The Lead Manager has represented that it has not entered and has agreed that it will not enter into any contractual agreement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Bonds and Guarantee, except with its affiliates or with the prior written consent of the Issuer.

Terms used in this section have the meaning given to them by Regulation S.

In addition, each person submitting a Conversion Notice will be required to:

- acknowledge that the Shares to be issued on conversion have not been, and will not be, registered under the U.S. Securities Act or the laws of any State of the United States and may not be offered, sold or resold within the United States or to, or for the account or benefit of, a U.S. Person; and
- represent, warrant and agree that it is not in the United States or a U.S. Person and is not acting for the account or benefit of a U.S. Person.

11.2 United Kingdom

The Lead Manager has represented to, warranted to and agreed with the Issuer and the Company in the Subscription Agreement that it:

- (a) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and the Company; and
- (b) has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

11.3 Australia

The Lead Manager has represented to and agreed with the Issuer and the Company in the Subscription Agreement that it:

- has not made or invited, and will not make or invite, an offer of the Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- has not distributed or published, and will not distribute or publish, the Offering Circular or any other offering, material or advertisement relating to any Bonds in Australia,

unless (a) the offeree is a sophisticated or professional investor within sections 708(8) or (11) of the Corporations Act and (b) such action complies with applicable laws and regulations.

In addition, the Lead Manager has represented and warranted to the Issuer and the Company in the Subscription Agreement that it has not and will not offer or sell the Bonds to certain persons specified in the Subscription Agreement.

11.4 Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), the Lead Manager has represented, warranted and agreed with the Issuer and the Company in the Subscription Agreement that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**), it has not made and will not make an offer of Bonds that are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State, other than:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive

provided that no such offer of Bonds shall require the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

11.5 Singapore

The Lead Manager acknowledges that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Lead Manager has represented to and agreed with the Issuer and the Company in the Subscription Agreement that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under section 274 of the

Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), (2) to a relevant person pursuant to section 275(1), or any person pursuant to section 275(1A), and in accordance with the conditions specified in section 275, of the SFA, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

Where the Bonds are subscribed or purchased under section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under section 275 of the SFA except:

- (a) to an institutional investor (for corporations, under section 274 of the SFA) or to a relevant person defined in section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in section 275 of the SFA;
- (b) where no consideration is or will be given for the transfer; or
- (c) where the transfer is by operation of law.

11.6 Hong Kong

The Lead Manager has represented to and agreed with the Issuer and the Company in the Subscription Agreement that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than:
 - (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or
 - (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if

permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

11.7 Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the ***Financial Instruments and Exchange Law***). Accordingly, the Lead Manager has represented, warranted to and agreed with the Issuer and the Company in the Subscription Agreement that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan.

11.8 General

Under the terms of the Subscription Agreement, the Lead Manager acknowledges and agrees with the Issuer and the Company (as Guarantor) that no action has been or will be taken in any jurisdiction by the Lead Manager that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Lead Manager will comply, to the best of its knowledge and belief, with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Offering Circular or any such other material, in all cases at its own expense.

Neither the Issuer nor the Guarantor will have any responsibility for, and the Lead Manager will obtain, any consent, approval or permission required by the Lead Manager for, the acquisition, offer, sale or delivery by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

The Lead Manager is not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in this Offering Circular or any amendment or supplement to it.

12. Additional Information

12.1 General

- The Issuer's and the Company's corporate head office and principal place of business is located at Level 12, IBM Centre, 60 City Road, Southbank, Victoria, 3006, Australia.
- The auditors of the Company in Australia are PricewaterhouseCoopers.
- The paying and conversion agent for the Bonds is The Bank of New York, London Branch at its offices located at One Canada Square, 40th Floor, London E145AL, United Kingdom. The Registrar for the Bonds is The Bank of New York, Singapore Branch at its offices located at One Temasek Avenue, #02-01 Millenia Tower, Singapore 039192.
- The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds and the terms of the offering were approved by resolutions of the Issuer Board passed on 12 May 2008. The Company has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Guarantee and the Company's obligations under the Trust Deed. The giving of the Guarantee was authorised by resolutions of the Alumina Board on 12 May 2008.
- Copies of the constitution of the Issuer and the Company and copies of the Trust Deed and the Agency Agreement (upon execution) will be available for inspection, and the published financial statements of the Company will be available for collection at the specified office of the Paying and Conversion Agent during normal business hours, so long as any of the Bonds are outstanding.
- The Bonds have been accepted for clearance through Euroclear and Clearstream. The International Securities Identification Number for the Bonds is XS0364556919. The Common Code for the Bonds is 036455691.
- The Issuer and the Company have obtained or will at the date of issue obtain all consents, approvals, and authorisations in Australia and Singapore required to be obtained in connection with the issue and performance of the Bonds and the Guarantee.
- Except as set out in this Offering Circular, there has been no significant change in the financial or trading position of the Company and its subsidiaries as a whole since 31 December 2007 and no material adverse change in the financial position or prospects of the Company and its subsidiaries as a whole since 31 December 2007.
- Except as described in this Offering Circular, none of the Issuer, the Company nor any of its respective subsidiaries is involved in any litigation or arbitration proceedings or any regulatory investigations relating to claims or amounts which are material in the context of the issue of the Bonds nor is the Issuer or the

Company aware that such litigation or arbitration proceedings are pending or threatened.

- The financial statements of the Company as at and for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 in this Offering Circular have been audited by PricewaterhouseCoopers, auditors to the Company, as stated in their reports appearing therein.
- The Trustee may conclusively rely without any liability for acting or refraining from acting, upon the direction, opinion or advice of, or information obtained whether by it, the Issuer, the Guarantor or any agent or any other person, from any lawyer, bank, valuer or any other expert and will not be responsible to anyone for any loss provided it has exercised reasonable care in the selection of such expert. The Trustee shall be entitled to rely on any report, confirmation or certificate provided by the Issuer or the Guarantor. The Trustee will be entitled to rely on any certificate, opinion, advice or any like document notwithstanding that it may contain any limit or liability by reference to monetary cap or otherwise and such documents may be relied upon by the Trustee as sufficient evidence of the facts therein.
- The Bonds provide for the Trustee to take action on behalf of the Bondholders in certain circumstances, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Bonds and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Bondholders to take action directly.
- Approval in-principle has been received for the listing of the Bonds on the SGX-ST. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for individual definitive Bonds. In addition, in the event that the Global Certificate is exchanged for individual definitive Bonds, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual definitive Bonds, including details of the paying agent in Singapore.

Ownership Restrictions

12.2 FATA

The acquisition of interests in the Company is regulated by the Australian Foreign Acquisitions and Takeovers Act 1975 (**FATA**) and the Corporations Act.

FATA generally prohibits the acquisition by a "foreign person" of shares in the Company, and gives the Treasurer of the Commonwealth of Australia power to make a divestment order in respect of such an acquisition, if a single foreign person (alone or together with its associates) would have an interest in 15% or more of the shares or votes of the Company, or a number of foreign persons (alone or together with their respective associates) would have in aggregate an interest in 40% or

more of the shares or votes of the Company, unless prior notice of the acquisition has been given to the Treasurer and the Treasurer has either stated that there is no objection to the acquisition or a statutory period has expired without the Treasurer objecting.

12.3 Takeover Restrictions

The takeover provisions in Chapter 6 of the Corporations Act prohibit the acquisition of relevant interests in voting shares in the Company, if as a result of the acquisition the acquirer's (or another party's) "voting power" in the Company would increase to above 20%, or would increase from a starting point that is above 20% and below 90%. That prohibition is subject to a number of exceptions, including for acquisitions pursuant to a regulated takeover bid. Chapter 6C of the Corporations Act also contains provisions requiring disclosure to the Company and ASX of their relevant interests (and changes in relevant interests) in voting shares in the Company by persons holding voting power in the Company of 5% or more.

12.4 ASX Listing Rules

ASX Listing Rules prohibit the issue of equity securities (which include convertible securities) if the number of those equity securities, when aggregated with the number of any other equity securities issued during the previous 12 months, exceeds 15% of the number securities on issue at the commencement of that period of 12 months plus the number of ordinary securities issued during that 12 months under an exception, except under certain exceptions including with prior shareholder approval, or to ordinary shareholders pro rata, or pursuant to a takeover or scheme of arrangement.

Interests and Fees

12.5 Interests of Directors

Other than as set out below or elsewhere in this Offering Circular, no director of the Company or director of the Issuer or a candidate for election as a director of either the Company or the Issuer has, or has had within the two years prior to lodgement of this Offering Circular, any interest in:

- the promotion or formation of the Company or the Issuer;
- property acquired or proposed to be acquired by the Company or the Issuer in connection with its formation or promotion or the Offering; or
- the Offering,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any director of the Issuer or the Company or any candidate for election as a director of either the Company or the Issuer:

- to induce him or her to become, or to qualify him or her as, a director; or
- for services rendered by him or her in connection with the formation or promotion of the Company, the Issuer or the Offering.

The Issuer is a wholly owned subsidiary of the Company. Details of the interests of the directors of the Company or the Issuer in the securities of the Company as of the date of this Offering Circular, including those held directly and indirectly, are disclosed below.

Name	Interest (Direct and Indirect)
Donald Morley	431,731 Shares
John Marlay	98,338 Shares and 320,200 performance rights ¹
Peter Hay	45,027 Shares
Ronald McNeilly	38,638 Shares
George John Pizzey	15,657 Shares
Kenneth Dean	17,735 Shares and 143,800 performance rights ¹

Note:

1. Performance rights refers to conditional rights to acquire Shares under the Company's Long Term Incentive Plan.

12.6 Interests of Promoters, Advisers and Experts

Other than as set out in the Offering Circular, no promoter, no professional, adviser or expert named as such in this Offering Circular and no Underwriter to the Offering or financial services licensee named as a financial services licensee involved in the Offering has, or has had within the two years prior to lodgement of this Offering Circular, any interest in:

- the promotion or formation of the Company;
- the property acquired or proposed to be acquired by the Company in connection with its promotion or formation or the Offering; or
- the Offering,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any such persons for services rendered by him or her in connection with the formation or promotion of the Company or the Offering.

Goldman Sachs International has acted as Lead Manager to the Offering. Their fees in connection with the Offering are set out under "*Subscription and Sale*" in section 11 of this Offering Circular.

PricewaterhouseCoopers have acted as auditor of the Company. Their fee is expected to be approximately A\$150,000 for services provided in connection with the Offering.

Allens Arthur Robinson have acted as legal and tax adviser of the Company on matters of Australian law in relation to the Offering. Their fee is expected to be approximately A\$500,000 for services provided in connection with the Offering.

12.7 Expenses and Fees of Professional Advisers

The total estimated expenses and fees of the Offering (including underwriting and management fees, legal fees and other consulting fees, registration and listing fees and other expenses) will be approximately A\$[*], which is payable by the Company and will be deducted from the proceeds of the Offering.

ASX and ASIC Confirmations

12.8 ASX Confirmations

ASX has confirmed the following:

- For the purposes of listing rule 7.1.4, the conversion rate of the Bonds to Shares of the Company will be calculated based on the Initial Conversion Price.
- The terms of the Bonds are appropriate and equitable for the purposes of listing rule 6.1.
- The conversion or redemption of the Bonds in accordance with the terms does not constitute a divestment of the Bonds for the purposes of listing rule 6.12.

12.9 ASIC Relief

ASIC has provided relief to the Issuer from the requirement under the Corporations Act that the Bonds may only be issued or transferred in response to an application form and from the requirement under the Corporations Act to wait for seven days before the Issuer may accept applications for the Bonds offered under this Offering Circular.

12.10 Nature of this Offering Circular

This Offering Circular is a prospectus to which the special content rules under section 713 of the Corporations Act apply. That provision allows the issue of a more concise prospectus in relation to offers of securities in a class that has been continuously quoted by ASX for the three months prior to the date of the prospectus. ASIC Class Order 00/195 extends the operation of that provision to offers of convertible securities (which are not themselves continuously quoted securities) if the securities underlying the convertible securities are continuously quoted securities. In the case of the Bonds, the Shares into which they are convertible are of a class that are continuously quoted securities and, accordingly, section 713 is available to the Issuer.

To the extent that the Offering constitutes an offer by Alumina of options to acquire Shares, section 713 will also apply.

Authorisations and Consents

Directors' Authorisations

This Offering Circular is issued by Alumina Finance Limited ACN 130 920 562. Each director of the Company and of the Issuer consents to the lodgement of this Offering Circular with ASIC.

Consents

PricewaterhouseCoopers, as independent accountant and as auditor of the Company, has given, and has not, before the lodgement of this Offering Circular with ASIC, withdrawn its consent to the inclusion of the audited financial reports for the years ended 31 December 2005, 31 December 2006 and 31 December 2007 in section 14 and to the inclusion of any figures relating to the Company and its Subsidiaries used in, or incorporated by reference into, this Offering Circular and correctly referred to, expressly or impliedly, as being figures audited by PricewaterhouseCoopers.

Each of the parties referred to as consenting parties who are named below:

-
- (a) has not made any statement in this Offering Circular or any statement on which a statement made in this Offering Circular is based;
 - (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Offering Circular; and
 - (c) has given and has not, before the lodgement of this Offering Circular with ASIC, withdrawn its written consent to be named in this Offering Circular in the form and context in which it is named.

Allens Arthur Robinson has given its consent to be named in this Offering Circular in the form and context in which it is named.

Goldman Sachs International has given its consent to be named in this Offering Circular in the form and context in which it is named.

The Bank of New York, London and Singapore branches, have given their consent to be named in this Offering Circular in the form and context in which they are named.

Standard & Poor's has given its consent to be named in this Offering Circular in the form and context in which it is named.

Directors' Authorisation

The directors of the Company and the directors of the Issuer have authorised the issue of the Offering Circular.

Signed for and on behalf of the Company by:

Signed for and on behalf of the Issuer by:

[*]
Director

[*]
Director

13. Glossary

13.1 Terms defined in the Conditions

Capitalised terms not defined below, or otherwise defined in this Offering Circular, have the meaning given in the Conditions

13.2 Definitions

Term	Definition
A\$	Australian dollars
A-IFRS	Australian equivalents to International Financial Reporting Standards
Alba	Aluminium Bahrain B.S.C.
Alcoa	Alcoa Inc. and Alcoa World Alumina LLC
Alcoa of Australia	Alcoa of Australia Limited (ACN 004 879 298)
Alumina Board	The board of directors of the Company
ASIC	Australian Securities and Investments Commission
ASX	The Australian Securities Exchange operated by ASX Limited (ACN 008 624 691) or ASX Limited
AWAC	Alcoa World Alumina and Chemicals, the worldwide enterprise formed by Alcoa and the Company and certain of their respective affiliates and subsidiaries) by combining their interests in bauxite mining, alumina refining and Alcoa's inorganic industrial chemicals operations as well as certain integrated aluminium fabrication and smelting operations, as governed by the principles and policies in the Charter.
Board	The board of directors of the Company
Bondholder	A holder of a Bond (includes joint holders)
Bonds	The US\$[*]00,000,000 [*]% Convertible Bonds due 2013
CGT	Capital gains tax
Charter	The Charter of the Strategic Council executed on 21 December 1994 by Alcoa Inc. and the Issuer.
Company	Alumina Limited
Conditions	The terms and conditions of the Bonds as set out in section 8 of this Offering Circular.
Corporations Act	Corporations Act 2001 of Australia
FATA	Foreign Acquisitions and Takeovers Act 1975 of Australia
Government Agency	Any government or governmental, semi governmental or judicial entity

Term	Definition
	or authority or minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government, including but not limited to, the ASX.
Group	The Company and each of its Subsidiaries
GST	Goods and services tax
Guarantee	The unconditional and irrevocable guarantee of the Bonds by the Company.
Issuer	Alumina Finance Limited
Issuer Board	The board of directors of the Issuer
Lead Manager	Goldman Sachs International
Listing Rules	The ASX Listing Rules
LME	London Metal Exchange
Majority Bondholder	Bondholders who hold between them more than 50% by value of the total number of outstanding Bonds.
mtpa	Million tonnes per annum
mtpy	Million tonnes per year
Offering	The offer to subscribe for the Bonds described in this Offering Circular
Offering Circular	This Offering Circular dated [*] May 2008
Paying and Conversion Agent	The Bank of New York, London Branch
Registrar	The Bank of New York, Singapore Branch
S\$	Singapore dollars
SGX-ST	Singapore Exchange Securities Trading Limited
Share	A share in the share capital of the Company
Subsidiary	Has the meaning given to this term in the Corporations Act
Tax Acts	Income Tax Assessment Act 1936 of Australia and the Income Tax Assessment Act 1997 of Australia
Trading Day	A day when the ASX is open for trading, provided that if no closing price is reported in respect of the relevant Shares on the ASX for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days.
Trustee	The Bank of New York, London Branch
Trust Deed	The trust deed to be entered into by the Issuer, the Company and the Trustee relating to the issuance of the Bonds.

Term	Definition
US\$	United States dollars
U.S. Securities Act	United States of America Securities Act of 1933
VWAP	Means, in respect of a Share on any Trading Day, the daily volume-weighted average sale price (rounded to the nearest cent) of a Share sold on the ASX published or derived from the ASX provided that on any Trading Day where such price is not available or cannot otherwise be determined as provided above, the VWAP in respect of such Trading Day shall be the VWAP, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

14. Index to the Company Directors' Remuneration Reports and Financial Statements

	Page
YEAR ENDED 31 DECEMBER 2007	
Remuneration Report	F-1
Financial Summary	F-20
Income statements	F-22
Balance sheets	F-23
Statements of changes in equity	F-24
Cash flow statements	F-25
Notes to and forming part of the financial statements	F-26
Director's declaration	F-62
Independent auditor's report to the members	F-63
 YEAR ENDED 31 DECEMBER 2006	
Income statements	F-65
Balance sheets	F-66
Statements of changes in equity	F-67
Cash flow statements	F-68
Notes to and forming part of the financial statements	F-69
Director's declaration	F-105
Independent auditor's report to the members	F-106
Remuneration Report	F-108

REMUNERATION REPORT

This Remuneration Report sets out the Company's remuneration strategy and practices and incorporates remuneration information for Directors and senior executives in accordance with the Corporations Act. Senior Executive Remuneration Policy and Non-executive Director Remuneration Policy are discussed separately in this report. This report forms part of the Directors' statutory report for the year ended 31 December 2007.

REMUNERATION POLICY AND PRACTICES 2008

Alumina Limited has a number of specific differences in its structure and operations that differentiate it from other ASX companies. The Company has adopted widely accepted conventional performance measures for executive remuneration, such as earnings per share, return on capital, and relative total shareholder return. However, these performance measures can be impacted by external factors, such as aluminium price, exchange rate and the performance of operating facilities which are managed by Alcoa, rather than the management of Alumina Limited. These measures are used in our remuneration structure, as they do align management remuneration with shareholders' interests. In 2008, as part of a comprehensive review of our remuneration philosophy, we have made changes to our remuneration practices to better link remuneration to specific Alumina Limited management performance while ensuring alignment to shareholder interests.

Short Term Incentive

The Company reviewed its remuneration policy during 2007 and sought to increase the weighting of remuneration to those areas the executive can directly influence. In 2008, the Short Term Incentive ("STI") will be up to a maximum of 100 per cent of Fixed Annual Reward ("FAR") for the Chief Executive Officer (50 per cent in 2007) and 70 per cent for Senior Executives (40 per cent in 2007).

Fifty per cent of the STI for the Chief Executive Officer and Senior Executives will relate to performance against individual objectives and 50 per cent of the STI for the Chief Executive Officer and Senior Executives relates to return on capital and earnings per share hurdles. The individual objectives relate to promoting and protecting shareholder interests in the AWAC joint venture, Alumina Limited capital management and funding, influence on AWAC strategy and operational performance, corporate governance and fiscal compliance. These are matters which executives can most directly and immediately influence and have their performance measured against.

To ensure alignment of executive remuneration with shareholder returns, executives will also be required to apply 50 per cent of any STI payment for the 2008 year to the purchase of Company shares. Those shares must be held by the executive for a period of at least three years, or until the executive ceases employment.

At the same time, the potential Long Term Incentive ("LTI") component of remuneration will be reduced in 2008 to a maximum of 50 per cent for the Chief Executive Officer (75 per cent in 2007) and a maximum of 40 per cent of FAR for Senior Executives (60 per cent in 2007).

Long Term Incentives

The Company reviewed the hurdles that should apply to Performance Rights under the LTI Plan. For the 2008 grant, 100 per cent of the Performance Rights will be tested against the Total Shareholder Return ("TSR") hurdle.

An Earnings Per Share hurdle will not be used for the 2008 LTI grant in order to meet the desire for a clear, comparative measure that most directly aligns with returns to shareholders.

For future grants of Performance Rights, the Company has decided to discontinue the 2007 Performance Rights vesting tests, whereby TSR Hurdle was tested on the highest 20 day average TSR performance over the 12 month period. For Performance Rights granted from 2008 onwards, if less than 100 per cent vest when tested initially at the end of a three year period, two further tests apply (over a four week period), 6 months and 12 months after the initial test. Any Performance Rights which do not vest after the second retest will lapse.

The volatility of global commodity prices and exchange rates, and the resulting volatility in the Company's share price, can mean a four week measure at the end of three years does not give a good or fair measure of improved long term performance. The testing outcome can be potentially unrepresentative, depending on numerous market factors that may be present in a single four week period at the end of three years. Therefore, it is considered that the 6 months and 12 months retesting approach provides a more representative outcome.

The Company believes these changes improve the executive remuneration structure from 2008. We will continue to review our remuneration practices to ensure they continue to align with shareholder expectations while providing incentive and motivation for our employees.

Non-Executive Directors

The Committee reviews non-executive Director remuneration annually, taking into account the advice of remuneration consultants with regard to market practices, and the duties and accountabilities of Directors, and provides a recommendation to the Board on non-executive Director remuneration. The Company seeks to set non-executive Directors' fees in the third quartile. During 2007, a review was undertaken by Egan Associates of non-executive Director fee levels of comparable companies.

Having regard to the review and organisations with comparable market capitalisation, total assets and operating profits, and taking into account duties and responsibilities, non executive directors' fees were increased in 2008 from \$121,350 per annum to \$140,000 per annum, plus the superannuation guarantee levy.

REMUNERATION REPORT

The Directors agreed to continue the practice of not paying additional fees for committee membership or chairmanship of committees.

Chief Executive Officer

Mr Marlay's FAR was increased from \$900,000 to \$1,000,000 per annum, effective January 1 2008. Mr Marlay's employment contract was also amended from January 1 2008, as outlined above in relation to STI and LTI, reflecting changes in CEO remuneration practices in the market, where there is both a higher proportion of at risk remuneration and increased weighting to short term incentives.

The Company has provided for shareholders to vote at the 2008 Annual General Meeting on whether to approve the issue of Performance Rights to the Chief Executive Officer. The Performance Rights do not involve the issue of new shares.

COMPENSATION COMMITTEE

Role of Compensation Committee

The duties and responsibilities delegated to the Compensation Committee ("the Committee") by the Board are set out in the Committee's Charter, which is available on the Company's website.

The Committee oversees and implements the Company's compensation plans, policies and practices, and has the authority and responsibility to review and make decisions in relation to:

- remuneration strategy and policy of the Company;
- remuneration of senior executives and terms of the CEO's contract;
- review of incentive plan design;
- review of succession plans for senior executives;
- approval of performance measures and incentive payments;
- advising the Board on remuneration structure for non-executive Directors.

The Committee is thus responsible for overseeing and implementing the Company's compensation plans, policies and practices.

The Committee reviews the remuneration strategy and plans of the Company, compares the strategy and plans with community and industry standards and verifies the appropriateness of the strategy and plans by reference to external information and advice. The Committee has the responsibility to ensure that shareholder and employee interests are aligned, that the Company is able to attract, develop and retain talented employees, and that senior executives are fairly and reasonably compensated. In 2007, the Committee took advice from Egan Associates and Mercer Human Resources.

The Committee met eight times in 2007. Senior executives attend certain meetings by invitation.

SENIOR EXECUTIVE REMUNERATION POLICY (AUDITED)

Alumina Limited's remuneration policy is to establish a clear link between performance and remuneration. In doing so we are committed to ensuring that our remuneration process:

1. is aligned with shareholder interests; and
2. 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.

