



# SECURITIES AND EXCHANGE COMMISSION

## WASHINGTON, DC 20549

### FORM 20-F

(Mark One)

- ☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**
- OR**
- ☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**DATE OF EVENT REQUIRING THIS SHELL COMPANY REPORT \_\_\_\_\_**

**Commission file number: 1-10375**

## ALUMINA LIMITED

**Australian Business Number 85 004 820 419**  
(Exact name of Registrant as specified in its charter)

**COMMONWEALTH OF AUSTRALIA**  
(Jurisdiction of incorporation or organisation)

**Level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006, Australia**  
(Address of principal executive offices)

**Chris Thiris, T: +61 (0) 3 8699 2600, E: [chris.thiris@aluminalimited.com](mailto:chris.thiris@aluminalimited.com)**  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each Class	Name of each exchange on which registered
Ordinary Shares <sup>(1)</sup>	New York Stock Exchange
American Depositary Shares <sup>(2)</sup>	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of December 31, 2012.

**2,440,196,187 Ordinary Shares**



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**ALUMINA LIMITED**  
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Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒Accelerated filer ☐Non-accelerated filer ☐

Indicate by check which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ☐International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☒Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

(1) Not for trading but only in connection with the listing of the American Depositary Shares.

(2) Evidenced by American Depositary Receipts, each American Depositary Share representing four fully paid Ordinary Shares.



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## FORWARD LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements, including statements regarding (i) certain plans, strategies and objectives of management, (ii) scheduled closure of certain operations or facilities, (iii) anticipated production or construction commencement dates, (iv) expected costs of construction of projects or products or level of production output, (v) the anticipated productive lives of projects and mines and (vi) estimates of expected dividends to be received from AWAC. Forward-looking statements include those containing such words as “anticipate”, “estimates”, “should”, “will”, “expects”, “plans” or similar expressions. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Alumina, which may cause actual results to differ materially from those expressed in the statements contained in this Annual Report.

For example, the amount of any future dividends received from AWAC will be dependent in part on the future revenues from AWAC’s operations, described in this Annual Report which in turn are based in part on the market price of the products and metals produced, which may vary significantly from current levels. Virtually all of our income is derived from our share of the earnings generated by AWAC. Such variations, if materially adverse, may impact the extent of the dividends from AWAC paid to us as well as the timing or feasibility of the development of a particular project or the expansion of certain facilities. Other factors that may affect actual construction or production commencement dates, costs or production output and anticipated lives of operations or facilities of AWAC include the ability of AWAC to profitably produce and transport its products or metals to applicable markets, the impact of foreign currency exchange rates on the market prices of the products or metals produced and activities of governmental authorities in certain countries where such facilities are being operated including increases in taxes, changes in environmental and other regulations, and political uncertainty. Alumina can give no assurances that the actual production or commencement dates, cost or production output, revenue, or anticipated lives of the facilities discussed herein will not differ materially from the statements contained in this Annual Report.





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**DEFINITIONS**

“ADR” means an American Depositing Receipt evidencing one or more ADSs.

“ADS” means an American Depository Share.

“Alcoa” means Alcoa Inc.

“Alumina” or “Alumina Group” means Alumina Limited and its subsidiaries.

“Alumina Limited” is the registrant, formerly named WMC Limited.

“AofA” means Alcoa of Australia Limited.

“ASX” means the Australian Stock Exchange.

“AWAC” refers to the Alcoa World Alumina and Chemicals venture in which Alumina Limited holds a 40% interest and Alcoa holds a 60% interest.

“Bauxite” is an aluminium rich rock, the principal ore of aluminium.

“Bdmt” means Bone Dry Metric Tons.

“Cash Flow Hedge” means a contract which hedges an exposure to changes in cash flows from an expected future transaction related to a forecast purchase or sale or an existing asset or liability.

“Commissioned” means the bringing into operation of plant and/or equipment at a rate approximating its design capacity.

“Company” means Alumina Limited at level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006, Australia.

“Consolidated” means the consolidation of entities controlled by Alumina Limited together with the equity method accounting of jointly controlled corporate entities or of corporate entities over which it exerts significant influence but not control. Unincorporated joint ventures are accounted for using the equity method.

“Counterparty Credit Risk” means the risk of financial loss arising out of holding a particular contract or portfolio of contracts as a result of one or more parties to the relevant contract(s) failing to fulfil its financial obligations under the contract.

“Cross-Currency Swap” means the exchange of cash flows in one currency for those in another, often requiring an exchange of principal.

“Currency Forward” means an agreement to exchange a specified amount of one currency for another at a future date at a certain rate.

“Demerger” means the demerger of WMC Limited’s (Alumina Limited’s) interest in non-AWAC operating businesses pursuant to an Australian scheme of arrangement and associated capital reduction and dividend distribution that occurred on December 11, 2002.

“Depository” means The Bank of New York Mellon, Inc., 101 Barclay Street, New York, NY 10286.

“Derivative” means an instrument or product whose value changes with changes in one or more underlying market variables such as equity or commodity prices, interest rates or foreign exchange rates. Basic derivatives include forwards, futures, swaps, options, warrants and convertible bonds.

“Fair Value” means, in the context of commodity, currency and interest rates, the current market value (mark-to-market) of financial positions.

“Fair Value Hedge” means a contract which hedges an exposure to the change in fair value of a recognized asset, liability or an unrecognized firm commitment (or a part thereof) attributable to a particular risk.

“Foreign Currency Hedge” means a contract which hedges the foreign exchange exposure of:

- an unrecognized firm commitment (fair value hedge);
- an available for sale security (fair value hedge);
- a forecast transaction (cash flow hedge); or
- a net investment in a foreign operation.



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“Grass Roots Exploration” is exploration undertaken at new sites not related to existing operations (also known as “green fields” exploration).

“Hedge” means to reduce risk by making transactions that reduce exposure to market fluctuations. A hedge is also the term for the transactions made to effect this reduction.

“Hedge Accounting” means the practice of deferring accounting recognition of gains and losses on financial market hedges until the corresponding gain or loss of the underlying exposure is recognized.

“HSRA” means the Australian/US dollar Hedge Settlement Rate quoted on Reuters Screen HSRA.

“Interest Rate Swap” means an agreement to exchange net future cash flows. Interest rate swaps most commonly change the basis on which liabilities are paid on a specified principal. They are also used to transform the interest basis of assets. In its commonest form, the fixed-floating swap, one counter party pays a fixed rate and the other pays a floating rate based on a reference rate such as LIBOR. There is no exchange of principal – the interest rate payments are made on a notional amount.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standard Boards (IASB).

“LME” means the London Metal Exchange.

“Nameplate capacity” means full-load design capacity such as a refinery or mine.

“NYSE” means the New York Stock Exchange.

“Open-cut” or “Open-pit” means a mine at the earths surface as distinct from an underground mine.

“Option” means a contract that gives the purchaser the right, but not the obligation, to buy or sell an underlying security or instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price should the purchaser exercise his right.

“Ore” means a naturally occurring solid body of earth and/or rock from which a mineral, or minerals, can be extracted.

“SCH” means a transfer of securities on the Clearing House Electronic Subregister System operated by ASX Settlement and Transfer Corporation Pty Ltd.

“WMC Limited” is the former name of Alumina Limited prior to the Demerger.

“WMC Resources” means WMC Resources Ltd, together with its subsidiaries.

## Weights and Measures

1 kilogram	=	32.15 troy ounces
1 kilogram	=	2.205 pounds
1 tonne	=	1,000 kilograms
1 tonne	=	2,205 pounds
1 gram per tonne	=	0.0292 troy ounces per (short) ton
1 kilometre	=	0.6214 miles



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## IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

#### *A. Directors and Senior Management*

Not applicable.

#### *B. Advisers*

Not applicable.

#### *C. Auditors*

Not applicable.



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## OFFER STATISTICS AND EXPECTED TIMETABLE

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### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

#### *A. Offer Statistics*

Not applicable.

#### *B. Method and Expected Timetable*

Not applicable.



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**KEY INFORMATION****ITEM 3. KEY INFORMATION****A. Selected Financial Data**

The selected financial data appearing below as at December 31, 2012, 2011, 2010, 2009 and 2008 and for the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008 are set forth in US dollars (except as otherwise indicated), and are extracted from the audited Consolidated Financial Statements of Alumina Limited (the “Company”, “Alumina Limited” or “Alumina”, which, unless the context otherwise requires, includes Alumina Limited and its subsidiaries).

Equity accounting is used where the consolidated entity exercises significant influence, but not control, over an investee company (the associate). Under this method, the consolidated entity’s share of the post-acquisition profits or losses of associates is recognized in the consolidated statement of financial performance, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the investment. Alumina’s Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements of Alcoa World Alumina and Chemicals (“AWAC”), of which Alumina owns 40% of the assets, are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).



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## KEY INFORMATION

The following selected financial data should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements, including the Notes thereto.

### SELECTED FINANCIAL DATA UNDER IFRS

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
(US\$ million except where indicated)					
Net Sales Revenue from Continuing Operations	—	—	—	—	—
Net (Loss)/income from Continuing Operations	(62.1)	126.6	34.6	(23.7)	119.2
Net (Loss)/income	(62.1)	126.6	34.6	(23.7)	119.2
Net (Loss)/income from Operations per Ordinary Share	Negative (0.03)	0.05	0.01	Negative (0.01)	0.08
Income from Continuing Operations per Ordinary Share <sup>(3)</sup>	Negative (0.03)	0.05	0.01	Negative (0.01)	0.08
Diluted Net Income per Ordinary Share <sup>(4)</sup>	Negative (0.03)	0.05	0.01	Negative (0.01)	0.08
Cash Dividends paid per Ordinary Share <sup>(1)</sup>					
(A\$/share)	0.03 <sup>(2)</sup>	0.07 <sup>(2)</sup>	0.04 <sup>(2)</sup>	Nil	0.12
(US\$/share)	0.03	0.07	0.04	Nil	0.08 <sup>(2)</sup>
	At December 31, 2012	At December 31, 2011	At December 31, 2010	At December 31, 2009	At December 31, 2008
(US\$ million except where indicated)					
Total assets	3,311.4	3,350.4	3,542.5	3,504.2	2,701.0
Long-term obligations	623.1	438.2	246.6	578.2	476.1
Net assets	2,628.5	2,854.0	3,071.5	2,918.3	1,934.9
Shareholders' equity	2,628.5	2,854.0	3,071.5	2,918.3	1,934.9
Capital stock	2,154.1	2,154.1	2,154.1	2,154.1	1,000.8
	Millions of shares				
Number of shares outstanding	2,440.2	2,440.2	2,440.2	2,440.2	1,459.9

<sup>(1)</sup> Fully franked. See "Dividends" in Item 8A.

<sup>(2)</sup> These conversions were made using exchange rates applicable at the dates of the dividend payments.

<sup>(3)</sup> Basic earnings per share were determined on the basis of the weighted average number of outstanding Alumina Limited shares for the periods indicated. Refer also to Notes 1(r) and 8 to the Consolidated Financial Statements. Prior year earnings per share have been restated for the rights issue in 2009. Refer also to Note 19(b) to the Consolidated Financial Statements.

<sup>(4)</sup> Diluted earnings per share was determined on the basis of the weighted average number of outstanding Alumina Limited shares for the periods indicated including potential shares from the conversion of partly paid shares and options into shares of Alumina Limited. Refer also to Notes 1(r) and 8 to the Consolidated Financial Statements.



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**KEY INFORMATION***Exchange Rates*

Alumina published its consolidated financial statements in Australian dollars ("A\$" or "\$") until December 2009. With the commissioning of production at the Juruti mine and the Alumar refinery in Brazil completed, Alumina Limited reached the end of the investment program in Brazil. Greater production and cash flows to shareholders are expected from these assets in the future. Most dividends are also received in US dollars. The Board recognised that this changed the balance of factors that are assessed to determine Alumina's functional currency and determined that Alumina Limited's functional currency will be changed to US dollars effective for the reporting period December 31, 2010.

Following the change in functional currency, Alumina Limited elected to change its presentation currency from Australian dollars to US dollars from January 1, 2010. The change in presentation currency represents a voluntary change in accounting policy, which has been applied retrospectively.

To give effect to the change in functional and presentation currency, the assets, liabilities, contributed equity, reserves and retained earnings of entities with an Australian dollar functional currency as at December 31, 2009, were converted to US dollars at period end exchange rates of AUD/USD 0.8972, and AUD/USD 0.6928 as at December 31, 2008. Revenue and expenses were converted at an average rate of AUD/USD 0.7123 for the six months ending June 30, 2009 and AUD/USD 0.8711 for the six months ending December 31, 2009 and AUD/USD 0.8519 for the 12 months ending December 31, 2008.

All data disclosed in this document are set forth in US dollars (except as otherwise indicated).

***B. Capitalization and Indebtedness***

Not applicable.

***C. Reasons for the Offer and Use of Proceeds***

Not applicable.



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**KEY INFORMATION****D. Risk Factors**

AWAC's business, financial condition or results of operations may be impacted by a number of factors. In addition to the factors discussed separately in this report, the following are the most significant factors that could cause AWAC's or Alumina's actual results to differ materially from those projected in any forward-looking statements:

*The aluminium industry generally remains highly cyclical and is influenced by a number of factors including global economic conditions.*

The aluminium industry generally is highly cyclical. AWAC is subject to cyclical fluctuations in global economic conditions and aluminium end-use markets. Demand for AWAC's products is sensitive to these fluctuations. While Alumina believes that the long-term prospects for demand for aluminium and alumina remain positive, Alumina is unable to predict the future course of industry variables or the strength, pace or sustainability of the economic recovery and the effects of government intervention. Another major economic downturn, a prolonged recovery period, or disruptions in the financial markets could have a material, adverse effect on AWAC's and Alumina's business or financial condition or results of operations.

*Market-driven balancing of global aluminium supply and demand may be disrupted by non-market forces or other impediments to production closures.*

In response to market-driven factors relating to the global supply and demand of aluminium, aluminium producers have varied portions of their aluminium production. However, the existence of non-market forces on global aluminium industry capacity, such as political pressures in certain countries to keep jobs or to maintain or further develop industry self-sufficiency, may prevent or delay the closure or curtailment of certain producers' smelters, irrespective of their position on the industry cost curve. Other production cuts may be impeded by long-term contracts to buy power or raw materials. If industry overcapacity persists due to the disruption by such non-market forces on the market-driven balancing of the global supply and demand of aluminium, this may result in a weak pricing environment and margin compression for aluminium producers, including AWAC. Any such cuts in aluminium production are likely to impact on demand for and production of alumina and this is likely to adversely affect AWAC, such as in reduced sales volumes or lower price received. In addition, there are significant volumes of aluminium stocks stored in warehouses. If a portion of these stocks were to be released onto the market, that may have a material effect on the aluminium price.

*Alumina Limited's net income is affected by movements in the prices of aluminium and alumina.*

Alumina Limited's source of income is dividends derived from AWAC. The revenue of AWAC (40% ownership of AWAC is the principal asset of Alumina Limited) is derived from sales of alumina, alumina-based chemicals and aluminium. The price that can be obtained for these products is influenced by global prices of alumina and aluminium, and in particular, the LME price of primary aluminium. Pricing mechanisms for alumina have changed over time from primarily long term contracts with pricing expressed as a percentage of the aluminium price, to shorter term contracts. Pricing has historically been based on a percentage of traded LME aluminium contract, however there is increased momentum for the industry to move away from LME linked contracts.

The price of aluminium is frequently volatile and changes in response to general economic conditions, expectations for supply and demand growth or contraction, and the level of global inventories. The influence of hedge funds and other financial institutions participating in commodity markets has also increased in recent years, contributing to higher levels of price volatility. Continued high LME inventories could lead to a reduction in the price of aluminium. A sustained weak aluminium pricing environment or deterioration in aluminium prices could have a material, adverse effect on AWAC's business, financial condition, results of operations or cash flow. The development of new alumina refineries and aluminium smelters, and increased production by new or existing alumina and aluminium producers may create oversupply or overcapacity, which could reduce future prices of alumina, alumina-based chemicals and aluminium, thereby adversely affecting AWAC's, and also Alumina Limited's, profitability.

AWAC's and Alumina's financial performance and ability to service liabilities, pay dividends and undertake capital expenditure would be adversely affected by a 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 ("AofA") contracts for the supply of natural gas and electricity. If the aluminium price as quoted on the LME at a period end, and the estimate of long term aluminium prices in any relevant period beyond the period covered by



**KEY INFORMATION**

forward LME prices, are 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 Alumina Limited's income for the period.

In 2010, AWAC indicated it would seek to price its new third party alumina contracts on a basis using alumina indices for 2011 rather than a percentage of the LME-based aluminium price. AWAC based all new contracts entered in the second half of 2010 on the alumina price indices. These contracts are for delivery in 2011 and beyond. AWAC believes that this change, which was approximately 40% of third party smelter grade alumina shipments by the end of 2012 and is expected to increase substantially over a number of years as annual contracts expire, will more fairly reflect the fundamentals of alumina. There can be no assurance that such index pricing ultimately will be accepted as future LME-linked sales contracts expire or that such index pricing will result in consistently greater profitability from sales of alumina.

AWAC's revenue will fluctuate in accordance with changes in the alumina price indices upon which some of AWAC's alumina is sold. The index prices may go up or down due to numerous factors outside Alumina Limited's control such as supply and demand of alumina, the industry's capital and operating costs, general economic conditions and other factors.

For a statement of current hedging, and movements in the selling price of aluminium over the last five years, see Item 11 "Quantitative and Qualitative Disclosure about Market Risk".

*Fluctuations in exchange rates can have a significant effect on Alumina Limited's earnings, profitability and construction costs.*

AofA accounts for approximately 60% of AWAC's production. While a significant proportion of AofA's costs are incurred in Australian dollars, sales are denominated in US dollars. AWAC's future profitability (and therefore that of Alumina Limited) has been and may continue to be adversely affected by a strengthening of the Australian dollar against the US dollar. AWAC's profitability and financial position may also be adversely affected by a weakening of the US dollar against other currencies in which operating or capital costs are incurred by AWAC's refineries outside Australia.

*An increase in the cost of key inputs could reduce Alumina's profitability.*

Changes in AWAC's costs have a major impact on Alumina Limited's profitability. AWAC's mining, refining and smelting operations are subject to conditions beyond its control that can delay deliveries or increase costs for varying lengths of time. These conditions include increases in the cost of key inputs including increases in the cost of raw materials (including energy, caustic soda, bauxite and carbon products, labor and freight) and the non-availability of key inputs.

A key risk in the cost of production of alumina and aluminium is the cost of energy. Alumina refineries and aluminium smelters consume substantial amounts of energy in their operations. The costs and profitability of AWAC's alumina refineries and aluminium smelters can be affected by:

- significant increases in domestic or world electricity, coal, natural gas and oil prices;
- unavailability of electrical power or other energy sources due to insufficient supplies, whether due to lack of reserves or due to droughts, hurricanes or other natural causes;
- interruptions in energy supply or unplanned outages due to equipment failure or other causes; or
- curtailment of one or more refineries or smelters due to an inability to extend energy contracts upon expiration or to negotiate new arrangements on cost-effective terms or unavailability of energy at competitive prices.

AWAC may not be able to offset fully the effects of higher raw material costs or energy costs through price increases, productivity improvements or cost reduction programs. Similarly, AWAC's operating results are affected by significant lag effects for declines in key costs of production that are commodity or LME-linked. For example, declines in LME-linked costs of alumina and power during a particular period may not be adequate to offset sharp declines in metal price in that period. In recent years, increases in the alumina price have not kept pace with increases in costs of alumina production, with the result that there has been a reduced margin in alumina refining. There is a risk that in the future such index pricing will not be accepted and, despite the changes in methods of alumina pricing that cost increases will not be adequately covered by a correspondingly higher alumina price.



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**KEY INFORMATION**

*Other events could increase AWAC's production costs or decrease its production and therefore reduce Alumina's profitability.*

In addition to any increase in the cost of AWAC's key inputs discussed previously, certain events which may be beyond AWAC's or Alumina's control can decrease production, delay deliveries or increase costs for varying lengths of time. These include weather and natural disasters, fires or explosions at facilities, unexpected maintenance or technical problems, key equipment failures, disruptions to or other problems with infrastructure, war or terrorist activities and variations in geological conditions. In addition, industrial disruptions, loss of key staff, work stoppages, refurbishments and accidents at operations can result in production losses and delays in the delivery of product, which may adversely affect profitability. In 2009, a fire at the Varanus Island gas processing facility in Western Australia significantly affected gas supply to AofA's alumina refineries.

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.

*Alumina's ability to raise funds and refinance its debt is subject to external factors.*

Alumina's ability to refinance its debt on favorable terms as it becomes due or to repay the debt, its ability to raise further finance on favorable terms, and its borrowing costs, will depend upon a number of factors, including AWAC's operating performance, general economic conditions, political, capital and credit market conditions, external credit ratings and the reputation, performance and financial strength of Alumina's business.

Debt which has recently been refinanced, or which may be refinanced in the future, may be at higher interest margins than previously held debt.

If a number of the risks outlined in this section eventuate, including deterioration in the Australian and global credit markets, or if Alumina's operating performance, external credit rating or profitability is negatively impacted as a result of these risks, there is a risk that Alumina may not be able to refinance any expiring debt facilities or the costs of refinancing its debt may increase substantially.

There can be no assurance that any rating assigned will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by a rating agency, if, in that rating agency's judgment, circumstances so warrant. Maintaining an investment-grade credit rating is an important element of Alumina's financial strategy. A downgrade of Alumina's credit ratings could adversely affect the market price of its securities, adversely affect existing financing, limit access to the capital or credit markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, result in more restrictive covenants in agreements governing the terms of any future indebtedness that Alumina incurs, increase the cost of borrowing, or impair its financial condition. In addition, Alumina Limited's primary assets consist of its interests in the various companies that make up AWAC. Although Alumina does not hold itself out as, or carry out its operations as, an "investment company" as contemplated under the Investment Company Act of 1940, as amended (the "Investment Company Act"), uncertainty exists as to whether its interests in AWAC would be considered to be investment securities under the Investment Company Act. If the AWAC interests are determined to be investment securities, Alumina Limited may be determined to be an "investment company" as defined in the Investment Company Act. As a non-U.S. operating company, it is not practical or feasible for Alumina Limited to register as an "investment company" under the Investment Company Act. While the uncertainty regarding its status continues, Alumina Limited is constrained in its ability to conduct capital raising activities in the U.S. capital markets as it is unable to register as an investment company under the Investment Company Act.

*Alumina Limited does not hold a majority interest in AWAC, and decisions made by majority vote may not be in the best interests of Alumina.*

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

- a change of the scope of AWAC;
- a change in AWAC's dividend policy;



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- 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 \$1 billion; and
- loans to Alcoa, Alumina or their respective 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 Alumina Limited.

*Alumina Limited's cash flows depend on the availability of dividends from AWAC.*

Alumina Limited's cash flows are generated almost exclusively from distributions made by AWAC, by way of dividend or capital return. AWAC's partners determine the timing and magnitude of AWAC dividends and capital returns, subject to the relevant provisions of the AWAC Agreements. Alumina Limited 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 agrees by an 80% majority vote to pay a smaller dividend.

During 2006, the AWAC partners entered into the Enterprise Funding Agreement, under which capital expenditures are to be funded by the partners contributing directly to cash calls issued by the relevant AWAC entity. During 2010, the Enterprise Funding Agreement was extended on the basis that two years notice is required to terminate the Enterprise Funding Agreement. 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 partners. The Enterprise 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.

*An increase in the capital costs of AWAC's growth projects and operations would impact Alumina's profitability.*

A significant increase in the capital costs associated with AWAC's growth projects and operations or delays in commissioning of the projects would impact Alumina's cash flow and profitability.

Capital costs for development of an alumina refinery and other mineral processing projects have increased substantially in recent years.

*Regulatory change by governments in response to greenhouse gas emissions may represent an increased cost to AWAC.*

Energy is a significant input in a number of AWAC's operations. AWAC uses electricity in its operations and is an emitter of greenhouse gases. There is growing recognition that consumption of energy derived from fossil fuels is a contributor to global warming.

A number of governments or governmental bodies have introduced or are contemplating legislative and regulatory change in response to the potential impacts of climate change.

The Australian Government has introduced legislation for its carbon pricing scheme. The scheme operates in two phases: a fixed (but increasing) carbon permit price that commenced on July 1, 2012 to be followed by a floating price phase from July 1, 2015. The scheme is to cover emissions from the stationary energy, industrial processing, mining and waste sectors. Entities that have operational control of a facility that emits more than 25,000t CO<sub>2</sub>-e per annum in greenhouse gas emissions from activities covered by the scheme will be required to surrender carbon permits to cover those emissions. Emissions-intensive trade-exposed industries and coal-fired power generators will be eligible to receive assistance, primarily in the form of free carbon permits, under arrangements that are broadly similar to those that would have applied under the former Carbon Pollution Reduction Scheme. Contractual arrangements will govern the electricity and domestic gas pass-through of carbon costs for indirect emissions. Aluminium smelting and alumina refining initially receive a free allocation of permits for 94.5% of average industry emissions, per tonne of production. These allocations are based on the tonnes produced at an average emissions intensity. Allocation will reduce at a rate of 1.3% per annum with a floor at 90% if a sector can demonstrate that less than 70% of its competitors have introduced comparable carbon constraints. The fixed price phase starts at A\$23.00 per tonne CO<sub>2</sub>-e and increases to \$24.15 in year 2 and \$25.40 in year 3 (based on a 2.5% rise with 2.5% inflation). From July 1, 2015 there will be an emissions trading scheme based on a national emissions cap for the first five years to be announced in 2014. Banking of surplus permits will be allowed and 50% of an entity's obligation may be met through international credits/permits.

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In the 2011/2012 year, AWAC in Australia produced 7.2 million tonnes of emissions from smelting (0.6 million tonnes from direct and 6.6 million tonnes from indirect sources) and 5.0 million tonnes of emissions from mining and refining (4.3 million tonnes from direct and 0.7 million tonnes from indirect sources). Further details are available on Alumina Limited's website.

Other current and emerging legislation (such as existing and potential carbon trading schemes and the Australian and other mandatory renewable energy target scheme and expanded scheme) may also affect energy prices and costs. These regulatory mechanisms may be either voluntary or legislated. The Australian Renewable Energy Target (RET) legislation requires that purchasers of wholesale electricity (liable entities) source a defined percentage of their power from renewable sources and, where this is impractical, pay either a shortfall charge or purchase Renewable Energy Certificates (RECs) from renewable generators or the market place. Liable entities will typically pass these additional costs onto their electricity customers, such as AWAC. The RET includes some provisions for exemption for energy-intensive trade-exposed industries which will reduce RET-related costs.

Inconsistency of regulations may also change the attractiveness of the locations of some of AWAC's assets. It is difficult to assess the potential impact of future climate change regulation given the wide scope of potential regulatory change in countries in which Alumina and AWAC operate.

AWAC will likely see changes in the margins of greenhouse gas-intensive assets and energy-intensive assets as a result of regulatory impacts in the countries in which the Company operates. These regulatory mechanisms may be either voluntary or legislated and may impact AWAC's operations directly or indirectly through customers or AWAC's supply chain.

AWAC may realise increased capital expenditures resulting from required compliance with revised or new legislation or regulations, costs to purchase or profits from sales of, allowances or credits under a "cap and trade" system, increased insurance premiums and deductibles as new actuarial tables are developed to reshape coverage, a change in competitive position relative to industry peers and changes to profit or loss arising from increased or decreased demand for goods produced by the Company and indirectly, from changes in costs of goods sold.

The potential physical impacts of climate change on AWAC's operations are highly uncertain and will be particular to the geographic circumstances. These may include changes in rainfall patterns, shortages of water or other natural resources, changing sea levels, changing storm patterns and intensities and changing temperature levels. These effects may adversely impact the cost, production and financial performance of AWAC's operations.

*Impact of global economic downturn.*

Both Alumina's and AWAC's operating and financial performance are influenced by a variety of general economic and business conditions, including changes to monetary policy, fiscal policy, interest rates, foreign currency exchange rates, tax rates, commodity prices and inflation across the range of countries in which Alumina and AWAC operate.

In particular, Alumina's future financial performance and condition may be influenced by the demand for alumina, alumina-based chemicals and aluminium, which is currently supported by the industrialisation and urbanisation of China and other developing countries. Decline in the rate of economic growth of these developing countries or reduction in demand for these products, could adversely affect Alumina's future financial performance.

A reduction in demand for, or prices of AWAC's products may require a curtailment or closure of production capacity at AWAC's operations. A curtailment of an operation's production capacity generally results in an increase in the cost of production per tonne of output and can also result in additional costs, including redundancy costs and continuing contractual purchase commitments for production inputs. Closure or change in ownership of production capacity at AWAC's operations may result in an impairment loss being incurred in the Income Statement as a result of the carrying value of an asset exceeding its recoverable value.

Some of AWAC's operations are conducted by joint ventures with external parties. To the extent that AWAC's joint venturers do not meet their respective share of joint venture financial obligations, AWAC and Alumina may be required to bear a disproportionate share of joint venture obligations, including provision of funding. A deterioration in global economic conditions may also affect the financial position and consequent performance by contractual counterparties of AWAC of obligations owed to AWAC.

Alumina could be adversely affected by changes in the business or financial condition of one or more of a significant supplier, a joint venturer or a significant customer.

## KEY INFORMATION

*Changes to sales agreements could adversely affect Alumina'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.

*A reduction in demand (or lack of increased demand) for aluminium by China or a combined number of other countries could negatively impact AWAC's results.*

The aluminium industry's demand is highly correlated to economic growth. The Chinese market is a significant source of global demand for commodities, including aluminium and alumina. A sustained slowdown in China's economic growth, or the combined slowdown in other markets, could have an adverse effect on the demand for aluminium and alumina and their prices. In addition, China's investments to increase its self-sufficiency in aluminium and alumina may impact future demand and supply balances and prices. The European sovereign debt crisis could have an adverse effect on European supply and demand for aluminium and aluminium products and alumina.

*AWAC is exposed to regulatory and court action, each of which could adversely affect Alumina'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. Some governmental operating licences expire on a short term basis and renewals must be regularly sought. 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.

The costs of complying with such laws and regulations, including participation in assessments and clean-ups of sites, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. Environmental laws may impose cleanup liability on owners and occupiers of contaminated property, including past or divested properties, regardless of whether the owners and occupiers caused the contamination or whether the activity that caused the contamination was lawful at the time it was conducted. Environmental matters for which AWAC may be liable may arise in the future at its present sites, where no problem is currently known, at previously owned sites, sites previously operated by AWAC, sites owned by its predecessors or sites that AWAC may acquire in the future. Alumina's results of operations or liquidity in a particular period could be affected by certain health, safety or environmental matters, including remediation costs and damages related to certain sites. Additionally, evolving regulatory standards and expectations can result in increased litigation and/or increased costs, all of which can have a material and adverse effect on earnings and cash flows.

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 US GAAP. Alumina recognises and provides for additional amounts for certain AWAC Asset Retirement Obligations as required by 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 Alumina Limited's, financial condition and results of operations.

*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 Alumina Limited'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





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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 mineral deposits, recovery rates, production rates, capital and operating costs and future commodity prices and exchange rates. There is no assurance that those estimates will be realised, or that actual economic conditions might not cause the profitability of projects to be materially different to that estimated at the time the projects were approved.

*Alumina is liable for further capital calls under the AWAC arrangements.*

AWAC may make annual capital calls of Alumina and Alcoa of up to \$1 billion in aggregate following approval by a majority vote of AWAC's Strategic Council, and of more than \$1 billion in aggregate following approval by a super majority vote of the Strategic Council.

Alumina Limited is required to fund its share of the calls, subject to the provisions of the AWAC Agreements. If Alumina Limited is unable or unwilling to obtain equity or debt funding or has insufficient retained earnings (i.e. cash) to fund its share of capital requirements up to \$1 billion, it may ultimately run the risk of its equity interest in AWAC being diluted. Accordingly, there is a risk that Alumina Limited will be unable to fund a capital call made by AWAC in the future, and that its interest in AWAC could be diluted. To the extent the aggregate annual capital calls that are approved are in excess of \$1 billion and Alumina is unable or unwilling to fund its share of such capital calls, Alumina's equity interest in AWAC is not diluted. However, Alcoa will be otherwise compensated in respect of its funding of such annual calls above \$1 billion, possibly by means of a disproportionate allocation of returns associated with the excess contribution by Alcoa Inc.

The \$1 billion threshold in respect of the funding of AWAC's capital requirements will be increased by the amount of relevant dividends paid in the relevant year with respect to valid calls to the extent they are funded by equity contributions in accordance with the Enterprise Funding Agreement. The \$1 billion threshold above which super majority approval is required is not subject to increase in this way.

In addition to capital calls to fund existing AWAC projects, Alcoa Inc. could sell assets to AWAC or cause AWAC to purchase assets. The purchase of these assets by AWAC may require a proportionate investment from Alumina.

*Unavailability of bauxite may reduce AWAC's profitability.*

AWAC's production of alumina is dependent upon continuing availability of bauxite supply. AWAC obtains bauxite from bauxite deposits to which it has access under mining leases and under short term and long term contracts. Other than in Suriname, 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, at current rates of production it is likely that all Suriname current bauxite deposits will be exhausted within the next several years. AWAC is actively exploring and evaluating alternate sources of bauxite, including deposits from Suralco's concession in Suriname.

There are numerous uncertainties inherent in estimating ore reserves, including subjective judgements and determinations that are based on available geological, technical, legal and economic information. Previously valid assumptions may change significantly with new information, which may result in changes to the economic viability of some reserves and the need for them to be restated.

*Political and economic risks exist in some of the countries in which AWAC operates.*

AWAC operates in a number of countries, some of which have a relatively high level of political, commercial and economic risk. Political activities in these countries may be destabilising and disruptive to AWAC's operations. Risks include those associated with political instability, civil unrest, expropriation, nationalisation, renegotiation or nullification of existing agreements, mining lease and permits, restrictions on repatriation of earnings or capital and changes in local laws, regulations or policies. 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. Risks relating to bribery and corruption may also be prevalent in some of the countries in which AWAC operates.

*The future trading price of shares is subject to uncertainty*

Investors should be aware that there are risks associated with any share or ADR investment. The value of shares or ADRs may rise above or fall depending on the financial condition and operating performance of Alumina or AWAC. Further, the price at which shares or ADRs trade may be affected by a number of factors unrelated to the



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**KEY INFORMATION**

financial and operating performance of Alumina or AWAC and over which Alumina and its Directors have no control. These external factors include:

- economic conditions in Australia and overseas;
- relative changes in foreign exchange rates;
- the impact of significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Alumina, AWAC or their competitors;
- local and international stock market conditions;
- changes in government regulations or in fiscal, monetary and regulatory policies (such as environmental and land management, regulation, taxation and interest rates);
- industrial disputes;
- geo-political conditions such as acts or threats of terrorism or military conflicts; and
- volatility of comparable companies' share prices, including Alcoa Inc.

There is no guarantee of profitability, dividends, return of capital, or the price at which shares or ADRs will trade. No assurances can be given that the shares or ADRs will not be adversely affected by market fluctuations or other factors. The past performance of the shares and ADRs is not necessarily an indication as to future performance as the trading price of shares and ADRs can fluctuate.

*AWAC could be required to make additional contributions to its defined benefit pension plans as a result of adverse changes in interest rates and the capital markets.*

Estimates of liabilities and expenses for pensions and other post-retirement benefits incorporate significant assumptions, including the interest rate used to discount the future estimated liability, the long term rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality). AWAC's results of operations, liquidity or shareholders' equity in a particular period could be affected by a decline in the rate of return on plan assets, the interest rate used to discount the future estimated liability, or changes in employee workforce assumptions.

*Operation of the AWAC Agreements could act as a disincentive to a potential acquirer of Alumina.*

The AWAC Agreements provide that AWAC is the exclusive vehicle for the pursuit of Alumina's and Alcoa's interests in the bauxite, alumina and inorganic industrial (alumina-based) chemicals businesses included within the scope of AWAC. Neither party may compete, within that scope, with AWAC so long as it maintains an ownership interest in AWAC.

Any acquirer of Alumina would become an 'affiliate' of Alumina or Alcoa (as relevant) and trigger the application of the exclusive vehicle provisions contained in the AWAC Agreements in respect of the business and interests of the acquirer. If the acquirer already operates a bauxite, alumina or industrial (alumina-based) chemicals business, the exclusive vehicle provisions would be contravened. Therefore, the exclusive vehicle provisions contained in the AWAC Agreements could act as a disincentive to a potential acquirer or bidder for Alumina.

The AWAC Agreements are silent on the action that Alumina or Alcoa (as relevant) and the acquirer must take to avoid any contravention. It is possible that 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.

*Native title in Australia poses 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 some of AofA's operations. Court decisions and various pieces of legislation make it evident that there are complex legal and factual issues affecting existing and future AofA interests. At this stage, we 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. See Item 8A "Legal Proceedings – Native Title in Australia."



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**KEY INFORMATION**

*Alumina Limited faces significant competition in the aluminium market.*

The markets for most aluminium products are highly competitive. AWAC, and hence Alumina Limited's, competitors include a variety of companies in all major markets. Additionally, aluminium competes with other materials such as steel, plastics, composites and glass. The willingness of customers to accept substitutes for aluminium and other developments by or affecting AWAC's competitors or customers could adversely affect AWAC, and hence Alumina Limited's results of operations.

*AWAC's non-controlled assets may not comply with its standards*

Some of AWAC's assets are controlled and managed by its partners or by other companies. Management of non-controlled assets may not comply with its management and operating standards, controls and procedures. Failure to adopt equivalent standards, controls and procedures at these assets could lead to higher costs and reduced production and adversely impact results and reputation.

*AWAC may be exposed to significant legal proceedings, investigations or changes in U.S. federal, state or foreign law, regulation or policy.*

AWAC's results of operations or liquidity in a particular period could be affected by new or increasingly stringent laws, regulatory requirements or interpretations, or outcomes of significant legal proceedings or investigations adverse to AWAC. This may include a change in effective tax rates or become subject to unexpected or rising costs associated with business operations or provision of health or welfare benefits to employees due to changes in laws, regulations or policies. AWAC is also subject to a variety of legal compliance risks. These risks include, among other things, potential claims relating to product liability, health and safety, environmental matters, intellectual property rights, government contracts, taxes, and compliance with U.S. and foreign export laws, anti-bribery laws, competition laws and sales and trading practices. AWAC could be subject to fines, penalties, damages (in certain cases, treble damages), or suspension or debarment from government contracts. While AWAC believes it has adopted appropriate risk management and compliance programs to address and reduce these risks, the global and diverse nature of its operations means that these risks will continue to exist and additional legal proceedings and contingencies may arise from time to time. In addition, various factors or developments can lead AWAC to change current estimates of liabilities or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling or settlement or unfavorable changes in laws, regulations or policies, or other contingencies that AWAC cannot predict with certainty could have a material adverse effect on AWAC's results of operations or cash flows in a particular period. See Item 8A "Legal Proceedings – AWAC Litigation."

*Alumina Limited's reported results could be adversely affected by the impairment of assets and goodwill*

Alumina Limited may be required to record impairment charges as a result of adverse developments in the recoverable values of its assets (including goodwill recorded by AWAC). Significant assumptions in the determination of recoverable value include, but are not limited to: pricing of the Group's commodities and products, reserves and mineralised material, discount and exchange rates, operating cost projections, and timing of expenditure on major projects. In addition, the occurrence of unexpected events that adversely impact the Company's business may have an impact on the assumptions underlying the recoverable value of its assets. To the extent that the recoverable value of an asset is impaired, such impairment may negatively impact Alumina Limited's profitability during the relevant period.





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## INFORMATION ON THE COMPANY

### ITEM 4. INFORMATION ON THE COMPANY

#### A. History and Development of the Company

Alumina Limited ("Alumina Limited" or "Alumina") was incorporated in 1970. In 1979 it became the holding company of the WMC Group which commenced operations in 1933. The Company was previously called WMC Limited until it changed its name to "Alumina Limited" in December 2002 as part of the demerger of the WMC Group. The demerger was effected through an Australian court-approved scheme of arrangement and associated capital reduction and dividend distribution.

The Company is listed on the ASX and the NYSE. At December 31, 2012, Alumina had total consolidated assets of \$3.3 billion. Alumina's loss from continuing operations was \$62.1 million in the year ended December 31, 2012 (\$126.6 million profit in the year ended December 31, 2011).

Alumina Limited, incorporated under the laws of the Commonwealth of Australia, has its registered office and principal executive offices at Level 12, 60 City Road, Southbank, Victoria, 3006, Australia. Its telephone number is +61 3 8699 2600 and facsimile number is +61 3 8699 2699. Enquiries about Alumina's ADRs should be addressed to its depository, The Bank of New York Mellon, telephone +1 (212) 815 2293 or facsimile +1 (212) 571 3050, located at 101 Barclay Street, New York, NY 10286.

Alumina Limited's primary assets are its interests in AWAC with Alcoa Inc. AWAC has interests in bauxite mining, alumina refining and two operating aluminium smelters. Alcoa is the operator of AWAC and provides the Combined Financial Statements to Alumina Limited.

#### *The Demerger*

On December 11, 2002, Alumina Limited demerged its interest in Alcoa World Alumina and Chemicals ("AWAC") from its nickel, copper/uranium and fertilizer businesses and exploration and development interests. The demerger was effected through an Australian court-approved scheme of arrangement and associated capital reduction and dividend distribution. As a result of the demerger, Alumina Limited held the interest in AWAC, and WMC Resources Ltd, which prior to the demerger was a wholly owned subsidiary of WMC Limited, held the nickel, copper/uranium and fertilizer businesses and exploration and development interests previously held within the WMC Limited group.

#### *Change in Functional and Presentation Currency*

An entity's functional currency is the currency of the primary economic environment in which the entity operates. With Alumina's investment program in Brazil completed in 2012, greater production and cash flows to shareholders are expected from these assets in the future. Most dividends received by Alumina will be received in US dollars. Consequently, Alumina announced in February 2010 its Board's decision to change Alumina's functional currency from Australian dollars to US dollars, effective January 1, 2010.

Following the change in functional currency, Alumina Limited elected to change its presentation currency from Australian dollars to US dollars from January 1, 2010. The change in presentation currency represents a voluntary change in accounting policy, which has been applied retrospectively.

To give effect to the change in functional and presentation currency, the assets, liabilities, contributed equity, reserves and retained earnings of entities with an Australian dollar functional currency as at 31 December 2009 were converted into US dollars at period end exchange rates of AUD/USD 0.8972. Revenue and expenses were converted at an average rate of AUD/USD 0.7123 for the six months ending June 30 2009 and AUD/USD 0.8711 for the six months ending 31 December 2009 and AUD/USD 0.8519 for the 12 months ending December 31, 2008.



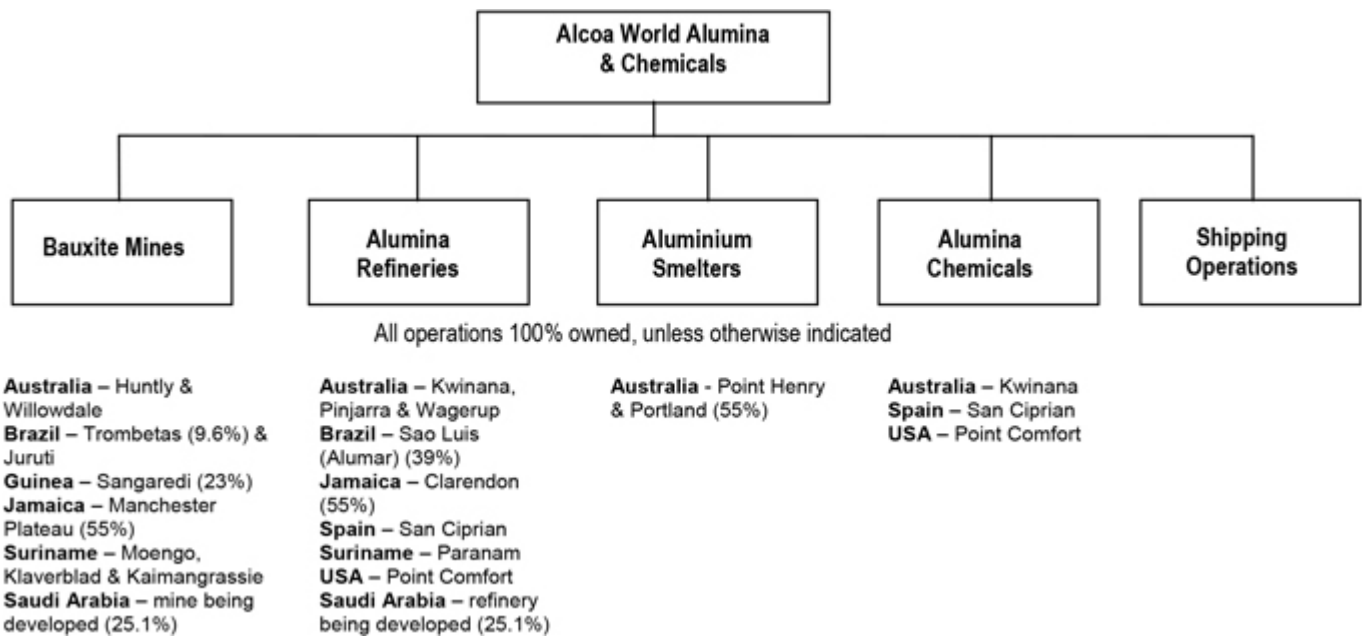
## INFORMATION ON THE COMPANY

### Capital and Investment Expenditures

Since January 1, 2010 the continuing operations of Alumina made the following principal capital expenditures:

- During 2010, Alumina Limited contributed \$133.8 million to fund AWAC's expansion projects in Brazil.
- During 2011, Alumina Limited contributed \$166.5 million to fund AWAC's expansion projects in Brazil and operations in Spain.
- During 2012, Alumina Limited contributed \$171.0 million to fund AWAC's expansion projects in Brazil, the joint venture in Saudi Arabia and AWAC working capital.
- During the first quarter of 2013, Alumina Limited contributed a further \$12.0 million to fund the joint venture in Saudi Arabia. Further contributions are expected to be made during 2013, to fund the completion of this project.

### AWAC's Global Interests as at December 31, 2012



**Bauxite deposits:** AWAC's bauxite deposits are large deposit areas with long term mining rights. Bauxite mining is planned on an incremental basis after detailed assessment of the deposits to achieve a uniform quality in the supply of blended feedstock to the relevant refinery.

**Refineries:** AWAC operates eight alumina refineries, six of which are located in proximity to bauxite deposits.

**Smelters:** AWAC produces primary aluminium in Australia, with alumina supplied by the Australian refineries.

**Alumina Chemicals:** AWAC produces chemical grade alumina from three refineries: Kwinana (Australia), Point Comfort (USA) and San Ciprian (Spain).

**Shipping Operations:** AWAC's shipping operations use owned and chartered vessels to transport dry and liquid bulk cargoes, including bauxite, alumina, caustic soda, fuel oil, petroleum, coke and limestone.

**Joint Venture in Saudi Arabia:** AWAC has a 25.1% economic interest in a mine and refinery being established in The Kingdom of Saudi Arabia.



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## INFORMATION ON THE COMPANY

### *B. Business Overview*

Alumina's sole business is participating in the global alumina and aluminium industry, which it conducts primarily through bauxite mining and alumina refining, with some minor alumina based chemicals businesses, aluminium smelting and the marketing of those products. All of those business activities are conducted through its 40% investment in AWAC.

Alumina's net profit is principally comprised of a return on its equity investment, and revenues are limited to small amounts of interest income and occasional one-off revenue associated with hedging activities. This revenue is itemised separately on the profit and loss statement. The breakdown of AWAC revenue by geographical segment for the last three financial years is available within the notes to the Combined Financial Statements for AWAC (note B, page F-62).

AWAC was formed on January 1, 1995 by Alumina and Alcoa Inc. ("Alcoa") combining their respective global bauxite, alumina and alumina-based chemicals businesses and investments and their respective aluminium smelting operations in Australia. AWAC is the world's largest producer of alumina and mining of bauxite. Alumina and Alcoa own 40% and 60% respectively of AofA and the other AWAC entities.

The Strategic Council is the principal forum for Alcoa and Alumina to provide direction and counsel to the AWAC entities in respect of strategic and policy matters. The Alcoa 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 (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:

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

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.

Under the general direction of the Strategic Council, Alcoa is the "industrial leader" and provides the operating management of AWAC and of all affiliated operating entities within AWAC.

Alumina is entitled to representation in proportion to its ownership interest on the Board of each entity in the AWAC structure currently represented on AofA and AWA Brazil. In addition to the Strategic Council meetings, Alumina's management and Board visit and review AWAC's operations each year.

Subject to the provisions of the AWAC agreements, AWAC is the exclusive vehicle for the pursuit of Alumina's and Alcoa's (and their related corporations as defined) interests in the bauxite, alumina and inorganic industrial chemicals businesses, and neither party can compete 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, 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. Smelting is not subject to these exclusivity provisions, although there are certain smelting assets in AWAC, being those in AofA, in which Alumina already had an interest at the time AWAC was formed.



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**INFORMATION ON THE COMPANY**

AWAC's alumina production in 2012 was 15.6 million tonnes compared to 15.7 million tonnes in 2011. The reduction largely resulted from planned reduced annual production of approximately 390,000 tonnes on an annualised basis in the higher cost refineries, offset by production creep in the lower unit cost Australian refineries that continued to operate at near or above nameplate capacity during 2012. AWAC's nameplate production capacity is 17.2 million tonnes per annum.

The Alumar refinery operated at approximately its newly expanded nameplate capacity of 3.5 million mtpy (AWAC 1.4 million mtpy) throughout the year and this alone has delivered have improved operating costs.

The Juruti bauxite mine in Brazil, which has an initial design capacity of 2.6 million tonnes, has been operating with production at levels as high as 4.0 million tonnes on an annualised basis. The Juruti mine achieved significant operating cost reductions in 2012.

AWAC produces aluminium at two smelters in Australia. Aluminium production rose marginally in 2012 to 357,900 tonnes compared to 356,600 tonnes in 2011. The smelters in aggregate incurred operating losses for the year. During the first half of the year, AofA conducted a review of the future viability of the Point Henry aluminium smelter because of continuing difficult economic conditions. On 29 June 2012, AofA announced that it expects to operate the Point Henry aluminium smelter until at least mid-2014.

AWAC capital expenditure totalled \$375.3 million, 4.3% down on 2011. Approximately \$347 million was associated with sustaining capital, with the majority of this in Australia. The Australian expenditure includes residue storage areas and the relocation of the crusher facilities at the Huntly mine, which reduces haul road distance and improves mine productivity. Growth capital expenditure mainly related to completion works of the Juruti mine infrastructure in Brazil. AWAC is also investing in green field growth with a view to ensuring that AWAC's cost position remains globally competitive. The joint venture between AWAC and Ma'aden for the construction of a green field mine and a refinery at Ras Al Khair in Saudi Arabia (AWAC interest of 25.1%) is AWAC's major growth project and is due to come on stream in 2014.



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## INFORMATION ON THE COMPANY

## ALCOA WORLD ALUMINA AND CHEMICALS - SELECTED FINANCIAL DATA

(Total of AWAC Entities - Figures reflect 100% of AWAC) <sup>(2)</sup>

	Year Ended December 31, 2012 <sup>(1)</sup>	Year Ended December 31, 2011 <sup>(1)</sup>	Year Ended December 31, 2010 <sup>(1)</sup>	Year Ended December 31, 2009	Year Ended December 31, 2008 <sup>(1)</sup>
			(\$ million)		
<b>Financial Results</b>					
Net Sales Revenue	5,815.3	6,667.0	5,456.5	4,078.0	6,309.4
Depreciation and Amortization	478.9	465.8	424.5	314.5	295.3
(Loss)/profit before Tax	(145.6)	609.3	371.8	96.6	1,024.5
(Loss)/profit after Tax	(91.9)	469.7	335.3	106.4	592.0
	As at December 31, 2012 <sup>(1)</sup>	As at December 31, 2011 <sup>(1)</sup>	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
			(\$ million)		
<b>Balance Sheet Summary</b>					
Current Assets	1,901.4	1,738.3	1,737.8	1,673.7	1,575.7
Current Liabilities	1,764.8	1,545.6	1,624.0	1,499.4	1,508.7
Total Assets	11,418.0	10,922.6	11,188.6	9,960.1	8,290.9
Net Assets	8,243.7	8,343.1	8,634.8	7,604.5	6,023.6
	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
<b>Production</b>					
Alumina (thousands of tonnes)	15,558	15,718	15,175	13,522	14,454
Aluminium (thousands of tonnes)	357.9	356.6	355.9	368.2	388.4

<sup>(1)</sup> Based upon audited financial statements of Alcoa World Alumina and Chemicals (AWAC) prepared in accordance with US GAAP which are included as part this document.

<sup>(2)</sup> Alumina Limited owns 40% of AWAC.



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**INFORMATION ON THE COMPANY***Bauxite Interests*

Bauxite exploration, bauxite reserve determinations and bauxite mining development activities are conducted by Alcoa as the industrial leader of AWAC.

AWAC's bauxite deposits are large deposit areas with mining rights that expire in most cases more than 20 years from today. For purposes of evaluating the amount of bauxite that will be available to supply as feedstock to its refineries, AWAC considers both estimates of bauxite resources as well as calculated bauxite reserves. Bauxite resources represent deposits for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence based on the amount of exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. Bauxite reserves represent the economically mineable part of resource deposits, and include diluting materials and allowances for losses, which may occur when the mineral is mined. Appropriate assessments and studies have been carried out to define the reserves, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. AWAC employs a conventional approach (including additional drilling with successive tightening of the drill grid) with customized techniques to define and characterize its various bauxite deposit types allowing AWAC to confidently establish the extent of its bauxite resources and their ultimate conversion to reserves.

The table below only indicates the amount of proven and probable reserves controlled by AWAC. While the level of reserves may appear low in relation to annual production levels, they are consistent with historical levels of reserves for AWAC's mining locations. Given AWAC's extensive bauxite resources, the abundant supply of bauxite globally and the length of AWAC's rights to bauxite, it is not cost-effective to invest the significant resources necessary to establish bauxite reserves that reflect the total size of the bauxite resources available to AWAC. Rather, bauxite resources are upgraded annually to reserves as needed by location. Detailed assessments are progressively undertaken within a proposed mining area and mine activity is then planned to achieve a uniform quality in the supply of blended feedstock to the relevant refinery. AWAC believes its present sources of bauxite on a global basis are sufficient to meet the forecasted requirements of its alumina refining operations for the foreseeable future.

*Bauxite Resource Development Guidelines*

Alcoa has developed best practice guidelines for bauxite reserve and resource classification at its operating mines. Reserves are declared in accordance with Alcoa's internal guidelines as administered by the Alcoa Ore Reserve Committee (AORC) and has not been prepared in accordance with the Australasian Code for reporting of exploration results, mineral resources and ore reserves. The reported ore reserves set forth in the table below are those that Alcoa estimates could be extracted economically with current technology and in current market conditions. Alcoa does not use a price for bauxite, alumina, or aluminium to determine its bauxite reserves. The primary criteria for determining bauxite reserves are the feed specifications required by the customer alumina refinery. In addition to these specifications, a number of modifying factors have been applied to differentiate bauxite reserves from other mineralized material. AWAC mining locations have annual in-fill drilling programs designated to progressively upgrade the reserve classification of their bauxite.



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# INFORMATION ON THE COMPANY

## AWAC Bauxite Interests, Share of Reserves and Annual Production<sup>1</sup>

Country	Project	Owners' Mining Rights (% entitlement)	Expiration Date of Mining Rights	Probable Reserves (million bdm t)	Proven Reserves (million bdm t)	Available Alumina Content (%) AvAl <sub>2</sub> O <sub>3</sub>	Reactive Silica Content (%) R <sub>x</sub> SiO <sub>2</sub>	2012 Annual Production (million bdm t)
Australia	Darling Ranges Mines ML 1SA	Alcoa of Australia Limited (AofA) <sup>2</sup> (100%)	2045	34.7	109.0	32.9	0.94	31.8
Brazil	Trombetas	Mineracao Rio do Norte S.A. (MRN) <sup>3</sup> (100%)	2046 <sup>4</sup>	2.1	5.0	50.7	4.2	1.5
Brazil	Juruti <sup>4,10</sup> RN102, RN103, RN104	Alcoa World Alumina Brasil Ltda. (AWA Brasil) <sup>7</sup> (100%)	2100 <sup>4</sup>	25.8	13.4	47.4	3.4	3.8
Guinea	Boke	Compagnie des Bauxite de Guinee (CBG) <sup>5</sup> (100%)	2038 <sup>6</sup>	29.0	29.9	TAI <sub>2</sub> O <sub>3</sub> <sup>14</sup> 50.2	TSiO <sub>2</sub> <sup>14</sup> 1.7	3.2
Jamaica	Harmon's Valley South Manchester North Manchester	Alcoa Minerals of Jamaica, LLC <sup>7</sup> (55%) Clarendon Alumina Production Ltd. <sup>8</sup> (45%)	2031	2.6	0.9	42.1	1.9	1.8
Suriname	Coermotibo	Suriname Aluminum Company, LLC (Suralco) <sup>7</sup> (55%) N.V. Alcoa Minerals of Suriname (AMS) <sup>11</sup> (45%)	2033 <sup>9</sup>	—	2.6	39.1	4.9	1.4
Suriname	Onverdacht	Suralco (55%) AMS <sup>11</sup> (45%)	2033 <sup>9</sup>	3.1	0.7	51.8	4.5	1.6
Kingdom of Saudi Arabia	Al Ba'itha	Ma'aden Bauxite & Alumina Company <sup>12</sup> (100%)	2037	33.9	21.3	TAA <sup>13</sup> 47.2	TSiO <sub>2</sub> <sup>13</sup> 9.8	Production to begin 2014

<sup>1</sup> This table shows only the AWAC share (proportion) of reserve and annual production tonnage.

<sup>2</sup> AofA is part of the AWAC group of companies and is owned 40% by Alumina Limited and 60% by Alcoa Inc.

<sup>3</sup> Alcoa Aluminio S.A. holds an 8.58% total interest, AWA Brasil (formerly Abalco S.A., which merged with Alcoa World Alumina Brasil Ltda. in December 2008) (AWA Brasil) holds a 4.62% total interest and Alcoa World Alumina LLC (AWA LLC) holds a 5% total interest in MRN. AWA Brasil and AWA LLC are both part of the AWAC group of companies and are owned 60% by Alcoa and 40% by Alumina Limited. MRN is jointly owned with affiliates of Rio Tinto Alcan Inc., Companhia Brasileira de Aluminio, Companhia Vale do Rio Doce, BHP Billiton Plc and Norsk Hydro. Aluminio, AWA Brasil, and AWA LLC purchase bauxite from MRN under long-term supply contracts.

<sup>4</sup> Brazilian mineral legislation does not establish the duration of mining concessions. The concession remains in force until the complete exhaustion of the deposit. AWAC estimates that (i) the concessions at Trombetas will last until 2046 and (ii) the concessions at Juruti will last until 2100. Depending, however, on actual and future needs, the rate at which the deposits are exploited and government approval is obtained, the concessions may be extended to (or expire at) a later (or an earlier) date.





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## INFORMATION ON THE COMPANY

AWA LLC owns a 45% interest in Halco (Mining), Inc. Halco owns 100% of Boke Investment Company, a Delaware company, which owns 51% of CBG. The Guinean Government owns 49% of CBG, which has the exclusive right through 2038 to develop and mine bauxite in certain areas within a 10,000 square mile concession in northwestern Guinea.

AWA LLC has a bauxite purchase contract with CBG that expires in 2029. Before that expiration date, AWA LLC expects to negotiate an extension of the contract as CBG will have concession rights until 2038. The CBG concession can be renewed beyond 2038 by agreement of the Government of Guinea and CBG should more time be required to commercialize the remaining economic bauxite within the concession.

This entity is part of the AWAC group of companies and is owned 40% by Alumina Limited and 60% by Alcoa Inc. Clarendon Alumina Production Ltd. is a wholly-owned by the Government of Jamaica.

Mining rights expired for the Caramacca area. The mining rights in the Onverdacht and Coermotibo areas where Suralco has active mines extend until 2033. Bauxite within these areas will likely be exhausted in the next few years. Alcoa is actively exploring and evaluating alternative sources of bauxite in Suriname. A feasibility study relating to the development of a mine at the Nassau Plateau is in progress.

In September 2009, development of a new bauxite mine was completed in Juruti, state of Para in northern Brazil. The mine is fully operational and produced 3.8 million bdmmt in 2012.

AWA LLC owns 100% of N.V. Alcoa Minerals of Suriname (AMS). AWA LLC is part of the AWAC group of companies and is owned 40% by Alumina Limited and 60% by Alcoa Inc.

Ma'aden Bauxite & Alumina Company is a joint venture owned by Saudi Arabian Mining Company (Ma'aden) (74.9%) and AWA Saudi Limited (25.1%). AWA Saudi Limited is part of the AWAC group of companies and is owned 40% by Alumina Limited and 60% by Alcoa Inc.

Kingdom of Saudi Arabia – Al Ba'itha: Bauxite reserves and mine plans are based on the bauxite qualities of total available alumina (TAA) and total silica (TSiO<sub>2</sub>).

Guinea – Boke: CBG prices bauxite and plans the mine based on the bauxite qualities of total alumina (TAI<sub>2</sub>O<sub>3</sub>) and total silica (TSiO<sub>2</sub>).

Qualifying statements relating to the table above:

AWAC is managed by Alcoa. The ore reserves are prepared by Alcoa and are published as received from Alcoa. Where operations are not managed by Alcoa the reserves are published as received from the other managing company.

**Australia – Darling Rang Mines:** Huntly and Willowdale are the two active mines in the Darling Range of Western Australia. The mineral lease issued by the State of Western Australia to Alcoa is MLISA and its term extends to 2045. The lease can be renewed beyond 2045. The declared reserves have been estimated to the end of December 2012. The amount of reserves reflects the total AWAC share. Additional resources are routinely upgraded by additional exploration and development drilling to reserve status. The Huntly and Willowdale mines supply bauxite to three local AWAC alumina refineries.

**Brazil – Juruti RN102, RN103, RN104:** Declared reserves are as of November 1, 2012. Declared reserves are total AWAC share. Declared reserve tonnages and annual production tonnage (estimate to the end of 2012) are washed product tonnages. The Juruti mine's operating license is periodically renewed and the next renewal is in 2014.

**Jamaica – Jamalco:** Declared reserves are as of October 2012. The declared reserve and annual production tonnages are AWAC share only (55%). Declared reserves are in the following areas: Harmon's Valley, South Manchester, North Manchester and Porus/Victoria. Current ore mining is in Harmon's Valley and South Manchester with a small amount of ore from a test stockpile in North Manchester. The location has scheduled probable reserves from North Manchester and Porus/Victoria within the 2013-2016 period.

**Suriname – Suralco – Caramacca:** Caramacca has been removed from the reserves due to the expiration of the mining permits for this area. Some ore remains at Caramacca and the permit is awaiting renewal by the Government of Suriname so that the last ore can be recovered.

**Suriname – Suralco – Coermotibo and Onverdacht:** Declared reserves are as of October 1, 2012. AWAC owns 100%.

**Kingdom of Saudi Arabia – Al Ba'itha:** Declared reserves are as of March 2011 and are for the South Zone of the Az Zabirah Bauxite Deposit. The reserve tonnage is the AWAC share only (25.1%). The Al Ba'itha Mine is due to begin production during 2014.

**Brazil – Trombetas – MRN:** Declared reserves are as of May 31, 2012. Declared and annual production tonnages reflect the total AWAC share (9.62%). Declared tonnages are washed product tonnages.



**INFORMATION ON THE COMPANY**

**Guinea – Boke – CBG:** Declared reserves are as of January 1, 2012. The declared reserves are based on export quality bauxite reserves. The AWAC share of CBG equates to 22.95%. Declared reserve tonnages are based on the AWAC share of CBG's reserves. Annual production tonnage is based on AWAC's 22.95% share. Declared reserves quality is reported based on total alumina ( $\text{Al}_2\text{O}_3$ ) and total silica ( $\text{TSiO}_2$ ) because CBG export bauxite is sold on this basis. Additional deposits are being routinely drilled and modeled to upgrade to reserves as needed.

The following table provides additional information regarding the AWAC's bauxite mines:

<b>Mines &amp; Location</b>	<b>Means of Access</b>	<b>Operator</b>	<b>Title, Lease or Options</b>	<b>History</b>	<b>Type of Mine Mineralization Style</b>	<b>Power Source</b>	<b>Facilities, Use &amp; Condition</b>
Australia – Darling Range Huntly and Willowdale.	Mine locations accessed by roads. Ore is transported to refineries by long distance conveyor and rail.	Alcoa	Mining Lease from the Western Australia Government. ML1SA Expires in 2045.	Mining began in 1963.	Open-cut mines. Bauxite is derived from the weathering of Archean granites and gneisses and Precambrian dolerite.	Electrical energy from natural gas is supplied by the refinery.	Infrastructure includes buildings for administration and services; workshops; power distribution; water supply; crushers; long distance conveyors. Mine and facilities are operating.
Brazil – Juruti Closest town is Juruti located on the Amazon River.	The mine's port at Juruti is located on the Amazon River and accessed by ship. Ore is transported from the mine site to the port by AWAC owned rail.	Alcoa	Mining licenses from the Government of Brazil and Para. Mining rights do not have a legal expiration date. See footnote 4 to the table above. The operating license's next renewal is in 2014.	The Juruti deposit was systematically evaluated by Reynolds Metals Company beginning in 1974. Alcoa merged Reynolds in 2000. Alcoa then executed a due diligence program and expanded the exploration area. Mining began in 2009.	Open-cut mines. Bauxite derived from weathering during the Tertiary of Cretaceous fine to medium grained feldspathic sandstones. The deposits are covered by the Belterra clays.	Electrical energy from fuel oil is generated at the mine site. Commercial grid power at the port.	At the miner site: Fixed plant facilities for crushing and washing the ore; mine services offices and workshops; power generation; water supply; stockpiles; rail sidings. At the port: Mine and rail administrative offices and services; port control facilities with stockpiles and ship loader. Mine and port facilities are operating.
Jamaica – Harmon's Valley South Manchester North Manchester All located in the Parish of Manchester.	The mines are accessed by road. Ore is transported to the refinery by AWAC rail. The refinery is located near Halse Hall, Clarendon Parish.	Alcoa	Mining licenses from the Government of Jamaica. Expire 2031.	Mining began in 1963.	Open-cut mines. The karst landscape from the White Limestone Formation of Eocene to Miocene age host the quasi-funnel shaped bauxite deposits which are residual from the weathering of volcanic and terrestrial materials.	Commercial grid power.	Numerous small to large deposits are mined within the license areas by contract miners and delivered to stockpile areas. The main mine administrative offices and services are located near San Jago. Ore is delivered to San Jago by truck and by Ropecon conveyor. The train loadout area is at San Jago. Mine, railroad and other facilities are operating.



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Suriname – Coermotibo and Onverdacht Mines are located in the districts of Para and Marowijne.

The mines are accessed by road. Ore is delivered to the refinery by road from the Onverdacht area and by river barge from the Coermotibo area.

Alcoa

Brokopondo Concession from the Government of Suriname. Concessions formerly owned by a BHP Billiton (BHP) subsidiary that was a 45% joint venture partner in the Surinamese bauxite mining and alumina refining joint ventures. AWA LLC acquired that subsidiary in 2009. After the acquisition of the subsidiary, its name changed to N.V. Alcoa Minerals of Suriname. Expires in 2033.

Alcoa began mining in Suriname in 1916. The Brokopondo Agreement was signed in 1958. As noted, Suralco bought the bauxite and alumina interests of a BHP subsidiary from BHP in 2009.

Open-cut mines. For some mines the overburden is dredged and mining progresses with conventional open-cut methods. The protoliths of the bauxite have been completely weathered. The bauxite deposits are mostly derived from the weathering of Tertiary Paleogene arkosic sediments. In a few spots the bauxite overlies Precambrian granitic and gneissic rocks which are now saprolite. Bauxitization likely occurred during the middle to late Eocene Age.

Commercial grid power.

In the Onverdacht mining areas the bauxite is mined and transported to the refinery by truck. In the Coermotibo mining area the bauxite is mined and stockpiled and then transported to the refinery by barge. Some of the ore is washed in a small beneficiation plant located in the Coermotibo area. The main mining administrative offices and services and workshops and laboratory are located at the refinery in Paranam. The ore is crushed at Paranam. The mines and washing plant are operating.



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## INFORMATION ON THE COMPANY

<u>Mines &amp; Location</u>	<u>Means of Access</u>	<u>Operator</u>	<u>Title, Lease or Options</u>	<u>History</u>	<u>Type of Mine Mineralization Style</u>	<u>Power Source</u>	<u>Facilities, Use &amp; Condition</u>
Brazil – MRN Closest town is Trombetas in the State of Pará, Brazil.	The mine and port areas are connected by sealed road and company owned rail. Washed ore is transported to Porto Trombetas by rail. Trombetas is accessed by river and by air at the airport.	MRN	Mining rights and licenses from the Government of Brazil. Concession rights expire in 2046.	Mining began in 1979. Major expansion in 2003.	Open-cut mines. Bauxite derived from weathering during the Tertiary of Cretaceous fine to medium grained feldspathic sandstones. The deposits are covered by the Belterra clays.	MRN generates its own electricity from fuel oil.	Ore is mined from several plateaus crushed and transported to the washing plant by long distance conveyors. The washing plant is located in the mining Zone. Washed ore is transported to the port area by company owned and operated rail. At Porto Trombetas the ore is loaded onto customer ships berthed in the Trombetas River. Some ore is dried and the drying facilities are located in the port area. Mine planning and services; mining equipment workshops are located in the mine zone. The main administrative, rail and port control offices and various workshops are located in the port area. MRN's main housing facilities, 'the city', are located near the port. The mines, port and all facilities are operating.
Guinea – CBG Closest town to the mine is Sangaredi. Closest town to the port is Kamsar. The CBG Lease is located within the Boké, Telimele and Gaoual administrative regions.	The mine and port areas are connected by sealed road and company operated rail. Ore is transported to the port at Kamsar by rail. There are air strips near both the mine and port. These are not operated by the company.	CBG	CBG Lease expires in 2038. The lease is renewable in 25 year increments. CBG's rights are specified within the Basic Agreement and Amendment 1 to the Basic Agreement with the Government of Guinea.	Construction began in 1973. First export ore shipment was in 1973.	Open-cut mines. The bauxite deposits within the CBG lease are of two general types. TYPE 1: In-situ laterization of Ordovician and Devonian plateau sediments locally intruded by dolerite dikes and sills. TYPE 2: Sangaredi type deposits are derived from clastic deposition of	The company generates its own electricity from fuel oil at both Kamsar and Sangaredi.	Mine offices, workshops, power generation and water supply for the mine and company mine city are located at Sangaredi. The main administrative offices, port control, railroad control, workshops, power generation and water supply are located in Kamsar. Ore is crushed, dried and exported



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Kingdom of Saudi Arabia – Al Ba’itha Mine. Qibah is the closest regional centre to the mine, located in the Qassim province.

The mine and refinery are connected by road and rail. Ore will be transported to the refinery at Ras Al Khair by rail.

Ma’aden Bauxite & Alumina Company

The current mining lease will expire in 2037.

The initial discovery and delineation of bauxite resources was carried out between 1979 and 1984. The southern zone of the Az Zabirah deposit was granted to Ma’aden in 1999. Currently the mine is in development. Production is to begin in 2014.

material eroded from the Type 1 laterite deposits and possibly some of the protholiths from the TYPE 1 plateaus deposits.

Open-cut mine. Bauxite occurs as a paleolaterite profile developed at an Angular unconformity between underlying late Triassic to early Cretaceous sediments (parent rock sequence Biyadh Formation) and the overlying late Cretaceous Wasia Formation (overburden sequence).

The company will generate Electricity at the mine site from fuel oil.

from Kamsar. CBG has company cities within both Kamsar and Sangaredi. The mines, railroad, driers, port and other facilities are operating.

The mine will include fixed plants for crushing and train loading; workshops and ancillary services; power plant; water supply. There will be a company village with supporting facilities. The mine is under construction. Mining operations are to commence in 2014.



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## INFORMATION ON THE COMPANY

### *Kingdom of Saudi Arabia Joint Venture*

In December 2009, Alcoa and Saudi Arabian Mining Company (Ma'aden) entered into a joint venture to develop a fully integrated aluminium complex in the Kingdom of Saudi Arabia. In its initial phases, the complex includes a bauxite mine with an initial capacity of 4 million bdmt; an alumina refinery with an initial capacity of 1.8 million mtpy; an aluminium smelter with an initial capacity of ingot, slab and billet of 740,000 mtpy; and a rolling mill with initial capacity of 380,000 mtpy. The mill will produce sheet, end and tab stock for the manufacture of aluminium cans, as well as other products to serve the automotive, construction, and other industries.

The refinery, smelter and rolling mill are located within the Ras Al Khair industrial zone on the east coast of the Kingdom of Saudi Arabia. First hot metal from the smelter was produced on December 12, 2012. Rolling mill production is anticipated to start sometime in 2013. First production from the mine and refinery is expected in 2014.

Total capital investment is expected to be approximately \$10.8 billion (SAR 40.5 billion). Ma'aden owns a 74.9% interest in the joint venture. Alcoa owns a 25.1% interest in the smelter and rolling mill, with AWAC having a 25.1% interest in the mine and refinery.

### *Glossary of Bauxite Mining Related Terms*

<u>Term</u>	<u>Abbreviation</u>	<u>Definition</u>
Alcoa Ore Reserves Committee	AORC	The group within Alcoa, which is comprised of Alcoa geologists and engineers, that specifies the guidelines by which bauxite reserves and resources are classified. These guidelines are used by Alcoa managed mines.
Alumina	Al <sub>2</sub> O <sub>3</sub>	A compound of aluminium and oxygen. Alumina is extracted from bauxite using the Bayer Process. Alumina is a raw material for smelters to produce aluminium metal.
AORC Guidelines		The Alcoa guidelines used by Alcoa managed mines to classify reserves and resources. These guidelines are issued by the Alcoa Ore Reserves Committee (AORC).
Available alumina content	AvAl <sub>2</sub> O <sub>3</sub>	The amount of alumina extractable from bauxite using the Bayer Process.
Bauxite		The principal raw material (rock) used to produce alumina.
Bayer Process		The principal industrial means of refining bauxite to produce alumina.
Bone dry metric ton	bdmt	Tonnage reported on a zero moisture basis.
Coermotibo		The mining area in Suriname containing the deposits of Bushman Hill, CBO Explo, Lost Hill and Remnant.
Juruti RN102, RN103, RN104		Mineral claim areas in Brazil associated with the Juruti mine, are the mining operating licenses issued by the state.
ML1SA		The Mineral Lease issued by the State of Western Australia. Mines located at Huntly and Willowdale operate within ML1SA.
Onverdacht		The mining area in Suriname containing the deposits of Kaaimangrasi, Klaverblad, Lelydorp1 and Sumau 1.



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## INFORMATION ON THE COMPANY

<u>Term</u>	<u>Abbreviation</u>	<u>Definition</u>
Open-cut mines		The type of mine in which an excavation is made at the surface to extract mineral ore (bauxite). The mine is not underground and the sky is viewable from the mine floor.
Probable reserve		That portion of a reserve, i.e. bauxite reserves, where the physical and chemical characteristics and limits are known with sufficient confidence for mining and to which various mining modifying factors have been applied. Probable reserves are at a lower confidence level than proven reserves.
Proven reserve		That portion of a reserve, i.e. bauxite reserve, where the physical and chemical characteristics and limits are known with high confidence and to which various mining modifying factors have been applied.
Reactive silica	RxSiO <sub>2</sub>	The amount of silica contained in the bauxite that is reactive within the Bayer Process.
Reserve		That portion of mineralized material, i.e. bauxite, that Alcoa has determined to be economically feasible to mine and supply to an alumina refinery.
Silica	SiO <sub>2</sub>	A compound of silicon and oxygen.
Total alumina content	TA1 <sub>2</sub> O <sub>3</sub>	The total amount of alumina in bauxite. Not all this alumina is extractable or available in the Bayer Process.
Total available alumina	TAA	The total amount of alumina extractable from bauxite by the Bayer Process. Commonly this term is used when there is a hybrid or variant Bayer Process that will refine the bauxite.
Total silica	TSiO <sub>2</sub>	The total amount of silica contained in bauxite.