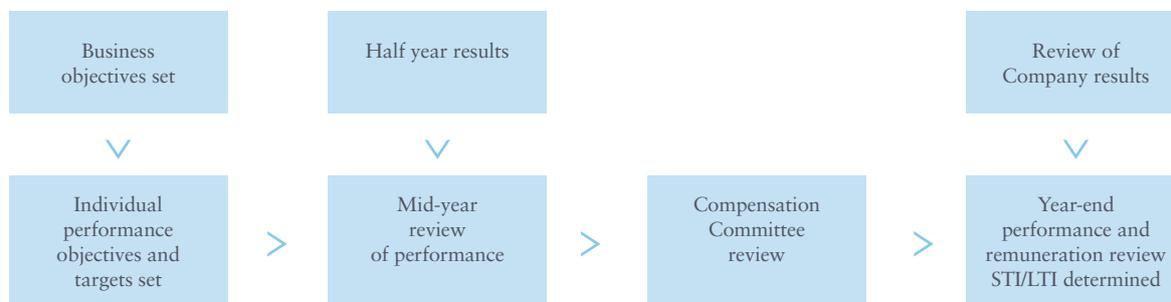
The performance of individual Senior Executives against their objectives is assessed half yearly and yearly. The Committee also obtains independent remuneration information for comparative purposes. Salary reviews and short-term incentives ("STIs") are determined by assessing performance against both individual performance objectives and Company earnings per share and return on capital targets. Long-term incentives ("LTIs") are assessed against the Company's total shareholder return ("TSR") compared with that of Australian and international peer group companies. LTIs allocated in 2007 are also assessed against required growth in Company earnings per share.

Remuneration Process

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

After the Board, the CEO, Chief Financial Officer and General Counsel/Company Secretary 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 senior executives are the only employees of the Company who make, or participate in making, decisions that affect the whole, or a substantial part, of the business of the Company or have the capacity to significantly affect the Company's financial standing, and therefore less than five senior executives are listed in this Report.

Remuneration Process



Individual Performance

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

Company Performance

A percentage component of share-based remuneration for senior executives is based on the performance of the Company measured against peer group companies' TSR and for LTIs allocated in 2007, also on Company earnings per share. A percentage of total cash remuneration for Senior Executives is based on Company earnings per share and AWAC return on capital.

Market Position

Alumina Limited is among the 100 largest companies listed on the Australian Securities Exchange. The skills and expertise required by the Company's employees equate to those of similar sized companies, notwithstanding that Alumina Limited has a small number of employees.

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. External compensation advisers are appointed to provide annual salary and benefits reviews.

REMUNERATION STRUCTURE/PERFORMANCE REWARD LINK (AUDITED)

Executive Remuneration

Senior executive remuneration comprises:

- **fixed remuneration** – 'fixed annual reward' ("FAR") is the component of total remuneration specified in an executive's contract of employment and in periodic salary reviews. It includes salary and superannuation contributions (both Company and salary sacrifice contributions).
- **variable (incentive) remuneration** – contracts for Senior Executives and professional employees include a component of remuneration linked to both STIs and LTIs. Policies defining STIs and LTIs are established by the Committee and reviewed annually.

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.

For senior executives, the Company seeks to set FAR at the third quartile of comparable companies and targets high levels of performance.

REMUNERATION REPORT

Variable Remuneration

During the year, the Company arranged for Mercer Human Resources to review the structure of its STI and LTI plans. After considering the review, the structure of executive variable (incentive) remuneration was modified, effective 1 January 2008. The changes implemented from 1 January 2008 are set out above. Details of the variable remuneration applying during 2007 are set out below.

i) Short-Term Incentives

Principles

The amount of STI awarded varies according to a combination of individual and Company performance criteria. For the STI, Company performance is measured using the AWAC Operating Plan return on capital for the 12-month performance period (normalised for changes in the LME aluminium price) and an earnings per share (EPS) target for Alumina Limited, based on the AWAC Operating Plan and Alumina Limited's corporate budget for the period (normalised for changes in the LME Aluminium price and for AUD/USD effects).

Performance against individual objectives links achievement to reward for senior executives to meet or exceed measurable objectives in their work. The STI structure measures performance in promoting and protecting shareholder interests in the AWAC joint venture, including asset acquisitions by the Company, funding and dividend policy of AWAC, capital management and funding for Alumina Limited dividends which ultimately support Alumina Limited's objectives and shareholder interests.

The Company's earnings per share, AWAC return on capital and individual performance objectives provide an incentive to achieve high levels of personal performance and contribute to high levels of Company performance. The AWAC return on capital and Company earnings per share measures have been used as a performance hurdle in the STI plan because they are considered an appropriate means of measuring Company performance.

2007

STIs were 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 STI payments to all employees. In 2007, up to 50 per cent of FAR was the maximum payable to the Chief Executive Officer as STI, of which 30 per cent related to performance against individual objectives and 20 per cent related to the return on capital and earnings per share performance during the 2007 year. For Senior Executives' STI, the maximum payable in 2007 was 40 per cent of FAR, of which 25 per cent related to performance against individual objectives and 15 per cent relates to return on capital and earnings per share performance. The STI is designed to encourage high performance and link senior executive remuneration to financial returns achieved by the Company.

Performance of senior executives is measured against a scorecard of agreed objectives and targets. Individual performance against the measures was assessed for each senior executive for 2007. Twenty eight per cent of FAR was awarded to Mr Marlay and an average of 23 per cent of FAR was awarded for this component of STI to Messrs Dean and Foster.

The protection and promotion of shareholder interests in the AWAC joint venture, preparation for asset acquisitions as a result of the takeover offer for Alcan, assessing future AWAC growth opportunities, evaluating the impact of future emissions trading on business sustainability and further implementation of AWAC funding arrangements, were specific objectives which promoted shareholder interests. The off market share buy back completed in 2007 achieved its objectives of the purchase being at the maximum percentile discount and effectively distributing franking credits to shareholders.

The STI reward attributed to the Company performance for 2007 was zero per cent of FAR for the CEO and senior executives. The Company's financial performance did not meet the required levels in respect of the AWAC Operating Plan return on capital and Company earnings per share.

For the STI payments attributable to 2007 performance, the Company operated a short term incentive equity conversion plan ("STI Equity Plan") for senior executives and other eligible employees. Under the STI Equity Plan, participants may elect to apply all or a portion of their short-term incentive to the acquisition of Company shares (which are purchased on market), with all costs of acquisition being borne by the participant. In addition, to the extent an eligible employee elects to acquire Company shares under the STI Equity Plan, they will, upon continuing to be employed by the Company for three years from the date of acquiring shares under the STI Equity Plan, receive additional Company shares equal to i) 50 per cent of their Company shares acquired ("Matching Shares") and ii) shares equal to the amount of dividends that would have been paid on the Matching Shares if they had been acquired at the same time as the initial shares ('Dividend Equivalent Shares'). (NB. The STI Equity Plan will not apply to STI payments for the 2008 year).

ii) Long-term Incentives

Each year senior executives may be offered (at the Board's discretion) a conditional entitlement under the Alumina Employee Share Plan ('ESP') to fully paid ordinary shares in the Company (Performance Rights), which are purchased on market. That discretion is exercised after reviewing senior executive remuneration and the factors as outlined under the Senior Executive Remuneration Policy. The Performance Rights vest to senior executives at the end of the performance period if certain performance tests are achieved over that performance period. The ESP is designed to link Alumina Limited employee rewards with the long-term goals and performance of Alumina Limited, and the generation of shareholder returns.

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. For Performance Rights issued from 2004 to 2006, 100 per cent of the Performance Rights are tested against the TSR hurdle. For Performance Rights issued in 2007 50 per cent of the Performance Rights are tested against the TSR hurdle and 50 per cent are tested against an earnings per share hurdle. The Performance Rights granted are measured against the ASX Comparator Group and International Comparator Group mentioned below. The number of comparable listed alumina and aluminium companies is so small that it cannot provide a sufficient comparator group. The International Comparator Group is comprised of resource companies to provide measurement against similar industries and the ASX Comparator Group includes companies which are alternative investments for the Company's shareholders.

Testing period for TSR

2007

- i) For Performance Rights granted under the ESP in January 2007, the TSR of Alumina Limited is measured over the 12 month period after completion of the initial three years. The Performance Rights vest only when the TSR Hurdle is met for an average of 20 consecutive trading days commencing on any day over the 12 month period after completion of the initial three years. The number of Performance Rights subject to the TSR Hurdle that vest is determined based on the highest 20 day average TSR performance over the 12 month period.

Prior Periods

- ii) For those Performance Rights issued from 2004 to 2006, if less than 100 per cent of the Performance Rights in a tranche vest when tested initially at the end of the three year period, a second test is conducted six months after the initial test. No further testing is undertaken after this second test. The second test is considered appropriate in view of the volatility of global commodity prices and exchange rates and the resulting volatility in the Company's share price. The second test applies only to 50 per cent of the Performance Rights that did not initially vest at the end of the three year period (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 and are not subject to future retesting.

The number of Performance Rights of the retested 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 retest date, according to the same scale used at the initial test (refer to Table 1.0).

Entitlements will generally lapse on cessation of employment.

In the event of a change in control, the Board shall determine that any outstanding Performance Rights for which performance hurdles are met at that time shall vest to senior executives. A change of control is, in general terms, an entity acquiring unconditionally more than 50 per cent of the issued shares of the Company.

LTI Performance Testing

TSR

Two comparator group tests are applied to determine the number of Performance Rights which may 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. Results of the performance tests are calculated by a consultant engaged for this purpose.

TSR was chosen as a performance measure as an appropriate means of measuring Company performance as it incorporates both capital growth and dividends.

The comparator groups selected by the Committee include companies that 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). The composition of the ASX Comparator Group for 2007 is shown in Table 2.1. The Comparator group of Australian listed entities had been a total of 50 up until the grant in January 2008. The Comparator group was expanded in 2008 to 100 Australian listed entities to reflect the Company's size in relation to the Comparator group entities.

REMUNERATION REPORT

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). The composition of the International Comparator Group for 2007 is shown in table 2.2.

Under the performance tests, the TSR for each entity in the comparator groups and for Alumina Limited is calculated according to a standard methodology determined 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 Performance Right (i.e. that ‘vest’) is then determined according to the scale in Table 1.0:

2007

For Performance Rights granted under the ESP in January 2007, 50 per cent of the Performance Rights granted are subject to an earnings per share (‘EPS’) performance hurdle, which involves a comparison between the EPS of Alumina Limited for the financial (calendar) year at the end of the relevant testing period and the average of actual Alumina EPS figures over the four financial years which preceded the financial year during which the Performance Rights were granted (‘Baseline EPS’). For the grant in January 2007, the Baseline EPS was 31.4 cents per share. EPS growth is measured by comparing the actual EPS for the financial reporting year during the end of the relevant testing period and the Baseline EPS, expressed as a percentage growth (refer to Table 1.1). The EPS performance hurdles are calculated by increasing the Baseline EPS by the relevant percentage on a compounding basis. The remaining 50 per cent of the Performance Rights granted in 2007 are tested against the Company’s TSR performance.

TABLE 1.0 LTI VESTING TREATMENT – TSR (UNAUDITED)

Alumina Limited TSR compared to median of comparator group	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 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.

TABLE 1.1 (UNAUDITED)

LTI Vesting Treatment – EPS Alumina Limited Earnings Per Share Growth	Vesting
If Alumina Limited’s EPS growth in the year of testing is less than 6 per cent per annum compared with the Baseline EPS	0 per cent
If Alumina Limited’s EPS growth in the year of testing is equal to or greater than 6 per cent per annum compared with the Baseline EPS	50 per cent
If Alumina Limited’s EPS is equal to or greater than 10 per cent per annum compared with the Baseline EPS	100 per cent

TABLE 2.1 ASX COMPARATOR GROUP (UNAUDITED)

Company ¹	Relevant Testing Period			
	June 2007 ²	December 2007	2008	2009
Ancor	x	x	x	x
AMP	x	x	x	x
Aristocrat Leisure		x	x	x
ANZ Banking Group	x	x	x	x
AGL Energy	x	x	x	x
ASX				x
AXA Asia Pacific Holdings	x	x	x	x
Babcock And Brown			x	x
BHP Billiton	x	x	x	x
BlueScope Steel	x	x	x	x
Boral	x	x	x	
Brambles Industries	x	x	x	x
Centro Properties Group	x	x	x	
Caltex Australia			x	x
Coca-Cola Amatil	x	x	x	x
Coles Myer	x			
Commonwealth Bank	x	x	x	x
Computershare				x
Consolidated Media Holdings		x		
CSL	x	x	x	x
Fairfax				x
Foster's Group	x	x	x	x
Harvey Norman Holdings	x	x		
Insurance Aust. Group	x	x	x	x
Investa Property	x			
James Hardie Inds.	x		x	
John Fairfax	x	x		
Leighton Holdings	x	x	x	x
Lend Lease	x	x	x	x
Lion Nathan	x	x	x	
Macquarie Airports		x	x	
Macquarie Bank	x	x	x	x
Macquarie Goodman GP				x
Macquarie Infra Group	x	x	x	x
Mirvac Group	x	x		x
National Aust. Bank	x	x	x	x
News Corp CDI B		x		
News Corp CDI A		x		
Newcrest Mining	x	x	x	x
Oil Search			x	
Orica	x	x	x	x
Origin Energy	x	x	x	x
Publishing And Broadcasting	x		x	x
Qantas Airways	x	x	x	x
QBE Insurance Group	x	x	x	x

REMUNERATION REPORT

TABLE 2.1 ASX COMPARATOR GROUP (AUDITED) (continued)

Company ¹	Relevant Testing Period			
	June 2007 ²	December 2007	2008	2009
Rinker	x			
Rio Tinto	x	x	x	x
St George Bank	x	x	x	x
Santos	x	x	x	x
Sonic Healthcare		x	x	
Stockland	x	x	x	x
Suncorp-Metway	x	x	x	x
Symbion Health	x			
Tabcorp Holdings	x	x	x	x
Tatts Group				x
Telecom Corp NZ	x	x	x	x
Telstra Corp Intl Recept				x
Telstra	x	x	x	x
Toll Holdings	x	x	x	x
Transurban Group		x	x	x
Wesfarmers	x	x	x	x
Westfield Group	x	x	x	x
Westpac Banking	x	x	x	x
Woodside Petroleum	x	x	x	x
Woolworths	x	x	x	x
Zinifex				x

1 The companies included in the Comparator Group change from year to year as companies enter or exit the ASX 50 or are delisted.

2 This relates to Performance Rights initially tested in December 2006 and for which 50 per cent was subject to a retest in June 2007.

TABLE 2.2 INTERNATIONAL COMPARATOR GROUP

Company ¹	Relevant Testing Period			
	June 2007	December 2007	2008	2009
Acerinox	x	x		
Air Liquide				x
Alcan	x			
Alcoa	x	x	x	x
Anglo American	x	x	x	x
Arcelor (Par)	x		x	x
Barrick Gold	x	x	x	x
Basf				x
Bayer				x
BHP Billiton Ltd	x	x	x	x
BHP Billiton Plc	x	x	x	x
Bluescope Steel	x	x	x	
Cameco	x	x	x	
Cemex				x
China Steel	x	x	x	
Corus Group			x	
CRH				x

TABLE 2.2 INTERNATIONAL COMPARATOR GROUP (continued)

Company ¹	Relevant Testing Period			
	June 2007 ²	December 2007	2008	2009
Dow Chemicals				x
Dupont				x
Freeport Mcmoran	x	x	x	
Gerdau Pn	x	x	x	
Goldcorp				x
Holcim				x
JFE Holdings	x	x	x	x
Johnson Matthey	x	x	x	
Kinross Gold Corp	x	x		
Kobe Steel		x	x	
Lafarge				x
Lonmin	x	x	x	
Mitsubishi Materials	x		x	
Mitsui Mining & Smelting	x	x		
Monsanto				x
Newmont Mining		x	x	x
Newcrest Mining			x	
Nippon Steel	x	x	x	x
Nucor	x	x	x	x
Praxair	x			x
Posco	x	x	x	x
Rio Tinto (Ltd)	x	x	x	x
Rio Tinto (Plc)	x	x	x	x
Shin-Etsu Chemical				x
Sumitomo Metal Mining	x	x	x	
Sumitomo Metals Inds		x		
Teck Cominco		x	x	
Thyssenkrupp	x	x	x	x
Toyo Seikan				
US Steel	x	x	x	
Cvrd Pna (Vale Adr)	x	x	x	x
Cvrd Pna (Vale Pf Adr)				x
Worthington Inds	x			
Xstrata		x	x	x

1 The companies included in the Comparator Group change from year to year as companies enter or exit the 30 largest companies in the Metals and Mining group or are delisted.

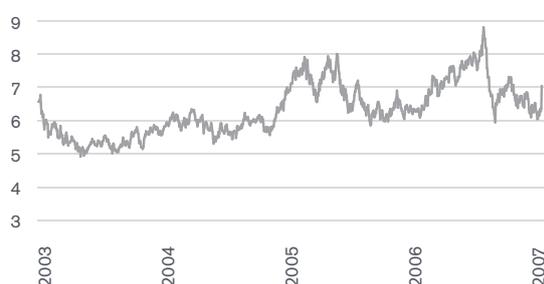
2 This relate to Performance Rights initially tested in December 2006 and for which 50 per cent was subject to a retest in June 2007.

REMUNERATION REPORT

RELATING REWARDS TO PERFORMANCE

The Alumina Limited variable remuneration plans provide incentives for senior executives and also ensure that total annual remuneration is related to the extent to which the performance hurdles under the STI and LTI plans are satisfied. The performance measures used provide a strong link between executive remuneration and Alumina performance and shareholder wealth.

Alumina Limited's share price from 2003 to 2007 moved through the following ranges:



ALUMINA LIMITED SHARE PRICE – 2003 to 2007
\$A

Source: Reuters

The LTI component and part of the STI component of senior executive remuneration are tied to Company performance. Over the period from 2003 to 2007, Alumina Limited has created significant value for shareholders by adding to its interest in AWAC, ensuring Alumina Limited participates in AWAC expansion projects, implementing new AWAC funding and dividend arrangements, contributing to the strategic direction of AWAC and implementing effective capital management for Alumina Limited shareholders. The performance of the Company is measured by TSR and growth in the Company's profit. Over the period from 2003 to 2007, LTI awards for senior executives have been aligned to a 3 year TSR performance by the Company, and 2007 LTI awards will also be tested by growth in Company earnings per share over a 3 year period. STI awards have been linked to achievement of personal objectives and annual return on capital and earnings per share, which contribute to increased shareholder value. From 2008, LTI awards are aligned solely to TSR performance, which directly reflects changes in shareholder wealth.

Table 3.0 HISTORICAL PERFORMANCE OF ALUMINA LIMITED

	2007	2006	2005	2004	2003
Dividends declared per share (cents)	24	22	20	20	23
Percentage change in share price	(1)	(15)	25	(10)	30
Net Profit After Tax	\$436m	\$511m	\$316m	\$316m	\$237m
Percentile ranking of TSR against ASX 50	16	4	48	8	90
Per cent increase in fixed remuneration ²	6	5	27	Nil	N/A
Per cent short-term incentive – Senior Executive ²	23	36	26 ¹	16	52
Per cent long-term incentive ²	Nil	Nil	2	Nil	30

1 Percentage is calculated by reference to FAR as at 31 December 2005.

2 Represents the average applicable to senior executives

Alumina Limited's net profit has increased by 84 per cent, total dividends declared have been 106 cents per share and the share price has increased by 26 per cent for the years 2003 to 2007.

In 2007, performance did not reach the threshold levels for the AWAC Operating Plan or earnings per share targets, which meant for the CEO and senior executives, the STI award for this component was zero per cent.

SUPERANNUATION (UNAUDITED)

All Alumina Limited employees are members of the Alumina Superannuation Fund, an accumulation fund, or a fund of their choice. Contributions are funded at the Superannuation Guarantee Contributions rate, currently 9 per cent of an employee's fixed annual remuneration.

OPTION PLANS (UNAUDITED)

Alumina Limited does not have any ongoing option plans available to non-executive Directors, executives and senior managers (including executive Directors) or employees (other than the ESP under which the Performance Rights are provided to Senior Executives).

NON-EXECUTIVE DIRECTOR REMUNERATION POLICY (AUDITED)

Alumina Limited's non-executive Directors receive fees for fulfilling their Directors 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 from remuneration consultants, and take into account the Directors' responsibilities and time spent on Company business. The level of fees reflects what is required to attract Directors with the necessary skills and experience. In accordance with recommendation 9.3 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, Non executive Directors do not receive any performance-related remuneration and do not participate in the ESP. Directors are also required to direct at least 10 per cent of their fees to purchase Company shares.

Total remuneration for non-executive Directors is determined by resolution of shareholders. The maximum aggregate remuneration approved for Directors is \$950,000 per annum. A total of \$786,750 was paid in non-executive Director fees in 2007.

The Directors agreed to continue the practice of not paying additional fees for committee membership or chairmanship of committees. Non-executive Directors' remuneration details are set out in Table 6.

Non-executive Director Retirement Benefits

Non-executive Directors receive, in addition to their fees, a superannuation guarantee contribution, which for 2007 is 9 per cent of their fees to a maximum of \$12,908 for the Chairman and \$10,935 for other Non-executive Directors. Non-executive Directors do not receive any other retirement benefits.

Non-executive Director 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. Shares are not allocated on performance but in lieu of receiving cash remuneration. The non executive Directors have the option to increase, above the minimum, the proportion of their remuneration they receive as shares. There are no discounts provided to Directors for the acquisition of shares under the plan. All costs associated with acquiring shares are borne by the Director. It is Company policy that Directors hold shares in the Company having a value approximately equal to their annual fees by the expiry of their first term as a Director. Participation in the plan further aligns the Directors' interests with those of shareholders.

REMUNERATION REPORT

CHIEF EXECUTIVE OFFICER REMUNERATION (AUDITED)

Terms

2007

In 2007, Mr Marlay was awarded an STI of \$252,000, equivalent to 28 per cent of his FAR. The payment comprised 28 per cent relating to performance against individual objectives and zero per cent for Company performance for 2007.

Under the ESP, the Company's TSR did not exceed the 50th percentile for the 70,600 Performance Rights that were tested in December 2007 and therefore, none of those Performance Rights vested to Mr Marlay. Fifty per cent of those rights will be subject to a retest in June 2008. In June 2007, none of Mr Marlay's 36,250 Performance Rights vested upon a retest of those rights, previously tested in December 2006, and accordingly they lapsed.

Mr Marlay's STI in 2007 was up to 50 per cent of FAR and a grant of Performance Rights at the Board's discretion, with a potential value up to 75 per cent of FAR per annum (which will vest according to the extent to which the ESP plan performance tests are satisfied).

The fees in relation to Mr Marlay's position as non executive director of Incitec Pivot Ltd are paid to the Company.

Retirement and Termination Benefits

Mr Marlay's employment contract does not have a fixed term. Either party may terminate the contract upon giving 12 months' notice. The Company may make a payment in lieu of some or all of the 12-month notice period by payment of the fixed annual reward plus an amount equivalent to an STI payment at target performance, defined as 'base remuneration'. The base remuneration amount will be reduced pro rata to the extent the notice period is required to be served.

If Mr Marlay's employment is terminated on the basis of redundancy of the position or by Mr Marlay giving written notice to Alumina Limited in the event of a Significant Change

(which is defined to be if Alumina Limited ceases to be listed on the Australian Securities Exchange, or if there is a significant change to his status and/or responsibilities which is detrimental to Mr Marlay, or if Alumina Limited decides the position is no longer required and suitable alternative employment is not offered or Mr Marlay does not accept other employment within Alumina or another employer), then Mr Marlay is entitled to:

- statutory annual leave and long service leave entitlements (with long service leave paid pro rata if there is three years or more continuous service);
- the greater of six months base remuneration (being FAR and the at-target STI) or the aggregate of; a notice payment of 12 weeks, a severance payment of 2.5 weeks per completed year of service and an additional severance payment of 13 weeks.

Mr Marlay is not entitled to the payment outlined above where the reason for a Significant Change is poor performance or inability to fulfil agreed responsibilities. Mr Marlay is not entitled to retirement benefits other than superannuation entitlements.

QUANTUM OF REMUNERATION (AUDITED)

Details of remuneration of the Directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of Alumina Limited and the Group are set out in the following tables.

Key management personnel of Alumina Limited include the Directors as listed on pages 12 and 16, and the following senior executive officers:

- Ken Dean – Chief Financial Officer
- Stephen Foster – General Counsel/Company Secretary

The key management personnel of the Group are the abovementioned senior executives and Directors.

TABLE 4.0 CEO'S REMUNERATION (AUDITED)

	John Marlay* Chief Executive Officer	
	2007 \$	2006 \$
Short-term benefits		
Fixed remuneration – cash ¹	887,092	831,244
Short-term incentive ²	252,000	365,500
Non-monetary benefits	n/a	n/a
Post-employment		
Superannuation – Company contributions ³	12,908	18,756
Retirement benefits	n/a	n/a
Equity		
Performance Rights ⁴	413,685	311,452
Total remuneration	1,565,685	1,526,952

* Mr Marlay is an executive Director of Alumina Limited.