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## INFORMATION ON THE COMPANY

### AWAC Operations

#### i) Smelter-Grade Alumina and Primary Aluminium

##### Australia

In Australia, AWAC partners own 100% of AofA which operates integrated aluminium facilities, including mining, refining and smelting facilities. In 2012, the Australian operations produced 9.2 million tonnes of alumina (2011: 9.0 million tonnes) and 358 thousand tonnes of aluminium (2011: 357 thousand tonnes).

Alumina produced in Australia by AWAC is shipped either to its smelters at Point Henry and Portland in Victoria, Australia or to overseas AWAC customers, principally in South Africa, the Middle East, South East Asia, Russia, China, South America and North America. Bauxite is sourced from its 100% owned Huntly and Willowdale bauxite mines, each located in the Darling Ranges south of Perth, Western Australia, which supply AWAC's three alumina refineries in Western Australia. The Pinjarra, Wagerup and Kwinana refineries have nameplate capacities of 4.2 million tonnes, 2.6 million tonnes and 2.2 million tonnes, respectively. Bauxite is transported from the mines by overland conveyor to the Pinjarra and Wagerup refineries and by rail to the refinery at Kwinana.

In September 2006, Alcoa received environmental approval from the Government of Western Australia for expansion of the Wagerup alumina refinery to a maximum capacity of 4.7 million mtpy, a potential capacity increase of over 2 million mtpy. This approval had a term of five years and included environmental conditions that must be satisfied before Alcoa can seek construction approval for the project. The project was suspended in November 2008 due to global economic conditions and the unavailability of a secure long-term energy supply in Western Australia. These constraints continue and as such the project remains under suspension. During May 2012, AofA received approval from regulators in Western Australia state for a five year deferral of the proposed multi-billion dollar expansion of the Wagerup alumina refinery. The state's Environmental Protection Authority (EPA) recommended that the time limit for "substantial commencement" of the Wagerup expansion, to a maximum capacity of 4.7 million tonnes a year, to be extended by five years. AofA needs to provide the EPA with written evidence that it has started work on the expansion by September 14, 2016, otherwise the authorization will lapse.

A storage and loading facility at the port of Bunbury, near Wagerup, handles the majority of shipping for the Pinjarra and Wagerup refineries. Some Pinjarra production is also shipped through the port facility at Kwinana, south of Perth.

The rights to operate bauxite mining and alumina refining operations in Western Australia are provided under agreements with the State Government of Western Australia. The mining leases granted by the Western Australian Government expire in 2045.

AofA's present sources of bauxite are sufficient to meet the expected requirements of its alumina refining operations for the foreseeable future, based on current production rates and refining capacity.

The bauxite from the Darling Ranges, while relatively low in alumina, is also low in reactive silica. This results in low consumption of caustic soda which in turn contributes to low costs of production.

Alumina refining is energy intensive and AWAC's refineries in Australia use natural gas as their energy source. The natural gas requirements of the refineries are supplied primarily under a contract with parties comprising the North West Shelf Gas Joint Venture. The initial contract was scheduled to expire in 2005 and imposed minimum purchase requirements. In December 1997, these arrangements were extended through a renegotiation of the initial contract and the signing of a new contract running through to 2020. The tariff applicable under the agreement has both a base component, which reflects the cost of power generation and transmission, and a flexible or adjustable component, which provides for adjustments to the base tariff rate based on the LME price for aluminium, the Consumer Price Index and oil prices. The agreement provides a discount for interruption and a demand charge equal to about two thirds of the total tariff which may be payable whether or not energy is taken.



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**INFORMATION ON THE COMPANY**

AofA has had several shorter term gas contracts to supplement its principal gas supply contract. AofA is pursuing a number of replacement energy supply options to its refineries in view of the timing for expiry of existing energy supply contracts, including investing directly in projects that have the potential to deliver cost based gas.

AofA holds a 20% equity interest in a consortium that in October 2004 acquired the Dampier to Bunbury Natural Gas Pipeline (DBNGP). This pipeline transports gas from the northwest gas fields to Alcoa's alumina refineries and other users in the Southwest of Western Australia. AofA uses gas to co-generate steam and electricity for its alumina refining processes at the Kwinana, Pinjarra and Wagerup refineries.

AWAC produces primary aluminium in Victoria, Australia. The aluminium assets include an aluminium smelter at Point Henry, near Geelong, and a 55% controlling interest in an aluminium smelter at Portland, approximately 240 kilometres west of Geelong. AWAC's interest in the Portland smelter increased from 45% to 55% in 2000 following the acquisition of Eastern Aluminium's 10% interest. The Portland smelter has an annual production capacity of 358,000 tonnes of aluminium and Point Henry has an annual capacity of 190,000 tonnes.

In April 2009, it was announced that the smelting operations at Portland will be curtailed by 15% of production by July 2009 resulting from the economic downturn and softened market demand.

Electricity for the Portland smelter is purchased under a 30 year electricity supply agreement that expires in 2016. Electricity supplied under that agreement is generated from extensive brown coal deposits. The tariff applicable under the agreement has both a base component, which reflects the cost of power generation and transmission, and a flexible or adjustable component, which provides for adjustments to the base tariff rate based on the LME price for aluminium. The agreement provides a discount for interruption and a demand charge equal to about two thirds of the total tariff which may be payable whether or not energy is taken.

Most electricity for the Point Henry smelter is supplied by AofA's generating station at Anglesea, with the balance purchased under a 30 year electricity supply agreement that expires in 2014. The rates under that agreement change with the LME price of aluminium (similar to the Portland power arrangement described above). The contract includes a standby demand charge for the purchase of electricity for periods when the Anglesea generating station is not operating. An additional energy charge is payable when this standby power is actually used.

On March 1, 2010, AofA announced new power hedge contracts had been entered with AGL Loy Yang for the Portland and Point Henry aluminium smelters in Victoria, Australia until 2036. The contracts operate from 2014 for the Point Henry operations (Geelong) and 2016 for the Portland operations.

The power hedge contracts hedge the spot price for electricity in the National Electricity Market in relation to the Point Henry smelter for some 22 years from August 2014, when the current contract with the State Electricity Commission of Victoria expires. AofA has taken steps to terminate its Point Henry smelter power hedge contract with AGL Loy Yang, under the terms of that contract. The termination of hedge contract services, will not affect AofA's ability to operate the smelter or secure electricity supply to it. Nor will this action impact electricity supply agreements in place for the Portland aluminium smelter.

AofA undertook a review of the future viability of the Point Henry aluminium smelter in Geelong, Victoria, in the face of continuing difficult global economic conditions for the smelting industry. A combination of factors, including metal prices, input costs and exchange rates resulted in the Point Henry smelter becoming unprofitable. On June 29, 2012, AofA announced that it expects to operate the Point Henry aluminium smelter until at least mid-2014.

***United States******Point Comfort Refinery***

AWAC owns 100% of an alumina refinery at Point Comfort in Texas. The facility is located approximately 210 kilometres south of Houston on Port Lavaca Bay. Point Comfort's port facilities are linked with the Gulf of Mexico via a 35 kilometre channel. The Point Comfort refinery, which was completed in 1960 and expanded in 1997, has a nominal capacity of 2.3 million tonnes per annum.





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**INFORMATION ON THE COMPANY**

Bauxite for the refinery is sourced principally from an AWAC affiliate in Guinea. Point Comfort uses gas-fired cogeneration facilities to supply process heat and power to the refinery, and gas is purchased from local suppliers under short term contracts.

The Point Comfort refinery produces both smelter-grade alumina and alumina hydrates (chemical-grade alumina). Most of the refinery's smelter-grade alumina is sold to Alcoa's smelters in the United States.

The Point Comfort refinery is part of an area which has been declared a US national "superfund" site. Alcoa has agreed to undertake a remedial investigation and feasibility study at the site in conjunction with the US Environmental Protection Agency to determine rehabilitation requirements. Alumina is indemnified by Alcoa against environmental liabilities in relation to activities undertaken at Point Comfort prior to January 1, 1995. This indemnity is specifically extended to the contamination that gave rise to the Point Comfort site's "superfund" status. Alcoa has also agreed that it will be 100% responsible for remediating the contamination, as well as natural resource damages, which gave rise to the placement of the site on the National Priorities List and the entry of the Administrative Order on Consent issued on March 31, 1994, and any subsequent Order issued relating to this contamination.

***Republic Of Guinea******Halco Mining Bauxite Operation***

AWAC has a 45% interest in a bauxite company, Halco (Mining) Inc. ("Halco"). Halco owns 100% of Boké Investment Company, a Delaware company, which owns 51% of Compagnie des Bauxites de Guinée ("Compagnie Guinée"), the manager of a number of bauxite mines at Boké, north-west of Conakry, in Guinea, West Africa. The Guinean Government owns the remaining 49% of Compagnie Guinée. Compagnie Guinée has the exclusive right through 2038 to develop and mine bauxite in certain areas within a 10,000 square-mile concession in north-western Guinea.

The shareholders of Halco take bauxite in proportion to their equity positions under take-or-pay contracts. AWAC, through AWA LLC, has a bauxite purchase contract with CBG that expires in 2029. Before expiration date, AWA LLC expects to negotiate an extension of the contract as CBG will have concession rights until 2038. The CBG concession can be renewed beyond 2038 by agreement of the Government of Guinea and CBG should more time be required to commercialize the remaining economic bauxite within the concession.

***Other Guinea Interests***

In November 2005, Alcoa World Alumina LLC (AWA LLC) and Rio Tinto Alcan Inc. signed a Basic Agreement with the Government of Guinea that sets forth the framework for development of a 1.5 million mtpy alumina refinery in Guinea. In 2006, the Basic Agreement was approved by the Guinean National Assembly and was promulgated into law. The Basic Agreement was originally set to expire in November 2008 but was extended to November 2012 and has been recently extended again until 2015. Pre-feasibility studies were completed in 2008. Additional feasibility study work was completed in 2012.

***Suriname******Suralco***

AWAC owns the Suriname Aluminum Company ("Suralco"). Suralco began operations in 1916 and currently has interests in an alumina refinery at Paranam, bauxite mines in north east Suriname and south of Paranam and hydro-electric facilities at Afobaka Lake.

The 2.2 million tonnes-per-annum alumina refinery at Paranam, in northern Suriname, was constructed in 1968 and sources bauxite from mines in Suriname. The refinery was owned by a joint venture held 55% by Suralco and 45% by an affiliate of BHP Billiton Plc ("BHP Billiton"), with Suralco as manager of the joint venture and operator of the refinery. The joint venture parties shared alumina production from the refinery in proportion to their shareholdings and were separately responsible for the marketing of their share of this production.

## INFORMATION ON THE COMPANY

The Suralco refinery's current sources of bauxite and additional bauxite supply from two successor mines, Kaimangrassie and Klaverblad in Eastern Suriname will be exhausted within the next several years. Alcoa is evaluating alternative sources of bauxite including deposits from Suralco's concession in eastern Suriname, such as the Nassau plateau.

In July 2009, AWA LLC acquired the BHP Billiton subsidiary that was a 45% joint venture partner in the Surinamese bauxite mining and alumina refining joint ventures. Prior to the AWA LLC buyout, BHP Billiton's subsidiary held a 45% interest to Suralco's 55% interest in the two joint ventures. After the acquisition of the BHP Billiton subsidiary, its name was changed to N.V. Alcoa Minerals of Suriname (AMS). AWA LLC is part of the AWAC group of companies.

In May 2009, a decision was made to protect the long-term viability of the industry in Suriname. The curtailment was aimed at deferring further bauxite extraction until additional in-country bauxite deposits are developed and market conditions for alumina improve. As at December 31, 2012, 893,000 mtpy remains curtailed.

Hydro-electric facilities at Afobaka Lake in Suriname are also operated by Suralco. The plant was constructed pursuant to the Brokopondo Agreement between Suralco and the Suriname Government which was signed in 1958. The facilities supply electricity to the alumina refinery at Paranam and sell electricity to the Government of Suriname.

***Jamaica******Jamalco Refinery***

AWAC owns Alcoa Minerals of Jamaica LLC, a US based company which holds a joint venture interest in Jamaica. The joint venture, called Jamalco, is owned 55% by AWAC and 45% by Clarendon Alumina Production Limited (Clarendon), which is a Jamaican Government company. The joint venture is governed by agreements with the Jamaican Government which were finalized in 1988. Jamalco owns and manages bauxite mines, an alumina refinery and port facilities. Each joint venturer is responsible for marketing its share of production.

Bauxite for the refinery is sourced from leases in Harmons Valley and the Manchester plateau. The bauxite mines that feed the refinery are located 40 kilometers north of the refinery in the Mocho Mountains. The bauxite mining rights are owned by Jamalco. Bauxite is transported to the refinery on a railway and by a rope conveyor which was commissioned in 2008, both of which are owned by the joint venture. Jamalco also manages a port at Rocky Point, located south of the alumina refinery. The port is connected to the refinery by rail.

Jamalco's alumina refinery, completed in 1972, is located 72 kilometers west of Kingston. The refinery's nominal capacity was 1.48 million tonnes per annum after completion of the 250,000 tonne expansion in November 2003. The completion of the expansion was part of an agreement to invest \$115 million to expand the refinery and remove from Jamalco the nearly 30-year-old levy on bauxite.

The refinery produces smelter grade alumina. Energy for the refinery is provided by oil powered turbines. Any surplus power produced is sold into the Jamaican public electricity grid and the refinery can draw power from the grid if necessary.

A 146,000 mtpy capacity expansion of the Jamalco alumina refinery in Clarendon, Jamaica was completed in early 2007. As a result of 100% funding of the expansion, AWAC's ownership of Jamalco increased to 55%.

## INFORMATION ON THE COMPANY

**Brazil***Alcoa World Alumina Brasil Ltda*

Alcoa World Alumina Brasil Ltda, an AWAC entity in Brazil, is a participant (18.9% prior to the recent expansion) in a consortium that owns the Alumar alumina refinery at São Luis in north eastern Brazil. The other consortium participants, and their ownership prior to the expansion, are Alcoa Aluminio S.A. (35.1%), BHP Billiton Metais SA (36%) and an affiliate of Alcan Aluminio Do Brazil SA (10%). Alcoa Aluminio S.A. is the operator of the consortium which is managed on a production and cost sharing basis. Alcoa World Alumina Brasil Ltda has special rights to 54% of any expansion of the Alumar refinery.

The nameplate capacity of the refinery has increased to approximately 3.5 million mtpy, and Alcoa World Alumina Brasil Ltda. owns 39% of the expanded refinery. Construction of the refinery expansion was finalized at the end of 2009.

The major source of energy for the refinery is low sulphur steaming coal purchased from Colombia and Venezuela.

AWAC has long term bauxite purchase contracts with Mineracao Rio Do Norte S.A. (MRN) which has mines located at Trombetas within the State of Para in northern Brazil. Alcoa World Alumina Brasil Ltda holds a 9.6% interest in MRN. The remaining interest in MRN is jointly owned by affiliates of Alcan, Companhia Brasileira de Aluminio, Companhia Vale do Rio Doce, BHP Billiton Metais S.A., Alcoa Aluminio S.A., and Norsk Hydro Brasil Ltda. MRN's mines produce approximately 18 million tonnes of bauxite a year. Bauxite is transported approximately 1,400 kilometers by ship to the refinery.

The AWAC share of the Alumar refinery expansion is supplied by the recently commissioned AWAC Juruti bauxite mine. The Juruti mine and associated rail and port infrastructure is 100% owned by AWAC. Shipments of bauxite from the Juruti bauxite mine to the expanded Alumar refinery commenced in September 2009. The Juruti development has been constructed with the necessary infrastructure to accommodate increasing production beyond the initial 2.6 million mtpy. During 2012, the Juruti mine operated with production levels as high as 4.0 million tonnes on an annualized basis.

**Spain***San Ciprian Refinery*

AWAC owns and operates the San Ciprian alumina refinery, which is located on the north-west coast of Spain. AWAC acquired the refinery in February 1998 from Alcoa for \$113 million following Alcoa's acquisition of the principal alumina and aluminium assets of Spain's state owned aluminium producer, Industria Espanola del Aluminio ("Inespal").

The San Ciprian refinery was commissioned in 1980. It has an annual production capacity of 1.5 million tonnes, having completed a 0.2 million tonne expansion at a cost of \$22.2 million in March 2001. San Ciprian operations are high temperature and pressure refining technology. Bauxite for the refinery is shipped from the Boke mine in Guinea. Steam for the refinery is generated by the plant's oil fired boiler, with electrical power supplied from the national power grid.

Approximately 70% of alumina produced at the San Ciprian refinery is smelter grade, which is sold primarily to Alcoa's smelters in Spain. The balance of production is non-smelter grade alumina that is largely sold as commodity hydrate alumina to chemical manufacturers. A small portion of the non-smelter grade alumina is also sold as calcined aluminas. The location of San Ciprian within the European Union allows commodity grade alumina to be sold within Europe without attracting the relatively high tariffs imposed on non-European suppliers.

In 2012, AWAC began to convert the energy supply at the San Ciprian refinery in Spain from oil to gas in order to improve the competitiveness of this facility.



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## INFORMATION ON THE COMPANY

### *Vietnam*

In 2008, AWAC signed a cooperation agreement with Vietnam National Coal-Minerals Industries Group (Vinacomin) in which they agreed to conduct a joint feasibility study of the Gia Nghia bauxite mine and alumina refinery project located in Dak Nong Province in Vietnam's Central Highlands, with first stage capacity expected to be between 1.0 and 1.5 million mtpy. The cooperation between AWAC and Vinacomin on Gia Nghia is subject to approval by the Government of Vietnam. If established, the Gia Nghia venture is expected to be 51% owned by Vinacomin, 40% by AWAC and 9% by others.

### *Kingdom of Saudi Arabia*

In December 2009, Alcoa Inc. and Ma'aden entered into a joint venture to develop a fully integrated aluminium complex in the Kingdom of Saudi Arabia. In its initial phases, the complex includes a bauxite mine with an initial capacity of 4.0 million mtpy; an alumina refinery with an initial capacity of 1.8 million mtpy; an aluminium smelter with an initial capacity of ingot, slab and billet of 740,000 mtpy; and a rolling mill, with initial capacity of 380,000 mtpy. The mill is expected to produce sheet, end and tab stock for the manufacture of aluminium cans, as well as other products to serve the automotive, construction, and other industries.

The refinery, smelter and rolling mill are located within Ras Al Khair industrial zone on the east coast of the Kingdom of Saudi Arabia. First hot metal from the smelter was produced on December 12, 2012. Rolling mill production is anticipated to start sometime in 2013. First production from the mine and refinery is expected in 2014.

AWAC will have a 25.1% economic interest in the mine and refinery and no interest in the aluminium smelter and rolling mill. The joint venture will utilize project financing for approximately 60% of the required capital. In 2011 the Ma'aden Bauxite and Alumina Company signed a US\$1 billion financing agreement with the Public Investment Fund and further financing agreements for the mine and refinery project totaling US\$991.5 million with local and international banks and financial institutions. The refinery has been designed to facilitate growth through creep and expansion.

Alcoa's long term debt is currently rated BBB – with stable outlook by Standard & Poor's Rating Services and BBB – with stable outlook by Fitch Ratings. Moody's Investors Services rates Alcoa's long term debt at Baa3, but announced in December 2012 that it has placed Alcoa's credit ratings on review for possible downgrade.

Under the project financings for the joint venture project in the Kingdom of Saudi Arabia, a downgrade of Alcoa's credit ratings below investment grade by at least two rating agencies would require Alumina Limited to provide a letter of credit or fund an escrow account for a portion or all of its 40% share of AWAC's remaining equity commitment to the mine and refinery joint venture.

### *ii) Shipping*

#### *Alcoa Steamship Inc.*

AWAC owns and operates a shipping operation ("Alcoa Steamship") that provides transportation services to AWAC's alumina business and to other parties, including Alcoa. Operating both owned and chartered vessels, the shipping business transports dry and liquid bulk cargoes, including bauxite, alumina, caustic soda, fuel oil, petroleum coke and limestone.

AWAC owns three combination carriers, which can carry primarily alumina, caustic soda and bauxite for the facilities. They are also back filled with general cargo from the United States Gulf Coast to Suriname. AWAC operates one smaller vessel in the Caribbean to shuttle alumina from Suriname to the bulk loading terminal in Trinidad. AWAC also charters ocean carriers for the transport of bauxite, alumina, caustic soda, petroleum coke and limestone (for both AWAC and Alcoa) between its various global operations. AWAC also operates two dry bulk vessels which transport alumina from the West Australian refineries to the Victorian smelters.

**INFORMATION ON THE COMPANY***iii) Markets and Competition*

The alumina market is competitive, with many active suppliers and commodity traders. In recent times there has been significant growth in refining in China, India and Brazil. The majority of product is sold in the form of smelter grade alumina with about 5% to 10% of total alumina production being used to make alumina based chemicals.

Alumina supply is critical to aluminium smelter operations and, in addition to price, reliability of supply, quality and delivery are key factors in contract negotiations. Contracts for smelter grade alumina are usually for a multi-year time period, although pricing mechanisms have changed over time from primarily long term contracts with fixed pricing and terms to shorter term contracts with some annual price renegotiations.

A significant development occurred in the pricing structure for alumina during 2010. Traditionally most alumina outside of China has been sold to third party smelters on a medium to long term contract basis, with the price calculated as a percentage of the LME aluminium price. The LME aluminium price is published daily and over time reflects the fundamentals of the supply and demand and operating and capital costs of producing aluminium.

In recent years however there has been a low correlation between the LME aluminium prices and alumina input costs (principally energy, caustic soda and bauxite/freight).

The alumina input costs have had different drivers to those of aluminium and disparities between those costs has led to the way alumina has been traditionally priced becoming disconnected to the underlying economics of producing and selling alumina. In 2010 a number of key commodity information service providers started publishing daily and weekly alumina (spot) pricing assessments or indices.

AWAC continues to change the way its prices third party smelter grade alumina for its customers by moving toward spot or alumina index pricing that de-links the price for alumina from the aluminium price, to better reflect alumina's distinct supply and demand and other fundamentals. In 2012, more than a third of AWAC smelter grade alumina shipments were based on spot/index prices, and it is expected that 48 per cent of AWAC third party smelter grade alumina shipments will be based on spot or alumina index prices during 2013.

**Markets**

AWAC's largest customer for its alumina production is Alcoa's primary smelting group which in 2012 accounted for approximately 43% of AWAC alumina production. Remaining sales are usually a variety of contract types to customers all over the world which are priced by reference to the published LME aluminium price and spot market pricing. An increasing percentage of production is being sold into the spot alumina market.

A majority of third party sales of alumina (outside of China) is sold under multi-year contracts which typically have alumina prices based on a percentage of the published LME aluminium price.

AWAC entered into a new five-year alumina supply contract with Alcoa in 2010. The price paid for the AWAC production by Alcoa smelters is currently determined by applying the weighted average of:

- the prices received by AWAC from the sale of alumina to unrelated third parties; and
- the contract price paid by the Alumax smelters set under the contracts negotiated when the Alumax smelters were still unrelated to Alcoa.

**Employees**

At the end of 2012, AWAC had 7,931 employees in its operations compared with 7,880 in 2011 and 7,924 in 2010. The number of employees was:

	2012	2011	2010
Alumina	7,042	6,931	6,961
Aluminium	877	937	950
Chemicals & Other	12	12	13



## INFORMATION ON THE COMPANY

At the end of 2012, Alumina Limited had 12 employees compared with 11 in 2011 and 10 in 2010.

### *Regulatory and Environmental*

The possibility exists that new legislation or regulations may be adopted that 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 Alumina Limited's, financial condition and results of operations.

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 and minerals processing industries with respect to matters such as employee health and safety, permitting and licensing requirements and many aspects of environmental compliance including; air emissions and waste management, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, and the effects that mining has on surface and 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 authority's 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 and Alumina recognise and provide for additional amounts for certain AWAC Asset Retirement Obligations.

Energy is a significant input in a number of AWAC's operations. AWAC uses significant quantities of electricity, gas and coal in its operations and is an emitter of greenhouse gases. A number of governments or governmental bodies have introduced or are proposing significant regulatory changes in response to the potential impacts of climate change. Further information on this and other regulatory risks is set-out in Item 3D Risk Factors-*Regulatory change by governments in response to greenhouse gas emissions may represent an increased cost to AWAC.*

In 1994 AofA initiated epidemiological studies of employee health – called "Healthwise". The research is conducted independently by Monash University and the University of Western Australia and tracks cancer incidence and mortality and has also examined respiratory health. To date, no conclusive evidence of an increased risk of cancer associated with any particular type of aluminium industry work has been found in these employees. The rates of mortality overall and for the four major causes of death are lower than in the general community. The results of the respiratory health studies were consistent with occupational asthma occurring in some smelter employees – a recognised and well controlled issue in the Australian aluminium industry. Otherwise they were unremarkable.

In addition to the matters discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against Alumina or AWAC, including those pertaining to environmental, product liability and safety and health matters. Whilst the amounts claimed in these other matters may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that AWAC's liquidity or results of operations, and hence Alumina's, in a particular period could be materially affected by one or more of these other matters.

### *C. Organisational Structure*

The "Alumina Group" consists of the parent company, Alumina Limited, its subsidiaries and its share of associates. Alumina Limited is incorporated and listed in Australia. Alumina's sole businesses, which are operated through AWAC, include bauxite mining, alumina refining and aluminium smelting operated through the AWAC venture with Alcoa. While not itself a legal entity, AWAC is the reference term given to an unincorporated joint venture





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## INFORMATION ON THE COMPANY

commenced on January 1, 1995 by Alumina and Alcoa in combining their respective bauxite, alumina and alumina-based chemicals businesses and interests. The assets of AWAC are held 40% by the Alumina Group and 60% by Alcoa, with the Alumina Group's interests held through Alumina International Holdings Pty Ltd and AofA as described below.

- **Alumina International Holdings Pty Ltd** – Incorporated in Australia this company holds, together with Alumina Limited, all entities in the Alumina Group's equity investment in AWAC (except for AofA, see below) through its direct and indirect interests, totalling 40% in each of Alcoa World Alumina LLC, Alcoa Caribbean Holdings LLC, Alumina Espanola SA and Alcoa World Alumina Brasil Ltda. It is wholly owned by Alumina Limited.
- **Alcoa of Australia Limited (AofA)** – Incorporated in Australia, and 40% owned by Alumina Limited, this company is a significant entity in the Alumina Group's equity investment in AWAC, with integrated bauxite mining, alumina refining and aluminium smelting facilities in Australia.

AWAC entities' assets include the following interests:

- 100% of the bauxite mining, alumina refining, and aluminium smelting operations of AofA;
- 100% of the refinery assets at Point Comfort, Texas, United States ("Point Comfort");
- 100% interest in various mining and refining assets and the Hydro-electric facilities in Suriname;
- a 55% interest in mining and refining assets in Jamaica;
- a 39% interest in the São Luis refinery in Brazil;
- a 9.6% interest in the bauxite mining operations of Mineracao Rio Do Norte, an international mining consortium;
- 100% of the Juruti bauxite deposit and mine in Brazil;
- 100% of the refinery and alumina-based chemicals assets at San Ciprian, Spain;
- a 45% interest in Halco, a bauxite consortium that owns a 51% interest in Compagnie des Bauxites de Guinée, a bauxite mine in Guinea;
- 100% of Alcoa Steamship; and
- 25.1% interest in the planned mine and refinery in Saudi Arabia.

### *D. Property, plant and equipment*

Alumina's property, plant & equipment consist primarily of office furniture and computing systems equipment.



## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## ITEM 4A. UNRESOLVED STAFF COMMENTS

None

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*A. Operating Results*

The following discussion should be read in conjunction with Alumina Limited's Consolidated Financial Statements, including the notes thereto, and AWAC's Combined Financial Statements which are included in this annual report. Alumina's Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB, which differs in certain respects from US GAAP. Unless noted otherwise, amounts and disclosures of accounting matters made in this section are determined in accordance with IFRS as issued by the IASB. The critical accounting policies adopted by Alumina are described below. AWAC's Combined Financial Statements are prepared in conformity with US GAAP.

*Critical Accounting Policies**Alumina*

The critical accounting policies relating to the continuing operations of Alumina are outlined below. These policies are deemed critical as estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances to ascertain the various US GAAP adjustments to translate AWAC's net assets and net profit into IFRS compliant values. Alumina's significant accounting policies are described in Note 1 to its consolidated financial statements.

*Impairment of assets* – The Alumina Group assesses at each balance date whether there is objective evidence that the investment in associates is impaired. An impairment loss is recognized 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).

*AWAC*

AWAC's significant accounting policies are summarized in AWAC's Combined Financial Statements. Some of AWAC's accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on AWAC's historical experience, terms of existing contracts, management's view on trends in the alumina/aluminium industry and information from outside sources.

Management believes the following critical accounting policies, among others, affect AWAC's more significant judgments and estimates used in the preparation of AWAC's consolidated financial statements and could potentially impact AWAC's financial results and future financial performance.

AWAC's critical accounting policies under US GAAP include those discussed below.

*Derivatives and hedging* – The fair values of all outstanding derivative instruments are recorded in other current and non-current assets and liabilities in the combined balance sheet. The ineffective portions are recorded in revenues or other income or expense in the current period. Under IFRS, realized or unrealized gains and losses on the hedging contracts are deferred in other assets or other liabilities until the underlying transaction takes place. When the underlying transaction takes place gains, losses, premiums and discounts are taken to the profit and loss as part of sales revenue or costs. If a contract ceases to qualify as an effective hedge then all premiums, discounts, gains and losses are recognized in the profit and loss.

*Inventory valuation* – AWAC inventories are carried at the lower of cost or market, with cost for a portion of U.S. inventories determined under the last-in, first-out ("LIFO") method. The cost of other inventories is principally determined under the average-cost method. This method is not allowed under IFRS. Alumina adopts the first in, first out (FIFO) valuation methodology in the IFRS financial statements.





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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*Foreign currency* – The local currency is the functional currency for AWAC's significant operations outside the U.S., except in Jamaica and Suriname, which use the U.S. dollar for their functional currency. The determination of the functional currency in these countries is based on the appropriate economic and management indicators.

Effective January 1, 2010, the functional currency in Brazil was changed from U.S. dollar to the Brazilian real (BRL). This change was made as a result of changes in the operations of the business following the completion of the Sao Luis refinery expansion and Juruti bauxite mine development.

*Environmental Expenditure* – Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability may include costs such as site investigations, consultant fees, feasibility studies, outside contractors, and monitoring expenses. Estimates are generally not discounted or reduced by potential claims for recovery. Claims for recovery are recognized as agreements are reached with third parties. The estimates also include costs related to other potentially responsible parties to the extent AWAC has reason to believe such parties will not fully pay their proportional share. The liability is continuously reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity, and other factors that may be relevant, including changes in technology or regulations.

*Goodwill and other intangibles* – Goodwill is not amortized, instead, it is tested for impairment annually (in the fourth quarter) or more frequently if indicators of impairment exist or if a decision is made to sell a business. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, negative developments in equity and credit markets, adverse changes in the markets in which an entity operates, increases in input costs that have a negative effect on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair values that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill. Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. AWAC has two reporting units: Alumina and Primary Metals. In September 2011, the Financial Accounting Standards Board in the U.S. issued new accounting guidance for testing goodwill for impairment. The guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The ultimate outcome of the goodwill impairment review for a reporting unit should be the same whether an entity chooses to perform the qualitative assessment or proceeds directly to the two-step quantitative impairment test. In the 2011 fourth quarter, in conjunction with management's annual review of goodwill for impairment, AWAC early adopted the new guidance. AWAC performed the qualitative assessment for one of its reporting units (Alumina for 2011) and proceeded directly to the two-step quantitative impairment test for the other (Primary Metals for 2011). Under the qualitative assessment, various events and circumstances (or factors) that would affect the estimated fair value of a reporting unit are identified (similar to impairment indicators above). These factors are then classified by the type of impact they would have on the estimated fair value using positive, neutral and adverse categories based on current business conditions. Additionally, an assessment of the level of impact that a particular factor would have on the estimated fair value is determined using high, medium, and low weighting. Furthermore, management considers the results of the most recent two-step quantitative impairment test completed for a reporting unit (this would be 2011 and 2010 in which the estimated fair values of both reporting units were substantially in excess of their carrying values) and compares the weighted average cost of capital (WACC) between the current and prior years for each reporting unit. Under the two-step quantitative impairment test, the evaluation of impairment involves comparing the current fair value of a reporting unit to its carrying value, including goodwill. AWAC uses a DCF model to estimate the current fair value of its reporting units when testing for impairment, as management believes forecasted cash flows are the best

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

indicator of such fair value. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate, and working capital changes. Most of these assumptions vary significantly among the reporting units. Cash flow forecasts are generally based on approved business unit operating plans for the early years and historical relationships in later years. The betas used in calculating the individual reporting units' WACC rate are estimated for each business with the assistance of valuation experts.

In the event the estimated fair value of a reporting unit per the DCF model is less than the carrying value, additional analysis would be required. The additional analysis would compare the carrying amount of the reporting unit's goodwill with the implied fair value of that goodwill, which may involve the use of valuation experts. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value amounts assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized, which could significantly and adversely impact reported results of operations and members' equity.

During the 2012 annual review of goodwill, management proceeded directly to the two-step quantitative impairment test for both the Alumina and Primary Metals reporting units. The estimated fair values of these reporting units exceeded their fair values, resulting in no impairment. In developing the fair value of these reporting units, AWAC estimates future cash flows using London Metal Exchange (LME) forward curve pricing and operating cost assumptions management believes are reasonable based on expected and historical performance. The following could have a negative impact on the estimated fair values of Alumina and Primary Metals: a significant, protracted decrease in LME and alumina prices; decrease in long-term profitability; decrease in the long-term demand for aluminum; substantial reductions in AWAC's end markets and volume assumptions; and an increase in discount rates.

*Asset Retirement Obligations* – AWAC recognizes asset retirement obligations ("AROs") related to legal obligations associated with the normal operation of AWAC's bauxite mining, alumina refining and aluminium smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. AWAC also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, AWAC capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets, and depreciating these assets over the remaining useful life.

*Mineral Rights* – AWAC recognizes mineral rights upon specific acquisitions of land that include such underlying rights, primarily in Jamaica. This land is purchased for the sole purpose of mining bauxite. The underlying bauxite reserves are known at the time of acquisition based on associated drilling and analysis and are considered to be proven reserves. The acquisition costs of the land and mineral rights are amortized as the bauxite is produced based on the level of minable tons determined at the time of purchase. Mineral rights are included in Properties, plant and equipment on the Combined Balance Sheet.

*Deferred Mining Costs* – AWAC recognizes deferred mining costs during the development stage of a mine life cycle. Such costs include the construction of access and haul roads, detailed drilling and geological analysis to further define the grade and quality of the known bauxite, and overburden removal costs. These costs relate to sections of the related mines where AWAC is either currently extracting bauxite or is preparing for production in the near term. These sections are outlined and planned incrementally and generally are mined over periods ranging from one to five years, depending on mine specifics. The amount of geological drilling and testing necessary to determine the economic viability of the bauxite deposit being mined is such that the reserves are considered to be proven, and the mining costs are amortized based on the level of reserves. Deferred mining costs are included in Other noncurrent assets on the Combined Balance Sheet.

*Stock-Based Compensation* – Certain employees of AWAC receive stock-based awards under Alcoa's stock incentive plans and AWAC records an expense for these plans. AWAC recognizes compensation expense for employee equity grants using the non-substantive vesting period approach, in which the expense (net of estimated forfeitures) is recognized ratably over the requisite service period based on the grant date fair value. Determining the fair value of



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

stock options at the grant date requires judgment, including estimates for the average risk-free interest rate, dividend yield volatility, annual forfeiture rate and exercise behaviour. These assumptions may differ significantly between grant dates because of changes in the actual results of these inputs over time. Most plan participants can choose whether to receive their award in the form of stock options, restricted share units, or a combination of both. This choice is made before the grant is issued and is irrevocable.

*Deferred tax assets* – The Group through its equity accounted investment in AWAC has recognised deferred tax assets and liabilities in accordance with IAS12 Income Taxes. Deferred tax assets are measured using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred asset is realised or the liability is settled. AWAC's subsidiary in Brazil applied for a tax holiday related to its expanded mining and refining operations. If approved, the tax rate for this subsidiary will decrease significantly resulting in future tax savings over the 10-year holiday period. The net deferred tax assets of the subsidiary are required to be remeasured at the lower holiday rate for the tax losses that will be utilised during the tax holiday period. This requires judgmental assumptions regarding the timing of future taxable profits during the tax holiday period.

**General Factors**

Alumina's financial and operational performance and prospects are influenced by a number of factors which predominantly result from its 40% interest in AWAC, the level of debt carried by Alumina Limited, and equity raisings.

As at December 31, 2012, Alumina Limited's debt was incurred through several facilities:

- A syndicated US\$ three and five year debt facility totaling \$320 million entered into on November 12, 2010. The three year tranche was extended until December 2017 in December 2012.
- Bilateral bank facilities totaling \$425.0 million which will mature at various times up to 2017.
- A \$296 million facility from the Brazilian National Development Bank (BNDES). This funding is provided in US\$ and Brazilian Reais and amortizes from December 2010 to July 2016. At December 31, 2012, the outstanding balance of the facility was \$184 million.

The amount of interest charged on these debt facilities will impact the profitability of Alumina. The interest amount incurred will depend on the amount of debt carried and interest rates.

During 2012 the following facilities were established:

- Two bilateral bank facilities totaling \$200 million with maturities in 2014 and 2017.

Alumina Limited's 40% share of AWAC's continuing operations during the three year period to December 31, 2012 was characterized by a focus upon:

- continuing to match AWAC production to market conditions;
- change to alumina sales pricing structure whereby a greater portion of sales are at alumina price indices or spot prices; and
- investment in new mine and refinery in the Kingdom of Saudi Arabia.

The following is a discussion of the key factors which affect AWAC and Alumina's business and financial performance.

**Commodity prices**

AWAC sells products which are commodities and its financial performance is significantly influenced by the prices it obtains for these products and, in particular, the LME price of primary aluminium and alumina indices. The price of a commodity is generally determined by, or linked to, the price for the product in question in the world markets. World commodity prices are subject to changes in supply and demand, and characterized by significant fluctuations. The volatility of commodity prices, even where production levels and costs remain constant, means that the sales revenues (and in the absence of mitigating factors, profit) generated by sales of AWAC products varies.



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS***Fluctuations in the A\$/US\$ Exchange Rate*

The world commodity prices for the products AWAC sells are denominated in, or linked to, US\$. By contrast, a significant portion of AWAC's costs are denominated in A\$. As a consequence, fluctuations in the rate of exchange between the US\$ and A\$ may have an effect on the financial results of Alumina. Appreciation of the US\$ relative to the A\$ reduces the value of unhedged costs in A\$ as compared to US\$ revenues and has a positive impact on profit. A depreciation in the US\$ as compared to the A\$ decreases the value of unhedged sales revenue in A\$ as compared to A\$ costs and exerts negative pressure on profit. AofA contributes the majority of AWAC's earnings. However, for those refineries outside Australia, a portion of their costs are denominated in the local currency and movements in those currencies relative to the US\$ will also have an effect on the financial results of Alumina.

*Production Costs*

Changes in AWAC's costs have a major impact on its profitability. AWAC's mining, refining and smelting operations are subject to conditions beyond its or Alumina Limited's control that can delay deliveries or increase costs for varying lengths of time.

The 2012 cash cost of alumina per tonne produced increased by 1% over 2011. This increase mainly reflected a rise in the cost of caustic soda, partially offset by a reduction in other costs.

Earnings before interest, tax, depreciation and amortization margin was \$31 per tonne, a decline of \$39 per tonne on 2011. Lower margins were predominantly as a result of weaker prices and higher input costs partially offset by productivity improvements.

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

*Changes to Sales Agreements*

Long term supply agreements are in place for varying volumes and tenors. As such, AWAC's revenue from existing sales agreements depends on the outcome of periodic renegotiation of these agreements. The modification or termination of a substantial portion of AWAC's sales agreements could materially affect its results and financial performance. An increasing proportion of AWAC's alumina production is sold on a short term or spot basis. Changes to the volumes that are able to be sold on a short term or spot basis and the pricing for such sales may affect AWAC's sales revenue.

The traditional alumina pricing methodology was to link the price of alumina as a percentage of the aluminium price. The linkage methodology in recent years has not recognized that alumina industry fundamentals are different from those of aluminium.

In 2010 a significant development occurred in the pricing structure for alumina. Several independent pricing indices were developed for alumina based on spot sales.

A more extensive description of the change in pricing and its implications for Alumina Limited is covered under Markets and Competition on page 36.

*Regulatory Environment*

The costs, liabilities and requirements associated with regulations may be costly and time-consuming and may delay commencement or continuation of exploration, expansion or production operations. Of particular importance in Australia is the impact of environmental regulations and carbon tax/greenhouse gas regulations and renewable energy. New legislation or regulations may be adopted that may materially adversely affect AWAC's operations or cost structure.

The electricity supply to AWAC's smelters is primarily under 30-year contracts expiring 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. AofA has entered into new base-load electricity contracts to power AWAC's smelter at Point Henry, Geelong, and the Portland aluminium smelter to 2036. Refer to page 31 for further comment.



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS***Political Risk*

AWAC operates in a number of countries. Political activities in these countries may be destabilizing 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 materially adverse impact, such as the closure of an operation.

*Development of Projects and Production Performance*

AWAC's ability to sustain or increase its current level of production, and therefore its (and hence Alumina Limited's) profits in the medium to long-term, is partially dependent on the development of new projects and on the expansion of existing operations.

*Alumina Limited's Cash Flows*

Alumina Limited's cash flows are generated primarily from distributions made by AWAC, by way of dividend or capital return. The Strategic Council, which is 60% controlled by Alcoa's nominees, determines the timing and magnitude of AWAC dividends and capital returns, subject to the relevant provisions of the AWAC Agreements. Alumina Limited 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 each of the entities comprising AWAC, unless the Strategic Council agrees by a super majority vote to pay a smaller dividend.

During 2006 the AWAC joint partners entered into a new funding agreement under which future capital expenditures are to be funded by the 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 only to availability of cash and earnings, be paid by AWAC entities to the partners. During 2010, the funding agreement was extended on the basis that two years notice is required to terminate the agreement.

Alcoa and Alumina have agreed that Alumina Limited will receive dividends from AWAC of not less than US\$100 million during 2013.



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS****2012 Performance Compared to 2011****Overview – Alumina Limited**

Alumina's consolidated net loss after tax from continuing operations was \$62.1 million for the year ended December 31, 2012 compared with a profit of \$126.6 million for the year ended December 31, 2011. This decrease in 2012 compared to 2011 was due to the following:

**Share of net profits of associates using the equity method**

Share of net profit of associates decreased by \$187.1 million (108%) to a loss of \$14.0 million. Refer to Overview-AWAC on page 47 for explanation on the decrease.

The AWAC results are adjusted for differences between US GAAP and IFRS prior to incorporation into the Alumina Limited results. These adjustments are non-cash book entries.

The main adjustments for the 2012 year are:

- recognition of \$69 million deferred tax credit in Brazil;
- recognition of \$8 million debit after tax for defined benefit pensions; and
- recognition of \$3 million credit after tax for movements in embedded derivatives.

**General and administrative expenses**

General and administrative expenses increased by \$1.7 million (10%) to \$19.0 million. Most of Alumina Limited's general and administrative expenses are incurred in Australian dollars. The increase over 2011 reflects one-off expenses that exceeded other expense reductions.

**Other Income/expenses**

A net gain of \$0.6 million on Brazilian Real financial instruments, principally on BRL instruments was recognized in 2012 compared to a \$0.1 million gain in 2011.

**Borrowing Costs**

Borrowing costs increased by \$0.9 million (3%) to \$29.4 million due to the overall increase in net debt position partially offset by lower commitment and upfront fees.

**Income tax expense**

In 2012, Alumina incurred an income tax charge of \$0.4 million compared to a charge of \$1.0 million in 2011. The majority of the income of Alumina is the equity accounted share of profits which is not assessable for tax.

**Cash Flows**

Alumina's net cash inflow from operating activities for 2012 was \$48.6 million, compared to \$196.1 million in 2011, a decrease of 75%. Lower dividends and distributions from associates, higher general and administrative expenses and higher borrowing costs drove lower cash from operating activities.

Alumina's cash outflow relating to investing activities from continuing operations for 2012 was \$171.0 million, compared to \$149.3 million in 2011, an increase of 14%. This increase in cash outflows from investing activities in 2012 was due to further investments in AWAC's refineries. Alumina Limited did not receive any proceeds from return of invested capital during 2012, compared to \$17.3 million received during 2011.

Alumina's net cash inflow from financing activities for continuing operations was \$114.3 million for 2012, compared to an outflow of \$139.2 million in 2011. Key changes were:

- There were no payments for the repurchase of the convertible bond in 2012 compared to \$167.6 during 2011.





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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

- Cash dividends paid were \$73.2 million in 2012 compared with \$170.6 million in 2011.
- Drawdowns of \$240.0 million in 2012, offset by debt repayments of \$52.5 million, compared to drawdowns of \$285.0 million offset by debt repayments of \$86.0 million in 2011.

*Net Assets*

Alumina's net assets decreased in 2012 by \$225.5 million (8%) to \$2,628.5 million primarily because:

- Investment in associates decreased by \$28.7 million to \$3,296.1 million. The decrease was attributable to the impact of the higher Australian dollar and Brazilian Real amounting to \$89.7 million and a surplus of dividends received over equity share in profits of \$109.1 million offset by additional funding capitalization in AWAC entities amounting to \$171.0 million.
- Cash decreased by \$8.9 million to \$10.1 million, for the reasons noted above in the discussion on Alumina's cashflow from operating, investing and financing activities.
- Interest-bearing liabilities increased by \$183.9 million to \$674.5 million. During 2012 Alumina borrowed additional amounts in US\$ amounting to \$240.0 million and repaid debt amounting to \$52.5 million.

*Equity*

Alumina's equity decreased by \$225.5 million (8%) in 2012 to \$2,628.5 million. The key items include:

- \$89.9 million net exchange loss recognized in equity in 2012;
- \$62.1 million of net losses for 2012; and
- \$73.2 million of dividends provided in 2012.





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## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## Overview – AWAC

The following analysis should be read in conjunction with AWAC's combined financial statements prepared in accordance with US GAAP included in Item 18.

**2012 Performance Compared to 2011 Performance**  
**US GAAP (\$ million)**

	2012 Full Year	2011 Full Year
<b>Total Sales</b>		
Third-party sales	3,645.0	4,144.6
Related party sales	2,170.3	2,522.4
Total Sales	5,815.3	6,667.0
Net (Loss)/Income (after tax)	(91.9)	469.7

AWAC's 2012 sales revenue of \$5,815.3 million (including sales to parties related to AWAC of \$2,170.3 million) was 13% lower than 2011 sales revenue of \$6,667.0 million (including sales to related parties of \$2,522.4 million). Alumina revenue declined by 13% compared to 2011. Price movements were the principal reason for the revenue decrease. Realized alumina prices decreased 13% compared to 2011. LME-linked contract prices declined by a greater extent than contracts based on spot or alumina index.

AWAC's alumina production was 15.6 million tonnes (2011: 15.7 million tonnes) down 0.6% from 2011. The reduction largely resulted from planned reduced annual production of approximately 390 thousand metric tonnes in the higher unit cost refineries, offset by production creep in the lower unit cost Australian refineries that continued to operate at near or above nameplate capacity during 2012. AWAC's nameplate production capacity is 17.2 million tonnes per annum.

Aluminium production from AWAC's two aluminium smelters was 358 thousand tonnes of aluminium, compared to 2011 production of 357 thousand tonnes.

**AWAC Historical Production and LME Aluminium Price**

AWAC Production Performance	2012	2011
Alumina Production (million tonnes)	15.6	15.7
Aluminium Production ('000 tonnes)	358	357
LME Aluminium Price (US\$/lb)	0.93	1.10

AWAC's net loss of \$91.9 million in 2012 represented a decrease of 120% compared to a net profit of \$469.7 in 2011.

Price movements were the principal reason for the revenue decrease. The 2012 cash cost of alumina per tonne increased by 1% over 2011. This increase mainly reflected a rise in the cost of caustic soda, partially offset by a reduction in other costs.

EBITDA margin was \$31 per tonne, a decline of \$39 per tonne on 2011. Lower margins were predominantly as a result of weaker realized prices and higher input costs partially offset by productivity improvements.

Net cash inflow from financing operations increased to \$258.7 million, compared to a \$441.0 million outflow in 2011. Key changes were:

- a decrease in level of dividends paid and return of capital to partners of \$403.4 million to \$238.5 million in 2012 compared to \$641.9 million in 2011;



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

- an increase in partners' contributions, totalling \$428.4 million in 2012, compared to \$426.7 million in 2011, to fund the Ma'aden investment and the interest in the Enterprise Partnership. The remaining contributions were used to fund final construction on the Juruti mine, and to support operations in Spain; and
- an increase in debt of \$81.1 million in 2012 compared to a decrease of \$215.4 million in 2011.

Net cash outflow from investing activities increased 53% in 2012 to \$575.3 million, compared to \$376.8 million in 2011. Capital expenditure totalled \$375.3 million, 4% below 2012. Approximately \$347 million was associated with sustaining capital, with the majority in Australia. The Australian operations included residue storage areas and the relocation of the crusher facilities at the Huntly mine, which reduced haul road distance and improved mine productivity. Growth capital expenditure mainly related to the completion of the works of the Juruti mine infrastructure in Brazil. Additions to investments increased by 197% in 2012 to \$202.9 million compared to \$68.2 million in 2011, mainly as a result of the Ma'aden project.

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS***2011 Performance Compared to 2010****Overview – Alumina Limited***

Alumina's consolidated net profit after tax from continuing operations was \$126.6 million for the year ended December 31, 2011 compared with a profit of \$34.6 million for the year ended December 31, 2010. This increase in 2011 compared to 2010 was due to the following:

*Share of net profits of associates using the equity method*

Share of net profit of associates increased by \$88.6 million (105%) to \$173.1 million. Refer to Overview-AWAC below for explanation on the increase.

The AWAC results are adjusted for differences between US GAAP and IFRS prior to incorporation into the Alumina Limited results. These adjustments are non-cash book entries.

The main adjustments for the 2011 year are:

- reversal of \$47 million tax credit in Brazil;
- recognition of \$154 million debit after tax for defined benefit pensions; and
- recognition of \$150 million credit after tax for movements in embedded derivatives.

*General and administrative expenses*

General and administrative expenses increased by \$2.6 million (18%) to \$17.3. Most of Alumina Limited's general and administrative expenses are incurred in Australian dollars. The translation of these Australian dollars into US dollars has been impacted by the strength of the Australian dollar over 2011, contributing \$1.7 million of the increase to reported expenses.

*Other Income/expenses*

A net gain of \$0.1 million on Brazilian Real financial instruments, principally on BRL instruments was recognized in 2011 compared to a \$2.1 million gain in 2010.

*Borrowing Costs*

Borrowing costs decreased by \$10.2 million (26%) to \$28.5 million. Interest of \$13.7 million was incurred in 2011 on the longer dated amortizing loan from the Brazilian National Development Bank (interest at approximately 5.04% per annum) compared with \$15.5 million in 2010. Amortization of the convertible bond option was \$6.4 million lower in 2011 at \$1.7 million compared to \$8.1 million during 2010. Commitment and upfront fees were steady at \$9.1 million compared to \$8.5 million during 2010.

*Income tax expense*

In 2011, Alumina incurred an income tax charge of \$1.0 million compared to a nil charge in the prior year. The majority of the income of alumina is the equity share of profits which is not assessable for tax.

*Cash Flows*

Alumina's net cash inflow from operating activities for 2011 was \$196.1 million, compared to \$200.6 million in 2010, a decrease of 2%. Marginally lower dividends and distributions from associates and higher general and administrative expenses drove lower cash from operating activities. Impact was offset by lower borrowing costs.

Alumina's cash outflow relating to investing activities from continuing operations for 2011 was \$149.3 million, compared to \$142.4 million in 2010, an increase of 5%. This increase in cash outflows from investing activities in 2011 was due to further investments in the Alumar refinery and Juruti mine in Brazil, and the San Ciprian refinery in Spain. There were no proceeds received from derivatives in 2011 as opposed to \$6.0 million of proceeds received from derivatives in 2010. Alumina Limited received \$17.3 million of proceeds from return on invested capital during 2011, higher than the \$13.8 million received during 2010.



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

Alumina's net cash outflow from financing activities for continuing operations was \$139.2 million for 2011, compared to an outflow of \$242.6 million in 2010. Key changes were:

- Payments for the repurchase of the convertible bond amounted to \$167.6 million during 2011 compared to \$181.5 million during 2010.
- Cash dividends paid of \$170.6 million in 2011 compared with \$93.7 million in 2010.
- Drawdowns of \$285.0 million in 2011, offset by debt repayments of \$86.0 million, compared to drawdowns of \$33.7 million offset by debt repayments of \$1.1 million in 2010.

*Net Assets*

Alumina's net assets decreased in 2011 by \$217.5 million (7%) to \$2,854.0 million. The key points to note are:

- Investment in associates decreased by \$90.8 million to \$3,324.8 million. The decrease was attributable to the higher Australian dollar and Brazilian Real amounting to \$168.3 million, a return of capital amounting to \$17.3 million and by surplus of dividends received over equity share in profits of \$66.8 million offset by additional funding capitalization in AWAC entities amounting to \$166.6 million.
- Cash decreased by \$93.1 million to \$19.0 million, for the reasons noted above in the discussion on Alumina's cash flow from operating, investing and financing activities.
- Interest-bearing liabilities increased by \$26.7 million to \$490.6 million. During 2011 Alumina borrowed additional amounts in US\$ amounting to \$285.0 million and repaid debt amounting to \$86.0 million.

*Equity*

Alumina's equity decreased by \$217.5 million (7%) in 2011 to \$2,854.0 million. The key items include:

- \$168.9 million net exchange loss recognized in equity in 2011;
- \$126.6 million of net profits for 2011; and
- \$170.8 million of dividends provided in 2011.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## Overview – AWAC

2011 Performance Compared to 2010 Performance  
US GAAP (\$ million)

	2011 Full Year	2010 Full Year
<b>Total Sales</b>		
Third-party sales	4,144.6	3,452.4
Related party sales	2,522.4	2,004.1
Total Sales	6,667.0	5,456.5
Net Income (after tax)	469.7	335.3

AWAC's 2011 sales revenue of \$6,667.0 million (including sales to parties related to AWAC of \$2,522.4 million) was 22% higher than 2010 sales revenue of \$5,456.5 million (including sales to related parties of \$2,004.1 million). Realized alumina prices increased 22% from 2010. This reflected both the transition to third party smelter grade alumina sales with reference to alumina price indices, and the increase in aluminium prices over 2011, which flowed through to alumina contracts priced as a percentage of aluminium. Alumina revenue increased 26% compared to 2010. Price movements accounted for 90% of the revenue increase, with volume increase driving the remaining 10%.

AWAC's alumina production was 15.7 million tonnes (2010: 15.2 million tonnes) which was a new record for AWAC. A significant proportion of the increase was attributed to the Alumar refinery in Sao Luis, Brazil, which operated consistently throughout 2011. The Australian refineries continued to operate at or near nameplate capacity during 2011. AWAC's production capacity is 17.2 million tonnes per annum.

Aluminium production from AWAC's two aluminium smelters was 357 thousand tonnes of aluminium, compared to 2010 production of 356 thousand tonnes.

## AWAC Historical Production and LME Aluminium Price

AWAC Production Performance	2011	2010
Alumina Production (million tonnes)	15.7	15.2
Aluminium Production ('000 tonnes)	357	356
LME Aluminium Price (US\$/lb)	1.10	1.00

AWAC's net income of \$469.7 million in 2011 represented an increase of 40% compared to 2010.

Operating margin was \$70 per tonne, an improvement of \$23 per tonne on 2010, with higher realized prices offsetting the impact of the weaker US dollar and higher raw material and energy costs. In the first half of 2011, operating margin was \$76 per tonne, reducing to \$64 per tonne in the second half as global concerns, particularly around Europe, were reflected in volatile and lower prices.

The average 2011 cash cost of alumina production increased by \$40 per tonne compared to 2010. Cost increases were principally incurred in the first half, with costs in the second half relatively flat to the first half, with the exception of caustic soda. The most significant influence on the increase in cash costs of production was the weakness of the US dollar, compared to the Australian dollar and the Brazilian Reais. The weaker US dollar accounted for approximately \$18 per tonne of the increase across total production.



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

Global oil prices increased approximately 34% compared to 2010, contributing to an increase in average costs of production of \$6 per tonne. Increases in bauxite costs added a further \$4 per tonne and global caustic soda costs \$3 per tonne.

Labor, contractor and higher scheduled maintenance costs, predominately in Australia, contributed to most of the balance in the rise of production costs during 2011.

Net cash outflow from financing operations increased to \$441.0 million outflow, compared to \$221.9 million outflow in 2010. Key changes were:

- an increase in level of dividends paid and return of capital to partners of \$1.3 million to \$641.9 million in 2011 compared to \$640.6 million in 2010;
- a decrease in partners' contributions, totalling \$426.7 million in 2011, compared to \$433.5 million in 2010, to fund the continued construction of the new bauxite mine and refinery in Brazil, and a \$275.8 million contribution to support operations in Spain; and
- decrease in debt by \$215.4 million in 2011 compared to a decrease of \$10.2 million in 2010.

Net cash outflow from investing activities decreased (5%) in 2011 to \$376.8 million, compared to \$395.9 million in 2010. Capital expenditure totalled \$392 million, 31% above 2010. Approximately \$300 million was associated with sustaining capital, with the majority of this is in Australia. The Australian operations commenced moving a mine crusher during 2011. Growth capital expenditure mainly related to completion works of the Juruti mine infrastructure in Brazil.



## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### *B. Liquidity and Capital Resources*

The ability of Alumina and its subsidiaries to generate cash internally is influenced by the following major factors:

- the level of world commodity prices and exchange rates to which AWAC's revenue is substantially exposed;
- the level of sales and cost performance by AWAC;
- the amount of dividends received from AWAC; and
- the amount of capital expenditure required by AWAC to develop new projects or maintain or expand existing operations (refer to Section 4.B for discussions of the development of the Juruti bauxite mine, expansion of the Alumar refinery and other potential capacity investments).

These factors are expected to continue to influence Alumina's liquidity and capital resources in future years.

In addition, because Alumina is a holding company that does not conduct any material operating businesses, its ability to pay dividends and meet other obligations is dependent almost entirely on, and is limited by, the amount of dividends received from its subsidiaries, associates and investments.

The AWAC Agreements state a preference to finance its activities from cash flow of the affiliated operating entities and from borrowings. The AWAC Agreements limit leveraging of individual AWAC entities to a maximum ratio of debt (net of cash) to total capital of 30% (a super majority vote of the Strategic Council is required to exceed this limit). Should the aggregate annual capital budget of AWAC still require, after utilising available cash flow, an additional contribution from Alumina Limited and Alcoa, then the parties contribute their proportionate share thereof subject to the provisions set out in the AWAC Agreements. AWAC may make an annual capital request of up to \$1 billion following a decision by a majority vote of the Strategic Council, of which Alcoa Inc. has majority voting power.

In 2006, Alumina and Alcoa entered into new funding arrangements to provide the AWAC partners with additional dividends from AofA for funding AWAC's capital projects. During 2010, the funding arrangements were extended on the basis that two years notice is required to terminate the arrangements.

It is expected that Alumina's existing balance of franking credits and the funding arrangements between Alumina and Alcoa will enable Alumina to fully frank dividends that are declared.

Dividends received in 2008, 2009, 2010, 2011 and 2012 have partially funded Alumina's investment in AWAC's growth projects. Alumina's share of additional funding requirements was met by increased borrowings and the 2008 and 2009 rights issues.

Dividends of \$73.2 million were paid during 2012. Dividends of \$170.6 million were paid during 2011. Alumina has continued the suspension of the Company's Dividend Reinvestment Plan.

Dividends and distributions received from AWAC and drawings under Alumina's committed debt facilities funded the Company's financing requirements in 2012 including AWAC's investments in the completion of growth projects in Brazil and sustaining capital projects.

On August 29, 2012, Standard & Poor's (S&P) lowered Alumina Limited's credit rating to BBB – Outlook Stable from BBB Outlook Negative due to their expectation of weak alumina and aluminium market dynamics. On February 22, 2013, S&P reconfirmed that rating.

Funds generated from Alumina's continuing operating activities were \$48.6 million for the year ended December 31, 2012, compared with \$196.1 million in 2011. This decrease was a result of lower dividends from associates, higher corporate costs and higher amounts of interest paid on borrowings.

Working capital was negative \$44.7 million at December 31, 2012, compared to working capital of negative \$32.8 million at December 31, 2011. The increase was due to a reduction in cash balances. Cash balances at December 31, 2012 were \$10.1 million compared to \$19.0 million at December 31, 2011. Alumina's net debt increased during the





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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

year from \$471.6 million to \$664.4 million primarily from an increase in borrowings and reduction in cash. Alumina's working capital is considered to be sufficient for Alumina's present requirements and that Alumina's liabilities can be met using available cash and undrawn committed facilities whose maturities extend to 2017.

Gross debt drawn down under Alumina's various debt facilities was \$674.5 million at December 31, 2012 compared to total gross borrowings of \$490.6 million at December 31, 2011. The increase in debt at year end is due to Alumina's continuing payments for investments in associates included investment in the Juruti mine in Brazil.

The maturity of debt is outlined in Note 15 to the Consolidated Financial Statements. Alumina's funding facilities at December 31, 2012 include bilateral bank facilities, a syndicated loan and a development bank loan. The syndicated facility is available in US dollars. The bilateral facilities are available in US dollars, Australian dollars and Euro. The development bank loan is fully drawn in US dollars and Brazilian Reals.

Funding facilities were restructured during 2011 and 2012, to provide greater diversity of funding sources and smaller refinancing requirements. Alumina's maturity profile has also been lengthened.

A syndicated US\$ three and five year debt facility totalling \$320 million was entered into on November 12, 2010. The three year tranche was extended until December 2017 in December 2012. During 2012, Alumina Limited added \$200 million in new committed debt facilities with terms of two and five years and successfully refinanced \$107 million committed bank facilities due for maturity in November 2013 to December 2017.

The key funding principles inherent in Alumina's treasury policies are:

- conservative levels of debt should be maintained over the longer term to ensure that the Company's activities and growth are not debt constrained;
- debt should be sourced at the most competitive price available, although this needs to be balanced against having a diversity of sources and a managed maturity profile;
- debt tenor and currency should reflect asset life, currency exposure and overall level of debt. A core amount of long-term debt would generally be retained with the balance in short-term and medium-term debt due to its lower cost and repayment flexibility;
- project finance should be utilised where warranted by risk management considerations (country or project specific);
- where foreign currency assets are acquired, raising debt in that currency should be considered to achieve a balance sheet hedge and reduce foreign exchange translation exposures; and
- interest costs should be minimised.

Capital expenditure was \$171 million for the year ended December 31, 2012 and \$166.6 million for the year ended December 31, 2011. The expenditures were in the form of equity contributions to fund AWAC's expansion projects in Brazil, equity contributions for the Ma'aden joint venture and contributions for working capital.

In February 2013, Alumina announced a placement of approximately 366 million shares with CITIC ("China International Trust and Investment Company") entities raising approximately A\$452 million Australian dollars. The proceeds were primarily used to repay drawn debt.

#### *Change in Functional Currency for Financial Reporting*

An entity's functional currency is the currency of the primary economic environment in which the entity operates. With Alumina Limited's investment program in Brazil almost completed, greater production and cash flows to shareholders are expected from these assets in future. Most dividends received by the Alumina Group are in US dollars. Consequently in February 2010 the Alumina Board recognised the change in the balance of factors that are assessed to determine Alumina Limited's functional currency, and changed Alumina Limited's functional currency to US dollars, effective January 1, 2010.



## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### *Obligations*

Prior to the demerger, WMC Finance (USA) Limited (“Finance USA”) (a wholly-owned subsidiary of WMC Resources) had approximately \$800 million of long dated bonds issued in four separate tranches (having maturities in 2003, 2006, 2013 and 2026), on issue (the “US Bonds”).

The obligations of Finance USA under the US Bonds were guaranteed by Alumina. In connection with the demerger, Finance USA tendered to repurchase the US Bonds remaining outstanding. The aggregate amount of outstanding bonds not repurchased was comprised as follows:

- US Bonds due November 15, 2013 – \$3,658,000
- US Bonds due December 1, 2026 – \$115,000

These outstanding US Bonds continue to be guaranteed by Alumina. The duration of the guarantee is unlimited, and continues as long as amounts are outstanding under the US Bonds.

Under the demerger deed, Alumina and WMC Resources indemnify each other in respect of certain liabilities. Alumina would be entitled to reimbursement from WMC Resources for amounts paid by Alumina under the guarantee in respect of the US Bonds.

During 2005, WMC Resources was acquired by BHP Billiton.



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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS***New Accounting Pronouncements*

Refer to Note 1(V) of the audited Consolidated Financial Statements for new accounting pronouncements.

*Australian Accounting Standards Board*

The Australian Accounting Standards Board ("AASB") has adopted International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after January 1, 2005. The AASB has issued Australian Accounting Standards (AAS) and has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee (the later activity was formerly undertaken by The Urgent Issues Group).

The financial report of Alumina Limited complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

*C. Research and Development, Patents and Licenses*

Not applicable.

*D. Trend Information*

Relevant industry and market trends are discussed for Alumina and AWAC as a whole in Item 5.A "Operating Results".

*E. Off-Balance Sheet Arrangements*

Not applicable.

*F. Tabular Disclosure of Contractual Obligations*

An analysis of Alumina's contractual and commercial commitments is set out in the table below. For a discussion of weighted average interest rates applicable for debt, refer to note 24 in the financial statements.

<u>Contractual Obligations</u>	<u>Amount of Commitment – December 31, 2012</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>Between 1-3 years (\$ million)</u>	<u>Between 3-5 years</u>	<u>Over 5 years</u>
Short term debt	52.0	52.0	—	—	—
Long term debt	622.5	—	517.5	105.0	—
Other liabilities reflected on the Company's balance sheet	8.4	7.8	0.6	—	—
Total on-balance sheet contractual obligations	682.9	59.8	518.1	105.0	—

<u>Other Commercial Commitments</u>	<u>Amount of Commitment – December 31, 2012</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>Between 1-2 years (\$ million)</u>	<u>Between 2-5 years</u>	<u>Over 5 years</u>
Operating lease commitments	0.3	0.1	0.1	0.1	—

Operating lease commitments relate to the corporate office facilities in Australia.

Contractual obligations do not include interest.

Interest on Financing Facilities includes floating rates on the BNDES facility linked to both Libor (after hedging) and the BNDES Currency Basket rate, which is predominantly USD based.



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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

The business of Alumina is managed by a Board of Directors which, in accordance with Alumina's Constitution, may not have fewer than three nor more than 12 members.

Directors of Alumina are classified as either executive or non-executive Directors, with the former being those Directors engaged in full-time employment by Alumina.

The Directors in office at April 11, 2013 were:

<u>Name</u>	<u>Position</u>	<u>Summary of Experience</u>	<u>Initially Elected or Appointed as Director</u>	<u>Age</u>	<u>Expiry of Current Term</u>
<b>Executive Directors</b>					
John Bevan	Executive Director/ Chief Executive Officer	Mr Bevan was elected as Executive Director and Chief Executive Officer on June 16, 2008. He is currently a Non-executive director of Ansell Limited (appointed August 2012). Prior to commencing with Alumina Limited, Mr Bevan most recently held the position of chief executive of Process Gas Solutions at BOC Group Plc and was elected to the Board of Directors. He had a long career with the BOC Group Plc including a variety of management roles in Australia, Korea, Thailand and the UK before becoming chief executive of Asia in 2000. He was a director of BOC Plc in London from 2003 to 2007. Mr Bevan has strong commercial and operational experience gained through operating in joint ventures in many parts of the world, particularly Asia.	June 2008	56	N/A
<b>Non-Executive Directors</b>					
G. John Pizzey <sup>(1)(2)(3)</sup>	Chairman	Chairman of Iluka Resources Ltd (appointed November 2005), a director of Amcor Limited (September 2003). Mr Pizzey is a life governor of Ivanhoe Grammar School and a former chairman and director of the London Metal Exchange. Mr Pizzey was previously a director of AofA from April 1999 to December 2003.	June 2007	67	<sup>(4)</sup>
Peter A.F. Hay <sup>(1)(2)(3)</sup>	Director	Chairman of the Advisory Board of Lazard in Australia, and is a director of Australian and New Zealand Banking Group Limited, Landcare Australia Limited, GUD Holdings Limited, and Epworth Foundation and was appointed a director of Myer Holdings Limited in February 2010. He is a former Chief Executive Officer of the law firm Freehills.	December 2002	62	<sup>(4)</sup>



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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

<u>Name</u>	<u>Position</u>	<u>Summary of Experience</u>	<u>Initially Elected or Appointed a Director</u>	<u>Age</u>	<u>Expiry of Current Term</u>
Emma Stein <sup>(1)(2)(3)</sup>	Director	Non-executive director of Clough Limited, Non-Executive Director for Diversified Utilities Energy Trust, Non-Executive Director for Programmed Maintenance Group, Transpacific Industries Group. Formerly the UK Managing Director for French utility Gaz de France's energy retailing operations. Before joining Gaz de France she was UK Divisional Managing Director for British Fuels.	February 2011	52	<sup>(4)</sup>
P Wasow <sup>(1)(2)(3)</sup>	Director	Non-executive director of Murchison Metals Limited. Mr Wasow served eight years at Santos Limited from 2002 to 2010. Initially appointed as Chief Financial Officer, he assumed the additional role of Executive Vice President from 2008. Prior to joining Santos, Mr Wasow held several senior roles over a 23 year career at BHP including Vice President of Finance.	August 2011	54	<sup>(4)</sup>
Chen Zeng <sup>(2)(3)</sup>	Director	Vice Chairman and Chief Executive Officer of CITIC Resources Holding Limited (a Hong Kong Stock Exchange listed company) and the Executive Chairman of its wholly-owned subsidiary CITIC Resources Australia Pty Ltd. Mr Zeng is also a director of CITIC Dameng Holdings Limited and Marathon Resources Limited. Mr Zeng was a director of Macarthur Coal Limited from 2007 to 2011. Mr Zeng has been a full time executive with CITIC Group Corporation for over 24 years.	March 2013	49	<sup>(4)</sup>

<sup>(1)</sup> Member of Audit Committee<sup>(2)</sup> Member of Compensation Committee<sup>(3)</sup> Member of Nomination Committee

<sup>(4)</sup> As explained in Section C, Non-executive directors are subject to retirement by rotation. Mr Peter A.F. Hay was re-elected as a director at the 2010 annual general meeting and will stand for re-election at the 2013 annual general meeting. Mr G. John Pizzey was re-elected as a director at the 2011 annual general meeting. Ms Emma Stein was appointed a director on February 3, 2011 and elected a director at the 2011 annual general meeting and has elected to retire and stand for re-election at the 2013 annual general meeting. Mr Wasow was appointed a director on August 26, 2011 and was appointed a director at the 2012 annual general meeting. Mr Zeng was appointed a director on March 15, 2013 and will be seeking election at the 2013 annual general meeting.

In addition to the Chief Executive Officer, there are two other executive officers appointed by and reporting to the Chief Executive Officer responsible for the day to day running of the business. As at April 11, 2013, the executive officers were:

<u>Executive Officer</u>	<u>Position</u>	<u>Summary of Experience</u>	<u>Appointed as Executive officer</u>
Chris Thiris	Chief Financial Officer	Responsible for accounting, treasury, investor relations and taxation. Mr Thiris has extensive experience in finance and management functions gained through senior roles he has held in other organisations.	December 2011



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Executive Officer	Position	Summary of Experience	Appointed as Executive officer
Stephen Foster	General Counsel & Company Secretary	Responsible for legal, company secretarial, shareholder services, insurance and human resources. Mr Foster joined WMC Limited in November 2002 following more than three years with Village Roadshow Ltd as Business Affairs Manager (Projects). Mr Foster previously held legal positions with WMC's Legal and Treasury department from 1990 to 1999 and with Arthur Robinson & Hedderwicks (now Allens Linklaters) from 1987 to 1990.	December 2002

### B. Compensation

For the year ended December 31, 2012, the aggregate amount of compensation paid and accrued to the Alumina directors and executives of Alumina was \$4,969,514 (compared to \$5,848,080 in 2011 and \$4,146,585 in 2010). There is no other contingent or deferred compensation arrangements accrued for executives or directors. The remuneration of individual directors and executives is paid in A\$ and converted in the tables below to US\$ using the 2012 yearly average rate which increased by 0.3%.

Non-executive directors remuneration January to December 2012	Director's fee <sup>(1)</sup> \$	Other <sup>(2)</sup> \$	Total \$
<b>Current Non-executive directors</b>			
G. John Pizzey (from 8/06/07)	372,780	16,695	389,475
Peter A. F. Hay (from 11/12/02)	176,035	15,843	191,878
Emma Stein (from 3/2/11)	176,035	15,843	191,878
Peter Wasow (from 26/08/11)	181,213	16,309	197,522

<sup>(1)</sup> Includes board and committee fees.

<sup>(2)</sup> Includes Alumina's contribution to superannuation. All employees of Alumina Limited are members of an accumulation category plan which offers a minimum contribution (subject to certain cashing out options and legislation) of 9% cent of basic salary to each member's account.

Executive director remuneration and executive remuneration January to December 2012	Fixed remuneration <sup>(1)</sup> \$	Other compensation <sup>(2)</sup> \$	Total remuneration \$
<b>Current executive directors</b>			
John Bevan, Chief Executive Officer	1,187,511	1,094,935	2,282,446
<b>Current senior executives</b>			
Chris Thiris, Chief Financial Officer	647,188	240,249	887,437
Stephen Foster, General Counsel and Company Secretary	483,371	345,506	828,877

<sup>(1)</sup> Includes company's contribution to superannuation. All employees of Alumina Limited are members of an accumulated category plan which offers a minimum company contribution (subject to certain cashing out options and legislation) of 9% of basic salary to each member's account.

<sup>(2)</sup> Other compensation includes short-term incentive payments, performance rights, parking, health management, termination pay and executive indemnity insurance.

In February 2003, a share plan for Alumina employees was introduced. The plan provides rewards for employees based on Alumina's performance against two peer indices. Actual rewards depend upon the performance of Alumina exceeding the performance of a percentage of companies in an index on a total shareholder return basis. From December 2002, short term incentives are payable to management according to key performance indicators applicable to the individual and Alumina.

Alumina's current full-time employees are members of a fund of their choice. Contributions are funded at the Superannuation Guarantee Contributions rate, currently 9% of an employee's fixed remuneration.

**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*****C. Board Practices***

The Board, working with senior management, is responsible to shareholders for overall management of Alumina Limited, its business performance and for formulating and establishing its strategic goals. It approves company strategy and direction, strategic goals, operating budgets and business performance targets. The Board ensures that appropriate policies, procedures and systems are in place to manage risk, optimise business performance, maintain high standards of ethical behaviour and legal compliance and protect the interests of shareholders.

Relevant experience, diverse perspectives and complementary business skills are sought when appointing new directors. The Board comprises a non-executive chairman, three other non-executive directors and one executive director. A balance between independent business experience, diversity and industry knowledge is sought. To assist in the discharge of their duties, Directors have the right to seek independent professional advice collectively and individually.

Board visits are regularly conducted to AWAC operational sites to review business performance, review operating processes and meet with management.