1 Fixed remuneration is the total cost of salary, exclusive of superannuation.

2 Short-term incentive reflects the cash value paid for the years ended 31 December 2007 and 31 December 2006.

3 Superannuation contributions reflect the Superannuation Guarantee payment.

4 The value of Performance Rights is calculated in accordance with AASB 2, which is a different basis to that of Table 5.1.

Service Agreements – Messrs Dean, Foster

Alumina Limited has entered into a service contract with each senior executive. The contracts are not fixed-term, and each provides for the following:

1. Remuneration and employment conditions.
2. Powers and duties.
3. External activities; the fees in relation to Mr Dean's position as non-executive director of Santos Ltd are paid to the Company.
4. If Mr Dean or Mr Foster's employment is terminated on the basis of redundancy of their position or if they give written notice to Alumina Limited in the event of a Significant Change (which is defined to be if Alumina Limited ceases to be listed on the Australian Securities Exchange, or if there is a significant change to their status and/or responsibilities which is detrimental to them, or if Alumina Limited decides their position is no longer required and suitable alternative employment is not offered or if they do not accept other employment), then Mr Dean or Mr Foster (as relevant) are entitled to:
 - o statutory annual leave and long service leave entitlements (with long service leave paid pro rata if there is three years or more continuous service);
 - o the greater of six months Base Remuneration (being FAR and the at target STI) or the aggregate of; a notice payment of 12 weeks, a severance payment of 2.5 weeks per completed years of service and an additional severance payment of 13 weeks.

Mr Dean and Mr Foster are not entitled to the payment outlined above where the reason for a significant change is poor performance or inability to fulfil agreed responsibilities. Mr Dean and Mr Foster are not entitled to retirement benefits other than superannuation entitlements.
5. A requirement that the Company provides six months notice to terminate the contract and the senior executive provide three months written notice of termination.

In addition to any entitlements conferred on them by their service contract, each senior executive is also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. Each other executive is not entitled to receive any other additional termination payments, other than those previously mentioned and any vesting of shares under the EPS.

REMUNERATION REPORT

TABLE 4.1 MOST HIGHLY REMUNERATED EXECUTIVES (AUDITED)

	Ken Dean Chief Financial Officer		Stephen Foster General Counsel/Company Secretary	
	2007 \$	2006 \$	2007 \$	2006 \$
Short-term benefits				
Fixed remuneration – cash ¹	557,092	527,588	357,092	337,588
Short-term incentive ²	120,000	172,800	89,000	119,000
Other short-term employee benefits	–	–	–	9,835
Post employment				
Superannuation – Company contributions ³	12,908	12,412	12,908	12,412
Retirement benefits	n/a	n/a	n/a	n/a
Equity				
Performance Rights ⁴	164,521	74,945	140,005	109,794
Total remuneration	854,521	787,745	599,005	588,629

	2007 \$	2006 \$
Total for most highly remunerated executives		
Total short-term benefits	1,123,184	1,166,811
Total post employment	25,816	24,824
Total share-based payment	304,526	184,739
Total remuneration	1,453,526	1,376,374

1 Fixed remuneration is the total cost of salary exclusive of superannuation. Messrs Dean and Foster's FAR, including superannuation from 1 January 2008 is \$620,000 and \$400,000 respectively

2 Short-term incentive (STI) reflects the cash value paid for the years ended 31 December 2007 and 31 December 2006.

3 Superannuation benefits reflect the Superannuation Guarantee payment.

4 The value of Performance Rights is calculated in accordance with AASB 2, which is a different basis to that of table 5.1.

TABLE 4.2 INCENTIVES – MOST HIGHLY REMUNERATED EXECUTIVES (AUDITED)

	John Marlay Chief Executive Officer	Ken Dean Chief Financial Officer	Stephen Foster General Counsel/ Company Secretary
	%	%	%
Short-term incentive			
Percentage paid	56	52	60
Percentage forfeited	44	48	40
Long-term incentive			
Percentage vested			
June 2007	–	n/a	–
December 2007	–	n/a	–
Percentage forfeited			
June 2007	50	n/a	50
December 2007	50	n/a	50
Percentage of remuneration			
Comprising variable remuneration	42.52	33.29	38.23

TABLE 5.0 DETAILS OF PERFORMANCE RIGHTS GRANTED AS REMUNERATION (AUDITED)

	Rights Number	Date of grant	% vested in 2007	% forfeited in 2007	Performance Rights yet to vest	Financial year in which grants may vest	Value of rights outstanding 31/12/07	
							\$ Min ²	\$ Max ³
John Marlay	36,250 ¹	Jan 04	–	50	–		–	–
	70,600	Jan 05	–	50	35,300	2008	–	129,904
	99,300	Jan 06	–	–	99,300	2008	–	453,801
	107,100	Jan 07	–	–	107,100	2009	–	544,068
Ken Dean	50,500	Jan 06	–	–	50,500	2008	–	230,785
	54,300	Jan 07	–	–	54,300	2009	–	275,844
Stephen Foster	13,500	Jan 04	–	50	–		–	–
	26,300	Jan 05	–	50	13,150	2008	–	48,392
	32,800	Jan 06	–	–	32,800	2008	–	149,896
	35,300	Jan 07	–	–	35,300	2009	–	179,324

1 These rights were initially tested in December 2006.

2 The minimum value of the grant is \$nil if the performance conditions are not met.

3 Maximum value has been calculated by reference to valuations determined on the basis as outlined in Note (A) to table 5.1.

The terms of Performance Rights granted to John Marlay, Ken Dean and Stephen Foster were not altered during the 2007 year.

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

Grant date	End of performance period ¹	Value per Performance Right at grant date ²
26/03/2003	3/12/2004	2.49
26/03/2003	3/12/2005	2.49
19/01/2004	21/12/2006	3.01
25/01/2005	16/12/2007	3.68
25/01/2006	7/12/2008	4.57
29/01/2007	4/12/2009	5.08

1 End of performance period is the date the performance of the Company is measured against the performance criteria. If the Company fails to meet the minimum performance criteria then 50 per cent of the Performance Rights are forfeited and 50 per cent are subject to a retest in six months time. For the grant of 29/01/2007, the performance criteria is measured over defined periods as outlined in this Report.

2 Value per Performance Right is independently calculated by Mercer Finance and Risk Consulting using the assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model which allows the incorporation of the hurdles that must be met before the Performance Rights vest.

REMUNERATION REPORT

TABLE 5.1 VALUE OF PERFORMANCE RIGHTS (UNAUDITED)

Director/senior executives	(A)	(B)	(C)	(D)	(E)
	Value – Granted in 2007 Performance Rights	Value – Vested in 2007 Performance Rights	Value – Lapsed in 2007 Performance Rights	Total of Columns Performance Rights A+B-C \$	Value as proportion of remuneration %
	\$	\$	\$		
John Marlay	544,068	–	(239,016)	305,052	19
Ken Dean	275,844	–	–	275,844	32
Stephen Foster	179,324	–	(89,027)	90,297	15

Table 5.1 shows the total value of any Performance Rights granted, exercised and lapsed in the year in relation to Directors and senior executives based on the following assumptions:

- (A) The value of Performance Rights granted in the year reflects the value of a Performance Right, times the number of Performance Rights granted during 2007. Performance Rights were valued independently by Mercer Finance and Risk Consulting using the assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model that accommodates features associated with Alumina Limited's ESP such as exercise, forfeiture and performance hurdles. The rights are those granted in January 2007.
- (B) The value of Performance Rights vesting is determined by the number of vested rights multiplied by the market price at the vesting date.
- (C) The value applicable to Performance Rights at lapse date has been determined by using the fair value as calculated by Mercer Finance and Risk Consulting multiplied by the number of rights lapsed.
- (D) The total value is the sum of the value of Performance Rights granted during 2007, plus the value of Performance Rights vested during 2007, less the value of Performance Rights that lapsed during 2007.

TABLE 6.0 NON-EXECUTIVE DIRECTORS' REMUNERATION (AUDITED)

	Don Morley		Peter Hay		Ron McNeilly		Mark Rayner		John Pizzey ³	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Short Term Benefits										
Fees – cash ¹	273,315	258,750	109,356	94,875	91,125	86,250	97,200	98,710	54,582	–
Value of shares acquired in lieu of fees ²	30,550	28,750	12,150	20,125	30,375	28,750	24,300	16,290	13,645	–
Post Employment										
Superannuation Guarantee	12,907	12,412	10,375	10,350	10,375	10,350	10,375	10,350	6,140	–
Retirement Benefit accrued	n/a	n/a								
Total Remuneration	316,572	299,912	131,881	125,350	131,875	125,350	131,875	125,350	74,367	–

¹ Directors' fees are fixed and relate to their participation on the Board. Directors do not receive a separate fee for participation on a Board Committee.

² Directors are required to sacrifice a minimum of 10 per cent of their fixed remuneration in Company shares. The Directors have the discretion to vary the amount of fixed remuneration they apply to acquiring shares.

³ Mr Pizzey was appointed as a Director on 8 June 2007.

TABLE 7.0 NON-EXECUTIVE DIRECTOR SHAREHOLDINGS 2007 (AUDITED)

	Balance of shares as at 1 January 2007 ¹	Shares acquired during the year in lieu of salary ²	Other shares acquired during the year ³	Balance of shares held at 31 December 2007 ¹
Don Morley	420,994	4,189	–	425,183
Peter Hay	41,212	1,678	–	42,890
Ron McNeilly	31,433	4,191	–	35,624
Mark Rayner	29,720	3,225	–	32,945
John Pizzey	–	217	13,000	13,217

NON-EXECUTIVE DIRECTOR SHAREHOLDINGS 2006 (AUDITED)

	Balance of shares as at 1 January 2006 ³	Shares acquired during the year in lieu of salary ²	Other shares acquired during the year ³	Balance of shares held at 31 December 2006 ³
Don Morley	417,344	3,650	–	420,994
Peter Hay	31,700	9,512	–	41,212
Ron McNeilly	27,370	4,063	–	31,433
Mark Rayner	28,094	1,626	–	29,720
John Pizzey	–	–	–	–

1 Balance of shares held at 1 January 2007 and 31 December 2007 include directly held, and nominally held shares, and shares held by personally related entities.

2 Non-executive Directors are required to allocate a minimum of 10 per cent of their fees per annum to acquire shares in the Company.

3 Balance of shares held at 1 January 2006 and 31 December 2006 includes directly held, and nominally held shares and shares held by personally related entities.

TABLE 8.0 SENIOR EXECUTIVES – HOLDINGS OF PERFORMANCE RIGHTS AND OPTIONS 2007 (AUDITED)

Specified Executives	John Marlay	Ken Dean	Stephen Foster
Type of equity-based instrument	Performance Rights	Performance Rights	Performance Rights
Number held at 1 January 2007 ¹	206,150	50,500	72,600
Number granted during the year as remuneration ²	107,100	54,300	35,300
Number vested during the year	–	–	–
Number lapsed during the year ³	(71,550)	–	(26,650)
Number exercised during the year	–	–	–
Number held at 31 December 2007	241,700	104,800	81,250

1 Includes the number of Performance Rights granted that were subject to testing in June 2007, December 2006 and December 2007 but not yet vested.

2 Performance Rights granted in January 2007 for the three-year performance test period concluding in December 2009.

3 Performance Rights conditions were not met for the January 2005 grant and under the ESP Rules, 50 per cent of the entitlement lapsed with the remaining 50 per cent to be retested in June 2008. In addition, of the January 2004 grant tested in June 2007, 50 per cent lapsed.

REMUNERATION REPORT

TABLE 8.1 SENIOR EXECUTIVES - HOLDINGS OF PERFORMANCE RIGHTS 2006 (AUDITED)

Specified Executives	John Marlay	Ken Dean	Stephen Foster
Type of equity-based instrument	Performance Rights	Performance Rights	Performance Rights
Number held at 1 January 2006 ¹	167,550	–	62,400
Number granted during the year as remuneration ²	99,300	50,500	32,800
Number vested during the year	–	–	–
Number lapsed during the year ³	(60,700)	–	(22,600)
Number exercised during the year	–	–	–
Number held at 31 December 2006	206,150	50,500	72,600

1 Includes the number of Performance Rights granted that were subject to testing in June 2006, December 2006 and December 2007 but not yet vested.

2 Performance Rights granted in January 2006 for the three-year performance test period concluding in December 2008.

3 Performance Rights conditions were not met for the January 2004 grant and under the ESP Rules, 50 per cent of the entitlement lapsed with the remaining 50 per cent to be retested in June 2007. In addition, Tranche 3 of the March 2003 grant retested in June 2006 lapsed.

TABLE 8.2 DIRECTOR AND SENIOR EXECUTIVE PERFORMANCE RIGHTS GRANTED AND VESTED (AUDITED)

Name	Number of Performance Rights granted during year		Number of Performance Rights vested during year	
	2007	2006	2007	2006 ¹
Directors				
John Marlay	107,100	99,300	–	–
Other key management personnel				
Stephen Foster	35,300	32,800	–	–
Ken Dean	54,300	50,500	–	–

1 Performance Rights that vest result in the applicable shares being held on trust for the employee by the Alumina Employee Share Plan Pty Ltd.

When exercisable, each right is convertible to one ordinary share in Alumina Limited when exercisable, each right is convertible to one ordinary share in Alumina Limited.

TABLE 9.0 SENIOR EXECUTIVES SHAREHOLDINGS FOR THE YEAR ENDED 31 DECEMBER 2007 (AUDITED)

	Balance of shares as at 1 January 2007 ¹	Shares acquired during the year	Shares acquired		Shares sold during the year	Balance of shares held at 31 December 2007 ¹
			during the year under Employee Share Plan ²			
John Marlay	90,338	8,000	–	–	–	98,338
Stephen Foster	28,675	4,472	–	–	–	33,147
Ken Dean	–	9,741	–	–	–	9,741

TABLE 9.1 SENIOR EXECUTIVES SHAREHOLDINGS FOR THE YEAR ENDED 31 DECEMBER 2006 (AUDITED)

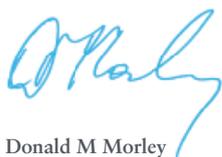
	Balance of shares as at 1 January 2006 ³	Shares acquired during the year	Shares acquired during the year under Employee Share Plan ²	Shares sold during the year	Balance of shares held at 31 December 2006 ³
John Marlay	90,338	–	–	–	90,338
Stephen Foster	28,675	–	–	–	28,675
Ken Dean ¹	–	–	–	–	–

1 Balance of shares held at 1 January 2007 and 31 December 2007 include directly held, and nominally held shares, and shares held by personally related entities.

2 Does not include Performance Rights granted under the ESP but not vested.

3 Balance of shares held at 1 January 2006 and 31 December 2006 include directly held, and nominally held shares, and shares held by personally related entities.

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



Donald M Morley
Chairman
13 March 2008



John Marlay
Chief Executive Officer

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Alumina Limited for the year ended 31 December 2007 I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Alumina Limited and the entities it controlled during the period.



PricewaterhouseCoopers



Chris Dodd
Partner
Melbourne
13 March 2008

Liability limited by a scheme approved under Professional Standards Legislation.

FINANCIAL SUMMARY

Full Year Review

Alumina Limited's Net Profit After Tax was \$436.4 million for 2007. Increased AWAC revenues from a strong global aluminium market were offset by higher AWAC operating costs for alumina and aluminium production and the negative impact of a stronger Australian dollar. Alumina Limited Return on Equity was 25.5 per cent (31.1 per cent). Return on equity based on underlying earnings was 23.7 per cent (34.7 per cent). Earnings per share were 38.2 cents (43.8 cents per share). Earnings per share on underlying earnings were 35.5 cents per share (48.8 cents per share).

Underlying earnings for the year declined 29 per cent to \$405.6 million from \$569.4 million in 2006. Underlying earnings has been calculated by subtracting from reported net profit for the period an amount of \$30.8 million relating to the net value of non-cash entries which do not reflect the year's operations. These non-cash entries relate to mark-to-market valuations of AWAC embedded derivatives, which reflect higher future aluminium prices based on the forward market at the end of the period, and adjustments resulting from actuarial assessment of future costs of retirement benefit obligations, net of investment returns, of AWAC employee benefit plans.

Returns and Dividend

2007 earnings and cash generation declined from the record levels in 2006. During 2007 the Company received dividends from AWAC under the Funding Agreement signed in 2006, in addition to the minimum 30 per cent AWAC payout. 2007 dividends received were \$444.9 million (\$521.1 m) of which \$424.0 million (\$510.8m) were fully franked dividends from Alcoa of Australia Ltd.

Directors declared a final dividend of 12 cents per share fully franked, payable 31 March 2008. The Company paid a fully franked interim dividend in September 2007 of 12 cents per share. Dividends paid in respect of 2007 will total 24 cents per share (2006: 22 cents per share).

The Directors also announced the introduction of a new Dividend Reinvestment Plan (new DRP). Under the new DRP shareholders may elect to have their dividends invested in new shares issued by the Company. New shares will be issued under the new DRP at an undiscounted price relative to the market price during the pricing period. The Company has contracted with UBS for the underwriting of the issue of shares for the dividend payable on 31 March 2008, and intends that the 2008 Interim Dividend, expected to be paid in September 2008, would also be underwritten. The introduction of the new DRP, and underwriting of the issue of shares in relation to the two dividend payments, recognises the substantial investment the Company is currently making in new AWAC production capacity, and will assist in maintaining the Company's financial position while continuing our policy to promptly distribute franking credits.

Factors Influencing the Result

Global demand for aluminium and alumina continued to grow strongly, increasing by approximately 10 per cent year on year in 2007. LME aluminium prices averaged US\$1.21 per pound in 2007, a 3.4% increase on the corresponding period. The outlook for aluminium and alumina prices remains positive.

However the weakening US\$ and higher AWAC operating costs more than offset the increase in the aluminium price.

The AUD/USD exchange rate averaged 84 cents in 2007 (75 cents in 2006). The first half 2007 rate was 81 cents and in the second half-year the A\$ strengthened considerably, averaging 87 cents. The appreciation of the A\$ to a year end rate of 88 cents resulted in Alcoa of Australia balance sheet revaluations, which decreased Alumina Limited's reported profit by \$16 million.

AWAC's sales revenue increased by 2 per cent compared with 2006, driven mainly by higher realised aluminium and alumina prices. Increased global demand for alumina and aluminium was largely attributable to stronger growth in consumption in China, where aluminium consumption rose more than 36 per cent year-on-year. Global aluminium and alumina production also increased largely in line with the increased demand, particularly in the second half of the 2007. The London Metal Exchange (LME) 3-month aluminium price increased by 8 per cent during the first half of 2007 to average US\$1.26/lb, but fell during the second half to average US\$1.16/lb. The average LME aluminium price for 2007 was US\$1.21/lb (US\$1.17/lb). Global aluminium stocks ended 2007 at 25 days of consumption.

AWAC's alumina production was 14.3 million tonnes (14.3 million tonnes). Production was impacted in Q1 by power outages at two Western Australian refineries, and by a general strike in Guinea which curtailed bauxite mining and exports. Production was further disrupted in Q3 by severe hurricane damage to the Jamalco refinery, particularly the port and ship-loading facilities, preventing shipping movements for approximately 11 weeks. These disruptions were offset by additional production at other AWAC refineries. The Pinjarra refinery established a new production level at a rate of 4.2 million mtpy in Q4, and Wagerup, Sao Luis and Suralco refineries also established annual production records.

2007 aluminium production was a record 387,350 tonnes (2006 - 377,351 tonnes).

AWAC's average cost of alumina production increased by US\$32/tonne year-on-year. The substantial weakening of the US dollar against the currencies of major AWAC production locations, particularly Australia, contributed about 30 per cent of this increase. Major operating cost increases which have impacted the alumina refining industry, including AWAC, were higher energy prices, which rose approximately 15 per cent year-on-year and shipping freight rates, which, on average, have more than doubled on 2006 as a result of the growth in demand for global bulk commodities. Maintenance and contractor costs were higher, mainly in the Australian operations, to enable high production at a time of strong demand. Average costs were also higher as production at the Point Comfort refinery was increased to recover the lost Q1 and Q3 production referred to above. Aluminium production costs at AWAC's two smelters increased mainly due to higher alumina and power prices.

It is AWAC's, and Alumina Limited's, current practice not to hedge its exposure to aluminium price risk or the currency exposures arising from operating activities. AWAC partially hedged energy prices to reduce volatility in natural gas and fuel oil prices.

AWAC Capital Projects

2007 was a year of substantial investment to grow the AWAC joint venture through expansion projects in bauxite mining and alumina refining. These are long term investments in a market in which worldwide growth in demand for aluminium is expected to continue at the strongest level for decades.

Our investment in AWAC growth projects will generate long term value by adding new alumina capacity with low cash operating costs.

AWAC's capital expenditure increased by 51 per cent in 2007 to US\$1,289 million (US\$855 million), including sustaining capital expenditure of US\$350 million (US\$326million). The majority of the expenditure increase related to construction costs in the growth projects in Brazil at Juruti and Alumar.

Construction advanced on the Alumar refinery expansion project (AWAC share 1.1 million tonnes per annum) and the development of the new Juruti bauxite mine, which will initially supply 2.6 million tonnes per annum of bauxite for AWAC's share of the Alumar refinery expansion. The Juruti project is scheduled to commence commissioning by end 2008, and Alumar early in 2009.

The estimated capital costs of AWAC's current investment projects in Brazil have increased during the construction phase, principally due to the appreciation of the Brazilian currency, and also due to increased construction costs. The contracting market for major projects in Brazil is experiencing substantial cost increases for project engineering, construction equipment and labour. AWAC's share of the Alumar refinery expansion and development of the new Juruti mine, including the cost of infrastructure to support future capacity expansion, is now estimated to be approximately US\$2.5 billion.

A 146,000 tonnes per annum production capacity increase (100 per cent AWAC) at the Jamaica refinery was completed in early 2007, and commissioned during the second quarter.

Debt

Alumina Limited's debt, net of cash, of A\$977.3 million, was A\$558.2 million higher than at the beginning of 2007.

At year end, Alumina Limited's borrowings were A\$1,006.4 million, A\$418.3 million higher than at the beginning of 2007. The increase in debt at year-end mainly reflects our equity contributions to fund the two AWAC growth projects in Brazil. Cash at year end was A\$29.1 million (A\$169.0 million).

Dividends from Alcoa of Australia are expected to continue to fund a substantial proportion of our investment in AWAC's growth projects and sustaining capital projects in 2008. Alumina Limited's share of remaining funding requirements will be met by Company borrowings. Interest costs are expected to rise as a result. The nature of the Company's holdings of AWAC assets, as non-controlled associates of Alumina Limited, does not allow capitalisation of the interest paid on borrowings to fund capital investments in the period before the AWAC assets become operational. As a result, all interest paid on borrowings, \$45.7 million in 2007 (\$25.1 million) directly impact Alumina Limited earnings, even though a substantial portion relates to the funding of assets which are not yet generating income.

During 2007 Alumina Limited drew funding from committed bank facilities, including a US\$700 million multi-currency one, three and five year debt facility established in 2006. Additional committed bank facilities were put in place during 2007.

In March 2008 Standard & Poor's revised Alumina Limited's long term credit rating from A- to BBB+, with a stable outlook, in recognition of the Company's need to increase debt during 2008 at a time of tightening business conditions. AWAC continued to be debt free at year end 2007.

Corporate Costs

Alumina Limited's corporate costs totalled \$13.8 million (\$10.7 million). Additional costs were incurred relating mainly to the share buy-back, the Company's response to Alcoa's ultimately unsuccessful bid for Alcan and arranging additional financing facilities. Alumina Limited's 2007 borrowing costs totalled \$45.7 million (\$25.1 million), due to higher average debt levels and higher average interest rates. Alumina Limited has no currency hedging or commodity derivatives in place.

ALUMINA LIMITED AND CONTROLLED ENTITIES
 INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated Entity		Parent Entity	
		(\$Million)		(\$Million)	
		2007	2006	2007	2006
Revenue from continuing operations	4	2.6	1.4	439.7	512.1
Other income	5	0.2	–	67.0	29.4
General and administrative expenses		(13.8)	(10.7)	(13.3)	(10.5)
Finance costs	6(a)	(45.7)	(25.1)	(45.7)	(25.3)
Share of net profits of associates accounted for using the equity method	12(h)	494.6	546.6	–	–
Profit before income tax		437.9	512.2	447.7	505.7
Income tax expense	7(a)	(1.5)	(1.1)	(1.8)	–
Profit attributable to members of Alumina Limited		436.4	511.1	445.9	505.7
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:					
Basic earnings per share	8	38.2c	43.8c		
Diluted earnings per share	8	38.2c	43.8c		

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

ALUMINA LIMITED AND CONTROLLED ENTITIES
BALANCE SHEETS AS AT 31 DECEMBER 2007

		Consolidated Entity		Parent Entity	
		(\$Million)		(\$Million)	
	Notes	2007	2006	2007	2006
CURRENT ASSETS					
Cash and cash equivalents	10	29.1	169.0	24.7	162.7
Receivables	11	0.1	0.1	497.5	67.1
Deferred tax assets		2.1	2.1	2.1	2.1
Total current assets		31.3	171.2	524.3	231.9
NON-CURRENT ASSETS					
Investments accounted for using the equity method	12	2,657.0	2,186.2	1,037.7	1,037.7
Other financial assets	13	–	–	887.3	837.1
Property, plant and equipment	14	0.3	0.2	0.3	0.2
Total non-current assets		2,657.3	2,186.4	1,925.3	1,875.0
TOTAL ASSETS		2,688.6	2,357.6	2,449.6	2,106.9
CURRENT LIABILITIES					
Payables	15	15.8	12.7	15.8	12.7
Interest-bearing liabilities	16	440.6	380.2	440.6	380.2
Current tax liabilities		1.0	1.1	–	–
Provisions	17	0.1	0.1	0.1	0.1
Other		1.1	0.7	1.0	0.6
Total current liabilities		458.6	394.8	457.5	393.6
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	16	565.8	207.9	565.8	207.9
Provisions	18	0.3	0.3	0.3	0.3
Total non-current liabilities		566.1	208.2	566.1	208.2
TOTAL LIABILITIES		1,024.7	603.0	1,023.6	601.8
NET ASSETS		1,663.9	1,754.6	1,426.0	1,505.1
EQUITY					
Parent entity interest:					
Contributed equity	19	411.9	425.8	411.9	425.8
Treasury shares	21(f)	(0.7)	(0.6)	–	–
Reserves:					
– Group		12.6	30.6	242.2	241.5
– Associates	12(d)	1.4	(15.3)	–	–
Retained profits:					
– Group	21(e)	736.0	861.1	771.9	837.8
– Associates	12(c)	502.7	453.0	–	–
TOTAL EQUITY		1,663.9	1,754.6	1,426.0	1,505.1

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

ALUMINA LIMITED AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated Entity \$Million		Parent Entity \$Million	
		2007	2006	2007	2006
Total equity at the beginning of the year		1,754.6	1,530.2	1,505.1	1,222.0
Change in the fair value of cash flow hedges, net of tax ¹	21(b)	16.7	(52.8)	-	-
Exchange differences on translation of foreign operations	21(a)	(18.8)	(11.3)	-	-
Net loss recognised directly in equity		(2.1)	(64.1)	-	-
Profit for the year		436.4	511.1	445.9	505.7
Total income and expense recognised in equity and profit during the year		434.3	447.0	445.9	505.7
Transactions with equity holders in their capacity as equity holders:					
Share buy back		(250.1)	-	(250.1)	-
Contributions of equity, net of transaction costs		-	10.1	-	10.1
Movement in share based payments reserve	21(c)	0.7	0.5	0.7	0.5
Dividends provided for or paid		(275.6)	(233.2)	(275.6)	(233.2)
		(525.0)	(222.6)	(525.0)	(222.6)
Total equity at the end of the financial year		1,663.9	1,754.6	1,426.0	1,505.1

¹ Short term AWAC energy price hedging, principally natural gas and fuel oil. Refer note 1(q).

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

ALUMINA LIMITED AND CONTROLLED ENTITIES
CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated Entity		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees (inclusive of goods and services tax)		(13.6)	(10.5)	(13.1)	(10.3)
GST refund received		0.8	0.6	0.8	0.6
Dividends received from associates		444.9	521.1	437.2	510.8
Interest received		2.6	1.4	2.5	1.3
Interest paid		(42.6)	(15.7)	(42.6)	(15.7)
Income taxes paid		(1.6)	-	-	-
Other		(1.6)	-	(1.2)	-
Net cash inflow from operating activities	22(a)	388.9	496.9	383.6	486.7
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans to controlled entities		-	-	(482.5)	(248.7)
Payments for investment in associates		(489.4)	(259.2)	-	-
Net cash outflow from investing activities		(489.4)	(259.2)	(482.5)	(248.7)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		-	10.1	-	10.1
Proceeds from borrowings		632.6	391.3	632.6	391.3
Repayment of borrowings		(146.0)	(252.4)	(146.0)	(252.4)
Payments for purchases of buy-back shares		(250.1)	-	(250.1)	-
Dividends paid		(275.6)	(233.2)	(275.6)	(233.2)
Net cash outflow from financing activities		(39.1)	(84.2)	(39.1)	(84.2)
Net (decrease)/increase in cash and cash equivalents		(139.6)	153.5	(138.0)	153.8
Cash and cash equivalents at the beginning of the financial year		169.0	15.2	162.7	8.9
Effects of exchange rate changes on cash and cash equivalents		(0.3)	0.3	-	-
Cash and cash equivalents at the end of the financial year	10(a)	29.1	169.0	24.7	162.7

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 for the year ended 31 December 2007 has been prepared in accordance with Australian Equivalents to International Financial Reporting (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Alumina Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 124 'Related Party Disclosures'.

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 AIFRS 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). AIFRS 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. The financial statements of the subsidiaries are included in the consolidated financial report, from the date that control commences until it ceases. 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.

(ii) Associates

Associates are those entities over which the consolidated entity exercises significant influence but not control over the financial and operating policies, 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 after aligning back to Group accounting policies. 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.

(iii) Employee Share Trust

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by the Alumina Employee Share Acquisition Plan Trust are disclosed as treasury shares and deducted from contributed equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 legislation.

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.

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 those entities operate ("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 they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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 exchange 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 financial 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 where applicable.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade 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 original effective interest rate. The amount of the provision is recognised in the income statement in general and administrative expenses.

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).

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share 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.

If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of identification and measurement of net assets acquired.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 incurred for the construction of any qualifying asset are capitalised during the time that it is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Borrowing costs related to AWAC projects are included within investment in associates.

N TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group 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 returned 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

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Alumina Employee Share Plan. Information relating to these schemes is set out in Note 20.

The fair value of options granted under the Alumina Employee Share Plan 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 methodology which employs the Monte Carlo simulation and a Black-Scholes option pricing model. This methodology 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.

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. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(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.

(v) Defined Benefit Plans

Alumina Limited's associates have defined benefit plans in place. The associates' net obligation in respect of defined benefit plans, is calculated 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. During 2007, accounting guidance "IFRIC 14 IAS-19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was released clarifying the application of net asset capping. The new interpretation states that a net asset cap is applied after taking into consideration the future life of an entity rather than future life of the existing Plan members. The new guidelines are mandatory for periods beginning on or after 1 January 2008, however Alumina Limited has decided to early adopt as permitted.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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 hedging 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 ongoing 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 values or cash flows of hedged items.

Net investment in a foreign operations 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. The gain or loss on hedging instruments relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Embedded Derivatives

Under AIFRS, 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. AIFRS 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Diluted earnings per share

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

i) AASB Interpretation 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*

AASB Interpretation 14 will be effective for annual reporting periods commencing 1 January 2008. It provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. Alumina Limited has elected to early adopt. For further details refer to Note 1(p).

X ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, 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.

Financial 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 commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily the US dollar in which most of AWAC's sales are denominated.

During 2007 the Group managed this risk partly by borrowing in US dollars to provide a hedge of its US dollar denominated assets, and by borrowing in Australian dollars for its further funding needs.

The Group does not hedge its other exposures except through the near-term forward purchase of currency to meet operating requirements.

The Group's assessed sensitivity of after tax profit to each one US cent movement in the average US dollar / Australian dollar exchange rate during 2007 was approximately \$7.2 million.

In addition, had the Australian dollar at 31 December 2007, been weaker/stronger by 10 per cent against the US dollar, with all other variables held constant, post-tax profit for the year would have been \$4.2 million higher/\$5.1 million lower (2006: \$3.5 million higher/\$2.9 million lower) mainly as a result of foreign exchange gains/losses on translation of Alcoa of Australia's US dollar denominated trade receivables, trade payables and the effect on the fair value of embedded derivatives in long term raw material purchase contracts.

Equity would have been \$4.2 million higher/\$5.1 million lower (2006: \$3.5 million higher/\$2.9 million lower) had the Australian dollar weakened/strengthened by 10 per cent against the US dollar, arising mainly as a result of foreign exchange gains/losses on translation of US dollar denominated items as detailed in the above section relating to profit. The sensitivity factors relating to Equity are the same as detailed in the above section relating to profit.

(ii) Price risk

The Group is exposed to commodity price risk through its investment in the AWAC joint venture.

The price of AWAC sales of alumina and aluminium are, in most cases, related to the price of aluminium as quoted on the London Metal Exchange at the time of the shipment. During 2007, AWAC did not hedge its aluminium price risk.

During 2007 the Group's assessed sensitivity of after tax profit to each one US cent movement in the average US dollar price per pound of aluminium as quoted on the London Metal Exchange was approximately \$10 million. The sensitivity of earnings to the LME aluminium price is not linear, as it reflects the mix of AWAC sales contracts on varying terms and may vary with significant changes in the LME aluminium price.

AWAC is exposed to the price of various other commodities used in the refining and smelting processes, particularly energy (oil, gas, coal and electricity) and caustic soda. AWAC manages commodity price risks through long-term purchase contracts for some input costs. Some energy price risk is managed through short-term commodity hedges.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from its borrowings. There are no long term borrowings within any AWAC entities.

Borrowings by the Group at variable rates expose it to cash flow interest rate risk. Borrowings at fixed rates would expose the Group to fair value interest rate risk.

When managing interest rate risk, the Group seeks to reduce the overall cost of funds. Group policy is to maintain borrowings predominately at variable rates, based on the assessed correlation of movements in interest rates to movements in the Group's revenues. During 2007 and 2006, the Group's borrowings were all on a variable rate basis.

Had interest rates during 2007 been 1 per cent higher / lower than the average of 6.1 per cent, with all other variables held constant, post-tax profit for the year would have been A\$7.9 million lower/higher (2006: A\$4.5 million lower/higher).

Additional information on the Group's interest rate risk is shown in Note 24.

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 AWAC 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.

Credit risk further arises in relation to financial guarantees given to certain parties (see note 25 for details). Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

C 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 reasonably expected forward cash requirements.

The table below analyses the Group's financial liabilities. At 31 December 2007, the Group had no derivative financial instruments. The amounts disclosed in the table are undiscounted principal amounts.

At 31 December 2007	Less than 1 year \$Million	Between 1 and 2 years \$Million	Between 2 and 5 years \$Million
Interest-bearing liabilities	440.6	285.5	280.3

Additional information on the Group's borrowings, including committed undrawn facilities, are shown in Notes 16 and 23.

D FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair values of the Group's financial assets and liabilities, together with the carrying amounts in the balance sheet, are disclosed in note 24(b).

The carrying value less impairment provision for current receivables and payables is a reasonable approximation of their fair values due to the short-term nature of the receivables. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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. Committed future purchases under those contracts are 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. 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. During 2007, embedded derivatives in AWAC contracts resulted in a reduction of \$8.1 million to Net Profit (2006: \$64.6 million reduction).

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 may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Embedded derivatives

The Group has recognised a liability for derivative financial instruments through its equity investment in AWAC in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. 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 recognised a net liability for retirement benefit obligations under the defined benefit superannuation arrangements, through its investment in AWAC. All plans are valued in accordance with AASB 119 *Employee Benefits*. These valuations require actuarial assumptions to be made.

Asset retirement obligations

The estimated costs of rehabilitating mine areas and restoring operating sites is reviewed annually and fully provided at the present value. The amount of obligations recognised by AWAC includes the costs of mine 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 is 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 detailed 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		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006
4. REVENUE					
From continuing operations					
<i>Other revenue</i>					
Dividends received from associates		–	–	424.0	510.8
Dividend received from subsidiary companies		–	–	13.2	–
Interest received/receivable		2.6	1.4	2.5	1.3
Total revenue		2.6	1.4	439.7	512.1
5. OTHER INCOME					
Foreign exchange gains (net)		–	–	66.8	29.4
Sundry income		0.2	–	0.2	–
Total other income		0.2	–	67.0	29.4
6. EXPENSES					
Profit before tax includes the following specific expenses:					
Depreciation on plant and equipment		–	0.1	–	0.1
Finance costs	6(a)	45.7	25.1	45.7	25.3
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
(a) Finance costs					
<i>Interest and finance charges paid/payable:</i>					
– unrelated corporations		45.7	25.1	45.7	25.1
– related corporations		–	–	–	0.2
		45.7	25.1	45.7	25.3
<i>Interest received/receivable:</i>					
– unrelated corporations		(2.6)	(1.4)	(2.5)	(1.3)
– related corporations		–	–	–	–
	4	(2.6)	(1.4)	(2.5)	(1.3)
Net finance cost		43.1	23.7	43.2	24.0

	Consolidated Entity \$Million		Parent Entity \$Million	
	2007	2006	2007	2006
7. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	(1.5)	(1.1)	(1.8)	-
Income tax expense is attributable to:				
Profit from continuing operations	(1.5)	(1.1)	(1.8)	-
Aggregate income tax expense for the year	(1.5)	(1.1)	(1.8)	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from ordinary activities before tax	437.9	512.2	447.7	505.7
(Shortfall)/surplus of dividends received/receivable over equity share of profits	(49.7)	(25.5)	-	-
Adjusted profit from ordinary activities before tax	388.2	486.7	447.7	505.7
<i>Prima facie tax expense at the rate of 30% (2006 - 30%)</i>	(116.5)	(146.0)	(134.3)	(151.7)
The following items caused the total charge for income tax to vary from the above:				
Rebateable and exempt dividends	444.9	521.1	437.2	510.8
Income assessable for tax	(60.2)	(8.4)	(60.2)	(8.4)
Income not assessable for tax	-	-	66.7	29.3
Non-deductible expenses	(13.7)	(15.4)	(13.4)	(15.3)
Deductible expense from foreign subsidiary	5.8	4.1	-	-
Previously unrecognised tax losses now recouped to reduce current tax expense	11.4	-	11.4	-
Tax losses not recognised	-	(14.7)	-	(10.7)
Taxable income from foreign subsidiary	(5.9)	(4.0)	-	-
Net movement	382.3	482.7	441.7	505.7
Tax effect of the above adjustments at 30% (2006: 30%)	114.7	144.8	132.5	151.7
Over provision of tax in prior years	0.3	0.1	-	-
Consequent reduction in charge for income tax	115.0	144.9	132.5	151.7
Aggregate income tax expense for the period	(1.5)	(1.1)	(1.8)	-
(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 *	104.7	94.3	3.8	7.2
- capital losses *	321.3	321.3	321.2	321.2
	426.0	415.6	325.0	328.4

* 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.

	Consolidated Entity	
	2007	2006
8. EARNINGS PER SHARE		
(a) Basic earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company	cents	
	38.2	43.8
(b) Diluted earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company	cents	
	38.2	43.8

	Number of Shares	
	2007	2006
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,142,136,784	1,166,285,838
Adjustments for calculation of diluted earnings per share:		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,142,136,784	1,166,285,838

(c) Information concerning classification of securities

Options granted to employees under the WMC Employee Share Plan, prior to the Company's demerger, are considered to be potential ordinary shares and 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 20. There were no options issued to employees in the current year, and no options are outstanding following expiry of the options on 30 November 2006.

(d) Conversion, call, subscription or issue after 31 December 2007

There have been no movements in share capital since 31 December 2007.

8. EARNINGS PER SHARE (continued)

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

	\$Million	
	2007	2006
Profit from ordinary activities attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	436.4	511.1

	Consolidated Entity \$Million		Parent Entity \$Million	
	2007	2006	2007	2006

9. DIVIDENDS

Interim dividend No. 56 of 12 cents fully franked at 30% per fully paid share declared 1 August 2007 and paid 5 September 2007 (2006: 12 cents fully franked at 30% per fully paid share, paid on 4 September 2006).

135.5	116.6	135.5	116.6
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Final dividend No. 55 of 12 cents fully franked at 30% per fully paid share, paid on 9 March 2007 (2006: 10 cents fully franked at 30% per fully paid share, paid on 31 March 2006).

140.1	116.6	140.1	116.6
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275.6	233.2	275.6	233.2
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Dividends paid per share

24.0c	20.0c	24.0c	20.0c
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(a) Dividends paid during the year

Dividend No. 56, paid on 5 September 2007, was the interim dividend for 2007. Dividend No. 55, paid on 9 March 2007, was the final dividend for 2006.

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the Directors have declared a final dividend No. 57 of 12 cents a share fully franked, declared 31 January 2008 and payable on 31 March 2008. The aggregate amount of the proposed dividend expected to be paid out of retained profits at 31 December 2007, but not recognised as a liability at year end (refer Note 1(r)) is \$135.5 million.

	Consolidated Entity \$Million		Parent Entity \$Million	
	2007	2006	2007	2006

(c) Franked dividends

The fully franked dividends received from Alcoa of Australia Limited ("AofA") in the financial year were

424.0	510.8	424.0	510.8
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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% (2006: 30%)

156.5	212.5	156.5	212.5
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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		Parent Entity	
	(\$Million)		(\$Million)	
	2007	2006	2007	2006
10. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	29.1	169.0	24.7	162.7
	29.1	169.0	24.7	162.7
(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	29.1	169.0	24.7	162.7
Balances as per cash flow statements	29.1	169.0	24.7	162.7
(b) Cash at bank and on hand				
Average interest rate on cash holdings during 2007 was 6.0 % (2006: 5.1%)				
(c) Money market deposits				
There were no interest bearing deposits at 31 December 2007. (2006: nil).				

11. CURRENT ASSETS – RECEIVABLES

Other debtors	0.1	0.1	0.1	0.1
Loans to controlled entities	–	–	497.4	67.0
	0.1	0.1	497.5	67.1

(a) Impaired receivables

There were no impaired receivables for the Group and the parent in 2007 or 2006. At 31 December 2007 there were no receivables that were past due.

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to Note 2 for more information on the risk management policy of the Group.

11. CURRENT ASSETS – RECEIVABLES (continued)

(c) Foreign exchange and interest rate risk

The carrying amounts of the Group's and parent entity's current and non-current receivables are denominated in the following currencies.

	Consolidated Entity		Parent Entity	
	\$Million		\$Million	
	2007	2006	2007	2006
Australian Dollars	0.1	0.1	497.5	67.1
	0.1	0.1	497.5	67.1
Current receivables	0.1	0.1	497.5	67.1
Non-current receivables	–	–	–	–
	0.1	0.1	497.5	67.1

A summarised analysis of the sensitivity of these receivables to foreign exchange and interest rate risk can be found in Note 2.

	Notes	Consolidated Entity		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006

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.*

Securities at cost:

Balance brought forward		1,748.5	1,529.9	1,037.7	1,037.7
Additional funding/capitalisation in AWAC entities		489.4	259.2	–	–
Foreign currency revaluation		(85.0)	(40.6)	–	–
Equity accounted cost of AWAC		2,152.9	1,748.5	1,037.7	1,037.7
Equity in retained profits of AWAC	12(c)	502.7	453.0	–	–
Equity in reserves of AWAC	12(d)	1.4	(15.3)	–	–
Equity accounted carrying value of AWAC		2,657.0	2,186.2	1,037.7	1,037.7

(b) Equity accounted share of profits and dividends

Equity share of profits before tax		729.1	813.4		
Equity share of tax		(234.5)	(266.8)		
Equity accounted share of profit after tax		494.6	546.6		
Dividends received/receivable by the Group		(444.9)	(521.1)		
Shortfall/(surplus) of dividends received/receivable over equity share of profits	12(c)	49.7	25.5		

	Notes	Consolidated Entity \$Million	
		2007	2006
(c) Share of retained profits			
Shortfall/(surplus) of dividends received/receivable over equity share of profits		49.7	25.5
Balance brought forward		453.0	427.5
Total equity share in retained profits carried forward		502.7	453.0
(d) Equity accounted share of reserves of associated entities			
Opening balance		(15.3)	37.5
Share based payments reserve		-	-
Unrealised gains on derivatives, net of tax		16.7	(52.8)
Total equity share of reserves		1.4	(15.3)

(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, 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. 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).

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(f) Additional information on associated entities

Name	Principal activities	Country of incorporation	Percentage equity	
			2007	2006
(i) Entities forming AWAC				
Alcoa of Australia Ltd	Bauxite, alumina & aluminium production	Australia	40	40
Alcoa World Alumina 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
Matapu Sociedade de Mineracao Ltda.	Hold bauxite exploration rights	Brazil	40	40
Mineracao Sao Jorge Ltda.	Hold bauxite exploration rights	Brazil	40	40
AWA Brazil Holdings Ltda. ¹	Holding company	Brazil	40	–
Omnia Minerios 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

¹ Formerly Naruoka Participações Ltda.

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

	\$Million	
	2007	2006
(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 2007 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.	3,673.7	3,465.8

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 now be determined 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 facts currently available, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position or liquidity of AWAC.

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

ALUMINA LIMITED AND CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

		\$Million	
	Notes	2007	2006
(h) Alumina's share of aggregate associates:			
Current assets		665.2	927.3
Non-current assets		2,818.7	2,242.1
Current liabilities		(602.4)	(839.1)
Non-current liabilities		(561.1)	(483.0)
Net assets		2,320.4	1,847.3
Mineral rights and bauxite assets		140.2	142.0
Goodwill		196.4	196.9
Carrying value	12(a)	2,657.0	2,186.2
Revenues		2,780.8	3,148.4
Expenses		(2,051.7)	(2,335.0)
Profit before income tax		729.1	813.4
Income tax charge		(234.5)	(266.8)
Profit after income tax		494.6	546.6

	Notes	Consolidated Entity \$Million		Parent Entity \$Million	
		2007	2006	2007	2006
13. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS					
Investments in controlled entities ¹	25	–	–	887.3	837.1

¹ Note 25 discloses the entities comprising the Alumina Consolidated Group

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

	Notes	Consolidated Entity \$Million		Parent Entity \$Million	
		2007	2006	2007	2006
Plant and equipment	14(a)	0.3	0.2	0.3	0.2
(a) Plant and equipment					
Cost		0.6	0.5	0.6	0.5
Accumulated depreciation		(0.3)	(0.3)	(0.3)	(0.3)
		0.3	0.2	0.3	0.2
(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		0.2	0.3	0.2	0.3
Additions		0.1	–	0.1	–
Depreciation expense		–	(0.1)	–	(0.1)
Carrying amount at 31 December		0.3	0.2	0.3	0.2

	Consolidated Entity		Parent Entity	
	(\$Million)		(\$Million)	
	2007	2006	2007	2006
15. CURRENT LIABILITIES – PAYABLES				
Trade payables	1.5	1.3	1.5	1.3
Interest payable	14.3	11.4	14.3	11.4
	15.8	12.7	15.8	12.7
(a) Foreign currency risk				
The carrying amounts of the Group's and parent entity's trade and other payables are denominated in the following currencies:				
Australian dollars	4.7	1.3	4.7	1.3
US dollars	11.1	11.4	11.1	11.4
	15.8	12.7	15.8	12.7

For an analysis of the sensitivity of trade and other payables to foreign currency risk refer to Note 2.

16. INTEREST-BEARING LIABILITIES

Current				
Unsecured				
Bank loans	440.6	380.2	440.6	380.2
Non current				
Unsecured				
Bank loans	565.8	207.9	565.8	207.9
Total	1,006.4	588.1	1,006.4	588.1

(a) Currencies

The above borrowings are due in the following currency:

US dollars	665.0	464.0	665.0	464.0
Australian dollars	247.0	–	247.0	–
A\$ equivalent of above currencies	1,006.4	588.1	1,006.4	588.1

(b) Exchange rates

Exchange rates at balance date used in translations:

A\$1 = US\$	0.8757	0.7890	0.8757	0.7890
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(c) Fair values

The Directors consider the carrying amounts of bank loans to approximate their fair values where 'fair value', by definition, is the US\$ principal amount translated into A\$ at the exchange rate on balance date.

16. INTEREST-BEARING LIABILITIES (continued)

	Consolidated Entity		Parent Entity	
	(\$Million)		(\$Million)	
	2007	2006	2007	2006
d) Financing arrangements				
The facilities available at balance date were as follows:				
Total loan facilities	1,570.5	887.2		
Used at balance date	1,006.4	588.1		
Available at balance date	564.1	299.1		

The above facilities are available in both US and Australian dollars. The US dollar amounts have been converted to Australian dollar equivalents at the year end exchange rate.

Approximately A\$910 million of existing facilities will mature during the second half of 2008.