A director may not hold office for a continuous period in excess of three years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for election or re-election. If no director would otherwise be required to submit for election or re-election but the NYSE Listing Rules require that an election of directors be held, the director to retire at the Annual General Meeting is the director who has been longest in office since their last election.

Eligible retiring directors may offer themselves for re-election by the shareholders. The Company's Nomination Committee Charter provides that Non-Executive Directors shall retire after nine years of continuous service as a Non-Executive Director (or immediately prior to the next succeeding annual general meeting of the Company after completion of the nine year period) unless otherwise requested to continue by the Board. After elected by the shareholders, a Director who is appointed a Managing Director by the Board is not required to retire by rotation. The Directors may appoint a Director either to fill a casual vacancy or as an addition to their numbers. Such Directors hold office until the next Annual General Meeting and may be elected by the shareholders at such meeting, but are not taken into account in determining the number of Directors who are to retire by rotation at that meeting.

Each Director has the power to appoint any person approved by a majority of his/her co-Directors to act as an Alternate Director in his/her place, whether for a stated period or periods or until the happening of a specified event or from time to time, whenever by absence or illness or otherwise he shall be unable to attend to his/her duties as a Director.

The Directors may from time to time appoint one or more of their body to be a Managing Director or Managing Directors. The Directors may confer upon any Managing Director such of the powers exercisable under Alumina's Constitution by the Directors as they may elect, without derogating from the exercise of those powers by the Directors. John Bevan is currently the Managing Director and Chief Executive Officer of Alumina and was appointed to such position for an unspecified period.

Alumina's Constitution provides that the Directors may elect a Chairman of their meetings and determine the period for which he/she is to hold office. John Pizzey is currently the Non-Executive Chairman of Alumina.

Alumina's most senior employee, the Chief Executive Officer, is selected by the Board and is subject to semi-annual performance reviews by the non-executive directors. The Chief Executive Officer recommends policy and strategic direction for board approval and is responsible for managing day-to-day business performance.

Specific board committees assist the full Board. Charters set out the roles and terms of reference for the Audit, Compensation and Nomination Committees. The Audit Committee, consisting of four non-executive directors, meets at least four times a year, assists the Board in fulfilling its responsibilities for the Company's accounts and external reporting by ensuring that appropriate processes are in place to support the Board in fulfilling its responsibilities for:

- reporting of financial information to users of Alumina's financial reports;





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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

- Alumina's application of accounting policies;
- Alumina's internal financial control systems;
- the independent auditors qualifications and independence;
- the performance of Alumina's independent auditors and internal audit function, and
- agreeing the scope and monitor the progress of Alumina's internal audit plan.

Annually, the Audit Committee reviews audit programmes conducted by independent external auditors, and the internal audit function to ensure that its resources are adequate, used effectively and co-ordinated with the external auditors. It meets regularly with management, and internal and external auditors, to ensure that adequate controls and practices are in place. The Audit Committee is responsible for the appointment and compensation of external auditors. A process has been established whereby complaints or concerns regarding financial impropriety of employees and others can be confidentially directed to the Chairman of the Audit Committee.

The Compensation Committee of five non-executive directors meets at least two times a year. Its role is to establish and review Alumina's remuneration plans, policies and practices, including compensation for the non-executive directors, the chief executive officer and senior executives, and succession planning. On behalf of the Board and shareholders, the Committee considers the remuneration strategy with regard to community and industry standards and, where possible, verifies its appropriateness using external information and advice to ensure that:

- shareholder and employee interests are aligned;
- the company is able to attract, develop and retain talented employees; and
- the integrity of the company's reward programme is maintained.

The Compensation Committee also approves payments to all directors and reviews director remuneration annually based on independent external advice with regard to market practices, relativities and the duties and accountabilities of directors.

The Nomination Committee consists of five non-executive directors and meets as necessary. Its role is to assist the Board in fulfilling its responsibilities to shareholders relating to:

- identifying the necessary and desirable competencies of Board members;
- regularly assessing competencies necessary to be represented by Board members;
- the selection and appointment process for Directors;
- regularly reviewing the size and composition of the Board, including succession plans;
- determining which non-executive Directors are to retire in accordance with the provisions of Alumina Limited's constitution; and
- overseeing the application Alumina Limited's Diversity Policy in the selection and appointment processes and reporting obligations.

Board committee meetings are occasionally convened to address predetermined issues, when it is not practical to organise a full Board meeting. A Board committee comprises two or more directors.

It is company policy not to extend or maintain credit directly or indirectly or arrange for the extension of credit in the form of a personal loan to Directors and Executive Officers. The use of a corporate credit card is provided for business purposes. Personal expenses are reimbursed to the company.

The directors, executive management and employees have adopted and abide by a Code of Conduct (Ethics) to promote honest and ethical conduct and deter wrongdoing. In 2004, the Company approved and adopted a Whistleblower Policy providing rights to staff (including contractors and consultants) to report any perceived malpractice, impropriety, serious unethical behaviour, legal or regulatory non-compliance or questionable accounting or audit matter. The Policy provides disclosing employees protection from any reprisal or detrimental action resulting from such disclosure.



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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***Retirement and termination benefits****Chief Executive Officer***

Mr Bevan's employment contract, which was entered into in April 2008, 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 Bevan's employment is terminated on the basis of redundancy of the position or by Mr Bevan 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 Stock Exchange, or if there is a Significant Change to his status and/or responsibilities which is detrimental to him, or if Alumina Limited decides the position is no longer required and suitable alternative employment is not offered, or Mr Bevan does not accept other employment within Alumina or another employer), then Mr Bevan 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); and
- the aggregate of a notice payment of 12 months, a severance payment of two and a half weeks per completed year of service, and an additional severance payment of 13 weeks.

In addition to any entitlements conferred on Mr Bevan under his service contract, Mr Bevan is entitled to receive on termination of employment, his statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. Mr Bevan is not entitled to receive any other additional termination benefits, other than those previously mentioned and any vesting of shares under the Alumina Employee Share Plan.

*Senior Executives*

In addition to Mr Bevan, Alumina Limited has entered into a service contract with each Senior Executive (Mr Thiris and Mr Foster). The contracts provide for the following retirement and termination benefits.

If Mr Thiris or Mr Foster's employment is terminated on the basis of redundancy of their position or if they give written notice to Alumina in the event of 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 Thiris and 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); and
- the aggregate of: a notice payment of 12 weeks, a severance payment of two and a half weeks per completed year of service, and an additional severance payment of 13 weeks.

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

*Non-Executive Director Retirement Benefits*

Non-executive Directors receive, in addition to their fees, a superannuation guarantee contribution which for 2012 was 9% of their fees to a maximum of A\$16,123 for the Chairman, and between A\$15,300 to A\$15,750 for other Non-executive Directors. Non-executive Directors do not receive any other retirement benefits.



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**ALUMINA LIMITED**  
**FORM 20-F**

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### ***D. Employees***

At December 31, 2012, Alumina employed 12 people directly. All Alumina employees work in the corporate office in Australia. For details of the number of AWAC employees for the periods presented refer to Item 4.B.(iii) "Employees".

### ***E. Share Ownership***

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



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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***Alumina Employee Share Plan (ESP)*

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.

For those performance rights granted since 2008, if less than 100% vest when tested initially at the end of a three year period, two further tests apply (over a four week period) six and 12 months after the initial test. Any performance rights which do not vest after the second retest will lapse.

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 directors decide otherwise.

The 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.

Set out below are the assumptions made for the performance rights granted on March 9, 2012:

Share Price at Valuation date	\$1.185
Risk Free rate	3.63%
Dividend Yield	3.1%
Volatility	47%

The volatility assumption is based on the actual volatility of Alumina Limited's daily closing share price over the three year period to the valuation date.



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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

The performance criteria and testing period for each annual grant under the ESP are determined by the Board at the time the Board determines to offer the performance rights usually in December of each year and the testing period commences at that time. The implementation of that Board determination, including the period in which employees can consider and accept the offer, normally results in the actual granting of the performance rights in January or February.

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

**2012**

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
13/1/2009	30/11/2011	352,500	—	—	(352,500)	—
12/2/2010	20/12/2012	496,600	—	—	(11,000)	485,600
18/2/2011	6/12/2013	428,400	—	—	(9,100)	419,300
9/3/2012	11/12/2014	—	680,240 <sup>1</sup>	—	(14,200)	666,040
<b>Total</b>		<b>1,277,500</b>	<b>680,240</b>	<b>—</b>	<b>(386,800)</b>	<b>1,570,940</b>

<sup>1</sup> Fair value per performance right at grant date was A\$0.78.

**2011**

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
8/2/2008	4/12/2010	15,850	—	—	(15,850)	—
13/1/2009	30/11/2011	352,500	—	—	—	352,500
12/2/2010	20/12/2012	634,300	—	—	(137,700)	496,600
18/2/2011	6/12/2013	—	559,900 <sup>2</sup>	—	(131,500)	428,400
<b>Total</b>		<b>1,002,650</b>	<b>559,900</b>	<b>—</b>	<b>(285,050)</b>	<b>1,277,500</b>

<sup>2</sup> Fair value per performance right at grant date was A\$2.03.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## 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.

2012

Name	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
<b>Directors of Alumina Limited</b>				
<b>Ordinary shares</b>				
P A F Hay	112,598	—	—	112,598
J Pizzey	65,445	—	—	65,445
E Stein	14,281	—	—	14,281
J Bevan	432,152	—	—	432,152

Other key management personnel of the company and consolidated entity

<b>Ordinary shares</b>				
S C Foster	144,867	—	—	144,867

2011

Name	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
<b>Directors of Alumina Limited</b>				
<b>Ordinary shares</b>				
D M Morley <sup>1</sup>	951,670	—	—	951,670
P A F Hay	112,598	—	—	112,598
R J McNeilly <sup>2</sup>	115,145	—	—	115,145
J Pizzey	65,445	—	—	65,445
E Stein	—	—	14,281	14,281
J Bevan	355,380	—	76,772	432,152
J S Downes <sup>3</sup>	174,350	—	31,210	205,560

<sup>1</sup> Mr Morley retired from the Company on 30 November 2011. His shareholding is of that date.

<sup>2</sup> Mr McNeilly retired as a Director of Alumina limited on 3 March 2011. His shareholding is of that date.

<sup>3</sup> Ms Downes ceased employment with the Company on 24 August 2011. Her shareholding is of that date.

Other key management personnel of the company and consolidated entity

<b>Ordinary shares</b>				
S C Foster	122,081	—	22,786	144,867

**MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The issued capital of Alumina is currently constituted by one class of registrable voting securities being ordinary shares.

As at February 28, 2013, Alumina had on issue 2,806,225,615 fully paid ordinary shares.

Alumina is not directly or indirectly owned or controlled by another corporation, any foreign government or any person.

The following table sets forth, as at February 28, 2013, information in respect of:

- (i) any person who is known to Alumina to be the registered owner of more than 5% of any class of its voting securities; and
- (ii) the total amount of any class of its voting securities owned by the Directors and Executive General Managers of Alumina as a group.

<u>Title of class</u>	<u>Identity of person or group</u>	<u>Amount owned</u>	<u>% of class</u>
Fully paid Ordinary Shares	National Nominees Ltd	586,632,452	20.90
	HSBC Custody Nominees (Aust) Limited	469,451,225	16.73
	J P Morgan Nominees Australia Ltd	432,481,132	15.09
	CITIC Resources Australia Pty Ltd	219,617,657	7.83
	Bestbuy Overseas Co., Ltd	146,411,771	5.22
Fully paid Ordinary Shares <sup>(1)</sup>	Directors and Executive officers of Alumina as a group	1,249,691	0.04

<sup>(1)</sup> Includes Alumina's ADS's

The nominee companies listed in the previous table hold these fully paid ordinary shares on behalf of numerous beneficial owners. Beneficial owners known to have owned more than 5% of the issued and outstanding fully-paid ordinary shares are listed below. Their history of significant changes over the last three years is outlined below:

<u>Beneficial Owner</u>	<u>Date</u>	<u>Number of Shares</u>	<u>% Shareholding</u>
<b>BlackRock Investment Management (Australia) Limited</b>	12/20/2011	118,188,317	4.84%
	01/25/2011	130,606,615	5.35%
<b>Perpetual Limited and subsidiaries</b>	12/11/2012	117,881,382	4.83%
	10/12/2011	172,698,578	7.08%
	08/23/2011	147,093,709	6.03%
	07/27/2011	122,169,825	5.01%
<b>Ausbil Dexia Limited</b>	11/18/2011	119,682,580	4.90%
	03/22/2010	149,638,549	6.13%
<b>Cooper Investors Pty Ltd</b>	02/23/2012	121,111,832	4.96%
	11/08/2011	123,116,997	5.05%
	04/06/2011	120,057,311	4.92%
	08/19/2010	127,237,415	5.21%
	07/12/2010	122,157,783	5.01%





## MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Beneficial Owner	Date	Number of Shares	% Shareholding
<b>Schroders</b>	05/16/2012	172,782,144	7.08%
	04/11/2012	147,557,915	6.05%
	11/18/2011	122,148,428	5.01%
	06/01/2009	113,270,773	4.64%
	05/09/2009	114,973,760	5.22%
<b>CITIC Resources Australia Pty Ltd<sup>1</sup></b>	02/14/2013	219,617,657	7.83%
<b>Bestbuy Overseas Co., Ltd<sup>1</sup></b>	02/15/2013	146,411,771	5.22%
<b>Manning &amp; Napier LLC</b>	03/28/2013	158,270,545	5.64%
	12/31/2012	168,652,695	6.91%
	09/30/2012	143,461,445	5.88%
	06/30/2012	68,314,290	2.80%
	03/31/2012	37,277,390	1.53%
<b>Ellerston Capital Limited</b>	03/28/2013	143,168,675	5.10%
	12/31/2012	120,664,390	4.94%
	09/30/2012	113,106,402	4.64%
	06/30/2012	81,625,600	3.35%
	12/31/2011	41,182,275	1.69%

<sup>1</sup> These are related companies and held by CITIC Resources Holdings Limited (a Hong Kong Stock Exchange listed company).

All fully paid shareholders have the same voting rights as any other fully paid shareholder. There are no arrangements, known to Alumina, the operation of which may at a subsequent date result in a change in control of Alumina.

As at February 28, 2013, 661,698 Alumina fully paid ordinary shares were registered in the name of 211 residents of the United States and represented approximately 0.02% of the total number of Alumina fully paid ordinary shares issued and outstanding. As at February 28, 2013, 20,707,782 Alumina ADRs were outstanding (representing 82,831,128 Alumina fully paid ordinary shares) and were registered in the name of 242 residents of the United States and represented approximately 2.95% of the total number of fully paid ordinary shares issued and outstanding.

### **B. Related Party Transactions**

#### *Loans to directors*

No loans were provided in 2012 or 2011, and no balances remained outstanding at December 31, 2012 or December 31, 2011.

#### *Shareholding transactions of directors*

The majority of Alumina's directors are also shareholders of the company and as such, they may purchase or sell Alumina's shares.

Where directors have purchased or sold shares they have done so on normal commercial terms, on conditions no more favorable than those available to other shareholders.

During 2009, new legislation was introduced that altered the taxation treatment of shares acquired under Non-executive Director Share Plans. Following a review of the effect of the new tax rules, a decision was made to terminate the Non-executive Director Share Plan that had required Non-executive directors to each purchase shares in Alumina Limited equivalent to a minimum value of 10% of their annual fees.



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**MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

The directors reaffirmed the Company Policy that required them to hold shares equal to, or greater than, one year's annual fees by the expiry of their first term as a Director.

	2012	2011
* Number of Alumina Limited shares		
The aggregate number of vested shares granted to executives through participation in the Alumina Employee Share Plan was:	—	—
Details of shares and share options held by directors of the parent entity or their director-related entities at period end are as follows:		
- fully paid shares	624,476	624,476

\* Individual directors beneficially own less than 1% of total ordinary shares outstanding, the only class of shares issued by Alumina Limited.

All other transactions relating to shares and options of WMC Limited prior to the demerger, and Alumina Limited post demerger including the payment and receipt of dividends, were on the same basis as similar transactions with other shareholders.

*Other transactions with key management personnel*

A number of the directors of Alumina Limited are also directors of other public companies which may have transactions with the Alumina group. The relevant directors do not believe that they have the capacity to control or significantly influence the financial or operating policies of either those companies or the Alumina group in their dealings with one another.

*Other Related Parties*

On November 19, 2008, Alumina Finance Limited ("Lender"), a wholly-owned subsidiary of Alumina Limited, along with Aluminio Espanol S.A. ("Lender") entered into a Revolving Credit Facility Agreement with Alumina Espanola S.A. ("Borrower"), an entity which forms part of AWAC. In April 2009, Alumina Limited also became a party to the Revolving Credit Facility Agreement as a Lender to the Borrower. The lenders from time to time will lend to the Borrower amounts up to a maximum outstanding principal not to exceed Euro 150,000,000 for the purpose of funding the Borrower's alumina refinery operating needs. During 2009, the lenders advanced a total of Euro 68,847,921 to the Borrower. Monies advanced under this facility were returned to Alumina Limited and Alumina Finance Limited in September 2009 and December 2009. At December 31, 2012 there were no loans outstanding.

AofA advanced a total of \$34,800,000 to Alumina Limited in December 2008. These funds were used by Alumina Limited to fund the remaining 2008 funding requirements for AWAC's investment in Brazil. The loan was repaid in January 2009.

There are no other related party transactions.

*C. Interests of Experts and Counsel*

Not applicable.



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## FINANCIAL INFORMATION

## ITEM 8. FINANCIAL INFORMATION

## A. Financial Statements

Refer to Alumina's Consolidated Financial Statements which are included as Item 18.

*Legal Proceedings*

At the date of this Annual Report there were no material pending legal proceedings, other than:

- (i) those mentioned below; or
- (ii) ordinary routine litigation or other legal proceedings incidental to the business.

*Native Title in Australia*

"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 as recognized by the common law of Australia.

Native title law has evolved through judicial decisions and the enactment of legislation. The first significant High Court decision on the subject of native title was *Mabo v Queensland (No 2)* (1992) 175 CLR 1 ("the Mabo decision") in 1992, in which the Court recognized the concept of native title and said that Aboriginal and Torres Strait Islander people who have maintained their connection with their land according to their laws and customs may hold native title. Proving connection usually involves showing that traditional laws and customs have been passed down through generations of Aboriginal or Torres Strait Islander people to the present day. The native title of a particular group will depend on the traditional laws and customs of those people. Recent decisions have indicated that native title may change over time.

The Mabo decision also recognized that native title could be extinguished (removed) prior to the enactment of the Racial Discrimination Act 1975 (Cth) (October 31, 1975) by government legislation or inconsistent executive action. In response to the Mabo decision, the Commonwealth Government enacted the Native Title Act 1993 (Cth) ("NTA") which validated acts done and granted by it prior to January 1, 1994 ("past acts") and allowed the States and Territories to enact their own validation legislation. Subsequent amendments also validated grants ("intermediate period acts") made by the Commonwealth (and allowed the States and Territories to enact similar legislation) relating to certain grants up to December 23, 1996. The NTA also created the National Native Title Tribunal, responsible for mediation of native title claims and the administration of certain procedures under the NTA. Finally, the NTA specifies the conditions to be satisfied and the procedures to be followed in order for acts done after January 1, 1994 ("future acts") to be valid with respect to native title.

Native title may exist in areas where it has not been extinguished. Although a determination of native title does not invalidate another's validly granted tenure, the High Court decision in the *Wik Peoples v Queensland* (1996) 187 CLR 1 ("Wik") case, made it clear that native title may co-exist with other forms of tenure where that tenure is not exclusive, provided the native title rights are not incompatible with the exercise of the other rights.

In August 2002, the High Court handed down its decision in the *State of Western Australia v Ward* (2002) 213 CLR 1 ("Ward"). The Court found, among other things, that native title can be categorized as a "bundle of rights", that there could be partial extinguishment of native title rights and that Western Australian and Northern Territory mining and petroleum legislation extinguishes all native title rights that may have existed over minerals and petroleum in Western Australia and Northern Territory. The High Court also held that a mining lease under the relevant Western Australian legislation extinguished any native title right to control access to land, or to be asked permission to use, or have access to, land but does not necessarily extinguish all native title rights. This decision, which provides some clarity about the impact of native title on pastoral leases and mining leases in Western Australia and the Northern Territory is significant to AofA because some of its operations are in Western Australia. However, the decision also leaves many issues to be decided on a case by case basis.

There are current native title claims awaiting determination in the Federal Court of Australia over areas that include AofA's Mining Lease (ML) 1SA (Western Australia) ("the Alcoa Lease"). The native title claim which includes a portion of the conveyor associated with Alcoa's 45% interest in the Portland Smelter (Victoria) has been determined.



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**FINANCIAL INFORMATION*****(a) Western Australia***

AofA's operations fall within the Gnaala Karla Booja native title claim (Federal Court file number WAD6274/98) and the Combined Single Noongar claim (WAD6006/03), both of which are yet to be determined.

These claims include the Alcoa Lease. However, as a result of the Ward decision, the potential exposure of AofA to this claim is significantly reduced by the High Court's finding that any native title right in minerals (if it could be established on the evidence) has been extinguished.

***(b) Victoria***

AofA's interest in Portland Smelter falls within the two of the Gunditjmara native title claims, namely Gunditjmara #1 (VID6004/98) and Gunditjmara #2 (VID655/06). In March 2007, these two claims were heard together and, in combination, were further split into Part A and Part B areas pursuant to Orders of Justice North on January 18, 2007. The claims in respect of Part A were determined by consent in March 2007.

The Portland Smelter is situated on a freehold title and all validly granted freehold titles were excluded from the claim. Part A of the claims only affected a small portion of the land on which the Portland Conveyor is situated pursuant to a Conveyor Licence Agreement. Native title was determined to subsist in a part of that land. The Gunditjmara native title consists of non-exclusive rights to access, enjoy, camp on or take resources from the relevant part of that land where native title subsists.

Alcoa Portland withdrew from Part B of the claim on confirming that none of its interests were impacted by that part of the claim.

***(c) General***

While native title does and may still exist in the above Western Australian and Victorian claim areas, all valid grants of tenure over the years will prevail to the extent of any inconsistency. The validity of AofA's tenure has not been challenged and AofA does not know of any basis upon which such tenure may be found invalid. Accordingly, AofA is entitled to continue its operations notwithstanding any native title rights and interests subsisting in those areas.

***AWAC Litigation***

In the ordinary course of its business, AWAC is involved in a number of lawsuits and claims, both actual and potential, including some that it has asserted against others. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. It is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies.

***Juruti***

As previously reported, on November 30, 2010, Alcoa Alumínio S.A. (Alumínio) received service of a lawsuit that had been filed by the public prosecutors of the State of Pará in Brazil in November 2009. The suit names the company and the State of Pará, which, through its Environmental Agency, had issued the operating license for the company's new bauxite mine in Juruti. The suit concerns the impact of the project on the region's water system and alleges that certain conditions of the original installation license were not met by the company. In the lawsuit, plaintiffs requested a preliminary injunction suspending the operating license and ordering payment of compensation. On April 14, 2010, the court denied plaintiffs' request. Alumínio presented its defense in March 2011, on grounds that it was in compliance with the terms and conditions of its operating license, which included plans to mitigate the impact of the project on the region's water system. In April, 2011, the State of Pará defended itself in the case asserting that the operating license contains the necessary plans to mitigate such impact, that the State monitors the performance of Alumínio's obligations arising out of such license, that the licensing process is valid and legal, and that the suit is meritless. Alcoa's stated position is that any impact from the project had been fully repaired when the suit was filed. Alcoa also believes that Jara Lake has not been affected by any project activity and any evidence of pollution from the project would be unreliable. Following the preliminary injunction, the plaintiffs have taken no further action. Alcoa is not certain whether or when the action will proceed. Given that this proceeding is in its preliminary stage and the current uncertainty in this case, Alumina is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.



## FINANCIAL INFORMATION

*St Croix*

In September 1998, Hurricane Georges struck the U.S. Virgin Islands, including the St. Croix Alumina, L.L.C. (“SCA”) facility on the island of St. Croix. The wind and rain associated with the hurricane caused material at the location to be blown into neighbouring residential areas. SCA undertook or arranged various clean up and remediation efforts. The Division of Environmental Protection (“DEP”) of the Department of Planning and Natural Resources (“DPNR”) of the Virgin Islands Government issued a Notice of Violation that Alcoa has contested. In February 1999, certain residents of St. Croix commenced a civil suit in the Territorial Court of the Virgin Islands seeking compensatory and punitive damages and injunctive relief for alleged personal injuries and property damages associated with “bauxite or red dust” from the SCA facility. In September 2009, the Court granted defendants’ motion for summary judgement on the class plaintiffs’ claim for injunctive relief. In October 2009, plaintiffs appealed the Court’s summary judgement order dismissing the claim for injunctive relief and in March 2011, the U.S. Court of Appeals for the Third Circuit dismissed plaintiffs’ appeal of that order. In September 2011, the parties reached an oral agreement to settle the remaining claims in the case which would resolve the personal property damage claims of the 12 remaining individual plaintiffs. On March 12, 2012, the final judgement was entered in the District Court for the District of the Virgin Islands. On March 23, 2012, the plaintiffs filed a notice of appeal of numerous non-settled matters, including but not limited to discovery orders, Daubert rulings, summary judgement rulings, as more clearly set out in the settlement agreement/release between the parties. Plaintiffs’ appellate brief was filed in the Third Circuit Court on January 4, 2013, together with a motion seeking leave to file a brief of excess length. The court has suspended the remainder of the briefing schedule, including the date for Alcoa’s reply brief, until it rules on plaintiffs’ motion to file its brief of excess length. AWAC’s share of the settlement is fully insured.

On April 23, 2004, St Croix Renaissance Group, LLLP, Brownfield Recovery Corp, and Energy Answers Corporation of Puerto Rico (collectively referred to as “SCRG”) filed a suit against SCA and Alcoa World Alumina LLC (“AWA LLC”) in the Territorial Court of the Virgin Islands, Division of St Croix for claims related to the sale of SCA’s former St Croix alumina refinery to plaintiffs (Contract Action). SCA and AWA LLC thereafter removed the case to federal court and after a several year period of discovery and motion practice, a jury trial on the matter took place in St Croix from January 11, 2011 to January 20, 2011. The jury returned a verdict in favour of plaintiffs and awarded damages as described: on a claim of breaches of warranty, the jury awarded \$13 million; on the same claim, the jury awarded punitive damages in the amount of \$6 million; and on a negligence claim for property damage, the jury awarded \$10 million.

On February 17, 2011, Alcoa filed post-trial motions seeking judgement, notwithstanding the verdict or, in the alternative, a new trial. On May 31, 2011, the court granted Alcoa’s motion for judgement regarding Plaintiffs’ \$10 million negligence award and denied the remainder of Alcoa’s motions. Additionally, the court awarded Plaintiffs pre-judgement interest of \$2 million on the breach of warranty award. As a result of the court’s post-trial decisions, AWAC recorded a charge of \$20.3 million in 2011. On June 14, 2011, Alcoa filed a notice of appeal with the US Court of Appeals for the Third Circuit regarding Alcoa’s denied post-trial motions. Also on June 22, 2011, SCRG filed a notice of cross appeal with the Third Circuit Court related to certain pre-trial decisions of the court and of the court’s post-trial ruling on the negligence claim. The Third Circuit referred this matter to mediation as is its standard practice in appeals. Following mediation and further, separate settlement discussions, the parties executed an agreement dated September 30, 2011 resolving the matter in its entirety, and subsequently jointly petitioned (i) the District Court to release Alcoa from the jury verdict and (ii) the Third Circuit Court of Appeals to dismiss this matter. On March 13, 2012, the District Court entered an order discharging Alcoa from the jury verdict and, on March 14, 2012, the Third Circuit Court of Appeals dismissed the matter. This matter is now fully resolved.

On January 14, 2010, Alcoa was served with a complaint involving approximately 2,900 individual persons claimed to be residents of St. Croix who are alleged to have suffered personal injury or property damage from Hurricane Georges or winds blowing material from the property since the time of the hurricane. This complaint, Abednego, et al. v. Alcoa, et al. was filed in the Superior Court of the Virgin Islands, St. Croix Division. The complaint names as defendants the same entities as were sued in the February 1999 action described above and have added as a defendant the current owner of the alumina facility property. In February 2010, Alcoa and SCA removed the case to the federal court for the District of Virgin Islands. Subsequently, plaintiffs have filed motions to remand the case to territorial court as well as a third amended complaint, and defendants have moved to dismiss the case for failure to state a claim upon which relief can be granted. On March 17, 2011, the court granted plaintiffs’ motion to remand to territorial court. Thereafter, Alcoa filed a motion for allowance of appeal. The motion was denied on May 18, 2011. The parties await assignment of the case to a trial judge. At present, Alumina is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.



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**FINANCIAL INFORMATION**

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On March 1, 2012, Alcoa was served with a complaint involving approximately 200 individual persons claimed to be residents of St. Croix who are alleged to have suffered personal injury or property damage from Hurricane Georges or winds blowing material from the property since the time of the hurricane in September 1998. This complaint, *Abraham, et al. v Alcoa, et al.* alleges claims essentially identical to those set forth in the *Abednego v Alcoa* complaint. The matter was originally filed in the Superior Court of the Virgin Islands, St. Croix Division, on March 30, 2011. By motion filed March 12, 2012, Alcoa sought dismissal of this complaint on several grounds, including failure to timely serve the complaint and being barred by the statute of limitations. At present, Alumina is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

***Alba Proceeding***

On February 27, 2008, Alcoa Inc. received notice that Aluminium Bahrain BSC (“Alba”) had filed suit against Alcoa Inc. and AWA LLC, and others, in the United States District Court for the Western District of Pennsylvania (the “Court”), Civil Action number 08-299, styled *Aluminium Bahrain BSC v Alcoa Inc., AWA LLC, William Rice, and Victor Dahdaleh* (the “Alba Proceeding”). The complaint alleged that certain Alcoa entities, including Alcoa of Australia Ltd and Alcoa World Alumina LLC entities (which are part of AWAC), and their agents, including Victor Phillip Dahdaleh, had engaged in a conspiracy over a period of 15 years to defraud Alba. The complaint further alleged 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 alleged that Alcoa and the other defendants violated the Racketeer Influenced and Corrupt Organizations Act (“RICO”) and committed fraud. Alba claimed damages in excess of \$1 billion. Alba’s complaint sought treble damages with respect to its RICO claims, compensatory, consequential, exemplary, and punitive damages, rescission of the 2005 alumina supply contract and attorneys’ fees and costs. Neither Alumina Limited, nor any of its employees, is a defendant in the litigation. Alumina holds a 40% equity interest in AWA LLC.

In response to a motion filed by the U.S. Department of Justice (the “DOJ”) on March 27, 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 would be reopened at the close of the DOJ’s investigation. On November 8, 2011 at Alcoa’s request, the Court removed the case from administrative stay and ordered Alba to file an Amended Complaint by November 28, 2011 and a RICO case statement 30 days thereafter for the limited purpose of allowing Alcoa to move to dismiss Alba’s lawsuit. Alcoa filed a motion to dismiss, which was denied on June 11, 2012.

The Alba Proceeding was settled in relation to Alcoa Inc. and AWA LLC in October 2012, without any admission of liability, by a cash settlement payment of \$85 million, to be paid by AWA LLC in two equal instalments by the first anniversary of the settlement. Based on the settlement agreement with Alba, AWA LLC recorded a charge of \$85 million in 2012 in respect of the Alba Proceeding. In addition, AWA LLC entered into a long term alumina supply agreement with Alba.

***U.S. Government Investigation relating to Alba Proceeding***

On February 26, 2008, Alcoa Inc. had advised the DOJ and the U.S. Securities and Exchange Commission (the “SEC”) that it had recently become aware of these claims, had already begun an internal investigation, and intended to co-operate fully in any investigation that the DOJ or the SEC may commence. On March 17, 2008, the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has reported it has been co-operating with the government. The SEC subsequently commenced a parallel investigation. The United States Foreign Corrupt Practices Act and related statutes and regulations in the United States and elsewhere provide for potential injunctive relief, monetary penalties, disgorgement, prejudgment interest, criminal sanctions and other remedies and may result in certain cases in suspension or debarment from doing business with governmental entities or other collateral consequences.

Alcoa Inc. has reported that the DOJ and the SEC investigations into the subject matter of the Alba Proceeding are ongoing and that it has been actively negotiating with the DOJ and SEC to reach a resolution of those investigations. However, Alcoa Inc. has stated that it has not reached any agreement with either agency. Alcoa Inc. has

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stated that, given the uncertainty regarding whether a settlement can be reached and, if reached, on what terms, it is not able to estimate a range of reasonably possible loss with regard to any such settlement. If a settlement of the DOJ and SEC investigations is reached, Alcoa Inc. has stated that it believes that the settlement amount would be material to Alcoa Inc.'s results of operations for the relevant fiscal period. In the event that a settlement is reached in relation to the DOJ and SEC investigations of the Alba matter, Alcoa Inc. and Alumina Limited have agreed that the cash costs of the settlement of the Alba Proceeding and the DOJ and SEC investigations will be allocated between them such that 62.5% will be borne by Alcoa Inc. and 37.5% by AWAC. If a settlement is reached with the DOJ and the SEC regarding their investigations, under that agreement between Alcoa and Alumina Limited, the Company expects a reallocation of a portion of the costs (including legal fees) of the Alba civil settlement from AWA to Alcoa. If a settlement cannot be reached, Alcoa Inc. has stated that it will proceed to trial with the DOJ and the SEC and under those circumstances, it is unable to predict an outcome or to estimate its reasonably possible loss. Alcoa Inc. has stated that, in those circumstances, there can be no assurance that the final outcome of the DOJ's and SEC's investigations will not have a material adverse effect on Alcoa Inc. Accordingly, in those circumstances, there can be no assurance that such final outcome may not have a material adverse effect on AWAC.

***Derivative Actions***

As previously reported, on July 21, 2008, the Teamsters Local #500 Severance Fund and the Southeastern Pennsylvania Transportation Authority filed a shareholder derivative suit in the civil division of the Court of Common Pleas of Allegheny County, Pennsylvania against certain officers and directors of Alcoa claiming breach of fiduciary duty, gross mismanagement, and other violations. This derivative action stems from the civil litigation brought by Alba against Alcoa, AWA LLC, Victor Phillip Dahdaleh, and others, and the subsequent investigation of Alcoa by the DOJ and the SEC with respect to Alba's claims. This derivative action claims that the defendants caused or failed to prevent the matters alleged in the Alba lawsuit. The director defendants filed a motion to dismiss on November 21, 2008. On September 3, 2009, a hearing was held on Alcoa's motion and, on October 12, 2009, the court issued its order denying Alcoa's motion to dismiss but finding that a derivative action during the conduct of the DOJ investigation and pendency of the underlying complaint by Alba would be contrary to the interest of shareholders and, therefore, stayed the case until further order of the court. This derivative action is in its preliminary stages and Alcoa is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, on March 6, 2009, the Philadelphia Gas Works Retirement Fund filed a shareholder derivative suit in the civil division of the Court of Common Pleas of Philadelphia County, Pennsylvania. This action was brought against certain officers and directors of Alcoa claiming breach of fiduciary duty and other violations and is based on the allegations made in the previously disclosed civil litigation brought by Alba against Alcoa, AWA LLC, Victor Phillip Dahdaleh, and others, and the subsequent investigation of Alcoa by the DOJ and the SEC with respect to Alba's claims. This derivative action claims that the defendants caused or failed to prevent the conduct alleged in the Alba lawsuit. On August 7, 2009, the director and officer defendants filed an unopposed motion to coordinate the case with the Teamsters Local #500 suit, described immediately above, in the Allegheny County Common Pleas Court. The Allegheny County court issued its order consolidating the case on September 18, 2009. Thereafter, on October 31, 2009, the court assigned this action to the Commerce and Complex Litigation division of the Allegheny Court of Common Pleas and on November 20, 2009, the court granted defendants' motion to stay all proceedings in the Philadelphia Gas action until the earlier of the court lifting the stay in the Teamsters derivative action or further order of the court in this action. This derivative action is in its preliminary stages and Alcoa is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

On June 19, 2012, Catherine Rubery (plaintiff) filed a shareholder derivative suit in the United States District Court for the Western District of Pennsylvania against William Rice, Victor Dahdaleh and current and former members of the Alcoa Board of Directors (collectively, defendants) claiming breach of fiduciary duty and corporate waste. This derivative action stems from the previously disclosed civil litigation brought by Alba against Alcoa, and the subsequent investigation of Alcoa by the DOJ and the SEC as described above. This derivative action claims that defendants caused or failed to prevent illegal bribes of foreign officials, failed to implement an internal controls system to prevent bribes from occurring and wasted corporate assets by paying improper bribes from incurring substantial legal liability. Furthermore, plaintiff seeks an order of contribution and indemnification from defendants. The derivative action is in its preliminary stage and Alcoa is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.



**FINANCIAL INFORMATION****Other Financial Information****Dividend Policy**

Generally the Board intends, on an annual basis, to distribute cash from operations after debt servicing and corporate costs commitments have been met. The Board will also consider the capital structure of Alumina Limited, the capital requirements for the AWAC business and market conditions. Dividends will be fully franked for the foreseeable future.

No dividend was declared by the Directors for 2012. The decision not to pay a dividend for 2012 is based on the above policy to conserve cash, given the current market conditions. The Board's policy is to review dividend payments at each half year in light of the current and expected business conditions.

**Financing and Corporate Items**

Net financing and corporate expenses for the year ended December 31, 2012 totalled \$47.7 million compared to \$45.5 million for the year ended December 31, 2011. The principal components were:

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Interest (received) / (receivable)	(0.1)	(0.2)	(1.4)
Interest paid / payable	29.4	28.5	38.7
Corporate expenditure	19.0	17.3	14.7
Net (gain)/loss on fair value of derivatives	(0.6)	(0.1)	(2.1)

Net interest charged to profit was \$29.3 million for the year ended December 31, 2012 due to the overall increase in net debt position compared to \$28.3 million for the year ended December 31, 2011 partially offset by lower commitment and upfront fees. Net interest charged to profit was \$28.3 million for the year ended December 31, 2011 compared to \$37.3 million for the year ended December 31, 2010. Interest of \$13.7 million was incurred in 2011 on the longer dated amortizing loan from the Brazilian National Development Bank (interest at approximately 5.04% per annum) compared with \$15.5 million in 2010. Amortization of the convertible bond option was \$6.4 million lower in 2011 at \$1.7 million compared to \$8.1 million in 2010, due to the repurchase of the convertible bonds. The convertible bond is now fully repaid. Commitment and upfront fees were steady at \$8.5 million.