During 2008, the Company expects to meet cash calls for approximately US\$480 million as its share of spending on AWAC growth projects. Approximately half of this funding is expected to be provided by dividends received from AWAC. The Company is arranging to finance additional requirements through the extension or replacement of maturing bank credit facilities and new capital market issues. This is expected to be completed in the first and second quarters of 2008, well in advance of the requirements for these funds.

(e) Risk Exposures

The exposure of the Group's and parent entity's borrowings to interest rate changes and the contractual repricing dates at the balance dates are as follows:

6 months or less	1,006.4	588.1	1,006.4	588.1
6 – 12 months	–	–	–	–
1 – 5 years	–	–	–	–
Over 5 years	–	–	–	–
	1,006.4	588.1	1,006.4	588.1
Current borrowings	440.6	380.2	440.6	380.2
Non-current borrowings	565.8	207.9	565.8	207.9
	1,006.4	588.1	1,006.4	588.1

17. CURRENT LIABILITIES – PROVISIONS

Employee benefits-provision for annual leave	0.1	0.1	0.1	0.1
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18. NON-CURRENT LIABILITIES – PROVISIONS

Employee benefits-provision for long service leave	0.3	0.3	0.3	0.3
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The aggregate of provisions for employee benefits as shown in Notes 17 and 18 are \$0.4 million (2006: \$0.4 million).

	Notes	Consolidated Entity		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006
19. CONTRIBUTED EQUITY					
Ordinary share capital issued and fully paid					
Balance brought forward		425.8	415.7	425.8	415.7
Share buy back		(13.9)	–	(13.9)	–
Shares issued		–	10.1	–	10.1
Total issued capital		411.9	425.8	411.9	425.8
Number of fully paid shares					
		2007		2006	
Movements in ordinary share capital					
Opening number of shares		1,167,616,748		1,165,645,648	
Decrease due to Shares bought back	19(b)	(38,589,987)		–	
Issued under Employee Share Scheme	20(b)	–		1,971,100	
Closing number of shares		1,129,026,761		1,167,616,748	

(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. These options remained exercisable until 30 November 2006.

There is no ongoing option plan available to Alumina Limited directors or employees.

(b) During the period, Alumina Limited conducted an off-market share buy-back of \$250 million, resulting in the repurchase and retirement of approximately 3.3% of issued capital.

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

(d) Capital risk management	Consolidated Entity		Parent Entity	
	\$Million		\$Million	
	2007	2006	2007	2006
Total borrowings	1,006.4	588.1	1,006.4	588.1
Less: cash and cash equivalents (Note 10)	(29.1)	(169.0)	(24.7)	(162.7)
Net debt	977.3	419.1	981.7	425.4
Total equity	1,663.9	1,754.6	1,426.0	1,505.1
Total capital	2,641.2	2,173.7	2,407.7	1,930.5
Gearing ratio	37.0%	19.3%	40.8%	22.0%

The increase in the gearing ratio during 2007 resulted primarily from the share buy back during and the increase in borrowings during the year to fund capital expansions.

20. SHARE-BASED PAYMENTS

(a) Alumina Employee Share Plan

This is a plan under which employees may be invited to participate in the grant of a conditional entitlement to fully paid ordinary shares (a Performance Right). The Board's intention is to make offers to each 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.

For Performance Rights granted in January 2007, 50% of the Performance Rights are subject to an earning per share ('EPS') hurdle. 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:

2007

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
19/1/2004	21/12/2006	51,625	–	–	(51,625)	–
25/1/2005	16/12/2007	102,850	–	–	(51,425)	51,425
25/1/2006	7/12/2008	191,850	–	–	–	191,850
29/1/2007	4/12/2009	–	211,450	–	–	211,450
Total		346,325	211,450	–	(103,050)	454,725

2006

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	3/12/2005	35,800	–	–	(35,800)	–
19/1/2004	21/12/2006	103,250	–	–	(51,625)	51,625
25/1/2005	16/12/2007	102,850	–	–	–	102,850
25/1/2006	7/12/2008	–	192,150	–	(300)	191,850
Total		241,900	192,150	–	(87,725)	346,325

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	
	2007	2006	2007	2006
Performance rights granted under the Alumina Employee Share Plan	0.7	0.5	0.7	0.5

20. SHARE-BASED PAYMENTS (continued)

(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. This Scheme expired on 30 November 2006.

Employee option plan (Expired 30 November 2006)

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 were exercisable until expiry of the scheme on 30 November 2006.

The major provisions of the option plan provided that the employee may request that the options be converted after one year from the date of allotment. Options were exercisable at their strike price. Restrictions existed for certain employees on the number of options which can be exercised in any year. If the request to convert the options to shares were not made, the Company made the call at the completion of five years from the date of issue or termination of employment. Certain designated officers were 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 carried no rights to dividends and no voting rights. When exercised, each option resulted 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 at end of the year Number
Consolidated and parent entity-2006								
2001	30 Nov 2006	\$5.02	1,971,100	-	(1,971,100)	-	-	-
Total			1,971,100	-	(1,971,100)	-	-	-
Weighted average exercise price:			\$5.02		\$5.02			

Stock appreciation plan (Expired 30 November 2006)

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 (SAP's) 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. This plan expired on 30 November 2006.

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 was entitled to a payment equal to the difference between the closing 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	Exercisable at end of the year Number
Consolidated and parent entity-2006								
2001	30 Nov 2006	\$5.02	57,100	-	(57,100)	-	-	-
Total			57,100	-	(57,100)	-	-	-
Weighted average exercise price:			\$5.02		\$5.02			

	Notes	Consolidated Entity		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006
21. RESERVES, RETAINED PROFITS AND TREASURY SHARES					
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	21(a)	(40.2)	(21.5)	–	–
Cash-flow hedge reserve	21(b)	(0.5)	(17.2)	–	–
Share-based payments reserve	21(c)	3.9	3.2	2.0	1.3
		<u>14.0</u>	<u>15.3</u>	<u>242.2</u>	<u>241.5</u>
(a) Foreign currency translation reserve					
Balance brought forward		(21.5)	(10.2)		
Currency translation differences arising during the year		<u>(18.7)</u>	<u>(11.3)</u>		
Balance carried forward		<u>(40.2)</u>	<u>(21.5)</u>		
(b) Cash flow hedge reserve					
Balance brought forward		(17.2)	35.6		
Gains/(losses) for the period net of tax	12(d)	<u>16.7</u>	<u>(52.8)</u>		
Balance carried forward		<u>(0.5)</u>	<u>(17.2)</u>		
(c) Share-based payments reserve					
Balance brought forward		3.2	2.7	1.3	0.8
Option expense					
– Group		0.7	0.5	0.7	0.5
– Associates	12(d)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance carried forward		<u>3.9</u>	<u>3.2</u>	<u>2.0</u>	<u>1.3</u>

(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.

ALUMINA LIMITED AND CONTROLLED ENTITIES
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

	Notes	Consolidated Entity		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006
(e) Retained profits					
Retained profits at the beginning of the financial year:					
- Group		861.1	608.7	837.8	565.3
- Associates		453.0	427.5	-	-
		<u>1,314.1</u>	<u>1,036.2</u>	<u>837.8</u>	<u>565.3</u>
Profit attributable to the members of Alumina Limited		436.4	511.1	445.9	505.7
Dividend provided for or paid		(275.6)	(233.2)	(275.6)	(233.2)
Share buy back		(236.2)	-	(236.2)	-
Retained profits at the end of the financial year		<u>1,238.7</u>	<u>1,314.1</u>	<u>771.9</u>	<u>837.8</u>
Retained profits at the end of the financial year:					
- Group		736.0	861.1		
- Associates	12(c)	502.7	453.0		
		<u>1,238.7</u>	<u>1,314.1</u>		
(f) Treasury shares¹					
Balance brought forward		(0.6)	(0.6)	-	-
Movement for the period		(0.1)	-	-	-
Balance carried forward		<u>(0.7)</u>	<u>(0.6)</u>	<u>-</u>	<u>-</u>

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.

	Notes	Consolidated Entity		Parent Entity	
		\$Million		\$Million	
		2007	2006	2007	2006
22. NOTES TO THE STATEMENTS OF CASH FLOWS					
(a) Reconciliation of operating profit after income tax to net cash inflow from operating activities					
Operating profit from continuing operations after income tax		436.4	511.1	445.9	505.7
(Shortfall)/surplus of dividends received/receivable over equity share of profits	12(b)	(49.7)	(25.5)	-	-
Depreciation and amortisation	6	-	0.1	-	0.1
Non-cash employee benefits expense-share based payments		0.7	0.5	0.7	0.5
Net exchange differences	5	-	-	(66.8)	(29.4)
Sub total		387.4	486.2	379.8	476.9
<i>Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:</i>					
(Increase)/decrease in:					
- receivables		-	0.4	-	0.1
- other assets		-	0.5	-	0.5
(Decrease)/increase in:					
- payables		3.1	9.6	3.1	9.6
-current tax liabilities		(0.1)	1.1	-	-
-other liabilities		(1.5)	(0.9)	0.7	(0.4)
Net cash inflow from operating activities		388.9	496.9	383.6	486.7

(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 23.

(d) Non-cash financing and investing activities

There were no non-cash financing or investing activities in 2007 (2006: nil).

23. FINANCING FACILITIES

The facilities available at balance date were as follows:

Total loan facilities	1,570.5	887.2	1,570.5	887.2
Used at balance date	1,006.4	588.1	1,006.4	588.1
Available at balance date	564.1	299.1	564.1	299.1

The above facilities are available in both US and Australian dollars. The US dollar amounts have been converted to Australian dollar equivalents at the year end exchange rate.

24. 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:

\$Million	Notes	Floating Interest	Fixed interest maturing in:			Non-interest bearing	Total
			1 year or less	Over 1 to 5 years	More than 5 years		
As at 31 December 2007							
Financial Assets							
Cash and cash equivalents	10	29.1	–	–	–	–	29.1
Receivables	11	–	–	–	–	0.1	0.1
		29.1	–	–	–	0.1	29.2
Weighted average interest rate		6.0%					
Financial Liabilities							
Payables	15	–	–	–	–	15.8	15.8
Interest-bearing liabilities	16	1,006.4	–	–	–	–	1,006.4
		1,006.4	–	–	–	15.8	1,022.2
Weighted average interest rate		6.1%					
Net financial (liabilities)		(977.3)	–	–	–	(15.7)	(993.0)

\$Million	Notes	Floating Interest	Fixed interest maturing in:			Non-interest bearing	Total
			1 year or less	Over 1 to 5 years	More than 5 years		
As at 31 December 2006							
Financial Assets							
Cash and cash equivalents	10	169.0	–	–	–	–	169.0
Receivables	11	–	–	–	–	0.1	0.1
		169.0	–	–	–	0.1	169.1
Weighted average interest rate		5.1%					
Financial Liabilities							
Payables	15	–	–	–	–	12.7	12.7
Bank loans	16	588.1	–	–	–	–	588.1
		588.1	–	–	–	12.7	600.8
Weighted average interest rate		5.7%					
Net financial (liabilities)		(419.1)	–	–	–	(12.6)	(431.7)

24. FINANCIAL INSTRUMENTS (continued)

(b) Carrying amounts and estimated fair values of financial instruments (continued)

The carrying amounts and estimated fair values of the company's financial instruments, referred to in Note 24(a) above were as follows:

\$Million	Notes	Consolidated Entity			
		Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Recognised in the Balance Sheet					
Financial assets					
Cash and cash equivalents	10	29.1	29.1	169.0	169.0
Current receivables	11	0.1	0.1	0.1	0.1
Financial liabilities					
Current payables	15	15.8	15.8	12.7	12.7
Interest bearing liabilities	16	1,006.4	1,006.4	588.1	588.1

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.

25. INVESTMENTS IN CONTROLLED ENTITIES

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

25. 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. Appropriate books and records are maintained for these entities;
- 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) This company was incorporated on 22 September 2006 and is 100% owned by Westminer (Investments) B.V.

	Closed Group \$Million	
	2007	2006
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:		
Balance sheets of closed Group		
Current assets		
Cash and cash equivalents	24.7	162.8
Receivables	103.3	87.0
Deferred tax assets	2.1	2.1
Other assets	–	–
Total current assets	130.1	251.9
Non-current assets		
Investments in associates/subsidiaries	2,108.8	1,644.6
Property, plant and equipment	0.3	0.2
Total non-current assets	2,109.1	1,644.8
Total assets	2,239.2	1,896.7
Current liabilities		
Payables	150.4	141.9
Interest-bearing liabilities	440.6	380.2
Provisions	0.1	0.1
Other	1.0	0.6
Total current liabilities	592.1	522.8
Non-current liabilities		
Interest-bearing liabilities	565.8	207.9
Provisions	0.3	0.3
Total non-current liabilities	566.1	208.2
Total liabilities	1,158.2	731.0
Net assets	1,081.0	1,165.7
Equity		
Contributed equity	411.9	425.8
Reserves	242.2	241.5
Retained profits	426.9	498.4
Total equity	1,081.0	1,165.7

25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

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

	Closed Group	
	(\$Million)	
	2007	2006
Income statements of closed Group		
Revenue from continuing operation	447.6	513.4
Other income	66.8	29.5
General and administrative expenses	(13.4)	(10.6)
Other expenses	(9.2)	(5.8)
Borrowing costs	(51.5)	(29.2)
Profit from ordinary activities before income tax	440.3	497.3
Income tax expense	-	-
Net profit	440.3	497.3

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

Retained profits at the beginning of the financial year	498.4	234.3
Net profit	440.3	497.3
Dividend provided for or paid	(275.6)	(233.2)
Share buy back	(236.2)	-
Retained profits at the end of the financial year	426.9	498.4

26. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December, 2007 (2006: nil).

Cross guarantees given by Alumina Limited and Alumina International Holdings Pty. Ltd are described in Note 25. 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.

Consolidated Entity		Parent Entity	
(\$Million)		(\$Million)	
2007	2006	2007	2006

27. COMMITMENTS FOR EXPENDITURE

Lease commitments

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.

28. 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 25. Transactions between Alumina Limited and other entities in the wholly-owned Group during the years ended 31 December 2007 and 2006 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	
	2007	2006
Interest expense	–	0.2
Aggregate amounts receivable/(payable) to entities in the wholly-owned Group at balance date:		
Current receivables	497.4	67.0

Directors and Other Key Management Personnel

Disclosures relating to directors and other key management personnel are set out in Note 29.

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 25; and
- (b) associates – Note 12.

29. 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)

Non-executive directors

P A F Hay

R J McNeilly

M R Rayner

J Pizzey (Appointed 8 June 2007)

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(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 during the financial year:

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

All of the persons above were also key management persons during the year ended 31 December 2007.

(c) Remuneration of key management personnel

	Consolidated Entity		Parent Entity	
	\$		\$	
	2007	2006	2007	2006
Short-term employee benefits	2,998,874	2,996,055	2,998,874	2,996,055
Post-employment benefits	88,896	87,042	88,896	87,042
Share based payments	718,211	496,191	718,211	496,191
	3,805,981	3,579,288	3,805,981	3,579,288

The Company has taken advantage of the relief provided by Schedule 5B of the *Corporations Act 2001* and has transferred the detailed remuneration disclosures to the Director's Report. The relevant information can be found in the Remuneration report on pages 19-37.

(d) Equity instrument disclosures relating to key management personnel

(i) Alumina Employee Performance Rights Plan

Details of performance rights over ordinary shares in the company provided as remuneration together with terms and conditions of the performance rights can be found in the Remuneration Report on pages 22-28.

(ii) Options and Performance Share Rights holdings

The number of options and 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:

2007	Type of equity-based instrument	Number of performance rights or options held at 1 January 2007 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 2007	Vested and exercisable at end of the year
J Marlay	Performance rights	206,150	107,100	–	(71,550)	241,700	–
S C Foster	Performance rights	72,600	35,300	–	(26,650)	81,250	–
K A Dean	Performance rights	50,500	54,300	–	–	104,800	–

1 Includes the number of performance rights granted that were subject to testing in June 2007, December 2006 and December 2007 but not yet vested.

2 Performance rights granted in January 2007 for the 3 year performance test period concluding in December 2009.

3 Performance right conditions were not met for the January 2005 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 2008. In addition, of the January 2004 grant tested in June 2007, 50 per cent lapsed.

ALUMINA LIMITED AND CONTROLLED ENTITIES
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2006		Number of performance rights or options held at 1 January 2006 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 2006	Vested and exercisable at end of the year
Name	Type of equity-based instrument						
J Marlay	Performance rights	167,550	99,300	–	(60,700)	206,150	–
S C Foster	Performance rights	62,400	32,800	–	(22,600)	72,600	–
K A Dean	Performance rights	–	50,500	–	–	50,500	–

1 Includes the number of performance rights granted that were subject to testing in June 2006, December 2006 and December 2007 but not yet vested.

2 Performance rights granted in January 2006 for the 3 year performance test period concluding in December 2008.

3 Performance right conditions were not met for the January 2004 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 2007. In addition, Tranche 3 of the March 2003 grant re-tested in June 2006 lapsed.

(iii) 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.

2007		Balance at the start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year
Name					
Directors of Alumina Limited					
Ordinary shares					
D M Morley		420,994	–	4,189	425,183
P A F Hay		41,212	–	1,678	42,890
R J McNeilly		31,433	–	4,191	35,624
M R Rayner		29,720	–	3,225	32,945
J Pizzezy		–	–	13,217	13,217
J Marlay		90,338	–	8,000	98,338
K A Dean		–	–	9,741	9,741
Other key management personnel of the company and consolidated entity					
Ordinary shares					
S C Foster		28,675	–	4,472	33,147

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2006	Balance at the start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year
Name				
Directors of Alumina Limited				
Ordinary shares				
D M Morley	417,344	–	3,650	420,994
P A F Hay	31,700	–	9,512	41,212
R J McNeilly	27,370	–	4,063	31,433
M R Rayner	28,094	–	1,626	29,720
J Marlay	90,338	–	–	90,338
K A Dean	–	–	–	–
Other key management personnel of the company and consolidated entity				
Ordinary shares				
S C Foster	28,675	–	–	28,675

(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 2007 and 2006.

30. 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		Parent Entity	
	\$Thousand		\$Thousand	
	2007	2006	2007	2006
(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	379	367	347	306
Audit of Annual Report on US Form 20-F – fees for annual audit	235	105	235	105
Advice on accounting standards (including transition to AIFRS)	–	11	–	11
	614	483	582	422
(b) Remuneration for other assurance services:				
Other	200	97	200	97
(c) Remuneration for taxation services:				
Overseas tax services	54	71	–	–
Total	868	651	782	519

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.

31. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 27 February 2008, Aluminium Bahrain BSC (“Alba”) commenced litigation in the United States District Court for the Western District of Pennsylvania, against Alcoa Inc. (“Alcoa”), Alcoa World Alumina LLC and two individuals. Alcoa World Alumina LLC is an AWAC entity, and Alba is a significant customer of alumina from AWAC’s Western Australia refineries.

The Complaint alleges that the defendants engaged in a conspiracy involving fraud, bribery and overcharging with respect to the sale of alumina to Alba. Relief sought includes damages and rescission of Alba’s current alumina supply contract.

Alcoa has stated that it is reviewing the allegations and that it intends to vigorously defend the claim. No member of the Alumina Limited Group, nor any of its employees, are defendants in the litigation. (2006: nil).

32. FINANCIAL REPORTING BY SEGMENT

(a) Business segments

Years ended 31 December 2007 and 31 December 2006

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 2007

Consolidated \$Million	Australia	North America	Europe	South America, Caribbean & Africa*	Total
Segment revenue by location of customer**	–	–	–	–	–
Unallocated revenue	2.7	–	0.1	–	2.8
Consolidated revenue					2.8
Investments in Associates	1,031.3	394.8	45.2	1,185.7	2,657.0
Segment assets	27.2	1.0	3.4	–	31.6
Segment liabilities	1,023.7	–	1.0	–	1,024.7
Consolidated net assets					1,663.9
Acquisitions of non-current assets	–	–	–	489.4	489.4
Total acquisitions of non-current assets					489.4

YEAR ENDED 31 DECEMBER 2006

Consolidated \$Million	Australia	North America	Europe	South America, Caribbean & Africa*	Total
Segment revenue by location of customer**	–	–	–	–	–
Unallocated revenue	1.4	–	–	–	1.4
Consolidated revenue					1.4
Investments in Associates	1,020.7	406.6	49.6	709.3	2,186.2
Segment assets	165.2	1.2	5.0	–	171.4
Segment liabilities	601.9	–	1.1	–	603.0
Consolidated net assets					1,754.6
Acquisitions of non-current assets	–	–	–	259.2	259.2
Total acquisitions of non-current assets					259.2

* 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.

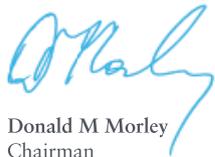
DIRECTORS' DECLARATION

In the directors' opinion:

- a) the financial statements and notes set out on pages 40 to 79 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 2007 and of their performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- c) the audited remuneration disclosures set out on pages 19 to 37 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and
- d) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 25 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 25.

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.



Donald M Morley
Chairman

13 March 2008

REPORT ON THE FINANCIAL REPORT AND AASB 124 REMUNERATION DISCLOSURES CONTAINED IN THE DIRECTORS' REPORT

We have audited the accompanying financial report of Alumina Limited (the company), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Alumina Limited and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report under the heading "remuneration report" in pages 6 to 21 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion,

(a) the financial report of Alumina Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in pages 19 to 37 of the directors' report comply with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Chris Dodd Melbourne
Partner 13 March 2008

Liability limited by a scheme approved under Professional Standards Legislation.

ALUMINA LIMITED AND CONTROLLED ENTITIES
 INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
Revenue from continuing operations	4	1.4	4.0	512.1	416.9
Other income	5	-	-	29.4	-
General and administrative expenses		(10.7)	(10.2)	(10.5)	(10.2)
Other expenses	6	-	-	-	(26.2)
Finance costs	6(a)	(25.1)	(15.3)	(25.3)	(15.5)
Share of net profits of associates accounted for using the equity method	12(h)	546.6	337.1	-	-
Profit before income tax		512.2	315.6	505.7	365.0
Income tax expense	7(a)	(1.1)	-	-	-
Profit attributable to members of Alumina Limited		511.1	315.6	505.7	365.0
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:					
Basic earnings per share	8	43.8c	27.1c		
Diluted earnings per share	8	43.8c	27.1c		

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

ALUMINA LIMITED AND CONTROLLED ENTITIES
BALANCE SHEETS AS AT 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
CURRENT ASSETS					
Cash and cash equivalents	10	169.0	15.2	162.7	8.9
Receivables	11	0.1	0.5	67.1	0.2
Deferred tax assets		2.1	2.1	2.1	2.1
Other financial assets		-	0.5	-	0.5
Total current assets		171.2	18.3	231.9	11.7
NON-CURRENT ASSETS					
Investments accounted for using the equity method	12	2,186.2	1,994.9	1,037.7	1,037.7
Other financial assets	13	-	-	837.1	837.1
Property, plant and equipment	14	0.2	0.3	0.2	0.3
Total non-current assets		2,186.4	1,995.2	1,875.0	1,875.1
TOTAL ASSETS		2,357.6	2,013.5	2,106.9	1,886.8
CURRENT LIABILITIES					
Payables	15	12.7	3.1	12.7	184.7
Interest-bearing liabilities	16	380.2	478.7	380.2	478.7
Current tax liabilities		1.1	-	-	-
Provisions	17	0.1	0.1	0.1	0.1
Other		0.7	1.2	0.6	1.1
Total current liabilities		394.8	483.1	393.6	664.6
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	16	207.9	-	207.9	-
Provisions	18	0.3	0.2	0.3	0.2
Total non-current liabilities		208.2	0.2	208.2	0.2
TOTAL LIABILITIES		603.0	483.3	601.8	664.8
NET ASSETS		1,754.6	1,530.2	1,505.1	1,222.0
EQUITY					
Parent entity interest:					
Contributed equity	19	425.8	415.7	425.8	415.7
Treasury shares	21(f)	(0.6)	(0.6)	-	-
Reserves:					
- Group		30.6	41.4	241.5	241.0
- Associates	12(d)	(15.3)	37.5	-	-
Retained profits:					
- Group	21(e)	861.1	608.7	837.8	565.3
- Associates	12(c)	453.0	427.5	-	-
TOTAL EQUITY		1,754.6	1,530.2	1,505.1	1,222.0

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

ALUMINA LIMITED AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
Total equity at the beginning of the year		1,530.2	1,411.9	1,222.0	1,077.9
Adjustment on adoption of AASB 2, net of tax, to Reserves	21(c)	-	(0.2)	-	0.3
Adjustment on adoption of AASB 139, net of tax, to Reserves	21(b)	-	35.6	-	-
Change in the fair value of cash flow hedges, net of tax ¹	21(b)	(52.8)	-	-	-
Exchange differences on translation of foreign operations	21(a)	(11.3)	(11.5)	-	-
Net income recognised directly in equity		(64.1)	23.9	-	0.3
Profit for the year		511.1	315.6	505.7	365.0
Total income and expense recognised in equity and profit during the year		447.0	339.5	505.7	365.3
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs		10.1	11.6	10.1	11.6
Movement in share based payments reserve	21(c)	0.5	-	0.5	-
Dividends paid		(233.2)	(232.8)	(233.2)	(232.8)
		(222.6)	(221.2)	(222.6)	(221.2)
Total equity at the end of the financial year		1,754.6	1,530.2	1,505.1	1,222.0

¹ Short term AWAC energy price hedging, principally natural gas and fuel oil.

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

ALUMINA LIMITED AND CONTROLLED ENTITIES

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees (inclusive of goods and services tax)		(10.5)	(14.3)	(10.3)	(12.6)
GST refund received		0.6	0.5	0.6	0.5
Dividends received from associates		521.1	95.9	510.8	91.6
Interest received		1.4	4.5	1.3	4.5
Interest paid		(15.7)	(14.3)	(15.7)	(14.3)
Income taxes paid		-	0.1	-	-
Other		-	(0.4)	-	-
Net cash inflow from operating activities	22(a)	496.9	72.0	486.7	69.7
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans to controlled entities		-	-	(248.7)	-
Payments for investment in associates		(259.2)	(8.2)	-	-
Net cash outflow from investing activities		(259.2)	(8.2)	(248.7)	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		10.1	11.6	10.1	11.6
Proceeds from borrowings		391.3	52.8	391.3	52.8
Repayment of borrowings		(252.4)	-	(252.4)	-
Dividends paid		(233.2)	(232.8)	(233.2)	(232.8)
Net cash outflow from financing activities		(84.2)	(168.4)	(84.2)	(168.4)
Net increase/ (decrease) in cash and cash equivalents		153.5	(104.6)	153.8	(98.7)
Cash and cash equivalents at the beginning of the financial year		15.2	117.9	8.9	107.6
Effects of exchange rate changes on cash and cash equivalents		0.3	1.9	-	-
Cash and cash equivalents at the end of the financial year	10(a)	169.0	15.2	162.7	8.9

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 for the year ended 31 December 2006 has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the 'Corporations Act 2001'.

Compliance with IFRS

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Alumina Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 'Financial Instruments: Disclosure' and Presentation and AASB 124 'Related Party Disclosures'.

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 AIFRS 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). AIFRS 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. The financial statements of the subsidiaries are included in the consolidated financial report, from the date that control commences until it ceases. 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.

(ii) Associates

Associates are those entities over which the consolidated entity exercises significant influence but not control over the financial and operating policies, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 after aligning back to Group accounting policies. 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 at reporting date. 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.

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 those entities operate ("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 initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectibility 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share 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.

If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of identification and measurement of net assets acquired.

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 incurred for the construction of any qualifying asset are capitalised during the time that it is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

N TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Alumina Employee Share Plan.

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 methodology which employs the Monte Carlo simulation and a Black-Scholes option pricing model. This methodology

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 WMC 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.

(v) Defined Benefit Plans

Alumina Limited's associates have defined benefit plans in place. The associates' net obligation in respect of defined benefit plans, is calculated 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The calculation is performed by a qualified actuary using the projected unit credit method.

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.

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.

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).

DERIVATIVES

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 ongoing 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.

Net investment in a foreign operations 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.

The gain or loss on hedging instruments relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Embedded Derivatives

Under AIFRS, 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. AIFRS 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Certain new accounting standards have been published that are not mandatory for 31 December 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) AASB 7 Financial Instruments: Disclosures

AASB 7 is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not early adopted this standard. Application of this standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

ii) AASB Interpretation 10 Interim Financial Reporting and Impairment

AASB Interpretation 10 applies to annual reporting periods beginning on or after 1 November 2006 prohibiting the reversal of an impairment loss recognised in an interim period in respect of goodwill, an investment in an equity instrument, or a financial asset measured at cost. The Group has not early adopted this standard. Application of this standard will not affect any of the amounts recognised in the financial statements.

X ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, 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. During 2006, AWAC did not hedge its 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 may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Embedded derivatives

The Group has recognised a liability for derivative financial instruments through its equity investment in AWAC in accordance with AASB 139 'Financial Instruments: Recognition and Measurement'. 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 recognised a net liability for retirement benefit obligations under the defined benefit superannuation arrangements, through its investment in AWAC. All plans are valued in accordance with AASB 119 'Employee Benefits'. 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 by AWAC includes the costs 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 is 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 detailed 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.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
4 REVENUE					
From continuing operations					
Other revenue					
Dividends received from associates		-	-	510.8	411.6
Interest received/receivable		1.4	4.0	1.3	5.3
Total revenue		<u>1.4</u>	<u>4.0</u>	<u>512.1</u>	<u>416.9</u>
5 OTHER INCOME					
Foreign exchange gains (net)		-	-	29.4	-
Total other income		<u>-</u>	<u>-</u>	<u>29.4</u>	<u>-</u>
6 EXPENSES					
Profit before tax includes the following specific expenses:					
Depreciation on plant and equipment		0.1	-	0.1	-
Finance costs	6(a)	25.1	15.3	25.3	15.5
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 (net)		-	-	-	26.2
(a) Finance costs					
Interest and finance charges paid/payable:					
- unrelated corporations		25.1	15.3	25.1	15.3
- related corporations		-	-	0.2	0.2
		<u>25.1</u>	<u>15.3</u>	<u>25.3</u>	<u>15.5</u>
Interest received/receivable:					
- unrelated corporations		(1.4)	(4.0)	(1.3)	(4.0)
- related corporations		-	-	-	(1.3)
	4	<u>(1.4)</u>	<u>(4.0)</u>	<u>(1.3)</u>	<u>(5.3)</u>
Net finance cost		<u>23.7</u>	<u>11.3</u>	<u>24.0</u>	<u>10.2</u>

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
7 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	(1.1)	-	-	-
Income tax expense is attributable to:				
Profit from continuing operations	(1.1)	-	-	-
Aggregate income tax expense for the year	(1.1)	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from ordinary activities before tax	512.2	315.6	505.7	365.0
(Shortfall)/surplus of dividends received/receivable over equity share of profits	(25.5)	78.8	-	-
Adjusted profit from ordinary activities before tax	486.7	394.4	505.7	365.0
Prima facie tax expense at the rate of 30% (2005 – 30%)	(146.0)	(118.3)	(151.7)	(109.5)
The following items caused the total charge for income tax to vary from the above:				
Rebateable and exempt dividends	521.1	415.9	510.8	411.6
Non-deductible expenses	(13.5)	(14.5)	(13.5)	(14.5)
Expenses against which no income was earned to claim a deduction	(20.9)	(7.0)	(21.0)	(5.9)
Taxable income from foreign subsidiary	(4.0)	-	-	-
Net movement	482.7	394.4	476.3	391.2
Tax effect of the above adjustments at 30% (2005: 30%)	144.8	118.3	142.9	117.4
Other sundry	-	-	8.8	(7.9)
Over provision of tax in prior years	0.1	-	-	-
Consequent reduction in charge for income tax	144.9	118.3	151.7	109.5
Aggregate income tax expense for the period	(1.1)	-	-	-
(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 *	103.0	82.3	15.2	10.2
- capital losses *	321.3	321.3	321.2	321.2
	424.3	403.6	336.4	331.4

* 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 2005 and 2006, as these losses did not meet the recognition criteria.

8 EARNINGS PER SHARE

	CONSOLIDATED ENTITY	
	2006	2005
(a) Basic earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company	cents 43.8	27.1
(b) Diluted earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company	cents 43.8	27.1
	NUMBER OF SHARES	
	2006	2005
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,166,285,838	1,164,075,671
Adjustments for calculation of diluted earnings per share:		
Options	-	637,553
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,166,285,838	1,164,713,224

B. EARNINGS PER SHARE (CONTINUED)

(c) Information concerning classification of securities

Options granted to employees under the WMC Employee Share Plan, prior to the Company's demerger, are considered to be potential ordinary shares and 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 20. There were no options issued to employees in the current year, and no options are outstanding following expiry of the options on 30 November 2006.

(d) Conversion, call, subscription or issue after 31 December 2006

There have been no movements in share capital since 31 December 2006.

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

	\$ MILLION	
	2006	2005
Profit from ordinary activities attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	511.1	315.6

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
Interim dividend No. 54 of 10 cents fully franked at 30% per fully paid share declared 3 August 2006 and paid 4 September 2006 (2005: 10 cents fully franked at 30% per fully paid share, paid on 31 October 2005).	116.6	116.5	116.6	116.5
Final dividend No. 53 of 10 cents fully franked at 30% per fully paid share, paid on 31 March 2006 (2005: 10 cents franked to 7.5 cents at 30% per fully paid share, paid on 31 March 2005).	116.6	116.3	116.6	116.3
	<u>233.2</u>	<u>232.8</u>	<u>233.2</u>	<u>232.8</u>
Dividends paid per share	20.0c	20.0c	20.0c	20.0c

(a) Dividends paid during the year

Dividend No. 54, paid on 4 September 2006, was the interim dividend for 2006. Dividend No. 53, paid on 31 March 2006, was the final dividend for 2005.

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the Directors have declared a final dividend No. 55 of 12 cents a share fully franked, declared 1 February 2007 and paid on 9 March 2007. The aggregate amount of the proposed dividend expected to be paid out of retained profits at 31 December 2006, but not recognised as a liability at year end (refer Note 1(r)) is \$140.1 million.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

9. DIVIDENDS (CONTINUED)

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
(c) Franked dividends				
The fully franked dividends received from Alcoa of Australia Limited ("AofA") in the financial year were	510.8	411.6	510.8	411.6
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% (2005: 30%)	212.5	93.5	212.5	93.5

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	
	2006	2005	2006	2005

10 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash at bank and on hand	169.0	15.2	162.7	8.9
	169.0	15.2	162.7	8.9

(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	169.0	15.2	162.7	8.9
Balances as per cash flow statements	169.0	15.2	162.7	8.9

(b) Cash at bank and on hand

Average interest rate on cash holdings during 2006 was 5.1 % (2005: 4.9%)

(c) Money market deposits

There were no interest bearing deposits at 31 December 2006. (2005: nil).

11 CURRENT ASSETS – RECEIVABLES

Other debtors	0.1	0.5	0.1	0.2
Loans to controlled entities	-	-	67.0	-
	0.1	0.5	67.1	0.2

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
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.					
Securities at cost:					
Balance brought forward		1,529.9	1,187.8	1,037.7	717.7
Additional funding/capitalisation in AWAC entities		259.2	-	-	-
Alcoa of Australia reinvestment of dividend		-	320.0	-	320.0
Foreign currency revaluation		(40.6)	22.1	-	-
Equity accounted cost of AWAC		1,748.5	1,529.9	1,037.7	1,037.7
Equity in retained profits of AWAC	12(c)	453.0	427.5	-	-
Equity in reserves of AWAC	12(d)	(15.3)	37.5	-	-
Equity accounted carrying value of AWAC		2,186.2	1,994.9	1,037.7	1,037.7
(b) Equity accounted share of profits and dividends					
Equity share of profits before tax		813.4	501.1		
Equity share of tax		(266.8)	(164.0)		
Equity accounted share of profit after tax		546.6	337.1		
Dividends received/receivable by the Group		(521.1)	(415.9)		
Shortfall/(surplus) of dividends received/receivable over equity share of profits	12(c)	25.5	(78.8)		
(c) Share of retained profits					
Shortfall/(surplus) of dividends received/receivable over equity share of profits		25.5	(78.8)		
Transition to A-IFRS adjustments		-	(5.6)		
Balance brought forward		427.5	511.9		
Total equity share in retained profits carried forward		453.0	427.5		
(d) Equity accounted share of reserves of associated entities					
Opening balance		37.5	2.4		
Share based payments reserve		-	(0.5)		
Unrealised gains on derivatives, net of tax		(52.8)	35.6		
Total equity share of reserves		(15.3)	37.5		

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, 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. 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	
			2006	2005
(i) Entities forming AWAC				
Alcoa of Australia Ltd	Bauxite, alumina & 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
Matapu Sociedade de Mineracao Ltda.	Hold bauxite exploration rights	Brazil	40	40
Mineracao Sao Jorge Ltda.	Hold bauxite exploration rights	Brazil	40	40
Naruoka Participações Ltda.	Holding company	Brazil	40	-
Omnia Minerios 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.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	\$ MILLION	
	2006	2005
(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 2006 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.	3,465.8	2,854.4

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 the financial position or liquidity of AWAC.

Pursuant to the terms of the AWAC Formation Agreement, Alcoa and Alumina Limited 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.

	NOTES	\$ MILLION	
		2006	2005
(h) Alumina's share of aggregate associates:			
Current assets		927.3	834.7
Non-current assets		2,242.1	1,942.9
Current liabilities		(839.1)	(661.3)
Non-current liabilities		(483.0)	(419.7)
Net assets		1,847.3	1,696.6
Mineral rights and bauxite assets		142.0	145.6
Goodwill		196.9	152.7
Carrying value	12(a)	2,186.2	1,994.9
Revenues		3,148.4	2,451.0
Expenses		(2,335.0)	(1,949.9)
Profit before income tax		813.4	501.1
Income tax charge		(266.8)	(164.0)
Profit after income tax		546.6	337.1

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
13 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS					
Investments in controlled entities ¹	25	-	-	837.1	837.1
¹ Note 25 discloses the entities comprising the Alumina Consolidated Group					
14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT					
Plant and equipment	14(a)	0.2	0.3	0.2	0.3
(a) Plant and equipment					
Cost		0.5	0.5	0.5	0.5
Accumulated depreciation		(0.3)	(0.2)	(0.3)	(0.2)
		0.2	0.3	0.2	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 2006		0.3	0.3	0.3	0.3
Depreciation expense		(0.1)	-	(0.1)	-
Carrying amount at 31 December 2006		0.2	0.3	0.2	0.3
15 CURRENT LIABILITIES – PAYABLES					
Trade payables		1.3	1.1	1.3	1.1
Interest payable		11.4	2.0	11.4	2.0
Loans from controlled entities		-	-	-	181.6
		12.7	3.1	12.7	184.7

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
16 INTEREST-BEARING LIABILITIES				
Current				
Unsecured				
Bank loans	380.2	478.7	380.2	478.7
Non current				
Unsecured				
Bank loans	207.9	-	207.9	-
Total	588.1	478.7	588.1	478.7
(a) Currencies				
The above borrowings are due in the following currency:				
US dollars	464.0	351.0	464.0	351.0
A\$ equivalent of above currency	588.1	478.7	588.1	478.7
(b) Exchange rates				
Exchange rates at balance date used in translations:				
A\$1 = US\$	0.7890	0.7333	0.7890	0.7333
(c) Fair values				
The Directors consider the carrying amounts of bank loans to approximate their fair values where 'fair value', by definition, is the US\$ principal amount translated into A\$ at the exchange rate on balance date.				
(d) Financing arrangements				
The Company entered into a new US\$700 million multi-currency 1, 3 and 5 year loan facility to replace its A\$700 million of short term loan facilities in July 2006. The 1 year facility will be refinanced during the course of 2007.				
Bank loans (US\$)	1 Year	3 Year	5 Year	Total
Total facilities	300.0	250.0	150.0	700.0
Used at balance date	300.0	164.0	-	464.0
Unused at balance date	-	86.0	150.0	236.0
17 CURRENT LIABILITIES – PROVISIONS				
Employee benefits-provision for annual leave	0.1	0.1	0.1	0.1
18 NON-CURRENT LIABILITIES – PROVISIONS				
Employee benefits-provision for long service leave	0.3	0.2	0.3	0.2
The aggregate of provisions for employee benefits as shown in Notes 17 and 18 are \$0.4 million (2005: \$0.3 million).				

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
19 CONTRIBUTED EQUITY					
Ordinary share capital issued and fully paid					
Balance brought forward		415.7	404.1	415.7	404.1
Shares issued		10.1	11.6	10.1	11.6
Total issued capital		425.8	415.7	425.8	415.7
NUMBER OF FULLY PAID SHARES					
2006					
2005					
Movements in ordinary share capital					
Opening number of shares			1,165,645,648	1,163,111,048	
Issued under Employee Share Scheme	20(b)		1,971,100	2,534,600	
Closing number of shares			1,167,616,748	1,165,645,648	

(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. These options remained exercisable until 30 November 2006.

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.

20 SHARE-BASED PAYMENTS**(a) Alumina Employee Share Plan**

This is a plan under which employees may be invited to participate in the grant of a conditional entitlement to fully paid ordinary shares (a Performance Right). The Board's intention is to make offers to each 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.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

20. SHARE-BASED PAYMENTS (CONTINUED)

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

2006

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	3/12/2005	35,800	-	-	(35,800)	-
19/1/2004	21/12/2006	103,250	-	-	(51,625)	51,625
25/1/2005	16/12/2007	102,850	-	-	-	102,850
25/1/2006	7/12/2008	-	192,150	-	(300)	191,850
Total		241,900	192,150	-	(87,725)	346,325

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	-	-	(61,400)	35,800
19/1/2004	21/12/2006	141,050	-	-	(37,800)	103,250
25/1/2005	16/12/2007	-	139,850	-	(37,000)	102,850
Total		284,750	139,850	(11,626)	(171,074)	241,900

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	
	2006	2005	2006	2005
Performance rights granted under the Alumina Employee Share Plan	0.5	0.3	0.5	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. This Scheme expired on 30 November 2006.

Employee option plan (Expired 30 November 2006)

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 were exercisable until expiry of the scheme on 30 November 2006.

The major provisions of the option plan provided that the employee may request that the options be converted after one year from the date of allotment. Options were exercisable at their strike price. Restrictions existed for certain employees on the number of options which can be exercised in any year. If the request to convert the options to shares were not made, the Company made the call at the completion of five years from the date of issue or termination of employment. Certain designated officers were 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.

20. SHARE-BASED PAYMENTS (CONTINUED)

Employee share options carried no rights to dividends and no voting rights. When exercised, each option resulted 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 at end of the year Number
Consolidated and parent entity – 2006								
2001	30 Nov 2006	\$5.02	1,971,100	-	(1,971,100)	-	-	-
Total			1,971,100	-	(1,971,100)	-	-	-
Weighted average exercise price:			\$5.02		\$5.02			
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

Stock appreciation plan (Expired 30 November 2006)

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 (SAP's) 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. This plan expired on 30 November 2006.

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 was entitled to a payment equal to the difference between the closing 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	Exercisable at end of the year Number
Consolidated and parent entity-2006								
2001	30 Nov 2006	\$5.02	57,100	-	(57,100)	-	-	-
Total			57,100	-	(57,100)	-	-	-
Weighted average exercise price:			\$5.02		\$5.02			
Consolidated and parent entity-2005								
2000	18 Dec 2005	\$4.04	15,400	-	(15,400)	-	-	-
2001	30 Nov 2006	\$5.02	113,900	-	(56,800)	-	57,100	57,100
2002	30 Nov 2006	\$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

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
21 RESERVES, RETAINED PROFITS AND TREASURY SHARES					
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	21(a)	(21.5)	(10.2)	-	-
Cash-flow hedge reserve	21(b)	(17.2)	35.6	-	-
Share-based payments reserve	21(c)	3.2	2.7	1.3	0.8
		<u>15.3</u>	<u>78.9</u>	<u>241.5</u>	<u>241.0</u>
(a) Foreign currency translation reserve					
Balance brought forward		(10.2)	1.3		
Currency translation differences arising during the year		(11.3)	(11.5)		
Balance carried forward		<u>(21.5)</u>	<u>(10.2)</u>		
(b) Cash flow hedge reserve					
Balance brought forward		35.6	-		
(Losses)/gains for the period	12(d)	(52.8)	35.6		
Balance carried forward		<u>(17.2)</u>	<u>35.6</u>		
(c) Share-based payments reserve					
Balance brought forward		2.7	2.9	0.8	0.5
Option expense					
- Group		0.5	0.3	0.5	0.3
- Associates	12(d)	-	(0.5)	-	-
Balance carried forward		<u>3.2</u>	<u>2.7</u>	<u>1.3</u>	<u>0.8</u>

(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.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

21. RESERVES, RETAINED PROFITS AND TREASURY SHARES (CONTINUED)	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
(e) Retained profits					
Retained profits at the beginning of the financial year:					
- Group		608.7	441.5	565.3	433.1
- Associates		427.5	511.9	-	-
		1,036.2	953.4	565.3	433.1
Profit attributable to the members of Alumina Limited		511.1	315.6	505.7	365.0
Dividend provided for or paid		(233.2)	(232.8)	(233.2)	(232.8)
Retained profits at the end of the financial year		1,314.1	1,036.2	837.8	565.3
Retained profits at the end of the financial year:					
- Group		861.1	608.7		
- Associates	12(c)	453.0	427.5		
		1,314.1	1,036.2		
(f) Treasury shares ¹					
Balance brought forward		(0.6)	(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. There were no purchases during 2005 or 2006.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
22 NOTES TO THE STATEMENTS OF CASH FLOWS					
(a) Reconciliation of operating profit after income tax to net cash inflow from operating activities					
Operating profit from continuing operations after income tax		511.1	315.6	505.7	365.0
(Shortfall)/surplus of dividends received/receivable over equity share of profits		(25.5)	78.8	-	-
Depreciation and amortisation	6	0.1	-	0.1	-
Non-cash employee benefits expense-share based payments		0.5	0.3	0.5	0.3
Non-cash dividends received		-	(320.0)	-	(320.0)
Net exchange differences	5,6	-	-	(29.4)	26.2
Sub total		486.2	74.7	476.9	71.5
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:					
[(Increase)/decrease in:					
- receivables		0.4	0.3	0.1	0.4
- deferred tax assets		-	-	-	-
- other assets		0.5	(0.5)	0.5	(0.5)
[(Decrease)/increase in:					
- payables		9.6	0.7	9.6	0.8
- current tax liabilities		1.1	-	-	-
- other liabilities		(0.9)	(3.2)	(0.4)	(2.5)
Net cash inflow from operating activities		496.9	72.0	486.7	69.7
(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 23.					
(d) Non-cash financing and investing activities					
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.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005

23 FINANCING FACILITIES

The facilities available at balance date were as follows:

Total loan facilities	887.2 ¹	700.0	887.2 ¹	700.0
Used at balance date	588.1 ¹	478.7	588.1 ¹	478.7
Available at balance date	299.1 ¹	221.3	299.1 ¹	221.3

¹ US dollar loan balances converted to A\$ equivalent at the year end exchange rate.

a) The 2006 loan facilities are denominated in US\$ as follows:

	1 Year	3 Year	5 Year	Total
Total facilities	300.0	250.0	150.0	700.0
Used at balance date	300.0	164.0	-	464.0
Unused at balance date	-	86.0	150.0	236.0

24. 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 2006

\$ Million	Notes	Floating Interest	Fixed interest maturing in:			Non-interest Bearing	Total
			1 Year Or less	Over 1 to 5 Years	More than 5 Years		
Financial Assets							
Cash and cash equivalents	10	169.0	-	-	-	-	169.0
Receivables	11	-	-	-	-	0.1	0.1
		169.0	-	-	-	0.1	169.1
Weighted average interest rate		5.1%					
Financial Liabilities							
Payables	15	-	-	-	-	12.7	12.7
Interest-bearing liabilities	16	588.1	-	-	-	-	588.1
		588.1	-	-	-	12.7	600.8
Weighted average interest rate		5.7%					
Net financial (liabilities)		(419.1)	-	-	-	(12.6)	(431.7)

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

24. FINANCIAL INSTRUMENTS (CONTINUED)

AS AT 31 DECEMBER 2005

\$ Million	Notes	Floating Interest	Fixed interest maturing in:			Non-interest Bearing	Total
			1 Year Or less	Over 1 to 5 Years	More than 5 Years		
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)

(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:

\$ Million	Notes	Consolidated entity			
		Carrying Amount 2006	Fair Value 2006	Carrying Amount 2005	Fair Value 2005
Recognised in the Balance Sheet					
Financial assets					
Cash and cash equivalents	10	169.0	169.0	15.2	15.2
Current receivables	11	0.1	0.1	0.5	0.5
Financial liabilities					
Current payables	15	12.7	12.7	3.1	3.1
Interest-bearing liabilities	16	588.1	588.1	478.7	478.7

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.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

25 INVESTMENTS IN CONTROLLED ENTITIES

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

These controlled entities:

- A) have not prepared audited accounts as they are non-operating or audited accounts are not required in their country of incorporation. Appropriate books and records are maintained for these entities;
- 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 Participações SA, a Brazilian entity for a nominal amount. Ownership of Butia Participações SA was transferred from Westminer (Investments) B.V. to Alumina Limited on 16 September 2005.
- H) This company was incorporated on 22 September 2006 and is 100% owned by Westminer (Investments) B.V.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

CLOSED GROUP
\$ MILLION

2006 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:

Balance sheets of closed Group**Current assets**

Cash and cash equivalents	162.8	9.0
Receivables	87.0	8.2
Deferred tax assets	2.1	2.1
Other assets	-	0.5
Total current assets	251.9	19.8

Non-current assets

Investments in associates/subsidiaries	1,644.6	1,474.3
Property, plant and equipment	0.2	0.3
Total non-current assets	1,644.8	1,474.6
Total assets	1,896.7	1,494.4

Current liabilities

Payables	141.9	123.2
Interest-bearing liabilities	380.2	478.7
Provisions	0.1	0.1
Other	0.6	1.2
Total current liabilities	522.8	603.2

Non-current liabilities

Interest-bearing liabilities	207.9	-
Provisions	0.3	0.2
Total non-current liabilities	208.2	0.2
Total liabilities	731.0	603.4

Net assets

1,165.7 891.0

Equity

Contributed equity	425.8	415.7
Reserves	241.5	241.0
Retained profits	498.4	234.3
Total equity	1,165.7	891.0

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

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

	CLOSED GROUP \$ MILLION	
	2006	2005
Income statements of closed Group		
Revenue from continuing operation	513.4	416.8
Other income	29.5	10.4
General and administrative expenses	(10.6)	(10.2)
Other expenses	(5.8)	(28.0)
Borrowing costs	(29.2)	(18.3)
Profit from ordinary activities before income tax	497.3	370.7
Income tax expense	-	-
Net profit	497.3	370.7

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

Retained profits at the beginning of the financial year	234.3	96.4
Net profit	497.3	370.7
Dividend provided for or paid	(233.2)	(232.8)
Retained profits at the end of the financial year	498.4	234.3

26 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December, 2006.