**B. Significant Changes**

There has been significant movements in the LME, alumina index, oil and the AUD/USD exchange rate since the end of 2012. Refer to the table below for a comparison between December 31, 2012 and March 29, 2013.

	As at December 31, 2012	As at March 29, 2013
3 month LME aluminium price US\$ per tonne	2,073	1,904
Alumina index (Aust FOB)	333	328
Oil price (Brent)	108	110
AUD/USD exchange rate	1.0394	1.0419



## THE OFFER AND LISTING

## ITEM 9. THE OFFER AND LISTING

## A. Offer and Listing Details

## Market Prices

The following table sets forth, for the periods indicated, the highest and lowest market closing prices of Alumina's fully paid Ordinary Shares based upon information provided by the ASX and the highest and lowest bid prices for Alumina's American Depositary Shares (ADSs) based on information provided by the NYSE. In the United States, ADSs evidenced by American Depositary Receipts (ADRs) represent fully paid ordinary shares of Alumina. Each ADR represents four fully paid ordinary shares. Alumina commenced trading (as AWC) on the ASX and NYSE on December 4, 2002 on a post-demerger basis.

Period		Ordinary Shares		American Depositary Shares	
		A\$ High	A\$ Low	US\$ High	US\$ Low
Month Ended March 31, 2013		1.19	1.10	4.88	4.57
Month Ended February 28, 2013		1.41	1.03	5.26	4.48
Month Ended January 31, 2013		1.14	0.92	4.71	3.88
Month Ended December 31, 2012		0.97	0.90	4.06	3.64
Year Ended December 31, 2012	First Quarter	1.40	1.09	5.94	4.49
	Second Quarter	1.27	0.75	5.28	3.05
	Third Quarter	0.91	0.63	3.84	2.65
	Fourth Quarter	1.00	0.82	4.06	3.30
Year Ended December 31, 2011	First Quarter	2.62	2.16	10.49	8.36
	Second Quarter	2.70	2.03	11.46	8.46
	Third Quarter	2.28	1.33	9.87	5.15
	Fourth Quarter	1.65	1.11	6.84	4.47
Year Ended December 31, 2010	First Quarter	2.06	1.54	7.74	5.18
	Second Quarter	1.88	1.53	6.95	4.76
	Third Quarter	1.95	1.46	7.31	4.90
	Fourth Quarter	2.61	1.77	10.35	6.96
Year Ended December 31, 2009	First Quarter	1.42	0.73	5.05	2.15
	Second Quarter	1.72	1.12	5.93	3.38
	Third Quarter	1.91	1.29	6.74	3.91
	Fourth Quarter	1.93	1.53	7.10	5.50
Year Ended December 31, 2008	First Quarter	6.51	4.50	24.26	15.86
	Second Quarter	6.75	4.61	25.36	18.00
	Third Quarter	4.98	2.92	18.43	8.25
	Fourth Quarter	3.25	0.98	11.21	2.39

The closing price of Alumina's fully paid Ordinary Shares on December 31, 2012 was A\$0.90 and on March 28, 2013 was A\$1.11. The closing price of Alumina's ADRs on December 31, 2012 was US\$3.86 and on March 28, 2013 was US\$4.61.



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**THE OFFER AND LISTING*****B. Plan of Distribution***

Not applicable.

***C. Markets******Ordinary Shares***

All of Alumina's fully paid ordinary shares are listed on the ASX which presently constitutes the principal trading market for Alumina's ordinary shares. The ASX is a nationally operated stock exchange with trading being carried out on automatic computer trading systems ("SEATS"). Alumina's fully paid ordinary shares are also listed on the NYSE (traded as American Depositary Shares).

***American Depositary Shares***

In the United States, American Depositary Shares ("ADSs") evidenced by American Depositary Receipts ("ADRs") represent fully paid ordinary shares of Alumina. Each ADR represents four fully paid ordinary shares. The ADRs are issued pursuant to a Deposit Agreement, dated October 6, 1989, as amended and restated on December 4, 2002 and January 17, 2008 between Alumina and the Depositary. On January 2, 1990, trading of Alumina's ADSs commenced on the NYSE under the symbol "WMC". WMC's ADSs ceased trading on the NYSE on December 3, 2002 and recommenced trading on December 4, 2002 under the name of WMC Resources Ltd ("WMC") and Alumina Limited ("AWC").

As at March 28, 2013, 675,721 Alumina fully paid ordinary shares were registered in the name of 213 residents of the United States and represented approximately 0.02% of the total number of Alumina fully paid ordinary shares issued and outstanding. As at March 28, 2013, 19,688,408 Alumina ADRs were outstanding (representing 78,753,632 Alumina fully paid ordinary shares) and were registered in the name of 241 residents of the United States and represented approximately 2.95% of the total number of fully paid ordinary shares issued and outstanding.

***D. Selling Shareholders***

Not applicable.

***E. Dilution***

Not applicable.

***F. Expenses of the Issue***

Not applicable.



## ADDITIONAL INFORMATION

### ITEM 10. ADDITIONAL INFORMATION

#### A. Share Capital

Not applicable.

#### B. Constitution

Alumina's corporate organisation and conduct are, together with applicable legal requirements, governed by its corporate constitution (the "Constitution"). Set forth below is a summary of the principal terms of the Constitution, and certain legal requirements.

##### *Company Objects & Purposes*

Alumina is registered as a public company limited by shares under the Corporations Act 2001 of the Commonwealth of Australia (the "Corporations Act") and is registered with Australian Business Number 85 004 820 419. It is listed on the Australian Securities Exchange (the "ASX").

The Constitution was adopted by shareholders at the Annual General Meeting held on May 7, 2009. The Constitution does not specify Alumina's objects and purposes. Rather, under section 124 of the Corporations Act, Alumina has the legal capacity and powers of an individual, and all the powers of a body corporate.

##### *Directors' Powers & Qualifications*

Subject to the Corporations Act and the ASX listing rules (the "Listing Rules"), a director who has an interest in a matter may vote in respect of that matter if it comes before the directors, and be counted as part of the quorum (rule 59(b)(i)). Pursuant to section 195 of the Corporations Act, a director who has an interest in a matter is only permitted to vote in respect of that matter if either: that interest does not need to be disclosed to the other directors under the Corporations Act; or the directors who do not have an interest in the matter have passed a resolution that identifies the director, the nature of the director's interest in the matter and its relation to the company, and also that the directors are satisfied that the interest should not disqualify the director from voting; or the Australian Securities and Investments Commission by declaration or order permits that to occur.

Directors are to be paid for their services. Each non-executive director is to be paid or provided remuneration for services, determined by the directors, at the time and in the manner determined by the directors, the total amount or value of which in any year may not exceed an amount approved by Alumina in general meeting. An executive director may be appointed on terms as to remuneration, tenure of office and otherwise, as may be determined by the directors (rules 48(a), (b) and (g)).

The directors can be paid remuneration in kind (i.e. other than in cash), provided that any amount paid to a director other than in cash does not exceed in value the amount that they would be entitled to receive if the remuneration were paid in cash (rule 48(d)).

In addition, the directors are also entitled to be paid or reimbursed for all travelling and other expenses properly incurred by them in attending and returning from any meeting of the directors or of Alumina (rule 48(e)).

If any director, with the approval of the directors, performs extra services or makes any special exertions for the benefit of Alumina, that director may receive special and additional remuneration as determined by the directors, having regard to the value of the extra services or special exertions. Any special or additional remuneration must not include a commission on or percentage of profits or operating revenue or turnover (rule 48(f)).

The Constitution does not contain any age limit requirement for the retirement of directors.

Directors are not required to hold shares in the capital of Alumina (rule 46).

A director may not hold office for a continuous period in excess of three years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for election or re-election. If no director would otherwise be required to submit for election or re-election but the Listing Rules require that an election of directors be held, the director to retire at the Annual General Meeting is the director who has been longest in office since their last election. Where the longest-serving directors were elected on the same day the, absent agreement, the director to retire is determined by ballot (rule 47(a)).



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**ADDITIONAL INFORMATION***Rights & Restrictions Attaching to Each Class of Shares*

Alumina has only one class of shares on issue, i.e. ordinary class. The rights attached to ordinary shares include the right to dividends in the event that the directors determine that a dividend is payable. The directors may fix the amount, the time for payment and the method of payment of a dividend. Dividends may be paid by the payment of cash, the issue of shares, the grant of options and the transfer of assets, including shares in another body corporate (or any combination of them) (rule 67(a)).

Subject to law, all unclaimed dividends may be invested or otherwise used by the directors for the benefit of Alumina until claimed or disposed of according to law (rule 71(d)).

The voting right attached to ordinary shares is the right to vote in person or by proxy, by attorney or, where the shareholder is a body corporate, by representative at meetings of shareholders (rule 41 (a)).

On a show of hands, each shareholder (regardless of the number of shares held) has one vote (rule 41(b)(i)). On a poll, each shareholder may exercise one vote for each fully paid ordinary share held. In respect of a partly paid share, each shareholder has that fraction of a vote equivalent to the proportion which the amount paid up on that share bears to the total amount paid and payable for that share (rule 41 (c)).

A shareholder is not entitled to vote at a general meeting or to be counted for the purpose of constituting a quorum unless all calls and other sums presently payable by the shareholder in respect of shares have been paid (rule 42).

For the purposes of determining voting entitlements at a general meeting, shares will be taken to be held by those persons recorded in the register of members at the time and date determined by the directors under regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001 of the Commonwealth of Australia.

Dividends are not able to be paid by Alumina unless:

- Alumina's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- the payment of the dividend is fair and reasonable to Alumina's shareholders as a whole; and
- the payment of the dividend does not materially prejudice Alumina's ability to pay its creditors, (section 254T of the Corporations Act).

In the event of a winding up, ordinary shares rank equally in the division of any surplus (section 555 of the Corporations Act).

Shareholders cannot redeem ordinary shares.

The holders of fully paid ordinary shares have no further liability to Alumina in respect of those shares. The holders of partly paid shares are liable to Alumina once a call is made for the payment of the unpaid amount (rule 21(a)).

There is no provision in the Constitution which discriminates against an existing or prospective shareholder as a result of that shareholder owning a substantial number of shares unless such ownership leads to a proportional takeover bid (see heading "Proportional Takeover Approval" below).

To vary or cancel the rights attached to ordinary shares, a special resolution approving the variation or cancellation must be passed at a special meeting of the holders of ordinary shares, or by consent in writing signed by the holders of at least three fourths of the issued ordinary shares (section 246B(2) of the Corporations Act).

Unless otherwise provided by the terms of issue, the issue of any new shares ranking equally with existing shares (whether in the same or a different class) is not a variation of the rights conferred on the holders of the existing shares (rule 5(b)).

The directors may refuse to register any transfer of shares if permitted to do so under the Listing Rules (rule 25(a)(iii)).



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**ADDITIONAL INFORMATION***General Meetings of the Company*

By a resolution of the directors, a general meeting of Alumina may be convened at the time and place or places and in the manner determined by the directors. No shareholder may convene a general meeting of Alumina unless entitled to do so under the Corporations Act (rule 30).

Where the company has called a general meeting, notice of the meeting may be given in the form and manner in which the directors determine (rule 31). At least 28 days' notice must be given of a general meeting (section 249HA of the Corporations Act).

All shareholders may attend general meetings in person, or be represented by the attendance of a proxy, attorney or, where the shareholder is a body corporate, a representative, none of whom need be shareholders of Alumina in their own right (rule 41).

The quorum for a general meeting is three members present in person or by proxy, by attorney or, where the shareholder is a body corporate, by representative (rule 33(b)). If there is not a quorum within 30 minutes after the time specified in the notice of the meeting, the meeting is dissolved unless the chair or the directors adjourn the meeting to a date, time and place determined by the chair and the directors. If no quorum is present at any adjourned meeting within 30 minutes after the time for the meeting, the meeting is dissolved (rule 33(c)).

*Limitations on the Right to Own Securities*

Alumina's Constitution does not impose limitations on the right to own securities.

However, the rights of non-resident or foreign shareholders to hold or exercise voting rights on Alumina's securities are subject to the *Foreign Acquisitions and Takeovers Act 1975* of the Commonwealth of Australia. The Treasurer of the Australian Federal Government has the power to prohibit the acquisition of a controlling interest in any Australian company by a foreign person or foreign persons, if the Treasurer is of the opinion that the acquisition would be contrary to the national interest. For this purpose, a shareholding of 15% or more held by a single foreign person or 40% or more held by two or more foreign persons is deemed to constitute a controlling interest. The notion of a controlling interest is not restricted to actual shareholdings or voting power but includes potential voting power (i.e. voting power that may come into existence into the future) and rights to be issued shares in future such as options and convertible notes.

In addition, section 50 of the Competition and Consumer Act 2010 of the Commonwealth of Australia prohibits an acquisition of shares that would have the effect, or be likely to have the effect, of substantially lessening competition in any market for goods or services within Australia, unless the acquisition is authorised by the Australian Competition and Consumer Commission.

Finally, while not a direct limitation on the right to own securities, the Constitution does permit Alumina to manage its shareholder base by selling the securities of a shareholder who holds less than a marketable parcel of securities, subject to certain procedures being followed (rule 76).

*Proportional Takeover Approval*

Where a proportional takeover bid is made under the Corporations Act for shares in Alumina (i.e. a bid is made for a specified proportion, but not all, of each holder's bid class shares), the registration of any transfer of shares giving effect to a takeover contract under the proportional takeover bid is prohibited unless and until a resolution to approve the proportional takeover bid is passed in accordance with rule 80 of the Constitution (rule 79). The resolution is to be considered at a meeting convened and conducted by Alumina, of the persons entitled to vote on the resolution (rule 80(c)). The resolution is taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than one half (rule 80(d)). The provisions with respect to proportional takeover bids (i.e. rules 79 and 80) cease to have effect on the third anniversary of the date of their adoption or last renewal. The provisions were last adopted by shareholders on May 2, 2012, therefore they will operate until May 2, 2015, unless renewed earlier.



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**ADDITIONAL INFORMATION***Disclosure of Share Ownership*

The Constitution does not prescribe an ownership threshold above which shareholders must disclose their holding to Alumina. However, Part 6C.1 of the Corporations Act imposes disclosure requirements on persons who acquire or cease to hold a substantial holding in Alumina (see section 9 of the Corporations Act for the definition of "substantial holding"). The disclosure must be given to Alumina and the ASX within the prescribed time.

*Changes in Share Capital*

Alumina may reduce or alter its share capital in any manner provided for by the Corporations Act (rule 29).

Alumina may reduce its share capital or buy back shares in accordance with the Corporations Act.

**C. Material Contracts**

*Formation Agreement among Aluminum Company of America, Alcoa International Holdings Corporation, ASC Aluminium Inc., Alumina and certain subsidiaries of the companies that established AWAC.*

On December 21, 1994, Alcoa and WMC finalised and executed the AWAC Agreements establishing and governing the operation of AWAC, with the Formation Date of AWAC being 1 January 1995. The main AWAC Agreements are the agreements known respectively as the 'Formation Agreement' and the 'Charter of the Strategic Council'. Key aspects of the AWAC Agreements are set out below. Copies of the main AWAC Agreements are also annexed to this Report as exhibits.

**(a) Enterprise**

AWAC is comprised of a series of affiliated operating entities in which Alcoa has a 60% interest and Alumina a 40% interest. Alcoa acquired 9% of AofA and Alumina acquired a 40% interest in the other Alcoa affiliated operating entities and assets included within AWAC, upon its formation. Alumina has acquired a 40% interest in AWAC entities and assets acquired (such as that of San Ciprian) since AWAC's formation.

**(b) Consideration**

On January 1, 1995, Alumina paid to Alcoa approximately \$386 million and transferred 9% of AofA to Alcoa. Alumina contributed an additional sum of approximately \$120 million to AWAC which was repaid during the course of initial establishment and operation of AWAC and for further acquisitions. Alcoa was also to receive additional compensation based upon the future earnings of AWAC's alumina-based industrial chemicals operations if the earnings exceeded performance targets for the period 1995-1999 (inclusive). Since the growth plan for the alumina-based chemicals business was not achieved, this additional compensation was not required to be paid by WMC.

**(c) 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 AofA 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.

**(d) Formation**

The formation of AWAC was completed on January 1, 1995.



**ADDITIONAL INFORMATION*****(e) Role of the parties******Industrial leader***

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

***Strategic Council***

The Strategic Council is the principal forum for Alcoa and Alumina to provide direction and counsel to the AWAC entities in respect of strategic and policy matters. The Alcoa 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 (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 \$1 billion; and
- loans to Alcoa or Alumina, or their respective affiliates by AWAC (including loans between AWAC entities).

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 AofA. In addition to the Strategic Council meetings, 'Operation' meetings (with representatives from Alcoa and Alumina) are held typically up to four times a year (usually two in Australia and two at operations/offices outside Australia).

***(f) Exclusive Vehicle***

AWAC is the exclusive vehicle for the pursuit of Alumina's and Alcoa'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 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 AofA in which Alumina already had an interest at the time AWAC was formed.

It should be noted that the AWAC Agreements do not expressly address the position of an acquirer of Alumina or Alcoa, where that acquirer already operates a bauxite, alumina or industrial (alumina-based) chemicals business. Such an acquirer would be an 'affiliate' of Alumina or Alcoa (as relevant) and therefore the exclusive vehicle provisions of the AWAC agreements would apply. However, the agreements are silent on the action that Alumina or Alcoa (as relevant) and the acquirer must take. 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.

**ADDITIONAL INFORMATION****(g) 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 and Alumina, the following limits apply:

- (i) With respect to amounts up to \$500 million in annual equity requested to be contributed in total by Alcoa and Alumina to AWAC (including amounts requested pursuant to paragraphs (g)(ii) and (g)(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 \$500 million but less than \$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 may fund the Alumina proportionate share and this contribution will be deemed to be a loan by Alcoa to Alumina at the current market rate for Alcoa'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 \$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 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's contribution to the capital requirements up to \$1 billion. If Alcoa elects to proceed, Alcoa and Alumina will review the mechanism to compensate Alcoa for its excess contribution, which may include a disproportionate allocation of returns associated with the excess contribution.
- (iv) The \$500 million and \$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 clause 4.4(b) of the Enterprise Funding Agreement (see the Enterprise Funding Agreement attached hereto as Exhibit 4.1.12 for further clarification).

**(h) 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.

**(i) 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.



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**ADDITIONAL INFORMATION*****(j) Pre-formation liabilities***

Where AWAC sustains an extraordinary liability (described below), Alcoa 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 \$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 and Alumina).

Costs relating to identified litigation and claims in Schedules 3.07, 4.06 and 8.02 to the Formation Agreement (set out as Exhibit 9) are deemed to be Extraordinary Liabilities under the Formation Agreement. Schedule 3.07 sets out a range of lawsuits current as at January 1, 1995 which related to AWAC operations and which are no longer outstanding. Schedule 8.02 sets out allocation methods for various environmental liabilities which relate to acts or omissions that occurred totally or partially during a period prior to AWAC's formation.

***(k) Alumina pre-payment for AofA liabilities***

By an amending agreement dated 31 December 1995, Alcoa's purchase price for Alumina's 9% of AofA 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 assumed obligations to indemnify Alumina for any such extraordinary liabilities.

***(l) Dispute resolution***

The AWAC Agreements' mechanism prescribes for the resolution of 'all disputes, difference, controversies or claims' between the parties in relation to AWAC. The mechanism employs an escalating procedure for resolution.

***(m) Transfer of interests***

Rights of first refusal apply in relation to Alumina and Alcoa's interests in AWAC, or their affiliated holding interests in AWAC.

In addition, without the other party's consent, neither party can transfer its interests in AWAC to a 'competitor'. For these purposes, a competitor is any person engaged in the mining of bauxite, the processing of alumina or inorganic chemicals or the production of primary aluminium, either directly itself or indirectly through any company in which it holds, legally or beneficially, either 10% or more of the issued capital or 10% or more of the voting power.

Any increase or decrease in AWAC interests must be proportionate across all entities in AWAC unless the increase or decrease was the involuntary consequence of government action, in which case Alumina and Alcoa must consult as to the appropriate course of action.

There is no change of control clause triggered by an upstream change of control of Alumina or Alcoa.

***(n) Material inequity***

A principle agreed on the original formation of AWAC was that if either Alumina Limited or Alcoa believed eight years after the formation of AWAC that a material inequity had resulted to them which substantially altered the value of a party's original contribution to AWAC, they could commence a procedure for making an adjustment to their contributions. Alcoa and Alumina Limited have agreed, subsequent to a joint review in January 2003, that no such material inequity has occurred and no adjustment is to be made.

## ADDITIONAL INFORMATION

*Enterprise Funding Agreement*

Under the Enterprise Funding Agreement dated September 18, 2006, AofA pays dividends in excess of 30% of its net income, to the extent required, to fund AWAC's capital requirements (including AofA's own capital funding requirements). During 2010, the Enterprise Funding Agreement was extended on the basis that two years notice is required to terminate the agreement.

*Subscription Agreement*

CITIC Resources Australia Pty Ltd, an indirect wholly-owned subsidiary of CITIC Resources Holdings Limited, and Bestbuy Overseas Co Ltd, an indirect wholly-owned subsidiary of CITIC Limited (the "CITIC entities") subscribed for 366,029,428 fully paid ordinary shares in Alumina Limited, being 15% of Alumina's then current capital base, representing 13.04% of Alumina's capital base following completion (the "Placement"). The Placement raised approximately A\$452 million, based on an issue price of A\$1.235 per share.

The CITIC entities agree that their voting power and economic interest in the Company will not, without the Company's prior written approval, exceed 15% for two years from 14 February 2013 and thereafter will not exceed 19.9% (subject to some exceptions relating to takeovers, schemes of arrangements and capital raising). The CITIC entities may, if interested in acquiring more shares in the Company, in the two years from 14 February 2013, undertake discussions in good faith with the Company and the Company will give consideration to such acquisition. The CITIC entities are subject to certain limitations in their right to dispose of the shares subscribed for, in the two years from 14 February 2013.

Alumina Limited was obliged to procure by March 15, 2013, the appointment of one nominee of the CITIC entities as a director of the Company to fill a casual vacancy on the Board.

*D. Exchange Controls*

Various Australian legislation and regulations control the import and export of capital and remittance of payments involving non-residents of Australia.

These include the Banking (Foreign Exchange) Regulations 1959 (Cth), counter-terrorism financing legislation and tax-related legislation and regulations. Alumina is not generally restricted from receiving funds into or transferring funds from Australia to the credit of non-residents of Australia but in certain cases is required to:

- (i) withhold Australian taxes;
- (ii) obtain the Reserve Bank of Australia's authority to take or send out of Australia any Australian or foreign currency;
- (iii) obtain the Reserve Bank of Australia's authority to place any sum in Australia to the credit of, or make any payment in Australia to, by order of or on behalf of, a person who is not a resident of Australia; or
- (iv) lodge a report of the transaction details.

Furthermore, under the Autonomous Sanctions Act 2011 (Cth), the Governor-General, in consultation with the Minister, may make regulations proscribing foreign persons or entities, either for specific purposes or more generally, or restricting dealings with assets and the supply, sale or transfer of goods and services to certain countries (which would include Ordinary Shares of the Company and remittance of associated payments by Alumina). Under the Autonomous Sanctions Regulations 2011 (Cth), Alumina must not directly or indirectly make an asset available to, or for the benefit of, or hold or use an asset belonging to:

- certain figures, sub-groups or individuals currently or formerly associated with the ruling regime in Burma (Myanmar);
- a person or entity that the Minister is satisfied is associated with the weapons of mass-destruction program or missiles program of the Democratic People's Republic of Korea (i.e. North Korea);



## ADDITIONAL INFORMATION

- a person who has been indicted for an offence within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia (“ICTY”), is subject to an Interpol arrest warrant for an offence within the jurisdiction of the ICTY, is suspected of assisting a person who is indicted by the ICTY and not currently detained by the ICTY, or that the Minister is satisfied is a supporter of the former regime of Slobodan Milosevic;
- Commodore Josaia Voreque Bainimarama of Fiji, a supporter of his coup, an officer or member of the Republic of Fiji Military Forces, a member of the judiciary of Fiji, or a person appointed by the interim government and engaged in a role on a government or quasi-government board or as a senior public servant;
- a person or entity that the Minister is satisfied is associated is associated with Iran’s nuclear and missile programs or assisting Iran to violate its sanctions obligations;
- a person or entity that the Minister is satisfied was a close associate of the former Qadhafi (Gaddafi) regime in Libya, under the control of a member of the Qadhafi family, or has assisted Libya to violate its sanctions obligations;
- a person that the Minister is satisfied is responsible for human rights abuses in Syria or providing support to the Syrian regime; or
- a person or entity that the Minister is satisfied is engaged in, or has engaged in, activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe.

The Autonomous Sanctions Regulations 2011 (Cth) also prohibit Alumina from having certain commercial dealings with defined people which may affect the export or payment of capital. Under the regulations, Alumina must not:

- supply, sell or transfer goods (including foreign currency) to another person that will be transferred, as a direct or indirect result of the supply, sale or transfer, to Iran or Syria, for use in those countries, or for the benefit of those countries;
- provide a sanctioned service, including financial assistance or a financial service, if it assists with or is provided in relation to a military activity, or the manufacture, maintenance or use of an export sanctioned good, in any of Burma (Myanmar), Fiji, Iran, Syria or Zimbabwe; or
- engage in a sanctioned commercial activity with, including the acquisition of an interest in, the extension of an interest in, the establishment of a joint venture with, the participation in a joint venture with or the granting of a financial loan or credit to, certain Iranian and Syrian entities.

The Charter of the United Nations Act 1945 (Cth) and the Charter of the United Nations (Dealing with Assets) Regulations 2008 (Cth) (the “Regulations”) also regulate certain transactions with designated foreign persons. The Charter of the United Nations Act 1945 (Cth) and the Regulations enable Australia to give effect to decisions made by the United Nations Security Council. The Regulations accommodate provisions in the Charter of the United Nations Act 1945 (Cth) which prohibit individuals or corporations from engaging in activities which contravene a United Nations sanction in force in Australia. The Regulations also give broad effect to Resolutions of the United Nations Security Council (including the United Nations Security Council Resolution 1373 (2001) pertaining to terrorism) which impose obligations on member states to freeze funds, financial assets and economic resources within their territories and prevent the use of or dealing with funds, financial assets or economic resources by, or the making of funds, financial assets or economic resources available to, any person or entity (including certain persons and entities engaged in terrorist acts) specified by the United Nations Security Council as being subject to such sanctions. Transactions that involve a transfer of assets (which would include Ordinary Shares in the Company) to or from persons or entities listed under the Charter of the United Nations Act 1945 (Cth) or the Regulations require ministerial approval.

The Regulations apply to all individuals and entities defined by the Minister for Foreign Affairs of the Commonwealth of Australia as having met the definition established by the United Nations Security Council. That definition includes certain named individuals or entities prescribed by the United Nations Security Council as being subject to financial sanctions associated with:

- Al Qaida (also known as the Al-Qaeda organization) or other individuals, groups or entities associated with it;
- The Taliban or other individuals, groups or entities associated with it;
- The former regime in Iraq, including certain named individuals or entities previously associated with Saddam Hussein, certain named senior officials of the previous regime (including members of their immediate family), and certain named entities owned or controlled, directly or indirectly, by them or others acting on their behalf or under their instruction;





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- Liberia, including former Liberian President Charles Taylor and his associates;
- The former Qadhafi (Gaddafi) regime in Libya; or
- Côte d'Ivoire, the Democratic People's Republic of Korea (i.e. North Korea), the Democratic Republic of the Congo, Iran, Lebanon, Sudan, Somalia or Eritrea.

The Charter of the United Nations Act 1945 (Cth) also applies to other persons or entities identified in relation to terrorist activities, as identified in regulations enacted by the Governor General of the Commonwealth of Australia or as listed by the Minister for Foreign Affairs of the Commonwealth of Australia from time to time. The Minister for Foreign Affairs of the Commonwealth of Australia maintains a list of individuals and entities to which United Nations Security Council sanctions apply. That list includes (amongst others, and in addition to those individuals and entities referred to above as being subject to financial sanctions by the United Nations Security Council) the Kurdistan People's Congress, the Al-Aqsa Foundation, Ansar al-Islam and the Orange Volunteers.

In addition, more general limitations under Australian laws, on the right of non-residents to acquire, hold or vote Ordinary Shares in the Company, exist under the Foreign Acquisitions and Takeovers Act 1975 (Cth) (the "Foreign Acquisitions Act") and section 606 of the Corporations Act 2001 (Cth) (the "Corporations Act").

Under the Foreign Acquisitions Act, any acquisition or issue of shares or acquisition of rights constituting potential voting power (such as options to acquire shares or convertible notes) which would increase or alter beyond 15% in the case of any single foreign interest, or 40% in the case of more than one foreign interest, the controlling interest of foreign entities or persons in a corporation that carries on an Australian business is subject to review and approval by the Treasurer of the Commonwealth of Australia.

The Foreign Acquisitions Act permits the Treasurer to deny or refuse proposals where such proposals would be contrary to the Australian national interest.

Section 606 of the Corporations Act provides that, subject to certain exceptions, a person must not acquire a relevant interest in voting shares in a company, if as a result a person's voting power in the company increases to more than 20%, or from a starting point that is above 20% and below 90%. Section 606 also prohibits a person acquiring a legal or equitable interest in shares if, because of the acquisition, another person acquires a relevant interest in shares and someone's voting power increases to more than 20%, or from a starting point that is above 20% and below 90%. Section 608 of the Corporations Act provides that a person has a "relevant interest" in shares if that person holds the shares, or has power or control over the voting rights attaching to them or their disposal, whether directly or indirectly.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the applicable legislation and to the Constitution. A copy of the Constitution is filed as Exhibit 1 to this Annual Report on Form 20-F.

***E. Taxation***

The following is a summary of the principal Australian and United States federal income tax consequences to United States holders (as defined below) of the acquisition, ownership and disposition of ADS or Ordinary Shares that are held on capital account and is based on the laws in force as at the date of this Annual Report. Holders are advised to consult their own tax advisers concerning the overall tax consequences of the acquisition, ownership and disposition of ADS or Ordinary Shares in their individual circumstances particularly where they are held on revenue account. This discussion relies in part on representations by the Depositary in the Deposit Agreement and related documents.

***Commonwealth of Australia Taxation***

The dividend imputation system of company tax relieves double taxation on dividends paid by Australian resident corporations. Under this system, companies are required to identify dividends paid as either franked or unfranked dividends. Franked dividends are those paid out of profits which have borne Australian corporate tax (i.e. to which franking credits have been allocated) while unfranked dividends are paid out of untaxed profits. The Australian corporate tax rate is 30%. Franked dividends paid to non-residents are exempt from withholding tax but unfranked (or partly franked) dividends are subject to withholding tax, generally at 15% on the unfranked amount. Where income



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**ADDITIONAL INFORMATION**

distributed represents conduit foreign income (broadly foreign income exempt from Australian tax), notwithstanding that it is unfranked, the distribution should be subject to withholding tax. Notices are provided to shareholders which specify the amount (if any) of dividend withholding tax deducted.

In considering whether a company is entitled to pay a dividend, it is the Australian Corporations law which is determinative. A recent change in the Australian Corporations law has altered the requirements that need to be met. Formerly, a company could only pay a dividend where the company had profits. However, the new legislative amendment has replaced the 'out of profits' requirement with a three-part test which states that the company's assets must exceed its liabilities, that the company must be able to demonstrate that the dividend would be fair and reasonable to the members as a whole and that the creditors would not be materially prejudiced.

Despite the amendment to the Australian Corporations law, the Australian tax legislation has not been similarly updated, and still essentially requires that dividends be paid out of profits. Even though the three-part test under the Corporations law takes precedence, the Australian Taxation Office have outlined a view that the three-part Corporations law test should be applied in addition to the out of profits test under the tax legislation. However, as this potential inconsistency has yet to be addressed by the Australian courts, and there is some uncertainty as to the exact requirements for paying a dividend at present for Australian taxation purposes in identify whether dividends paid are franked or unfranked dividends.

The current Australian tax rules require taxpayers to hold shares "at risk" for certain periods before obtaining the benefit of the dividend imputation system. The minimum period for holding ordinary shares "at risk" is currently 45 days. Failure to satisfy these requirements may result in the deduction of Australian withholding tax from dividends paid to non-residents of Australia. There is an exemption from these rules for defined "small" transactions.

The tax rules classify interests which satisfy a financial arrangements test as either debt or equity. An interest that is classified as equity will be frankable, whereas an interest that is classified as debt will not be frankable. ADS and ordinary shares are likely to be classified as equity on the basis that the return is contingent on our performance or at our discretion.

Under the provisions of the Convention between the Government of the United States of America and the Government of Australia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("the Treaty") from July 1 2003 the withholding tax rate on dividends is 5% of the gross amount of the dividends where the beneficial corporate shareholder entitled to the dividends holds directly at least 10% of the voting power in the company. This rate is reduced to nil in certain circumstances for certain corporate beneficial shareholders who own at least 80% of the voting shares. For other shareholders the withholding tax rate will be 15% by virtue of the Treaty. As mentioned above, franked dividends will not be subject to withholding tax.

A United States citizen who is resident in Australia, or a United States corporation that is resident in Australia (by reason of carrying on business in Australia and being managed or controlled in Australia or having its voting power controlled by shareholders who are residents of Australia) holding ADS or ordinary shares as capital assets, may be liable for Australian capital gains tax ("CGT") on the disposal of our ADS or ordinary shares.

In calculating the amount of a capital gain that may be subject to Australian CGT, special rules apply to individuals, trusts, certain superannuation funds and shareholders of certain listed investment companies. For ADS or ordinary shares acquired after September 21, 1999 and held for at least 12 months, individuals and trusts will pay tax on half of the gain (calculated in nominal terms) or two-thirds of the gain for certain superannuation funds after allowing for any offsetting capital losses which are applied against the whole nominal gain. For ADS or Ordinary Shares acquired before that time and held for at least 12 months, individuals, trusts and certain superannuation funds may choose between paying CGT on half of the gain (or two-thirds of the gain for certain superannuation funds), or paying CGT on all the gain with the gain being calculated on the basis of the cost of the ADS or shares being indexed for inflation up to September 30, 1999. For all types of taxpayers, the legislation freezes the indexation (for inflation) of the cost of ADS and Ordinary Shares as at September 30, 1999, and abolishes such indexation for ADS and ordinary shares acquired after September 21, 1999.

Under current Australian law, no income or other tax is payable on any profit on disposal of the ADS or ordinary shares held by persons who are residents of the United States within the meaning of the Treaty except:

- if the person (together with associates, if any) held 10% or more (by value) of the issued Alumina shares (including via ADS) at the time of the disposal or for any continuous 12 month period within the two years preceding the disposal, and the value of such interests is wholly or principally attributed to Australian Real Property. Australian Real Property will include mining rights.





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**ADDITIONAL INFORMATION**

- if the ADS or Ordinary Shares have been used by the person in carrying on a trade or business wholly or partly at or through a permanent establishment in Australia.

Different rules will apply to persons and corporations which are not residents of the United States.

Australia does not impose gift, estate or inheritance taxes in relation to gifts of shares or upon the death of a shareholder.

*Australian Good and Services tax (GST)*

Neither the issue or transfer of an ADS or our Ordinary Shares or the payment or receipt of a dividend will give rise to a liability to goods and services tax in Australia.

*Australian Stamp Duty*

No Australian stamp duty will be payable on the issue or transfer of an ADS in Alumina Limited or the transfer of our Ordinary Shares in Alumina Limited.

*Minerals Resource Rent Tax (MRRT)*

The Australian Federal Government has announced a Minerals Resource Rent Tax ("MRRT"), which applies from July 1, 2012. The tax passed the lower House of Parliament on November 23, 2011 and the Senate on March 19, 2012. As the MRRT applies to mined iron ore and coal it does not apply to the minerals (primarily bauxite) that Alumina mines. Therefore, it is anticipated that there will be no direct impact on Alumina Limited.

*Carbon Tax*

The Australian Government has released legislation to introduce its carbon pricing scheme, details of which were released on July 10, 2011. The scheme is proposed to operate in two phases: a fixed (but increasing) carbon permit price which commenced on July 1, 2012 to be followed by a floating price phase from July 1, 2015. These measures are intended to commence on July 1, 2012. Corporations operating facilities that generate more than 25,000 tonnes of carbon dioxide emissions annually will be required to surrender units under this regime. The carbon price has been fixed at \$23 per tonne in 2012-13, \$24.15 in 2013-14 and \$25.40 in 2014-15. A cap-and-trade and floor emissions trading scheme is to apply from July 1, 2015 onwards. Originally there was to be a starting floor price of \$15 per tonne, however this plan has since been abandoned. From July 1, 2015, Australian businesses will be able to buy permits from the EU scheme (but EU businesses will not be able to buy Australian permits). At a date no later than July 1, 2018, a full two-way link will be established, whereby businesses from either jurisdiction will be allowed to buy permits from each other.

Transitional assistance is to be provided under the Jobs and Competitiveness Program in the three years to 2015. The assistance will be in the form of free permits (reducing by 1.3% per annum) at 94.5% and grants to increase energy efficiency. Assistance is based on an entity's specific activities of which aluminium smelting is one category which is eligible for assistance.

As part of these measures, there will also be reductions in the fuel tax credit scheme. The reductions have been fixed from the first three years commencing 1 July 2012 and will move to a flexible price period from July 1, 2015 where fuel tax credits will be determined bi-annually.