Cross guarantees given by Alumina Limited and Alumina International Holdings Pty. Ltd are described in Note 25. 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.

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005

27 COMMITMENTS FOR EXPENDITURE

Lease commitments

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.

28 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 25. Transactions between Alumina Limited and other entities in the wholly-owned Group during the years ended 31 December 2006 and 2005 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	
	2006	2005
Interest expense	0.2	0.2
Interest income	-	(1.3)
Aggregate amounts receivable/(payable) to entities in the wholly-owned Group at balance date:		
Current receivables	67.0	-
Current payables	-	(181.6)

Directors and Other Key Management Personnel

Disclosures relating to directors and other key management personnel are set out in Note 29.

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 25; and
- (b) associates – Note 12.

29 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)

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 during the financial year:

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

All of the persons above were also key management persons during the year ended 31 December 2005.

(c) Remuneration of key management personnel

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
Short-term employee benefits	2,996,055	2,448,785	2,996,055	2,448,785
Post-employment benefits	87,042	84,411	87,042	84,411
Share based payments	496,191	198,123	496,191	198,123
	<u>3,579,288</u>	<u>2,731,319</u>	<u>3,579,288</u>	<u>2,731,319</u>

The Company has taken advantage of the relief provided by Schedule 5B of the Corporations Act 2001 and has transferred the detailed remuneration disclosures to the Director's Report. The relevant information can be found in the Remuneration report on pages 50 to 70.

(d) Equity instrument disclosures relating to key management personnel**(i) Share-based compensation****Options**

Alumina Limited does not have any ongoing option plans available to non-executive directors, directors, executives 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) Alumina Employee Performance Rights Plan

Details of performance rights over ordinary shares in the company provided as remuneration together with terms and conditions of the performance rights can be found in the Remuneration Report on pages 53-59.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iii) Options and performance share rights holdings

The number of options and 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:

2006							
Name	Type of equity-based instrument	Number of performance rights or options held at 1 January 2006 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 2006	Vested and exercisable at the end of the year
J Marlay	Performance rights	167,550	99,300	-	(60,700)	206,150	-
S C Foster	Performance rights	62,400	32,800	-	(22,600)	72,600	-
K A Dean	Performance rights	-	50,500	-	-	50,500	-

¹ Includes the number of performance rights granted that were subject to testing in June 2006, December 2006 and December 2007 but not yet vested.

² Performance rights granted in January 2006 for the 3 year performance test period concluding in December 2008.

³ Performance right conditions were not met for the January 2004 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 2007. In addition, Tranche 3 of the March 2003 grant re-tested in June 2006 lapsed.

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	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	Performance rights	53,900	26,300	(2,175)	(15,625)	62,400	-
K A Dean	Performance rights	-	-	-	-	-	-

¹ Includes the number of performance rights granted that were subject to testing in June 2005, December 2005 and 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.

⁴ Mr Davies' remaining performance rights lapsed on his resignation on 31 October 2005.

⁵ Mr Davies exercised his options and sold the shares he obtained from exercising his options.

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iv) 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.

2006	Balance at the start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year
Name				
Directors of Alumina Limited				
Ordinary shares				
D M Morley	417,344	-	3,650	420,994
P A F Hay	31,700	-	9,512	41,212
R J McNeilly	27,370	-	4,063	31,433
M R Rayner	28,094	-	1,626	29,720
J Marlay	90,338	-	-	90,338
K A Dean	-	-	-	-
Other key management personnel of the company and consolidated entity				
Ordinary shares				
S C Foster	28,675	-	-	28,675
2005	Balance at the start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year
Name				
Directors of Alumina Limited				
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.

(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 2006 and 2005.

30 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	
	2006	2005	2006	2005
(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	367	283	306	252
Audit of Annual Report on US Form 20-F – fees for annual audit	105	105	105	105
Advice on accounting standards (including transition to A-IFRS)	11	321	11	321
	483	709	422	678
(b) Remuneration for other assurance services:				
Other	97	-	97	-
(c) Remuneration for taxation services:				
Overseas tax services	71	101	-	-
Total	651	810	519	678

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.

31 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no significant events since 31 December 2006.

32. FINANCIAL REPORTING BY SEGMENT

(a) Business segments

Years ended 31 December 2006 and 31 December 2005

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 2006

Consolidated \$ Million	Australia	North America	Europe	Caribbean, South America & Africa*	Total
Segment revenue by location of customer**	-	-	-	-	-
Unallocated revenue	1.4	-	-	-	1.4
Consolidated revenue					1.4
Investments in Associates	1,020.7	406.6	49.6	709.3	2,186.2
Segment assets	165.2	1.2	5.0	-	171.4
Segment liabilities	601.9	-	1.1	-	603.0
Consolidated net assets					1,754.6
Acquisitions of non-current assets	-	-	-	259.2	259.2
Total acquisitions of non-current assets					259.2

YEAR ENDED 31 DECEMBER 2005

Consolidated \$ Million	Australia	North America	Europe	Caribbean, South 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					-

* 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.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 DECEMBER 2006

DIRECTORS' DECLARATION

In the directors' opinion:

- a) the financial statements and notes set out on pages 1 to 41 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 2006 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;
- c) the audited remuneration disclosures set out on pages 50 to 70 of the directors' report comply with Accounting Standards AASB 124 'Related Party Disclosures' and the 'Corporations Regulations 2001'; and
- d) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 25 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 25.

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 M MORLEY >CHAIRMAN
9 MARCH 2007

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALUMINA LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2006

AUDIT OPINION

In our opinion:

1. 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 2006, and of their performance for the year ended on that date
 - > is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001; and
2. The remuneration disclosures that are contained on pages 50 to 70 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures (AASB 124) and the Corporations Regulations 2001.

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

SCOPE

The financial report, remuneration disclosures 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 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on page 50 to 70, as permitted by the Corporations Regulation 2001.

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. The directors are also responsible for the remuneration disclosures contained in the directors' 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 and the remuneration disclosures comply with AASB 124 and the Corporation Regulations 2001. 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>.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALUMINA LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2006

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 also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the Corporations Regulations 2001.

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 remuneration disclosures, and
- > assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

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

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

INDEPENDENCE

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

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Tim Goldsmith

TIM GOLDSMITH >PARTNER
MELBOURNE 9 MARCH 2007

S REMUNERATION REPORT

This Remuneration Report sets out the Company's remuneration strategy and practices and incorporates remuneration information for Directors and senior executives in accordance with the Corporations Act. Senior Executive Remuneration Policy and Non-executive Director Remuneration Policy are discussed separately in this report. This report forms part of the Directors' statutory report for the year ended 31 December 2006.

COMPENSATION COMMITTEE

Role of Compensation Committee

The duties and responsibilities delegated to the Compensation Committee ("the Committee") by the Board are set out in the Committee's Charter, which is available on the Company's website.

In brief, the authority and responsibilities of the Committee are to review and make decisions in relation to:

- > remuneration strategy and policy of the Company;
- > remuneration of senior executives and terms of the CEO's contract;

- > review of incentive plan design;
- > review of succession plans for senior executives;
- > approval of performance measures and incentive payments;
- > advising the Board on remuneration structure for non-executive Directors.

The Committee is thus responsible for overseeing and implementing the Company's compensation plans, policies and practices. The Committee reviews the remuneration strategy and plans of the Company, compares the strategy and plans with community and industry standards and verifies the appropriateness of the strategy and plans by reference to external information and advice. The Committee has the responsibility to ensure that shareholder and employee interests are aligned, that the Company is able to attract, develop and retain talented employees, and that senior executives are fairly and reasonably compensated.

The Committee reviews non-executive Director remuneration annually, taking into account the advice of remuneration consultants with regard to market practices, and the duties and accountabilities of Directors and provides a recommendation to the Board on non-executive Director remuneration. During the year the Committee took advice from the Hay Group and Mercer Human Resources (the Hay Group has no connection to Mr Peter Hay, a Director of the Company).

The Committee meets at least twice a year, and met six times in 2006. Senior executives do attend certain meetings by invitation.

SENIOR EXECUTIVE REMUNERATION POLICY (AUDITED)

Alumina Limited's remuneration policy is to establish a clear link between performance and remuneration. In doing so we are committed to ensuring that our remuneration process:

1. is aligned with shareholder interests; and
2. is also designed to reward and recognise superior senior executive performance.

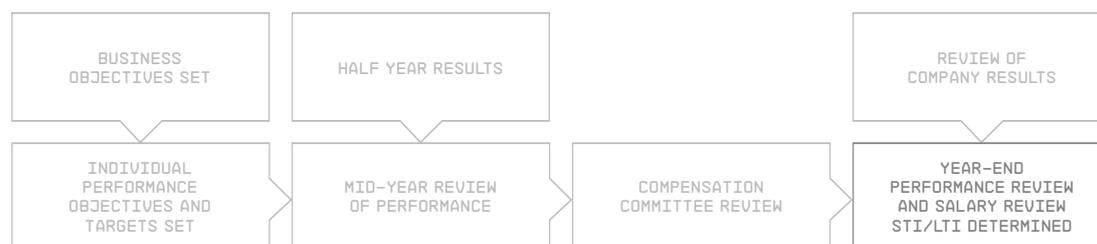
The process ensures that specific and measurable individual objectives and targets that are consistent with business objectives are set for executives and employees.

The performance of individual Senior Executives against their objectives is assessed half yearly and yearly. The 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 Company earnings per share and return on capital targets. Long-term incentives ("LTIs") are assessed against the Company's total shareholder return ("TSR") compared with that of Australian and international peer group companies. For LTIs allocated from 2007 onwards, they will also be assessed against required growth in Company earnings per share.

Remuneration Process

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

After the Board, the CEO, Chief Financial Officer and General Counsel/Company Secretary 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 senior executives are the only employees of the Company who make, or participate in making, decisions that affect the whole, or a substantial part, of the business of the Company or have the capacity to significantly affect the Company's financial standing, and therefore less than five senior executives are listed in this Report.



Individual Performance

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

Company Performance

A percentage component of share-based remuneration for senior executives is based on the performance of the Company measured against peer group companies' TSR. A percentage of total cash remuneration for Senior Executives is based on Company earnings per share and AWAC return on capital.

Market Position

Alumina Limited is among the 50 largest companies listed on the Australian Securities Exchange. The skills and expertise required by the Company's employees equate to those of similar sized companies, notwithstanding that Alumina Limited has a small number of employees.

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. External compensation advisers are appointed to provide annual salary and benefits reviews.

REMUNERATION STRUCTURE/PERFORMANCE REWARD LINK (AUDITED)

Executive Remuneration

Senior executive remuneration comprises:

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

DIRECTORS' REPORT

- > **variable (incentive) payments** – contracts for Senior Executives and professional employees include a component of remuneration linked to both STIs and LTIs. Policies defining STIs and LTIs are established by the Committee and reviewed annually.

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.

For senior executives, the Company seeks to set FAR at the third quartile of comparable companies and target high levels of performance.

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 LTI was modified, effective from 1 January 2007. Details of the arrangements applying during 2006 and the changes applying from 1 January 2007 are set out under paragraph (ii) below.

i) 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 AWAC Operating Plan return on capital for the 12-month performance period (normalised for changes in the LME aluminium price) and an earnings per share (EPS) target for Alumina Limited, based on the AWAC Operating Plan and Alumina Limited's corporate budget for the period (normalised for changes in the LME Aluminium price and for AUD/USD effects).

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 STI payments to all employees. In 2006, up to 40 per cent of FAR was the maximum payable to senior executives (50 per cent for the Chief Executive Officer) as STI, of which 25 per cent related to performance against individual objectives and 15 per cent related to the return on capital and earnings per share performance during the 2006 year. For the Chief Executive Officer's STI, 30 per cent relates to performance against individual objectives and 20 per cent relates to return on capital

and earnings per share performance. The STI is designed to encourage high performance and link senior executive remuneration to financial returns achieved by the Company.

Performance against individual objectives links achievement to reward for senior executives to meet or exceed measurable objectives in their work. Specific tasks and objectives relate to AWAC joint venture matters and strategy, including funding and dividend policy of AWAC, capital management and dividends which ultimately support Alumina Limited's objectives and shareholder interests.

The objective of completing the commercial, dividend distribution and funding arrangements relating to the AWAC joint venture was achieved during 2006. This ensured Alumina's participation in AWAC's growth projects, and the distribution of franking credits from Alcoa of Australia, and provided the flexibility to increase returns to shareholders.

Performance of senior executives is measured against a scorecard of agreed objectives and targets. Individual performance against the measures was assessed for each senior executive for 2006 and an average of 22 per cent of FAR was awarded for this component of STI to Messrs Dean and Foster and 28 per cent of FAR awarded to Mr Marlay.

The STI reward attributed to the Company performance for 2006 was 11 per cent of FAR for Messrs Dean and Foster (15 per cent for Mr Marlay). This reflected Company performance in relation to the AWAC Operating Plan return on capital and Company earnings per share.

Company earnings per share, AWAC return on capital and individual performance objectives provide an incentive to achieve high levels of personal performance and contribute to high levels of Company performance. The AWAC return on capital and Company earnings per share measures have been used as a performance hurdle in the STI plan because they are considered an appropriate means of measuring Company performance. The STI is paid in December in respect of the performance within that year.

From January 2007, the Company will operate a short term incentive equity conversion plan ("STI Equity Plan") for senior executives and other eligible employees. Under the STI Equity Plan, participants may elect to apply all or a portion of their short-term incentive to the

acquisition of Company shares (which are purchased on market), with all costs of acquisition being borne by the participant. In addition, to the extent an eligible employee elects to acquire Company shares under the STI Equity Plan, they will, upon continuing to be employed by the Company for three years from the date of acquiring shares under the STI Equity Plan, receive additional Company shares equal to i) 50 per cent of their Company shares acquired ("Matching Shares") and ii) shares equal to the amount of dividends that would have been paid on the Matching Shares if they had been acquired at the same time as the initial shares ('Dividend Equivalent Shares'). The STI Equity Plan will apply to the STI payment made in December 2006.

ii) Long-term Incentives

Senior executives are invited to participate in the Alumina Employee Share Plan ('ESP'). The ESP is designed to link Alumina Limited 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 under the ESP to fully paid ordinary shares in the Company (Performance Rights), which are purchased on market. The Performance Rights vest to senior executives at the end of the performance period if certain performance tests are achieved over that performance period.

An initial grant of three tranches of performance rights, approved by the Board in March 2003, covered a three-year period, from 2003 to 2005. The first tranche was tested in December 2003, the second tranche in December 2004 and the third tranche in December 2005. The LTI grant value for senior executives was set at 30 per cent of FAR for the initial grant of three tranches of Performance Rights in March 2003. The LTI grant value was set at 55 per cent for the subsequent grants in January 2004 and January 2005 at the same time as the maximum STI grant was reduced accordingly. The LTI grant was set at 60 per cent for the subsequent grant in January 2006, when the STI percentage for Messrs Dean and Foster was reduced to 40 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.

Testing period for TSR

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. The second test is considered appropriate in view of the volatility of global commodity prices and exchange rates and the resulting volatility in the Company's share price. The 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 and not be subject to future retesting.

The number of Performance Rights of the retested 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 retest date, according to the same scale used at the initial test (refer to Table [2.0]).

For Performance Rights granted under the ESP from 2007 onwards, the TSR of Alumina Limited will be measured at any time over the 12-month period after completion of the initial three years. The Performance Rights vest only when the TSR Hurdle is met for an average of 20 consecutive trading days commencing on any day over the 12-month period. The number of Performance Rights subject to the TSR Hurdle that vest is determined based on the highest 20-day average TSR performance over the 12 month period.

Entitlements will generally lapse on cessation of employment.

In the event of a change in control, the Board shall determine that 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 unconditionally more than 50 per cent of the issued shares of the Company.

Overview of LTI Performance Condition

TSR

Two comparator group tests are applied to determine the number of Performance Rights which may vest under the ESP, with each accounting for 50 per cent of

DIRECTORS' REPORT

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. Results of the performance tests are calculated by a consultant engaged for this purpose.

TSR was chosen as a performance measure as an appropriate means of measuring Company performance as it incorporates both capital growth and dividends.

The comparator groups selected by the Committee include companies that 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). The composition of the ASX Comparator Group for 2006 is shown in Table 2.1.

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). The composition of the International Comparator Group for 2006 is shown in table 2.2.

Under the performance tests, the TSR for each entity in the comparator groups and for Alumina Limited is calculated according to a standard methodology determined 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 Performance Right (i.e. that 'vest') is then determined according to the scale in Table 1.0:

TABLE 1.0 LTI VESTING TREATMENT – TSR (UNAUDITED)

Alumina Limited TSR compared to median of comparator group	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 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.

For Performance Rights granted under the ESP from 2007 onwards, 50 per cent of the Performance Rights granted will be subject to an earnings per share ('EPS') performance hurdle, which involves a comparison between the EPS of Alumina Limited for the financial (calendar) year at the end of the relevant testing period and the average of actual Alumina EPS figures over the four financial years which preceded the financial year during which the Performance Rights were granted ('Baseline EPS'). For the grant in January 2007, the Baseline EPS, calculated on this basis, is 31.4 cents per share. The Baseline EPS is reset by the Board each year. The remaining 50 per cent of the Performance Rights granted from 2007 are tested against the Company's TSR performance.

EPS growth is measured by comparing the actual EPS for the financial reporting year during the end of the relevant testing period and the baseline EPS, expressed as a percentage growth.

TABLE 1.1 LTI VESTING TREATMENT – EPS (UNAUDITED)

Alumina Limited earnings per share growth	Vesting
If Alumina Limited's EPS growth in the year of testing is less than 6 per cent per annum compared with the Baseline EPS	0 per cent
If Alumina Limited's EPS growth in the year of testing is equal to or greater than 6 per cent per annum compared with the Baseline EPS	50 per cent
If Alumina Limited's EPS is equal to or greater than 10 per cent per annum compared with the Baseline EPS	100 per cent

If Alumina Limited's EPS performance is between 6 per cent and 10 per cent, the number of Performance Rights in a tranche that vest will increase by 12.5 per cent for each 1 per cent by which Alumina Limited's EPS growth is greater than 6 per cent.

For previous grants of Performance Rights which remain current, the relevant comparator group is set out in Tables 2.1 and 2.2.

TABLE 2.1 ASX COMPARATOR GROUP (AUDITED)

Company ¹	Relevant testing years			
	June 2006 ²	December 2006	2007	2008
Amcor	X	X	X	X
AMP	X	X	X	X
Aristocrat Leisure	X		X	X
ANZ Banking Group	X	X	X	X
Aust. Gas Light	X	X	X	X
AXA Asia Pacific Holdings	X	X	X	X
BHP Billiton	X	X	X	X
BlueScope Steel	X	X	X	X
Boral	X	X	X	X
Brambles Industries	X	X	X	X
Centro Props Group		X	X	X
Caltex Australia				X
CFS Gandel Retail Trust	X			
Coca-Cola Amatil	X	X	X	X
Cochlear	X		X	
Coles Myer	X	X	X	X
Commonwealth Bank	X	X	X	X
CSL	X	X	X	X
CSR	X			
Foster's Group	X	X	X	X
Harvey Norman Holdings	X	X	X	
Insurance Aust. Group	X	X	X	X
Investa Property		X		

DIRECTORS' REPORT

TABLE 2.1 ASX COMPARATOR GROUP (CONTINUED)

Company ¹	Relevant testing years			
	June 2006 ²	December 2006	2007	2008
James Hardie Inds.	X	X		X
John Fairfax	X	X	X	
Leighton Holdings	X	X		X
Lend Lease	X	X	X	X
Lion Nathan	X	X	X	
Macquarie Airports			X	X
Macquarie Bank	X	X	X	X
Macquarie Infra Group		X	X	X
Mirvac Group	X	X	X	
National Aust. Bank	X	X	X	X
Newcrest Mining	X	X	X	X
Orica	X	X	X	X
Origin Energy	X	X	X	X
Patrick	X			
Promina Group		X	X	X
Publishing and Broadcasting	X	X	X	X
Qantas Airways	X	X	X	X
QBE Insurance Group	X	X	X	X
Resmed CDI	X			
Rinker		X	X	X
Rio Tinto	X	X	X	X
St George Bank	X	X	X	X
Santos	X	X	X	X
Sonic Healthcare				X
Stockland	X	X	X	X
Suncorp-Metway	X	X	X	X
Symbion Health		X		
Tabcorp Holdings	X	X	X	X
Telecom Corp NZ	X	X	X	X
Telstra	X	X	X	X
Toll Holdings		X	X	X
Transurban Group	X		X	X
Wesfarmers	X	X	X	X
Westfield Group	X		X	X
Westfield Holdings		X		
Westpac Banking	X	X	X	X
Woodside Petroleum	X	X	X	X
Woolworths	X	X	X	X

¹ The companies included in the comparator group change from year to year as companies enter or exit the ASX 50 or are delisted.

² This relates to performance rights initially tested in December 2005 and for which 50 per cent was subject to a retest in June 2006.

TABLE 2.2 INTERNATIONAL COMPARATOR GROUP FOR 2006 TEST 2 (AUDITED)

Company ¹	Relevant testing years			
	June 2006 ²	December 2006	2007	2008
Acerinox	X	X		
Alcan	X	X	X	X
Alcoa	X	X	X	X
Anglo American	X	X	X	X
Arcelor (Par)	X	X	X	X
Barrick Gold	X	X	X	X
BHP Billiton Ltd	X	X	X	X
BHP Billiton Plc	X	X	X	X
BlueScope Steel		X	X	X
Cameco		X	X	X
China Steel	X	X	X	X
Corus Group	X		X	X
Dofasco	X			
Freeport McMoran	X	X	X	X
Inco	X	X		
JFE Holdings	X	X	X	X
Johnson Matthey		X	X	X
Kinross Gold Corp		X		
Kobe Steel			X	X
Lonmin	X	X		
Mitsui Mining & Smelting	X			
Newmont Mining	X	X	X	X
Newcrest Mining				X
Nippon Steel	X	X	X	X
Nucor	X	X	X	X
Phelps Dodge	X	X	X	X
Placer Dome	X	X	X	X
Posco	X	X	X	X
Rio Tinto (Ltd)	X	X	X	X
Rio Tinto (Plc)	X	X	X	X
Sumitomo Metal Mining	X	X	X	X
Sumitomo Metals Inds			X	
Teck Cominco	X	X	X	X
ThyssenKrupp		X	X	X
Toyo Seikan	X			
US Steel	X	X	X	X

DIRECTORS' REPORT

TABLE 2.2 INTERNATIONAL COMPARATOR GROUP FOR 2006 TEST 2 (CONTINUED)

CVRD PNA	X	X	X	X
Worthington Inds	X			
Xstrata			X	X

¹ The companies included in the comparator group change from year to year as companies enter or exit the 30 largest companies in the Metals and Mining group or are delisted.