*United States Federal Income Tax Consequences*

The following discussion is a summary of the material United States federal income tax consequences of owning Ordinary Shares or ADS. The discussion below, except where specifically noted, does not address the effects of any state, local or non-United States tax laws. In addition, it applies to you only if you hold your Ordinary Shares or ADS as a capital asset, and does not address the tax consequences that may be relevant to you in light of your particular circumstances. Moreover, it does not apply to you if you are not a U.S. person, as defined below, or if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a trader in securities if you elect to use a mark-to-market method of accounting for your securities holdings;



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**ADDITIONAL INFORMATION**

- a financial institution;
- a life insurance company;
- a tax-exempt organization;
- a person liable for alternative minimum tax;
- a person that holds Ordinary Shares or ADS as part of a straddle or a hedging or conversion transaction;
- a person that actually or constructively owns 10% or more of the voting shares of Alumina;
- a person that purchases or sells shares or ADSs as part of a wash sale for tax purposes; or
- a person whose “functional currency” is not the United States dollar.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds Ordinary Shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Ordinary Shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Ordinary Shares or ADS.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States;
- a corporation created or organized in the United States or under the law of the United States or any state of the United States;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

The tax consequences to you of the ownership of Ordinary Shares or ADS will depend upon the facts of your particular situation. We encourage you to consult your own tax advisors with regard to the application of the federal income tax laws, as well as to the applicability and effect of any state, local or foreign tax laws or other tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADS, you will be treated as the owner of the Ordinary Shares represented by those ADS. Exchanges of Ordinary Shares for ADS, and ADS for Ordinary Shares, generally will not be subject to United States federal income tax.

*Distributions*

Subject to the passive foreign investment company rules discussed below, distributions made to you on or with respect to Ordinary Shares or ADS will be treated as dividends and will be taxable as ordinary income to the extent that those distributions are made out of our current or accumulated earnings and profits as determined for United States federal income tax purposes. You must include the gross amount of the dividend payment (including, in the case of unfranked or partially unfranked dividends, any Australian tax withheld) as income at the time you receive it, actually or constructively. To the extent that a distribution exceeds our current or accumulated earnings and profits for a taxable year, the excess will be treated as a tax-free return of capital which reduces your tax basis in the Ordinary Shares or ADS to the extent of the tax basis, and any remaining amount will be treated as capital gain. You generally will not be entitled to claim any dividends received deduction generally allowed to U.S. corporations with respect to distributions paid with respect to your Ordinary Shares or ADS. The amount of the dividend distribution that you must include in your income will be the US dollar value of the dividend distribution.

Certain qualifying dividend distributions are taxable to non-corporate U.S. Holders at preferential rates applicable to long-term capital gains. Alumina believes that the dividends on ADS will qualify for these preferential rates if the taxpayer meets the required holding period. In order for the dividends on the ADS to qualify, taxpayers



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**ADDITIONAL INFORMATION**

must hold the ADS for at least 61 days during the 121 day period beginning 60 days before the ex-dividend date. In order for dividends paid by foreign corporations to qualify for the preferential rates, the foreign corporation must meet certain requirements, including that it not be classified as a passive foreign investment company for United States federal income tax purposes in either the taxable year of the distribution or the preceding taxable year. As discussed further below, Alumina believes that its Ordinary Shares or ADS will not be treated as shares of a passive foreign investment company, but this conclusion is a factual determination that is made annually and thus may be subject to change.

Dividends paid to U.S. holders with respect to our Ordinary Shares or ADS and that are unfranked or partially unfranked are subject to Australian withholding tax at a maximum rate of 15% with respect to the unfranked portion of the dividend payment. Subject to certain limitations, the Australian tax withheld in accordance with the Treaty and paid over to Australia generally will be creditable against your United States federal income tax liability.

Dividends will be income from sources outside the United States, and will, depending on your circumstances, be either "passive income" or "general income" for purposes of computing the foreign tax credit allowable to you. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential rates.

*Disposition*

Subject to the passive foreign investment company rules discussed below, any gain or loss you realize on the sale, exchange or other taxable disposition of Ordinary Shares or ADS will be subject to United States federal income taxation as a capital gain or loss in an amount equal to the difference between the US dollar value of the amount that you realize on that sale, exchange or other disposition and your adjusted tax basis, determined in US dollars, in the Ordinary Shares or ADS surrendered. The gain or loss will be long term capital gain or loss if your holding period for the Ordinary Shares or ADS is more than one year. A non-corporate U.S. person is generally taxed at preferential rates on long term capital gain as described above for qualifying dividend distributions. Any capital gain or loss so realized will generally be United States source gain or loss for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations.

*Additional Tax on Net Investment Income*

For taxable years beginning after December 31, 2012, a U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between US\$125,000 and US\$250,000 depending on the individual's circumstances). A holder's net investment income will generally include its dividend distribution income and its net gains from the disposition of Ordinary Shares or ADSs, unless such dividend distribution income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of this additional tax on net investment income to your income and gains in respect of your investment in Ordinary Shares or ADS.

*Passive Foreign Investment Company Rules*

Alumina believes that its Ordinary Shares or ADS will not be treated as shares of a passive foreign investment company, or "PFIC," for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADS or Ordinary Shares:

- at least 75% of our gross income for the taxable year is passive income or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the shares of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.



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**ADDITIONAL INFORMATION**

If the company is treated as a PFIC, and you are a U.S. holder that did not make a qualified electing fund "QEF" or a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your Ordinary Shares or ADS; and
- any excess distribution that the company makes to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the Ordinary Shares or ADS during the three preceding taxable years or, if shorter, your holding period for the Ordinary Shares or ADS).

Under these rules:

- the gain or excess distribution will be allocated rateably over your holding period for the Ordinary Shares or ADS;
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you are a U.S. holder and own Ordinary Shares or ADS in a PFIC and you make a QEF election for the first tax year in which your holding period of PFIC shares begin, generally you will not be subject to the default rules discussed above. However, if you make this QEF election, you will be subject to the U.S. federal income tax on your pro rata share of (a) the net capital gain of the PFIC, which will be taxed as long term capital gain, and (b) the ordinary earnings of the PFIC, which will be taxed as ordinary income. If you make a QEF election you will be subject to U.S. federal income tax on such amounts for each tax year in which the company is a PFIC, regardless of whether such amounts are actually distributed to you. If you make a QEF election and have an income inclusion, you may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge.

If you have made a QEF election generally (a) you may receive a tax free distribution from the PFIC to the extent that such distribution represents "earnings and profits" that were previously included in your income because of such QEF election and (b) you will adjust your tax basis in the PFIC shares to reflect the amount included in income or allowed as a tax free distribution because of such QEF election. In addition, if a QEF election is in effect for all the years the company is a PFIC, generally you will recognize capital gain or loss on the sale or other taxable disposition of the PFIC shares.

If you own Ordinary Shares or ADS in a PFIC that are treated as marketable shares, you may also make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your Ordinary Shares or ADS at the end of the taxable year over your adjusted basis in your Ordinary Shares or ADS. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your Ordinary Shares or ADS over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the Ordinary Shares or ADS will be adjusted to reflect any such income or loss amounts.

Your Ordinary shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in the ordinary shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies.



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**ADDITIONAL INFORMATION**

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the preferential rates applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax rates applicable to ordinary income.

If you own Ordinary Shares or ADS during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

*Information With Respect to Foreign Financial Assets*

Owners of “specified foreign financial assets” with an aggregate value in excess of \$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons (such as your Ordinary Shares or ADSs), (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. U.S. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of Ordinary Shares or ADSs.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statements by Experts**

Not applicable.

**H. Documents on Display**

It is possible to read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the Securities and Exchange Commission (“SEC”) at the SEC’s public reference room located at 100 F Street NE Washington D.C. 20549. Please telephone the SEC at 1-800-SEC-0330 or access the SEC website ([www.sec.gov](http://www.sec.gov)) for further information.

**I. Subsidiary Information**

All controlled entities are wholly owned, unless otherwise indicated. Alumina’s significant subsidiaries are described in Item 4C – “Key Information – Organizational Structure”. The following is a list of all entities controlled by Alumina as of March 31, 2013.

Controlled Entities	Place of Incorporation
Alumina Employee Share Plan Pty Ltd	Victoria, Australia
Alumina Finance Limited	Victoria, Australia
Alumina Holdings (USA) Inc.	Delaware, USA
Alumina International Holdings Pty. Ltd.	Victoria, Australia
Alumina Brazil Holdings Pty Ltd	Victoria, Australia
Alumina Limited Do Brasil SA	Brazil
Alumina (U.S.A.) Inc.	Delaware, USA
Butia Participações SA	Brazil
Westminer Acquisition (U.K.) Limited	UK
Westminer International (U.K.) Limited <sup>1</sup>	UK

<sup>1</sup> This company was dissolved on May 10, 2011.



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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****A. Quantitative Information about Market Risk******Continuing operations***

Alumina's policy is generally not to hedge its commodity or currency exposure other than to secure the US dollar value of dividend payments and foreign currency borrowings. This policy is reviewed periodically. AWAC has previously sought to manage its exposure to both the aluminium price and the A\$/US\$ exchange rate through the use of derivative products. AWAC anticipates the continued requirement to sell aluminium and purchase other commodities, such as natural gas and fuel oil, for its operations. In 2012, AWAC entered in to option collar contracts for some of the gas requirements for the Point Comfort refinery over the period from April 2012 to December 2014. AWAC is also subject to exposure from fluctuations in foreign currency exchange rates. Foreign exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency.

During November 2008 the Company transacted a series of currency options to limit the risk of cost increases should the BRL strengthen during the remaining construction period of AWAC's growth projects in Brazil. All options had expired by December 31, 2009.

The Group is exposed to commodity price risk through its investment in AWAC. AWAC manages commodity price risk through long-term purchase contracts for some input costs. Some energy price risk is managed through short-term commodity hedges.

***Exchange Rate Risk***

Foreign currency risk relates to Alumina's exposure to changes in exchange rates. AWAC's revenue streams are significantly derived from the sale of its commodity production in US dollars. AWAC's Australian operations declare dividends payable to Alumina in Australian dollars and the amount of US dollar revenue Alumina receives fluctuates with the moving AUD/USD exchange rate.

Alumina Limited's 2013 earnings sensitivities, based on 2012 earnings and 2012 average A\$/US\$ exchange rates is that each one cent movement in the average Australian dollar/US dollar exchange rate is expected to impact earnings by approximately \$12 million before tax.

Further sensitivity analysis in relation to exchange rate risk can be found in note 2 to the Financial Report on page F-16.

***Interest rate risk***

Interest rate risk refers to Alumina's exposure to movements in interest rates. Alumina is primarily exposed to interest rate risk on its outstanding interest bearing liabilities, primarily determined by US\$ interest rates. As the interest rates fluctuate, the amount of interest payable on debt balances where the interest rate is not fixed will also fluctuate. Sensitivity analysis in relation to interest rate risk can be found in note 2 to the Financial Report on page F-16.

Funding facilities were restructured during 2011 and 2012, to provide greater diversity of funding sources, smaller annual refinancing requirements and to extend the company's maturity profile.

As at December 31, 2012, the Alumina Group had short term bank debt outstanding totaling \$52.0 million and long term debt outstanding totaled \$622.5 million.

As at December 31, 2011, the Alumina Group had short term bank debt outstanding totaling \$52.9 million and long term debt outstanding totaled \$437.7 million.





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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Commodity Price Risk***

A table showing the movement in the selling price of aluminium over the last five years is set out below. A discussion in relation to commodity price risk can be found in note 2 to the Financial Report on page F-16.

***AVERAGE QUARTERLY PRICES***

<u>Financial Year Ended</u>	<u>Aluminium London Metal Exchange US\$/lb</u>	<u>Platts<sup>1</sup> FOB Australia US\$/t</u>
December 31, 2008		
First Quarter	1.26	
Second Quarter	1.36	
Third Quarter	1.29	
Fourth Quarter	0.86	
December 31, 2009		
First Quarter	0.64	
Second Quarter	0.69	
Third Quarter	0.83	
Fourth Quarter	0.92	
December 31, 2010		
First Quarter	0.99	
Second Quarter	0.96	
Third Quarter	0.96	
Fourth Quarter	1.07	
December 31, 2011		
First Quarter	1.15	392.39
Second Quarter	1.19	404.47
Third Quarter	1.10	372.31
Fourth Quarter	0.96	330.81
December 31, 2012		
First Quarter	1.01	315.62
Second Quarter	0.92	317.21
Third Quarter	0.88	315.38
Fourth Quarter	0.91	326.82
First Quarter 2013	0.93	339.90

As at December 31, 2012, Alumina Limited and its subsidiaries had no outstanding hedge contracts over future sales of alumina or aluminium.

<sup>1</sup> is the first full calendar year this data was available.

***Interest rate and cross-currency swaps***

As part of the BNDES financing, Alumina used Cross Currency Interest Rate Swaps (CCIRS) during 2012 and 2011 for the whole amount of the BRL denominated tranche to manage the exposure to BRL interest rates over the life of the loan. Alumina used CCIRS during 2009 to manage the interest rate swap exposure between EUR and AUD on EUR denominated assets.

As at December 31, 2012 the only cross-currency swaps in place were in relation to the BNDES financing.

***B. Qualitative Information About Market Risk***

Qualitative information on price risk management, and commodity and currency hedging, is included in the discussion above in Item 11 "Quantitative Information on Price Risk Management". Qualitative information on treasury management and exchange rate and interest rate risk is discussed in Item 5B "Operating and Financial Review and Prospects – Liquidity and Capital Resources".





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**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. Depositary Fees and Charges**

Alumina has appointed The Bank of New York Mellon (Depositary) as its depositary pursuant to its American Depositary Receipt (ADR) program for Alumina Limited. The ADRs are traded under the code AWC on the New York Stock Exchange and the underlying security is the Alumina Limited ordinary share on the Australian Securities Exchange. Each ADR represents four Alumina Limited ordinary shares.

Under the terms of the Deposit Agreement, dated October 6, 1989, as amended and restated on December 4, 2002 and as amended and restated as of January 17, 2008 between Alumina and the Depositary, each ADR holder may have to pay the following service fees to the Depositary:

<u>Depositary action</u>	<u>Fee</u>
• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)
• Cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates	
• Any cash distribution assessed for dividend payments to ADS holders	\$0.005 (or less) per ADS
• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders	A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs
• Depositary services	\$0.02 (or less) per ADSs per calendar year
• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares	Registration or transfer fees
• Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement) converting foreign currency to U.S. dollars	Expenses of the depositary
• Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
• Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary



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**Depository Payments – Financial Year ended December 31, 2012**

The Depository reimburses Alumina Limited for certain expenses it incurs in connection with the ADR program, subject to a ceiling determined by the Depository from time to time and agreed by Alumina Limited. The table below sets forth the types of expenses that the Depository has agreed to reimburse, and the invoices relating to the year ended December 31, 2012 that were reimbursed:

Category of expense reimbursed to Alumina Limited	Amount reimbursed for the year ended December 31, 2012 \$
NYSE Listing Fee	\$ 38,000
Distribution of AGM/proxy material	\$ 51,064
Legal fees	Nil
Printing costs in relation to SEC filings	Nil

The Depository has also agreed to waive certain standard fees associated with the administration of the ADS program and has paid certain expenses directly to third parties on behalf of the company. Those associated expenses are estimated to total \$130,000.

**Fees to be paid in the future**

The Bank of New York Mellon, as depository, has agreed to reimburse Alumina Limited for expenses they incur that are related to establishment and maintenance expenses of the ADS program.

The Depository has agreed to reimburse Alumina Limited for:

- its continuing annual stock exchange listing fees;
- standard out-of-pocket maintenance costs for the ADRs, which consist of technology services, certain notifications, annual report and other report delivery, printing and distributing dividend remittance, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, telephone calls and other fees; and
- certain investor relationship programs or special investor relations promotional activities. There are limits on the amount of expenses for which the depository will reimburse the Company.

The Depository collects its fees for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees.

The Depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.



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**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES*****A. Disclosure Controls and Procedures***

Under the supervision and with the participation of Alumina's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of Alumina's disclosure controls and procedures (as such term is defined in Rules 13a-15 (e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2012. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as at December 31, 2012, in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Alumina's management, as appropriate to allow timely decisions regarding disclosure.

***B. Management's Annual Report on Internal Control Over Financial Reporting***

Alumina's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Alumina's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Alumina's management under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of its internal control over financial reporting based on the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management has concluded that Alumina's internal control over financial reporting was effective as of December 31, 2012.

***C. Attestation Report of the Registered Public Accounting Firm***

Alumina's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears on page F-44 herein.

***D. Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The board has determined that Mr Peter Wasow is an “audit committee financial expert” as required by the New York Stock Exchange listing standards. Mr Wasow is considered independent under the independence requirements of the New York Stock Exchange corporate governance standards. Although the board of directors has determined that Mr Wasow has the requisite attributes defined under the rules of the Securities and Exchange Commission, his responsibilities are the same as those of the other audit committee members. He is not an auditor or accountant, does not perform “field work” and is not a full-time employee. The SEC has determined that an audit committee member who is designated as an audit committee financial expert will not be deemed to be an “expert” for any purpose as a result of being identified as an audit committee financial expert. The audit committee is responsible for oversight of management in the preparation of our financial statements and financial disclosures. The audit committee relies on the information provided by management and the independent auditors. The audit committee does not have the duty to plan or conduct audits. A copy of our Audit Committee Charter is available from our web site at [www.aluminalimited.com](http://www.aluminalimited.com). This link is an inactive textual link for reference only.

**ITEM 16B. CODE OF ETHICS**

Alumina Limited has established overarching values that form the ethical framework for the Company’s Code of Conduct. The Code of Conduct drives the way in which Alumina Limited conducts its business and behavior. The Code of Conduct was developed by aligning the Company’s agreed core values with best practice corporate governance models. The Code applies to directors, employees and contractors. The Code of Conduct is reviewed regularly to ensure it is relevant and accurately reflects best practice principles.

This Code of Conduct is available from our web site at [www.aluminalimited.com](http://www.aluminalimited.com). This link is an inactive textual link for reference only. Alumina will provide any person without charge, upon request, a copy of the Code of Conduct. Copies of the Code can be requested by contacting Colin Hendry T: +61 (0) 3 86992600, E: [colin.hendry@aluminalimited.com](mailto:colin.hendry@aluminalimited.com).

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES***Summary of Fees*

	\$ 000's	
	2012	2011
<b>Amounts received or due and receivable by PricewaterhouseCoopers</b>		
<b>Australia:</b>		
Audit and review of the financial reports	865	867
Audit related fees	4	4
<b>Amounts received or due and receivable by related practices of</b>		
<b>PricewaterhouseCoopers Australia:</b>		
Overseas taxation services	16	65
<b>Total</b>	<u>885</u>	<u>936</u>

*Audit Fees*

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filing engagements for 2012 and 2011 are approximately \$865,000 and \$867,000 respectively.

*Audit Related Fees*

The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported under Audit Fees and Tax Fees are approximately \$4,000 in both 2012 and 2011. The nature of services comprising the fees disclosed under this category is advice on International Financial Reporting Standards and other sundry agreed upon procedure engagements.

*Tax Fees*

The aggregate fees billed in each of the last two fiscal years for tax services by the principal accountant that are not related to the performance of the audit or review of Alumina's financial statements and are not reported under Audit Fees are \$16,000 and \$65,000 in 2012 and 2011, respectively. The nature of services comprising the fees disclosed under this category is for tax compliance work in relation to Alumina's subsidiaries incorporated in the UK.

*Pre-Approval Policies*

The policy Alumina has adopted for pre-approval of non-audit services to be performed by our independent registered public accounting firm, PricewaterhouseCoopers ("PwC") is as follows:

PwC services which have fees of up to A\$100,000 shall require the prior approval of the Audit Committee Chairman. Such approval shall include the scope of the services and the approximate amount of fees, and shall be reported to the next Audit Committee meeting;

For PwC services of more than A\$100,000 and less than A\$250,000, the provision of such services requires the prior approval of the Audit Committee;

For PwC services of more than A\$250,000, unless PwC skills and experience are integral to the services (in which case the provision of such services requires the prior approval of the Audit Committee), the proposed services are to be put to competitive tender with the requirement for CFO, CEO and Audit Committee Chairman's approval of the inclusion of PwC in tender list. The awarding of a contract, following a competitive tender, to PwC for the provision of these services also requires the prior approval of the Audit Committee.



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**ITEM 16D. EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ALUMINA AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.



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**ITEM 16G. CORPORATE GOVERNANCE**

The NYSE Listing Rules, Section 303A, have a broad regime of corporate governance requirements for NYSE-listed companies. Under the NYSE Listing Rules foreign private issuers, such as Alumina Limited, are permitted to follow home country practice in lieu of the requirements of Section 303A, except for the Listing Rule relating to compliance with Rule 10A-3 of the Securities Exchange Act of 1934 and certain notification provisions contained in Section 303A of the Listing Rules. Section 303A.09 of the Listing Rules, however, requires us to disclose any significant ways in which our corporate governance practices differ from those followed by U.S. companies under NYSE Listing Rules. We have compared our corporate governance practices to the requirements of the Section 303A of the NYSE Listing Rules that would otherwise currently apply to foreign private issuers and note the following significant differences:

- Our Nomination Committee Charter does not include the mandate to develop and recommend to the Board a set of corporate governance principles applicable to the corporation (which is largely a Board function).
- The Nomination Committee charter does not include the mandate to oversee the evaluation of the Board and management. The Board undertakes a self evaluation, non-executive directors evaluate the Chief Executive Officer, and the Chief Executive Officer evaluates other management.
- Shareholders are not provided the opportunity to vote on certain new equity compensation plans or material revisions to existing equity compensation plans, such as the Company's Employee Share Plan, which involves the purchase of shares on market by the Trustee of the Plan.
- We have not published a set of corporate governance guidelines as set forth in Section 303A.09. However, we do provide information on corporate governance policies and practices as required by Australian Stock Exchange rules, which are available in our annual report and on the website.
- Our Director independence standard related to direct compensation from Alumina Limited differs from the standard set for the Section 303A.02. Our threshold for direct compensation in a twelve month period is A\$250,000 whereas Section 303A.02 currently has a threshold of US\$100,000.
- The Compensation Committee does not follow the procedures for retaining advisors that will come into force on July 1, 2013 under Section 303A.05(c).
- The Compensation and Nomination Committee is not composed entirely of independent directors. The Compensation and Nomination Committee members include Mr Cheng Zeng, who is not an independent director.

**ITEM 16H. MINE SAFETY DISCLOSURES**

Not applicable.





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**ITEM 17. FINANCIAL STATEMENTS**

Not applicable, as Alumina complies with Item 18.

**ITEM 18. FINANCIAL STATEMENTS*****Financial Statements and Financial Statement Schedules***

The attached Consolidated Financial Statements and Financial Statement schedules, pages F-1-F-93, with a full index on page F-2, together with the Reports of Independent Registered Public Accounting Firm thereon, are filed as part of this Annual Report and are incorporated herein by reference.

<a href="#"><u>Statements of Comprehensive income</u></a>	F-3
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***Schedule A***

AWAC Combined Financial Statements  
December 31, 2012 and 2011

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**ITEM 19. EXHIBITS***Exhibit 1 – Constitution of Alumina\*\*\**

**Exhibit 4 – Material contracts 4.1\*** The Alcoa World Alumina and Chemicals (“AWAC”) Agreements (incorporated by reference to Exhibit 4 to Alumina Limited’s (formerly known as WMC Limited) Annual Report on Form 20-F for the fiscal year ended December 31, 2001, as filed with the Commission on April 4, 2002). These Agreements comprise:

- 4.1.1 Heads of Agreement, dated July 6, 1994 between Aluminum Company of America and Western Mining Corporation Holdings Limited.
- 4.1.2 Charter of the Strategic Council, dated December 21, 1994 between Aluminum Company of America and Western Mining Corporation Holdings Limited.
- 4.1.3 Formation Agreement, dated December 21, 1994 among Aluminum Company of America, Alcoa International Holdings Corporation, ASC Alumina Inc., Western Mining Corporation Holdings Limited, Westminer International Holdings Limited and WMC Alumina (USA) Inc.
- 4.1.4 Amended and Restated Limited Liability Company Agreement of Alcoa Alumina & Chemicals, L.L.C., dated December 31, 1994 among Aluminum Company of America, ASC Alumina Inc., Westminer International Holdings Limited and WMC Alumina (USA) Inc.
- 4.1.5 Loan Agreement, dated January 3, 1995 between Alcoa Alumina & Chemicals, L.L.C. and WMC Alumina (USA) Inc.
- 4.1.6 Administrative and Services Agreement, dated January 1, 1995 between Alcoa Alumina & Chemicals, L.L.C. and Aluminum Company of America.
- 4.1.7 AAC-ACOA Employee Services Agreement dated January 1, 1995 between Alcoa Alumina & Chemicals, L.L.C. and Aluminum Company of America.
- 4.1.8 WMC-ACOA Employee Services Agreement dated January 1, 1995 between Aluminum Company of America and Western Mining Holdings Limited.
- 4.1.9 Master Hedging Agreement dated December 31, 1994 among Aluminum Company of America, Alcoa of Australia Limited, Alcoa Alumina & Chemicals L.L.C., Suriname Aluminum Company L.L.C. and Alcoa Minerals of Jamaica.
- 4.1.10 Assignment Agreement dated February 1, 1995 among Aluminum Company of America and Alcoa Alumina & Chemicals, L.L.C. regarding the Bauxite Contract with Compagnie des Bauxites de Guinée.
- 4.1.11 Abalco Shareholders Agreement, dated March 29, 1995 among Alcoa Alumina & Chemicals, L.L.C., Alcoa Brazil Holdings Company and Westminer International (UK) Limited.
- 4.1.12 \*\* Enterprise Funding Agreement dated September 18, 2006, between Alcoa Inc., certain of its affiliates and Alumina Limited.
- 4.1.13 Agreement for the subscription for ordinary shares to be issued by Alumina Limited between Alumina Limited, CITIC Limited and Bestbuy Overseas Co., Ltd.



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- 4.1.14 Agreement for the subscription for ordinary shares to be issued by Alumina Limited between Alumina limited, CITIC Resources Holdings Limited and CITIC Resources Australia Pty Ltd
- 4.2 Demerger Deed between Alumina Limited and WMC Resources Limited dated March 5, 2003.\*
- 4.3 Transitional Services Agreement between Alumina Limited and WMC Resources Limited dated 18 December 2002.\*
- 4.4 Management Contracts \*\*\*\*

**Exhibit 8 – Significant Subsidiaries**

Alumina Limited's significant subsidiaries are as follows:

- **Alumina International Holdings Pty Ltd** – Incorporated in Australia this company, together with Alumina Limited, holds all entities in the Alumina Group's investment in AWAC (except for Alcoa of Australia Limited) through its direct and indirect interests totalling 40% in each of Alcoa World Alumina LLC, Alumina Espanola SA and Alcoa World Alumina Brasil Ltda. It is wholly owned by Alumina.
- **Alumina Finance Limited** – Incorporated in Australia this company issued \$350,000,000 2% guaranteed convertible bonds which were due to mature in 2013 and convertible into fully paid ordinary shares in the share capital of Alumina Limited. The convertible bonds were repurchased during 2010 and 2011. The convertible bond is now fully repaid.

**Exhibit 9 – Schedules to AWAC Formation Agreement****Exhibit 12 – Certifications**

- 12.1 Certification by CEO, John Bevan
- 12.2 Certification by CFO, Chris Thiris

**Exhibit 13 – Certifications**

- 13.1 Certification by CEO, John Bevan
- 13.2 Certification by CFO, Chris Thiris

**Exhibit 99**

- 99.1 Maps of certain bauxite deposits of major significance in which Alcoa World Alumina and Chemicals has an interest.

\* Previously filed as an exhibit to Alumina Limited's Form 20-F for the year ended December 31, 2002

\*\* Previously filed as an exhibit to Alumina Limited's Form 20-F for the year ended December 31, 2007

\*\*\* Previously filed as an exhibit to Alumina Limited's Form 20-F for the year ended December 31, 2008.

\*\*\*\* Previously filed as an exhibit to Alumina Limited's Form 20-F for the years ended December 31, 2008 and December 31, 2011.



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**ALUMINA LIMITED**  
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Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorised.

ALUMINA LIMITED

(Signed)

Date: April 11, 2013

/s/ CHRIS THIRIS

Name:

Chris Thiris

Title:

Chief Financial Officer

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**ALUMINA LIMITED**  
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**ALUMINA LIMITED**  
**(Australian Business Number 85 004 820 419)**

**AND CONTROLLED ENTITIES**

**U.S. FINANCIAL REPORT**

**AS OF AND FOR THE YEARS ENDED**  
**31 DECEMBER 2012, 2011 AND 2010**

**Prepared in accordance with**  
**International Financial Reporting Standards (IFRS)**  
**as issued by the International Accounting Standards Board**

**Amounts are stated in US dollars (US\$) except where noted**



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ALUMINA LIMITED AND CONTROLLED ENTITIES  
FINANCIAL REPORT FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

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The financial report covers the consolidated entity of Alumina Limited (the Company) and its subsidiaries. The financial report is presented in US dollars.

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

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



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**ALUMINA LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

	<u>Notes</u>	<u>US\$ Million</u>		
		<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue from continuing operations	4	0.1	0.2	1.4
General and administrative expenses		(19.0)	(17.3)	(14.7)
Other income	5	0.6	0.1	2.1
Finance costs	6(b)	(29.4)	(28.5)	(38.7)
Share of net (loss)/profits of associates accounted for using the equity method	12(g)	(14.0)	173.1	84.5
<b>(Loss)/profit before income tax</b>		<b>(61.7)</b>	<b>127.6</b>	<b>34.6</b>
Income tax expense	7(a)	(0.4)	(1.0)	—
<b>(Loss)/profit for the year attributable to the owners of Alumina Limited</b>		<b>(62.1)</b>	<b>126.6</b>	<b>34.6</b>
<b>Other comprehensive (loss)/income</b>				
Items that may be reclassified to profit or loss				
Foreign exchange translation difference		(89.9)	(168.9)	230.0
Share of cash flow hedge reserve movements accounted for using the equity method		(0.9)	(5.0)	0.8
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<b>(90.8)</b>	<b>(173.9)</b>	<b>230.8</b>
<b>Total comprehensive (loss)/income for the year attributable to the owners of Alumina Limited</b>		<b>(152.9)</b>	<b>(47.3)</b>	<b>265.4</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:</b>				
<b>Basic earnings per share</b>	8	<b>Negative 2.5c</b>	5.2c	1.4c
<b>Diluted earnings per share</b>	8	<b>Negative 2.5c</b>	5.2c	1.4c

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





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ALUMINA LIMITED  
CONSOLIDATED BALANCE SHEETS  
AS AT 31 DECEMBER 2012 AND 2011

	Notes	US\$ Million	
		2012	2011
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10	10.1	19.0
Receivables	11	0.1	0.2
Other assets		4.9	6.2
<b>Total current assets</b>		<b>15.1</b>	<b>25.4</b>
<b>NON-CURRENT ASSETS</b>			
Investments in associates	12	3,296.1	3,324.8
Property, plant and equipment	13	0.2	0.2
Deferred tax assets	17	—	—
<b>Total non-current assets</b>		<b>3,296.3</b>	<b>3,325.0</b>
<b>TOTAL ASSETS</b>		<b>3,311.4</b>	<b>3,350.4</b>
<b>CURRENT LIABILITIES</b>			
Payables	14	2.7	3.1
Interest-bearing liabilities	15	52.0	52.9
Derivative financial instruments		4.6	1.3
Provisions	16	0.3	0.2
Other		0.2	0.7
<b>Total current liabilities</b>		<b>59.8</b>	<b>58.2</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	15	622.5	437.7
Provisions	18	0.6	0.5
<b>Total non-current liabilities</b>		<b>623.1</b>	<b>438.2</b>
<b>TOTAL LIABILITIES</b>		<b>682.9</b>	<b>496.4</b>
<b>NET ASSETS</b>		<b>2,628.5</b>	<b>2,854.0</b>
<b>EQUITY</b>			
Contributed equity	19	2,154.1	2,154.1
Treasury shares	21(e)	(1.5)	(1.5)
Reserves	21	(259.0)	(168.8)
Retained earnings	21(d)	734.9	870.2
<b>TOTAL EQUITY</b>		<b>2,628.5</b>	<b>2,854.0</b>

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



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**ALUMINA LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

	Notes	US\$ Million		
		Contributed Equity <sup>1</sup>	Reserves	Retained Earnings
<b>Balance as at 1 January 2010</b>		<b>2,153.1</b>	<b>(203.9)</b>	<b>969.1</b>
Profit for the year		—	—	34.6
Other comprehensive income for the year		—	230.8	—
<b>Transactions with owners in their capacity as owners:</b>				
Dividends declared		—	—	(91.6)
Option premium on convertible bonds		—	(20.5)	—
Movement in share based payments reserve		—	0.4	—
Movement in treasury shares		(0.5)	—	—
<b>Balance as at 31 December 2010</b>		<b>2,152.6</b>	<b>6.8</b>	<b>912.1</b>
<b>Balance as at 1 January 2011</b>		<b>2,152.6</b>	<b>6.8</b>	<b>912.1</b>
Profit for the year		—	—	126.6
Other comprehensive loss for the year		—	(173.9)	—
<b>Transactions with owners in their capacity as owners:</b>				
Dividends declared		—	—	(170.8)
Transfer capital reserve to retained earnings <sup>2</sup>		—	(2.3)	2.3
Movement in share based payments reserve		—	0.6	—
<b>Balance as at 31 December 2011</b>		<b>2,152.6</b>	<b>(168.8)</b>	<b>870.2</b>
<b>Balance as at 1 January 2012</b>		<b>2,152.6</b>	<b>(168.8)</b>	<b>870.2</b>
Loss for the year		—	—	(62.1)
Other comprehensive loss for the year		—	(90.8)	—
<b>Transactions with owners in their capacity as owners:</b>				
Dividends declared		—	—	(73.2)
Movement in share based payments reserve		—	0.6	—
<b>Balance as at 31 December 2012</b>		<b>2,152.6</b>	<b>(259.0)</b>	<b>734.9</b>

<sup>1</sup> Treasury shares have been deducted from contributed equity.

<sup>2</sup> Westminer International (U.K.) Limited, a wholly owned subsidiary of the group, was dissolved on the 10<sup>th</sup> May 2011.

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



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**ALUMINA LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

	Notes	US\$ Million		
		2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Payments to suppliers and employees (inclusive of goods and services tax)		(18.9)	(17.6)	(12.1)
GST refund received		0.8	0.8	0.6
Dividends received from associates		86.0	232.2	234.4
Distributions received from associates		9.1	7.7	7.7
Interest received		0.1	0.2	0.9
Finance costs		(28.2)	(26.8)	(30.8)
Other		(0.3)	(0.4)	(0.1)
<b>Net cash inflow from operating activities</b>	22(a)	<u><b>48.6</b></u>	<u><b>196.1</b></u>	<u><b>200.6</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments for investment in associates		(171.0)	(166.6)	(161.6)
Proceeds from return of invested capital		—	17.3	13.8
Proceeds from derivatives		—	—	6.0
Net settlement of hedge contracts		—	—	(0.6)
<b>Net cash outflow from investing activities</b>		<u><b>(171.0)</b></u>	<u><b>(149.3)</b></u>	<u><b>(142.4)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repurchase of convertible bond		—	(167.6)	(181.5)
Proceeds from borrowings		240.0	285.0	33.7
Repayment of borrowings		(52.5)	(86.0)	(1.1)
Dividends paid		(73.2)	(170.6)	(93.7)
<b>Net cash inflow/(outflow) from financing activities</b>		<u><b>114.3</b></u>	<u><b>(139.2)</b></u>	<u><b>(242.6)</b></u>
<b>Net decrease in cash and cash equivalents</b>		<u><b>(8.1)</b></u>	<u><b>(92.4)</b></u>	<u><b>(184.4)</b></u>
Cash and cash equivalents at the beginning of the financial year		19.0	112.1	305.6
Effects of exchange rate changes on cash and cash equivalents		(0.8)	(0.7)	(9.1)
<b>Cash and cash equivalents at the end of the financial year</b>	10(a)	<u><b>10.1</b></u>	<u><b>19.0</b></u>	<u><b>112.1</b></u>

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



**ALUMINA LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**

**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. These consolidated financial statements are for the Group consisting of Alumina Limited and its subsidiaries (together referred to as the Group).

**A BASIS OF PREPARATION**

These general purpose financial statements for the years ended 31 December 2012, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Alumina Limited is a for-profit entity for the purpose of preparing the financial statements.

*Historical cost convention*

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

*Critical accounting estimates*

The preparation of financial statements 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 statements incorporate the assets and liabilities of all subsidiaries of Alumina Limited as at 31 December 2012 and 2011 and the results of all subsidiaries for the years ended December 31, 2012, 2011 and 2010. Alumina Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

*(ii) Associates*

Associates are those entities over which the consolidated entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The consolidated entity's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates 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



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**ALUMINA LIMITED**  
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transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(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 Plan Trust are disclosed as treasury shares and deducted from contributed equity.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income.

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 reporting 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Alumina Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

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

Additional withholding 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 account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a standalone entity in its own right. These tax amounts are measured using the separate tax payer within the 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.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Alumina Limited for any current tax payable assumed and are compensated by Alumina Limited for any current tax receivable and 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.

Assets or liabilities arising under tax funding agreements within the consolidated entities are recognised as current amounts receivable or payable to other entities in the Group.

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.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**D FOREIGN CURRENCY TRANSLATION***Functional and presentation currency*

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

*Transactions and balances*

Foreign currency transactions are translated into functional 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 profit or loss, except when they are deferred in other 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 and associates*

The results and financial position of all the Group entities and associates 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 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 in other comprehensive income.

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 recognised in other comprehensive income. When a foreign operation is sold, a proportionate share of such exchange differences are reclassified to the profit or loss, 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 Group leases office facilities under an operating lease agreement. Payments made under this agreement are recognised in the profit or loss 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 impairment. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance 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 impairment loss is recognised in the profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.





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**G CASH AND CASH EQUIVALENTS**

For cash flow statement presentation purposes, 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.

**H IMPAIRMENT OF ASSETS**

The Group assesses at each reporting period whether there is objective evidence that the investment in associates is impaired. 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**I BUSINESS COMBINATIONS**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**J DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT**

Depreciation is calculated on a straight line basis to allocate the 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

**K BORROWINGS**

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

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for the liquidity services and amortised over the period of the facility to which it relates.

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.