² This relates to performance rights initially tested in December 2005 and for which 50 per cent was subject to a retest in June 2006.

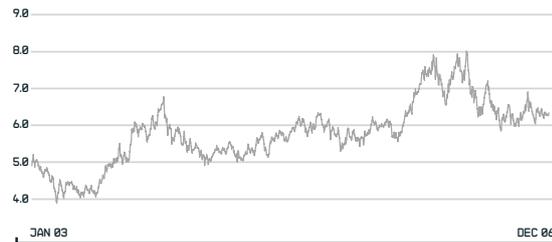
LTI Results for the 2003 and 2004 ESP grant

The relative performance criteria for the March 2004 ESP grant of performance rights (i.e. for the three years to 21 December 2006) did not equal or exceed the 50th percentile for either comparator group at the first test date of 21 December 2006, and accordingly none of those performance rights vested at that time. For the third tranche of the March 2003 ESP grant, on retesting in June 2006, Alumina's TSR did not equal or exceed the 50th percentile for either comparator group and none of the performance rights in that tranche vested.

RELATING REWARDS TO PERFORMANCE

The Alumina Limited variable remuneration plans provide incentives for senior executives and also ensure that total annual remuneration is related to the extent to which the performance hurdles under the STI and LTI plans are satisfied. The performance measures used provide a strong link between executive remuneration and Alumina performance and shareholder wealth.

Alumina Limited's share price from 2003 to 2006 moved through the following ranges:



ALUMINA LIMITED SHARE PRICE MOVEMENT
>A\$

Table 3.0 indicates various measures of Alumina Limited's performance, and their relationship to executive remuneration since 2003.

TABLE 3.0 HISTORICAL PERFORMANCE OF ALUMINA LIMITED (AUDITED)

	2006	2005	2004	2003
Dividends declared per share (cents)	22	20	20	23
Percentage change in share price	(15)	25	(10)	30
Net profit after tax	\$511m	\$316m	\$316m	\$237m
Earnings per share	43.8	27.1	27.7	20.9
Percentile ranking of TSR against ASX 50	4	48	8	90
Per cent increase in fixed remuneration ²	5	27	Nil	n/a
Per cent short-term incentive – % of FAR ²	36	26 ¹	16	52
Per cent long-term incentive ²	Nil	2	Nil	30

Note Years prior to the Company's demerger in December 2002 are not included.

¹ Percentage is calculated by reference to FAR as at 31 December 2005.

² Represents the average applicable to senior executives.

Alumina Limited's profit has increased by 115 per cent from 2003 to 2006. Total shareholder returns for the four years consists of dividends declared of 82 cents per share and the share price increase of 30 per cent.

The LTI component and part of the STI component of senior executive remuneration are tied to Company performance. Over the period from 2003 to 2006, Alumina Limited has created significant value for shareholders by adding to its interest in AWAC, ensuring Alumina Limited participates in AWAC expansion projects, implementing new AWAC funding and dividend arrangements, contributing to the strategic direction of AWAC and implementing effective capital management for Alumina Limited shareholders. The performance of the Company is measured by TSR and growth in the Company's profit. Over the period from 2003 to 2006, STI and LTI outcomes for senior executives have been aligned to TSR performance and STI outcomes have also been linked to personal objectives and return on capital and earnings per share, which contribute to increased shareholder value. In future, LTI outcomes will be aligned to TSR performance and will also be related to earnings per share, which directly reflects changes in shareholder wealth.

For the STI, Company performance has been measured using AWAC Operating Plan return on capital for the 12-month performance period and an earnings per share target for Alumina Limited based on the AWAC Operating Plan and Alumina Limited's corporate budget

for the period in 2006. In 2006, performance against these measures reached threshold levels, which meant for senior executives the STI award for this component was 11 per cent (15% for the CEO).

SUPERANNUATION (UNAUDITED)

All Alumina Limited employees are members of the Alumina Superannuation Fund, an accumulation fund, or a fund of their choice. Contributions are funded at the Superannuation Guarantee Contributions rate, currently 9 per cent of an employee's fixed annual remuneration.

OPTION PLANS (UNAUDITED)

Alumina Limited does not have any ongoing option plans available to non-executive Directors, executives and senior managers (including executive Directors) or employees.

NON-EXECUTIVE DIRECTOR REMUNERATION POLICY (AUDITED)

Alumina Limited's non-executive Directors receive a fee for fulfilling their Directors 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 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. In accordance with recommendation

DIRECTORS' REPORT

9.3 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, Non-executive Directors do not receive any performance-related remuneration and do not participate in the ESP. Directors are also required to direct at least 10 per cent of their fees to purchase Company shares.

Total remuneration for non-executive Directors is determined by resolution of shareholders. The maximum aggregate remuneration approved for Directors is \$950,000 per annum. A total of \$675,962 was paid in non-executive Director fees in 2006.

In 2006, the Committee approved an increase in non-executive Directors' fees of 5.5 per cent, effective from 1 January 2007. This review considered non-executive Director fee levels of comparable companies and targeted fee levels at the third quartile.

The Directors agreed to continue the practice of not paying additional fees for committee membership or chairmanship of committees. Non-executive Directors' remuneration details are set out in Table 6.1.

Non-executive Director Retirement Benefits

Non-executive Directors receive, in addition to their fees, a superannuation guarantee contribution, which for 2006 is 9 per cent of their fees to a maximum of \$12,413 for the Chairman and \$9,900 for other non-executive Directors, but do not receive any other retirement benefits.

Non-executive Director 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. Shares are not allocated on performance but in lieu of receiving cash remuneration. The non-executive Directors have the option to increase, above the minimum, the proportion of their remuneration they receive as shares. There are no discounts provided to Directors for the acquisition of shares under the plan. All costs associated with acquiring shares are borne by the Director. It is Company policy that Directors hold shares in the Company having a value approximately equal to their annual fees by the expiry of their first term as a Director. Participation in the plan further aligns the Directors' interests with those of shareholders.

CHIEF EXECUTIVE OFFICER REMUNERATION (AUDITED)

Terms

In December 2005, Mr Marlay entered into a new employment contract with a FAR of \$850,000 per annum, an STI of up to 50 per cent of FAR (with 'at target' performance likely to achieve 30-42 per cent), and a 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 ESP plan performance tests are satisfied). This contract reflected changes in CEO remuneration practices in the market, where there is both a higher proportion of at risk remuneration and greater weighting to long-term incentives.

In 2006, Mr Marlay was awarded an STI of \$365,500, equivalent to 43 per cent of his FAR. The payment comprised 28 per cent relating to performance against individual objectives and 15 per cent for Company performance for 2006.

Under the ESP Plan, the Company's TSR did not exceed the 50th percentile for the 72,500 Performance Rights that were tested in December 2006 therefore, none of those Performance Rights vested to Mr Marlay. Fifty per cent of those rights will be subject to a retest in June 2007. In June 2006, none of Mr Marlay's 24,450 Performance Rights vested upon a retest of those rights, previously tested in December 2005, and accordingly they lapsed.

The fees in relation to Mr Marlay's position as non executive director of Incitec Pivot Ltd are paid to the Company.

Retirement and Termination Benefits

Under Mr Marlay's employment contract, which does not have a fixed term, either party may terminate the contract upon giving 12 months' notice. The Company may make a payment in lieu of some or all of the 12-month notice period by payment of the fixed annual reward plus an amount equivalent to an STI payment at target performance, defined as 'base remuneration'. The base remuneration amount will be reduced pro rata to the extent the notice period is required to be served.

If Mr Marlay's employment is terminated on the basis of redundancy of the position or by Mr Marlay giving written notice to Alumina Limited in the event of a Significant Change (which is defined to be if Alumina Limited ceases to be listed on the Australian Securities Exchange, or if there is a significant change to his status and/or responsibilities which is detrimental to Mr Marlay, or if Alumina Limited decides the position is no longer required and suitable alternative employment is not offered or Mr Marlay does not accept other employment within Alumina or another employer), then Mr Marlay is entitled to:

- > statutory annual leave and long service leave entitlements (with long service leave paid pro rata if there is three years or more continuous service);
- > the greater of six months base remuneration (being FAR and the at-target STI) or the aggregate of; a notice payment of 12 weeks, a severance payment of 2.5 weeks per completed year of service and an additional severance payment of 13 weeks.

Mr Marlay is not entitled to the payment outlined above where the reason for a Significant Change is poor performance or inability to fulfil agreed responsibilities. Mr Marlay is not entitled to retirement benefits other than superannuation entitlements.

AMOUNTS OF REMUNERATION (AUDITED)

Details of remuneration of the Directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of Alumina Limited and the Group are set out in the following tables.

The key management personnel of Alumina Limited includes the Directors as per pages 47-48, and the following senior executive officers:

- > Ken Dean – Chief Financial Officer
- > Stephen Foster – General Counsel/Company Secretary

The key management personnel of the Group are the same people as above.

DIRECTORS' REPORT

TABLE 4.0 CEO'S REMUNERATION (AUDITED)

John Marlay* Chief Executive Officer		
	2006 \$	2005 \$
Short-term benefits		
Fixed remuneration – cash ¹	831,244	727,638
Short-term incentive ²	365,500	217,500
Non-monetary benefits	n/a	n/a
Post-employment		
Superannuation – Company contributions ³	18,756	11,862
Retirement benefits	n/a	n/a
Equity		
Performance Rights ⁴	311,452	200,821
Total remuneration	1,526,952	1,157,821

* Mr Marlay is an executive Director of Alumina Limited.

¹ Fixed remuneration is the total cost of salary, exclusive of superannuation.

² Short-term incentive reflects the cash value paid for the years ended 31 December 2006 and 31 December 2005.

³ Superannuation contributions reflect the Superannuation Guarantee payment.

⁴ The value of Performance Rights is calculated in accordance with AASB 2, which is a different basis to that of Table 5.1.

Service Agreements – Messrs Dean, Foster

In addition to Mr Marlay, Alumina Limited has entered into a service contract with each other senior executive. The contracts are not fixed-term, and each provides for the following:

1. Remuneration and employment conditions.
2. Powers and duties.
3. External activities; the fees in relation to Mr Dean's position as non-executive director of Santos Ltd are paid to the Company.
4. If Mr Dean or Mr Foster's employment is terminated on the basis of redundancy of their position or if they give written notice to Alumina Limited in the event of a Significant Change (which is defined to be if Alumina Limited ceases to be listed on the Australian Securities Exchange, or if there is a significant change to their status and/or responsibilities which is detrimental to them, or if Alumina Limited decides their position is no longer required and suitable alternative employment is not offered or if they do not accept other employment), then Mr Dean or Mr Foster (as relevant) are entitled to:
 - > statutory annual leave and long service leave entitlements (with long service leave paid pro rata if there is three years or more continuous service);

- > the greater of six months Base Remuneration (being FAR and the at target STI) or the aggregate of; a notice payment of 12 weeks, a severance payment of 2.5 weeks per completed years of service and an additional severance payment of 13 weeks.

Mr Dean and Mr Foster are not entitled to the payment outlined above where the reason for a significant change is poor performance or inability to fulfil agreed responsibilities. Mr Dean and Mr Foster are not entitled to retirement benefits other than superannuation entitlements.

5. A requirement that the Company provides six months notice to terminate the contract and the senior executive provide three months written notice of termination.

In addition to any entitlements conferred on them by their service contract, each senior executive is also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. Each other executive is not entitled to receive any other additional termination payments, other than those previously mentioned and any vesting of shares under the ESP.

TABLE 4.1 MOST HIGHLY REMUNERATED EXECUTIVES (AUDITED)

	Ken Dean* Chief Financial Officer		Robert Davies* Chief Financial Officer 1 January 2005 to 31 October 2005		Stephen Foster General Counsel/ Company Secretary	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Short-term benefits						
Fixed remuneration – cash ¹	527,588	102,515	–	354,411	337,588	293,221
Short-term incentive ²	172,800	n/a	–	120,000	119,000	91,000
Other short-term employee benefits	–	–	–	–	9,835	–
Post employment						
Superannuation – Company contributions ³	12,412	2,023	–	9,839	12,412	11,862
Retirement benefits	n/a	n/a	–	n/a	n/a	n/a
Equity						
Performance Rights ⁴	74,945	n/a	–	(77,486)	109,794	74,788
Total remuneration	787,745	104,538	–	406,764	588,629	470,871
Total for most highly remunerated executives			2006 \$	2005 \$		
Total short-term benefits			1,166,811	961,147		
Total post employment			24,824	23,724		
Total share-based payment			184,739	(2,698)		
Total remuneration			1,376,374	982,173		

* Mr Davies was an alternate Director for Mr Rayner until 31 October 2005. Mr Dean was an alternate Director for Mr Rayner from 1 January 2006 and remained so for the entire year. Mr Dean commenced employment with Alumina Limited as Chief Financial Officer elect on 24 October 2005.

¹ Fixed remuneration is the total cost of salary exclusive of superannuation.

² Short-term incentive (STI) reflects the cash value paid for the years ended 31 December 2006 and 31 December 2005.

³ Superannuation benefits reflect the Superannuation Guarantee payment.

⁴ The value of Performance Rights is calculated in accordance with AASB 2, which is a different basis to that of table 5.1.

**DIRECTORS'
REPORT**

TABLE 4.2 INCENTIVES – MOST HIGHLY REMUNERATED EXECUTIVES (AUDITED)

	John Marlay Chief Executive Officer %	Ken Dean Chief Financial Officer %	Stephen Foster General Counsel/ Company Secretary %
Short-term incentive			
Percentage paid	86.00	80.00	85.00
Percentage forfeited	14.00	20.00	15.00
Long-term incentive			
Percentage vested			
June 2006	-	n/a	-
December 2006	-	n/a	-
Percentage forfeited			
June 2006	50	n/a	50
December 2006	50	n/a	50
Percentage of remuneration			
Comprising variable remuneration	44.33	31.44	39.53

TABLE 5.0 DETAILS OF PERFORMANCE RIGHTS GRANTED AS REMUNERATION (AUDITED)

Rights								
	Number	Date of grant	% vested in 2006	% forfeited in 2006	Performance Rights yet to vest	Financial year in which grants may vest	Value of rights outstanding 31/12/06	
							\$ Min ²	\$ Max ³
John Marlay	48,900 ¹	Mar 03	-	50	-		-	-
	72,500	Jan 04	-	50	36,250	2006	-	109,113
	70,600	Jan 05	-	-	70,600	2007	-	259,808
	99,300	Jan 06	-	-	99,300	2008	-	453,801
Ken Dean	50,500	Jan 06	-	-	50,500	2008	-	230,785
Stephen Foster	18,200 ¹	Mar 03	-	50	-	2006	-	-
	27,000	Jan 04	-	50	13,500	2006	-	40,635
	26,300	Jan 05	-	-	26,300	2007	-	96,784
	32,800	Jan 06	-	-	32,800	2008	-	149,896

¹ These rights were initially tested in December 2005.

² The minimum value of the grant is \$nil if the performance conditions are not met.

³ Maximum value has been calculated by reference to valuations determined on the basis as outlined in Note (A) to table 5.1.

The terms of Performance Rights granted to John Marlay, Ken Dean and Stephen Foster were not altered during the 2006 year.

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

(AUDITED)

Grant date	End of performance period ¹	Value per Performance Right at grant date ²
26/03/2003	3/12/2004	2.49
26/03/2003	3/12/2005	2.49
19/01/2004	21/12/2006	3.01
25/01/2005	16/12/2007	3.68
25/01/2006	7/12/2008	4.57

¹ End of performance period is the date the performance of the Company is measured against the performance criteria. If the Company fails to meet the minimum performance criteria then 50 per cent of the Performance Rights are forfeited and 50 per cent are subject to a retest in six months time.

² Value per Performance Right is independently calculated by Mercer Finance and Risk Consulting using the assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model which allows the incorporation of the hurdles that must be met before the Performance Rights vest.

DIRECTORS' REPORT

TABLE 5.1 VALUE OF PERFORMANCE RIGHTS (UNAUDITED)

Director/senior executives	(A) Value – Granted in 2006 Performance Rights \$	(B) Value – Vested in 2006 Performance Rights \$	(C) Value – Lapsed in 2006 Performance Rights \$	(D) Total of Columns Performance Rights A+B-C \$	(E) Value as proportion of remuneration %
John Marlay	453,801	–	(169,992)	283,809	19
Ken Dean	230,785	–	–	230,785	29
Stephen Foster	149,896	–	(63,294)	86,602	15

Table 5.1 shows the total value of any Performance Rights granted, exercised and lapsed in the year in relation to Directors and senior executives based on the following assumptions:

- (A) The value of Performance Rights granted in the year reflects the value of a Performance Right, times the number of Performance Rights granted during 2006. Performance Rights were valued independently by Mercer Finance and Risk Consulting using the assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model that accommodates features associated with Alumina Limited's ESP such as exercise, forfeiture and performance hurdles. The rights are those granted in January 2006.
- (B) The value of Performance Rights vesting is determined by the number of vested rights multiplied by the market price at the vesting date.
- (C) The value applicable to Performance Rights at lapse date has been determined by using the fair value as calculated by Mercer Finance and Risk Consulting multiplied by the number of rights lapsed.
- (D) The total value is the sum of the value of Performance Rights granted during 2006, plus the value of Performance Rights vested during 2006, less the value of Performance Rights that lapsed during 2006.

TABLE 6.0 NON-EXECUTIVE DIRECTORS' REMUNERATION (AUDITED)

	Don Morley		Peter Hay		Ron McNeilly		Mark Rayner	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Short-term benefits								
Fees – cash ¹	258,750	191,250	94,875	–	86,250	82,500	98,710	99,000
Value of shares acquired in lieu of fees ²	28,750	21,250	20,125	110,000	28,750	27,500	16,290	11,000
Post employment								
Superannuation Guarantee	12,412	19,125	10,350	9,900	10,350	9,900	10,350	9,900
Retirement benefit accrued	n/a							
Total Remuneration	299,912	231,625	125,350	119,900	125,350	119,900	125,350	119,900

¹ Directors' fees are fixed and relate to their participation on the Board. Directors do not receive a separate fee for participation on a Board Committee.

² Directors are required to sacrifice a minimum of 10 per cent of their fixed remuneration in Company shares. The Directors have the discretion to vary the amount of fixed remuneration they apply to acquiring shares.

TABLE 7.0 NON-EXECUTIVE DIRECTOR SHAREHOLDINGS 2006 (AUDITED)

	Balance of shares as at 1 January 2006 ¹	Shares acquired during the year in lieu of salary ²	Other shares acquired during the year	Balance of shares held at 31 December 2006 ¹
Don Morley	417,344	3,650	–	420,994
Peter Hay	31,700	9,512	–	41,212
Ron McNeilly	27,370	4,063	–	31,433
Mark Rayner	28,094	1,626	–	29,720

NON-EXECUTIVE DIRECTOR SHAREHOLDINGS 2005 (AUDITED)

	Balance of shares as at 1 January 2005 ³	Shares acquired during the year in lieu of salary ²	Other shares acquired during the year	Balance of shares held at 31 December 2005 ³
Don Morley	413,796	3,548	–	417,344
Peter Hay	15,430	16,270	–	31,700
Ron McNeilly	23,304	4,066	–	27,370
Mark Rayner	26,467	1,627	–	28,094

¹ Balance of shares held at 1 January 2006 and 31 December 2006 include directly held, and nominally held shares, and shares held by personally related entities.

² Non-executive Directors are required to allocate a minimum of 10 per cent of their fees per annum to acquire shares in the Company.

³ Balance of shares held at 1 January 2005 and 31 December 2005 includes directly held, and nominally held shares and shares held by personally related entities.

DIRECTORS' REPORT

TABLE 8.0 SENIOR EXECUTIVES – HOLDINGS OF PERFORMANCE RIGHTS 2006 (AUDITED)

Specified Executives	John Marlay	Ken Dean	Stephen Foster
Type of equity-based instrument	Performance Rights	Performance Rights	Performance Rights
Number held at 1 January 2006 ¹	167,550	–	62,400
Number granted during the year as remuneration ²	99,300	50,500	32,800
Number vested during the year	–	–	–
Number lapsed during the year ³	(60,700)	–	(22,600)
Number exercised during the year	–	–	–
Number held at 31 December 2006	206,150	50,500	72,600

¹ Includes the number of Performance Rights granted that were subject to testing in June 2006, December 2006 and December 2007 but not yet vested.

² Performance Rights granted in January 2006 for the three-year performance test period concluding in December 2008.

³ Performance Rights conditions were not met for the January 2004 grant and under the ESP Rules, 50 per cent of the entitlement lapsed with the remaining 50 per cent to be retested in June 2007. In addition, Tranche 3 of the March 2003 grant retested in June 2006 lapsed.

TABLE 8.1 SENIOR EXECUTIVES – HOLDINGS OF PERFORMANCE RIGHTS AND OPTIONS 2005 (AUDITED)

Specified Executives	John Marlay		Robert Davies		Stephen Foster		Ken Dean	
	Share Option	Performance Rights	Share Option	Performance Rights	Share Option	Performance Rights	Share Option	Performance Rights
Number held at 1 January 2005 ¹	-	144,750	50,000	74,300	-	53,900	-	-
Number granted during the year as remuneration ²	-	70,600	-	36,500	-	26,300	-	-
Number vested during the year	-	(5,838)	-	(3,000)	-	(2,175)	-	-
Number lapsed during the year ³	-	(41,962)	-	(107,800)	-	(15,625)	-	-
Number exercised during the year	-	-	(50,000)	-	-	-	-	-
Number held at 31 December 2005	-	167,550	-	-	-	62,400	-	-

¹ Includes the number of Performance Rights granted that were subject to testing in June 2005, December 2005 and December 2006 but not yet vested.

² Performance Rights granted in January 2005 for the three-year performance test period concluding in December 2007.

³ Performance Rights 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 retested in June 2006. In addition, a portion of Tranche 2 of the March 2003 grant 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.

TABLE 8.2 DIRECTOR AND SENIOR EXECUTIVE PERFORMANCE RIGHTS GRANTED AND VESTED (AUDITED)

Name	Number of Performance Rights granted during year		Number of Performance Rights vested during year	
	2006	2005	2006	2005 ¹
Directors				
John Marlay	99,300	70,600	-	5,838
Other key management personnel				
Robert Davies	-	36,500	-	3,000
Stephen Foster	32,800	26,300	-	2,175
Ken Dean	50,500	-	-	-

¹ Performance Rights that vest result in the applicable shares being held on trust for the employee by the Alumina Employee Share Plan Pty Ltd. When exercisable, each right is convertible to one ordinary share in Alumina Limited.

DIRECTORS' REPORT

TABLE 9.0 SENIOR EXECUTIVES SHAREHOLDINGS FOR THE YEAR ENDED 31 DECEMBER 2006 (AUDITED)

	Balance of shares as at 1 January 2006 ²	Shares acquired during the year	Shares acquired during the year through the exercise of options	Shares acquired during the year under Employee Share Plan ³	Shares sold during the year	Balance of shares held at 31 December 2006 ²
John Marlay	90,338	-	-	-	-	90,338
Stephen Foster	28,675	-	-	-	-	28,675
Ken Dean ¹	-	-	-	-	-	-

SENIOR EXECUTIVES SHAREHOLDINGS FOR THE YEAR ENDED 31 DECEMBER 2005 (AUDITED)

	Balance of shares as at 1 January 2005 ⁵	Shares acquired during the year	Shares acquired during the year through the exercise of options	Shares acquired during the year under Employee Share Plan ³	Shares sold during the year	Balance of shares held at 31 December 2005 ⁵
John Marlay	84,500	-	-	5,838	-	90,338
Robert Davies	90,762	-	50,000 ⁴	3,000	(143,762)	-
Stephen Foster	26,500	-	-	2,175	-	28,675
Ken Dean	-	-	-	-	-	-

¹ Mr Dean acquired 9,741 ordinary shares in the Company in February 2007 pursuant to the STI equity plan.

² Balance of shares held at 1 January 2006 and 31 December 2006 include directly held, and nominally held shares, and shares held by personally related entities. Mr Davies was not an employee of the Company as at 31 December 2005.

³ Does not include Performance Rights granted under the ESP but not vested.

⁴ Mr Davies exercised 50,000 options issued prior to the Company's demerger and sold the shares acquired on exercise.

⁵ Balance of shares held at 1 January 2005 and 31 December 2005 include directly held, and nominally held shares, and shares held by personally related entities.

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



DON M MORLEY
>CHAIRMAN



JOHN MARLAY
>CHIEF EXECUTIVE OFFICER

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Alumina Limited for the year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Alumina Limited and the entities it controlled during the period.



PRICEWATERHOUSECOOPERS
9 MARCH 2007



TIM GOLDSMITH PARTNER MELBOURNE

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