**L BORROWING COSTS**

Borrowing costs comprise interest payable on borrowings calculated using the effective interest rate method and amortisation of capital facility fees. 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.

**M 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.

**N REVENUE**

Interest income is recognised using the effective interest method. Dividend income is recognised in the profit or loss on the date the entity's right to receive payments is established.

## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**O EMPLOYEE BENEFITS***(i) Salaries and annual leave*

Liabilities for salaries and annual leave are recognised in current provisions (i.e. short-term employee benefits), 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. 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 performance rights 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 performance rights.

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 performance right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance right, 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 performance right.

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

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of performance rights 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 profit or loss with a corresponding adjustment to equity.

*(iv) Superannuation*

From 27 July 2001 until May 2012, all employer contributions and ongoing management of employees' superannuation entitlements were managed by the WMC Superannuation Plan, an independently managed sub-plan of the Plum Superannuation Fund, except where the relevant employees elected for those contributions to be paid to an alternate fund. Since May 2012, Alumina employees are members of an Alumina Limited Super Plan managed by MLC MasterKey Super, except for employees who elected to contribute to an alternate fund. 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 expense.

*(v) AWAC (Alcoa World Alumina and Chemicals)- 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 a combination of government and corporate 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.



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**ALUMINA LIMITED**  
**FORM 20-F**

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When the calculation results in plan assets exceeding liabilities, 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.

All actuarial gains and losses are recognised in earnings of the associates. The movement in future costs of retirement benefit obligations, net of investment returns, is reflected in the Group's equity share of AWAC's results, adjusted for IFRS.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**P 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.

*Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

*Derivatives that are designated in hedge relationships*

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 other comprehensive income. The ineffective portion is recognised immediately in profit or loss. The gain or loss on hedging instruments relating to the effective portion of the hedge that has been recognised directly in other comprehensive income 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 profit or loss within other income or other expense.

Amounts accumulated in other comprehensive income are reclassified in profit or loss in the periods when the hedged item will affect profit or loss.

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 other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

*AWAC - Embedded Derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Sale and purchase contracts may be considered to have financial derivative instruments embedded within them, 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 London Metal Exchange (LME) aluminium price at the time, oil prices, Consumer Price Index and are considered to contain embedded derivatives. Future purchases under these 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, by the relevant AWAC entity. The Group accounts for its share of such transactions within its equity share of net profits of associates.

**Q 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.

## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**R 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, adjusted for rights issues, bonus elements in ordinary shares issued during the year and treasury shares issued.

*(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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**S SEGMENT REPORTING**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer.

**T 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, refineries and smelters 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 cost estimates are calculated annually during the life of the operation to reflect known developments, and are subject to regular reviews.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to profit or loss in each accounting period. 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.

**U CONTRIBUTED EQUITY**

Ordinary shares are classified as equity.

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



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## NEW ACCOUNTING STANDARDS

Certain new accounting standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning 1 January 2013 or later periods. Those which are relevant to the Group's operations are set out below:

*IFRS 9 Financial Instruments*

IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group does not expect any significant impact on the financial statements from adoption of this standard.

*Amendments to IFRS 7 Financial instruments: Disclosures' on derecognition*

These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Earlier application subject to EU endorsement is permitted. The Group intends to apply the new rules for the first time for the accounting periods beginning on or after 1 January 2013. They are not expected to have any significant impact on the Group's financial statements.

*Amendment to IAS 19 Employee benefits*

This standard was amended in June 2011. The impact of the standard is as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income (OCI) as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The amendment becomes effective for accounting periods beginning on or after 1 January 2013. The Group does not expect the impact on the financial statements to be significant.

*IFRS 10 Consolidated financial statements*

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group intends to adopt IFRS 10 for the accounting periods beginning on or after 1 January 2013. The Group does not expect any significant impact on the financial statements from adoption of this standard.

*IFRS 11 Joint arrangements*

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group intends to adopt IFRS 11 for the accounting periods beginning on or after 1 January 2013. The Group does not expect any significant impact on the financial statements from adoption of this standard.





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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*IFRS 12 Disclosures of interest in other entities*

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group intends to adopt IFRS 12 for the accounting periods beginning on or after 1 January 2013. The Group does not expect any significant impact on the financial statements from adoption of this standard.

*IAS 27 (revised 2011) Separate financial statements*

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Group intends to apply the new rules for the first time for the accounting periods on or after 1 January 2013. They are not expected to have any significant impact on the Group's disclosures.

*IAS 28 (revised 2011) Associates and joint ventures*

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group intends to apply the new rules for the first time for the accounting periods on or after 1 January 2013. They are not expected to have any significant impact on the Group's disclosures.

*IFRS 13 Fair Value Measurement*

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

**Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

In December 2011, the IASB made amendments to the application guidance in IAS 32 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time for the accounting periods on or after 1 January 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**ROUNDING OF AMOUNTS**

Amounts in the financial statements have been rounded off to the nearest hundred thousand dollars, or as otherwise indicated.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**2. FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from their use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Fair value estimation
- Capital management

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Financial risk management is carried out by a Treasury Committee which is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

**(a) MARKET RISK**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines of the Treasury Policies.

**(i) Foreign exchange risk**

Foreign exchange risk for the Group arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

During 2009 the Group completed a drawdown of funding from the Brazil National Development Bank (BNDES). The funding was predominately in US dollars with the balance in BRL. To hedge the exposure to the BRL/USD exchange rate and BRL interest rates the Group entered into Cross Currency Interest Rate Swaps (CCIRS) for the full amount of the BRL tranche to swap the exposure back to US dollars.

Except as described above, the Group generally does not hedge its foreign currency exposures except through the near-term purchase of currency to meet operating requirements. The change to USD functional currency in January 2010 removed the foreign exchange risk on US dollar borrowings and US dollar denominated assets. Therefore, the Group's total exposure to foreign exchange risk is insignificant.

**(ii) Price risk**

The Group is exposed to commodity price risk through its investment in AWAC.

The Group, through AWAC, is exposed to embedded derivatives in major long term energy supply contracts that create an exposure to the London Metals Exchange (LME) aluminium price and an electricity hedge that has an exposure to long term electricity prices.

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.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**2. FINANCIAL RISK MANAGEMENT (continued)***(iii) Cash flow and fair value interest rate risk*

The Group's main interest rate risk arises from its borrowings.

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 generally borrow at floating rates subject to availability of attractive fixed rate deals. During 2012, 2011 and 2010, the Group's borrowings were all on a variable rate basis except for the convertible bonds issued in May 2008, which bore interest at the rate of 2 per cent per annum. These convertible bonds were repurchased and cancelled during May and June 2011.

As part of the BNDES financing, CCIRS for the whole amount of the BRL denominated tranche were used to manage the exposure to BRL interest rates over the life of the loan.

Had interest rates on floating rate debt during 2012 been 1 percentage point higher / lower than the average of 3.34 per cent, with all other variables held constant, pre-tax profit for the year would have been US\$6.3 million lower / higher (2011: US\$4.2 million lower / higher).

Additional information on the Group's interest rate risk is shown in Note 24.

*(b) CREDIT RISK*

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A-' are accepted, and exposure limits are assigned based on actual independent rating and Board approved guidelines.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Group through its investment in AWAC also 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 AWAC.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 2. FINANCIAL RISK MANAGEMENT (continued)

(c) *LIQUIDITY RISK*

Prudent liquidity risk 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 details the Group's remaining contractual maturity for its non-derivative financial liabilities. The amounts disclosed in the table are the carrying amount of financial liabilities. In addition, the Group pays interest on these facilities. Interest, after derivative financial instruments, is based on US dollar floating rates for all facilities. The weighted average interest rate on these facilities at balance date is 3.18%.

Additional information on the Group's borrowings, including committed undrawn facilities, are shown in Notes 15 and 23.

	Less than 1 year US\$ million	Between 1 and 2 years US\$ million	Between 2 and 5 years US\$ million	Over 5 years US\$ million
<b>At 31 December 2012</b>				
Interest-bearing liabilities	52.0	212.0	410.5	—
Payables	2.7	—	—	—
	Less than 1 year US\$ million	Between 1 and 2 years US\$ million	Between 2 and 5 years US\$ million	Over 5 years US\$ million
<b>At 31 December 2011</b>				
Interest-bearing liabilities	52.9	158.1	279.6	—
Payables	3.1	—	—	—

(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 purposes 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.

The fair value of derivative instruments are calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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 2012, embedded derivatives in AWAC contracts resulted in an increase of US\$6.4 million to Net Profit (2011: US\$60.1 million increase; 2010: US\$6.0 million increase).

(e) *CAPITAL MANAGEMENT*

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern so that they can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return of capital, which the Group defines as profit for the year divided by average shareholders' equity and the gearing ratio (note 19(b)). The Board of Directors also determine dividends paid to ordinary shareholders.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements 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.

## AWAC

The Group, through its investment in AWAC, makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of AWAC entities and therefore Group's investment in associates within the next financial year are discussed below.

*Embedded derivatives*

The Group through its equity investment in AWAC has accounted for derivative financial instruments in accordance with IAS 39 *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. Were the actual prices to differ by 20 per cent to management's estimates, it would have the following effect:

- An unfavourable movement would increase the embedded derivatives net liability by US\$136.9 million (2011: US\$189.3 million based on 20 per cent) and decrease the deferred tax liability by US\$41.1 million (2011: US\$56.8 million based on 20 per cent); and decrease Group's investment in associates by US\$38.3 million (2011: US\$53.0 million); or
- A favourable movement would decrease the embedded derivatives net liability by US\$49.2 million (2011: US\$59.7 million based on 20 per cent) and increase the deferred tax liability by US\$14.8 million (2011: US\$17.9 million based on 20 per cent) and increase Group's investment in associates by US\$13.8 million (2011: US\$16.7 million).

*Electricity hedge*

The Group through its equity investment in AWAC has accounted for derivative financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In the determination of the fair value of this asset, AWAC has applied estimates surrounding long term electricity prices. Were the actual prices to differ by 10 per cent to management's estimates, it would have the following effect:

- An unfavourable movement would decrease the derivative financial instruments asset by US\$249.1 million (2011: US\$374.7 million) and decrease the deferred tax liability by US\$74.8 million (2011: US\$112.4 million) and decrease Group's investment in associates by US\$69.7 million (2011: US\$104.9 million); or
- A favourable movement would increase the derivative financial instruments asset by US\$249.1 million (2011: US\$374.7 million) and increase the deferred tax liability by US\$74.8 million (2011: US\$112.4 million) and increase Group's investment in associates by US\$69.7 million (2011: US\$74.8 million).

*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 IAS 19 *Employee Benefits*. These valuations require actuarial assumptions to be made. All actuarial gains and losses are recognised in earnings of the associates and reflected in the Group's equity share of AWAC's results, adjusted for IFRS.

*Asset retirement obligations*

The estimated costs of rehabilitating mined areas and restoring operating sites are reviewed annually and fully provided at the present value. The amount of USGAAP obligations recognised by AWAC is adjusted to be in compliance with IFRS, and 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. This requires judgemental assumptions regarding future environmental legislation, the extent of reclamation activities required, plant and site closure and discount rates to determine the present value of these cash flows.

For mine reclamation and residue areas the asset retirement obligations are based on detailed studies of useful lives. The



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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. The Group accounts for asset retirement obligations via the equity accounted method.

***Deferred tax assets***

The Group through its equity accounted investment in AWAC has recognised deferred tax assets and liabilities in accordance with IAS12 *Income Taxes*. Deferred tax assets are measured using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred asset is realised or the liability is settled. AWAC's subsidiary in Brazil applied for a tax holiday related to its expanded mining and refining operations. If approved, the tax rate for this subsidiary will decrease significantly resulting in future tax savings over the 10-year holiday period. The net deferred tax assets of the subsidiary are required to be remeasured at the lower holiday rate for the tax losses that will be utilised during the tax holiday period. This requires judgmental assumptions regarding the timing of future taxable profits during the tax holiday period.



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ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Alumina Group

*Estimated impairment of investment in associates*

The Group tests annually whether the investment in associates has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The key assumptions used in the calculation were those relating to future aluminium prices, future alumina prices, oil, electricity, gas prices and exchange rates. Key assumptions are determined with reference to industry participants and brokers' forecasts, commodity and currency forward curves, industry consultant views and brokers' consensus. Additionally a discount rate is applied to determine the NPV of future cash flows.

4. REVENUE FROM CONTINUING OPERATIONS

	Notes	US\$ Million		
		2012	2011	2010
From continuing operations				
Interest received/receivable		0.1	0.2	1.4
<b>Total revenue</b>		<b>0.1</b>	<b>0.2</b>	<b>1.4</b>

5. OTHER INCOME

Change in fair value of derivatives/foreign exchange gains	0.6	0.1	2.1
<b>Total other income</b>	<b>0.6</b>	<b>0.1</b>	<b>2.1</b>

6. EXPENSES

(a) Profit before tax included the following specific: expenses:

(b) Employee benefits expense

Defined contribution superannuation expense	0.2	0.2	0.2
Other employee benefits expense	6.0	6.8	5.4
<b>Total Employee benefits expense</b>	<b>6.2</b>	<b>7.0</b>	<b>5.6</b>

(c) Finance costs:

Interest and finance charges paid/payable:			
- unrelated corporations	29.4	26.8	30.6
- amortisation of option portion of convertible bond	—	1.7	8.1
	29.4	28.5	38.7
Interest received/receivable:			
- unrelated corporations	(0.1)	(0.2)	(1.4)
	4 (0.1)	(0.2)	(1.4)
<b>Net finance cost</b>	<b>29.3</b>	<b>28.3</b>	<b>37.3</b>





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ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

7. INCOME TAX EXPENSE

	Notes	US\$ Million		
		2012	2011	2010
<b>(a) Income tax expense</b>				
Current tax expense		(0.4)	(1.0)	—
Aggregate income tax charge for the year		<u>(0.4)</u>	<u>(1.0)</u>	<u>—</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
(Loss)/profit before tax		(61.7)	127.6	34.6
<b>Prima facie tax credit/(expense) for the period at the rate of 30%</b>		<u>18.5</u>	<u>(38.3)</u>	<u>(10.4)</u>
The following items caused the total charge for income tax to vary from the above:				
Share of equity accounted loss/(profit) not assessable for tax		14.0	(173.1)	(84.5)
Foreign income subject to accruals tax		1.5	1.1	2.5
Share of partnership income assessable for tax		9.1	7.7	7.7
Amounts non-assessable for tax		—	(0.2)	—
Timing differences not recognised		(0.1)	(1.7)	(35.2)
Tax losses not recognised		36.8	40.9	66.2
Non-deductible expenses		2.3	2.2	8.7
Previously unrecognised tax losses now recouped to reduce current tax expense		(0.5)	(1.2)	—
<b>Net movement</b>		<u>63.1</u>	<u>(124.3)</u>	<u>(34.6)</u>
<b>Consequent (increase)/reduction in charge for income tax</b>		<u>(18.9)</u>	<u>37.3</u>	<u>10.4</u>
<b>Aggregate income tax credit/(expense) for the period</b>		<u>(0.4)</u>	<u>(1.0)</u>	<u>—</u>
<b>(c) Tax losses</b>				
These have not been brought to account and are attributable to:				
Tax losses – revenue		851.0	723.4	712.9
Tax losses – capital		<u>951.5</u>	<u>951.5</u>	<u>951.5</u>
Total unused tax losses		<u>1,802.5</u>	<u>1,674.9</u>	<u>1,664.4</u>
Potential tax benefit – revenue	17	280.2	237.9	234.0
Potential tax benefit – capital	17	<u>285.4</u>	<u>285.4</u>	<u>285.4</u>
		<u>565.6</u>	<u>523.3</u>	<u>519.4</u>

As explained in Note 17, the tax losses are not recognised. The benefits for tax losses will only be obtained if:

- 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;
- the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 8. EARNINGS PER SHARE

		2012	2011	2010
(a) Basic earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company	<i>cents</i>	Negative 2.5	5.2	1.4
(b) Diluted earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company	<i>cents</i>	Negative 2.5	5.2	1.4
		Number of Shares		
		2012	2011	2010
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share		2,439,526,913	2,439,526,913	2,439,735,080

## (c) Conversion, call, subscription or issue after 31 December 2012

On 14 February 2013, Alumina limited announced that CITIC\* unconditionally subscribed, in aggregate, for 366,029,428 fully paid ordinary shares in Alumina Limited, being 15% of Alumina Limited's then current capital base, representing 13.04% of Alumina Limited's capital base following completion (the "Placement").

The Placement raised approximately A\$452 million based on an issue price of A\$1.235 per share, which reflected a premium of approximately 3% to the closing price of Alumina Limited shares on 13 February 2013 and a premium of 11% to the volume weighted average price of Alumina Limited shares for the 30 day period ending 13 February 2013.

The new shares issued under the Placement rank equally from allotment in all respects with existing Alumina Limited shares.

\* The subscribers are CITIC Resources Australia Pty Ltd, an indirectly wholly-owned subsidiary of CITIC Resources Holding Limited, and Bestbuy Overseas Co., Ltd, an indirect wholly-owned subsidiary of CITIC Limited.

## (d) Reconciliations of earnings used in calculating earnings per share

	US\$ Million		
	2012	2011	2010
(Loss)/profit from ordinary activities attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	(62.1)	126.6	34.6



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 9. DIVIDENDS

	US\$ Million		
	2012	2011	2010
No interim dividend was declared by the Directors for the first half of 2012 (2011: Interim dividend of USD 3 cents fully franked at 30% per fully paid share declared 11 August 2011 and paid 7 September 2011; 2010: Interim dividend of USD 2 cents fully franked at 30% per fully paid share declared 10 August 2010 and paid 6 September 2010).	—	73.2	48.8
Final dividend of USD 3 cents fully franked at 30% per fully paid share declared 6 February 2012 and paid 15 March 2012 (2011: Final dividend of USD 4 cents fully franked at 30% per fully paid share declared 10 February 2011 and paid 18 March 2011; 2010: Final dividend of USD 1.8 cents (AUD 2 cents) fully franked at 30% per fully paid share declared 9 February 2010 and paid 19 March 2010).	73.2	97.6	42.8
	<u>73.2</u>	<u>170.8</u>	<u>91.6</u>
Dividends paid per share	3.0c	7.0c	3.8c

*(a) Dividends paid during the year*

There was no interim dividend paid for 2012. The dividend paid on March 15, 2012 was the final dividend for 2011.

*(b) Dividends not recognised at year end*

Since year end the Directors have decided not to declare a final dividend.

*(c) Franked dividends*

	US\$ Million		
	2012	2011	2010
The fully franked dividends received from AWAC in the financial year were	86.0	232.2	234.4

	A\$ Million		
	2012	2011	2010
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% (2011 and 2010: 30%)	364.1	357.8	332.3

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

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 10. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Notes	US\$ Million	
		2012	2011
Cash at bank and on hand		10.1	19.0

*(a) Reconciliation of cash at the end of the year*

For the purposes of the statements of cash flows, cash on hand, at the bank and on short-term deposit (maturity of three months or less) less bank overdrafts:		10.1	19.0
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*(b) Money market deposits*

There were US\$7.0 million of interest bearing deposits at 31 December 2011 (2011: US\$13.5 million; 2010: US\$108.8 million).

## 11. CURRENT ASSETS – RECEIVABLES

	US\$ Million	
	2012	2011
Other debtors	0.1	0.2
	0.1	0.2

*(a) Impaired receivables*

There were no impaired receivables for the Group in 2012 or 2011.

At 31 December 2012 and 31 December 2011, there were no receivables that were past due.

*(b) Currencies*

The carrying amounts of the Group's current and non-current receivables are denominated in the following currencies.

	\$ Million	
	2012	2011
Australian Dollars	0.1	0.2

## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 12. INVESTMENTS IN ASSOCIATES

	Notes	US \$Million		
		2012	2011	2010
<b>(a) Securities not quoted on a prescribed stock exchange</b>				
<i>Securities in entities forming Alcoa World Alumina and Chemicals (AWAC) with Alcoa Inc.</i>				
The investment in AWAC is accounted for in the consolidated financial statements using the equity method of accounting.				
<b>Securities at cost:</b>				
Balance brought forward		3,385.6	3,404.6	3,021.9
Additional funding/capitalisation in AWAC entities		171.0	166.6	161.6
Return of capital		—	(17.3)	(13.8)
Foreign currency revaluation		(89.7)	(168.3)	234.9
Equity accounted cost of AWAC		3,466.9	3,385.6	3,404.6
Equity in retained profits of AWAC	12(c)	(167.4)	(58.3)	8.5
Equity in reserves of AWAC	21(b)(c)	(3.4)	(2.5)	2.5
<b>Equity accounted carrying value of AWAC</b>		<b>3,296.1</b>	<b>3,324.8</b>	<b>3,415.6</b>
<b>(b) Equity accounted share of AWAC profits and dividends</b>				
<b>(i) AWAC</b>				
Equity share of (losses)/profits before tax		(63.5)	247.6	140.4
Equity share of tax		49.5	(74.5)	(55.9)
Equity accounted share of (losses)/profits after tax	12(g)	(14.0)	173.1	84.5
Dividends/distributions by the Group		(95.1)	(239.9)	(242.1)
<b>Surplus of dividends/distributions received over equity share of profits</b>		<b>(109.1)</b>	<b>(66.8)</b>	<b>(157.6)</b>
<b>(c) Share of AWAC retained profits</b>				
Surplus of dividends/distributions received over equity share of profits	12(b)	(109.1)	(66.8)	(157.6)
Balance brought forward		(58.3)	8.5	166.1
<b>Total equity share in retained profits carried forward</b>		<b>(167.4)</b>	<b>(58.3)</b>	<b>8.5</b>

**(d) Accounting policies**

The audited combined financial statements of the entities forming AWAC are prepared in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP). Adjustments are made to convert the accounting policies under US GAAP to IFRS. 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 certain refineries, valuation of certain long term energy purchase contracts which include an aluminium price component in the energy price and differences in the recognition of actuarial gains and losses on certain defined benefit plans and the reversal of certain tax credits and fixed asset uplifts included in Alcoa World Alumina Brasil Ltda.

**(e) Additional information on associated entities**

Name	Principal activities	Country of incorporation	Percentage equity	
			2012	2011
Alcoa of Australia Ltd	Bauxite, alumina & aluminium production	Australia	40	40
Alcoa World Alumina LLC	Bauxite and alumina production	America	40	40
Alumina Espanola S.A.	Alumina production	Spain	40	40
Alcoa World Alumina Brasil Ltda.	Bauxite and alumina production	Brazil	40	40
AWA Saudi Ltda.	Bauxite and alumina production	Hong Kong	40	40
Enterprise Partnership <sup>1</sup>	Finance lender	Australia	40	40

<sup>1</sup> Alcoa Australia Holdings Pty Ltd and Alumina Limited are shareholders of Alcoa of Australia Limited and other Enterprise Companies for certain activities of AWAC.

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



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 12. INVESTMENTS IN ASSOCIATES (continued)

(f) *Contingent liabilities**St Croix*

In September 1998, Hurricane Georges struck the U.S. Virgin Islands, including the St. Croix Alumina, L.L.C. (“SCA”) facility on the island of St. Croix. The wind and rain associated with the hurricane caused material at the location to be blown into neighbouring residential areas. SCA undertook or arranged various clean up and remediation efforts. The Division of Environmental Protection (“DEP”) of the Department of Planning and Natural Resources (“DPNR”) of the Virgin Islands Government issued a Notice of Violation that Alcoa has contested. In February 1999, certain residents of St. Croix commenced a civil suit in the Territorial Court of the Virgin Islands seeking compensatory and punitive damages and injunctive relief for alleged personal injuries and property damages associated with “bauxite or red dust” from the SCA facility. In September 2009, the Court granted defendants’ motion for summary judgement on the class plaintiffs’ claim for injunctive relief. In October 2009, plaintiffs appealed the Court’s summary judgement order dismissing the claim for injunctive relief and in March 2011, the U.S. Court of Appeals for the Third Circuit dismissed plaintiffs’ appeal of that order. In September 2011, the parties reached an oral agreement to settle the remaining claims in the case which would resolve the personal property damage claims of the 12 remaining individual plaintiffs. On 12 March 2012, the final judgement was entered in the District Court for the District of the Virgin Islands. On 23 March 2012, the plaintiffs filed a notice of appeal of numerous non-settled matters, including but not limited to discovery orders, Daubert rulings, summary judgement rulings, as more clearly set out in the settlement agreement/release between the parties. Plaintiffs’ appellate brief was filed in the 3rd Circuit Court on 4 January 2013, together with a motion seeking leave to file a brief of excess length. The court has suspended the remainder of the briefing schedule, including the date for Alcoa’s reply brief, until it rules on plaintiffs’ motion to file its brief of excess length. AWAC’s share of the settlement is fully insured.

On 23 April 2004, St Croix Renaissance Group, LLLP, Brownfield Recovery Corp, and Energy Answers Corporation of Puerto Rico (collectively referred to as “SCRG”) filed a suit against SCA and Alcoa World Alumina LLC (“AWA LLC”) in the Territorial Court of the Virgin Islands, Division of St Croix for claims related to the sale of SCA’s former St Croix alumina refinery to plaintiffs (Contract Action). SCA and AWA LLC thereafter removed the case to federal court and after a several year period of discovery and motion practice, a jury trial on the matter took place in St Croix from 11 January 2011 to 20 January 2011. The jury returned a verdict in favour of plaintiffs and awarded damages as described: on a claim of breaches of warranty, the jury awarded \$13 million; on the same claim, the jury awarded punitive damages in the amount of \$6 million; and on a negligence claim for property damage, the jury awarded \$10 million.

On 17 February 2011, Alcoa filed post-trial motions seeking judgement, notwithstanding the verdict or, in the alternative, a new trial. On 31 May 2011, the court granted Alcoa’s motion for judgement regarding Plaintiffs’ \$10 million negligence award and denied the remainder of Alcoa’s motions. Additionally, the court awarded Plaintiffs pre-judgement interest of \$2 million on the breach of warranty award. As a result of the court’s post-trial decisions, AWAC recorded a charge of \$20.3 million in 2011. On 14 June 2011, Alcoa filed a notice of appeal with the US Court of Appeals for the Third Circuit regarding Alcoa’s denied post-trial motions. Also on 22 June 2011, SCRG filed a notice of cross appeal with the Third Circuit Court related to certain pre-trial decisions of the court and of the court’s post-trial ruling on the negligence claim. The Third Circuit referred this matter to mediation as is its standard practice in appeals. Following mediation and further, separate settlement discussions, the parties executed an agreement dated 30 September 2011 resolving the matter in its entirety, and subsequently jointly petitioned (i) the District Court to release Alcoa from the jury verdict and (ii) the Third Circuit Court of Appeals to dismiss this matter. On 13 March 2012, the District Court entered an order discharging Alcoa from the jury verdict and, on 14 March 2012, the Third Circuit Court of Appeals dismissed the matter. This matter is now fully resolved.

On 14 January 2010, Alcoa was served with a complaint involving approximately 2,900 individual persons claimed to be residents of St. Croix who are alleged to have suffered personal injury or property damage from Hurricane Georges or winds blowing material from the property since the time of the hurricane. This complaint, Abednego, et al. v. Alcoa, et al. was filed in the Superior Court of the Virgin Islands, St. Croix Division. The complaint names as defendants the same entities as were sued in the February 1999 action described above and have added as a defendant the current owner of the alumina facility property. In February 2010, Alcoa and SCA removed the case to the federal court for the District of Virgin Islands. Subsequently, plaintiffs have filed motions to remand the case to territorial court as well as a third amended complaint, and defendants have moved to dismiss the case for failure to state a claim upon which relief can be granted. On 17 March 2011, the court granted plaintiffs’ motion to remand to territorial court. Thereafter, Alcoa filed a motion for allowance of appeal. The motion was denied on 18 May 2011. The parties await assignment of the case to a trial judge. At present, the Group is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

On 1 March 2012, Alcoa was served with a complaint involving approximately 200 individual persons claimed to be residents of St. Croix who are alleged to have suffered personal injury or property damage from Hurricane Georges or winds blowing



material from the property since the time of the hurricane in September 1998. This complaint, Abraham, et al. v Alcoa, et al. alleges claims essentially identical to those set forth in the Abednego v Alcoa complaint. The matter was originally filed in the Superior Court of the Virgin Islands, St. Croix Division, on 30 March 2011. By motion filed 12 March 2012, Alcoa sought dismissal of this complaint on several grounds, including failure to timely serve the complaint and being barred by the statute of limitations. At present, the Group is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.





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## ALUMINA LIMITED

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FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 12. INVESTMENTS IN ASSOCIATES (continued)

*Alba Proceeding*

On 27 February 2008, Alcoa Inc. received notice that Aluminium Bahrain BSC (“Alba”) had filed suit against Alcoa Inc. and AWA LLC, and others, in the United States District Court for the Western District of Pennsylvania (the “Court”), Civil Action number 08-299, styled Aluminium Bahrain BSC v Alcoa Inc., AWA LLC, William Rice, and Victor Dahdaleh (the “Alba Proceeding”). The complaint alleged that certain Alcoa entities, including Alcoa of Australia Ltd and AWA LLC entities (which are part of AWAC), and their agents, including Victor Phillip Dahdaleh, had engaged in a conspiracy over a period of 15 years to defraud Alba. The complaint further alleged 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 alleged that Alcoa and the other defendants violated the Racketeer Influenced and Corrupt Organizations Act (“RICO”) and committed fraud. Alba claimed damages in excess of \$1 billion. Alba’s complaint sought treble damages with respect to its RICO claims, compensatory, consequential, exemplary, and punitive damages, rescission of the 2005 alumina supply contract and attorneys’ fees and costs. Neither Alumina Limited, nor any of its employees, is a defendant in the litigation. Alumina holds a 40% equity interest in AWA LLC.

In response to a motion filed by the U.S. Department of Justice (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 would be reopened at the close of the DOJ’s investigation. On 8 November 2011 at Alcoa’s request, the Court removed the case from administrative stay and ordered Alba to file an Amended Complaint by 28 November 2011 and a RICO case statement 30 days thereafter for the limited purpose of allowing Alcoa to move to dismiss Alba’s lawsuit. Alcoa filed a motion to dismiss, which was denied on 11 June 2012.

The Alba Proceeding was settled in relation to Alcoa Inc. and AWA LLC in October 2012, without any admission of liability, by a cash settlement payment of US\$85 million, to be paid by AWA LLC in two equal instalments by the first anniversary of the settlement. Based on the settlement agreement with Alba, AWA LLC recorded a charge of \$85 million in 2012 in respect of the Alba Proceeding. In addition, AWA LLC entered into a long term alumina supply agreement with Alba.

*U.S. Government Investigation relating to Alba Proceeding*

On 26 February 2008, Alcoa Inc. had advised the DOJ and the U.S. Securities and Exchange Commission (the “SEC”) that it had recently become aware of these claims, had already begun an internal investigation, and intended to co-operate fully in any investigation that the DOJ or the SEC may commence. On 17 March 2008, the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has reported it has been co-operating with the government. The SEC subsequently commenced a parallel investigation. The United States Foreign Corrupt Practices Act and related statutes and regulations in the United States and elsewhere provide for potential injunctive relief, monetary penalties, disgorgement, prejudgment interest, criminal sanctions and other remedies and may result in certain cases in suspension or debarment from doing business with governmental entities or other collateral consequences.

Alcoa Inc. has reported that the DOJ and the SEC investigations into the subject matter of the Alba Proceeding are ongoing and that it has been actively negotiating with the DOJ and SEC to reach a resolution of those investigations. However, Alcoa Inc. has stated that it has not reached any agreement with either agency. Alcoa Inc. has stated that, given the uncertainty regarding whether a settlement can be reached and, if reached, on what terms, it is not able to estimate a range of reasonably possible loss with regard to any such settlement. If a settlement of the DOJ and SEC investigations is reached, Alcoa Inc. has stated that it believes that the settlement amount would be material to Alcoa Inc.’s results of operations for the relevant fiscal period. In the event that a settlement is reached in relation to the DOJ and SEC investigations of the Alba matter, Alcoa Inc. and Alumina Limited have agreed that the cash costs of the settlement of the Alba Proceeding and the DOJ and SEC investigations will be allocated between them such that 62.5% will be borne by Alcoa Inc. and 37.5% by AWAC. If a settlement is reached with the DOJ and the SEC regarding their investigations, under that agreement between Alcoa and Alumina Limited, the Company expects a reallocation of a portion of the costs (including legal fees) of the Alba civil settlement from AWAC to Alcoa. If a settlement cannot be reached, Alcoa Inc. has stated that it will proceed to trial with the DOJ and the SEC and under those circumstances, it is unable to predict an outcome or to estimate its reasonably possible loss. Alcoa Inc. has stated that, in those circumstances, there can be no assurance that the final outcome of the DOJ’s and SEC’s investigations will not have a material adverse effect on Alcoa Inc. Accordingly, in those circumstances, there can be no assurance that such final outcome may not have a material adverse effect on AWAC.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 12. INVESTMENTS IN ASSOCIATES (continued)

*Other claims*

There are potential obligations that may result in a future obligation due to the 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 existed at balance date. Also, not every plaintiff has specified the amount of damages sought in their complaint. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies.

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	US\$ Million		
		2012	2011	2010
<i>(g) Alumina Limited's share of aggregate associates:</i>				
Current assets		797.2	716.1	712.9
Non-current assets		3,717.0	3,656.2	3,766.5
Current liabilities		(700.1)	(595.6)	(655.3)
Non-current liabilities		(809.4)	(745.4)	(704.6)
<b>Net assets</b>		<b>3,004.7</b>	<b>3,031.3</b>	<b>3,119.3</b>
Mineral rights and bauxite assets		115.6	117.7	120.5
Goodwill		175.8	175.8	175.8
<b>Carrying value</b>	12(a)	<b>3,296.1</b>	<b>3,324.8</b>	<b>3,415.6</b>
Revenues		2,326.1	2,666.8	2,182.4
Expenses		(2,389.6)	(2,419.2)	(2,042.0)
<b>(Loss)/profit before income tax</b>		<b>(63.5)</b>	<b>247.6</b>	<b>140.4</b>
Income tax credit/(charge)		49.5	(74.5)	(55.9)
<b>(Loss)/profit after income tax</b>		<b>(14.0)</b>	<b>173.1</b>	<b>84.5</b>



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 13. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Notes	US\$ Million	
		2012	2011
Plant and equipment	13(a)	<u>0.2</u>	<u>0.2</u>
<i>(a) Plant and equipment</i>			
Cost		0.3	0.6
Accumulated depreciation		<u>(0.1)</u>	<u>(0.4)</u>
		<u>0.2</u>	<u>0.2</u>

## 14. CURRENT LIABILITIES – PAYABLES

Trade payables	1.6	1.7
Interest payable	<u>1.1</u>	<u>1.4</u>
	<u>2.7</u>	<u>3.1</u>

*(a) Currencies*

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

Australian dollars	2.0	1.6
US dollars	<u>0.7</u>	<u>1.5</u>
	<u>2.7</u>	<u>3.1</u>

## 15. INTEREST-BEARING LIABILITIES

<b>Current</b>		
<b>Unsecured</b>		
Bank loans	52.0	52.9
<b>Non-current</b>		
<b>Unsecured</b>		
Bank loans	<u>622.5</u>	<u>437.7</u>
Total	<u>674.5</u>	<u>490.6</u>

*(a) Currencies*

	\$ Millions	
Interest-bearing liabilities are due in the following currencies:		
US dollars	638.1	439.4
BRL <sup>1</sup>	<u>74.4</u>	<u>96.2</u>
US\$ equivalent of above currencies	<u>674.5</u>	<u>490.6</u>

<sup>1</sup> BRL loans have been swapped to US dollars using cross currency interest rate swaps.

*(b) Exchange rates*

Exchange rates at balance date used in translations:		
USD\$1 = BRL	2.044	1.876

*(c) Fair values*

The Directors consider the carrying amounts of bank loans to approximate their fair values where 'fair value', by definition, is the USD principal amount.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 15. INTEREST-BEARING LIABILITIES (continued)

## (d) Risk Exposures

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance dates are as follows:

	US\$ Million	
	2012	2011
6 months or less	674.5	490.6
1 – 5 years	—	—
Over 5 years	—	—
	<u>674.5</u>	<u>490.6</u>

## 16. CURRENT LIABILITIES – PROVISIONS

	Notes	US\$ Million	
		2012	2011
Employee benefits-provision for annual leave		0.3	0.2

## 17. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

## Deferred tax liabilities

Payables	—	0.1
Fair value of derivatives	—	—
Total deferred tax liabilities	<u>—</u>	<u>0.1</u>

## Deferred tax assets

Employee benefits	0.2	0.2
Fair value of derivatives	1.4	0.4
Borrowing costs	0.1	0.1
Accrued liabilities	0.3	0.1
Transaction costs	1.7	4.5
Total deferred tax assets other than losses	<u>3.7</u>	<u>5.3</u>

Net deferred tax assets before tax losses	3.7	5.2
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Tax losses – revenue	7(c)	280.2	237.9
Tax losses – capital	7(c)	285.4	285.4
Deductible temporary differences and tax losses not recognised		<u>(569.3)</u>	<u>(528.5)</u>

Net deferred tax assets	<u>—</u>	<u>—</u>
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Deferred tax assets are recognised only to the extent of deferred tax liabilities existing at reporting date. Remaining deferred tax assets and liabilities are not recognised as it is not probable that future taxable amounts will be available to utilise those temporary differences and losses. The consolidated entity recognises all movements in temporary differences in profit and loss other than temporary differences arising from movements in exchange rates.

## 18. NON-CURRENT LIABILITIES – PROVISIONS

	US\$ Million	
	2012	2011
Employee benefits-provision for long service leave	<u>0.6</u>	<u>0.5</u>

The aggregate of provisions for employee benefits as shown in Notes 16 and 18 are US\$0.9 million (2011: US\$0.7 million).

## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 19. CONTRIBUTED EQUITY

	US\$ Million		
	2012	2011	2010
Ordinary share capital issued and fully paid			
Balance brought forward	2,154.1	2,154.1	2,154.1
Movement for the period	—	—	—
<b>Total issued capital</b>	<b>2,154.1</b>	<b>2,154.1</b>	<b>2,154.1</b>

Movements in ordinary share capital	Number of fully paid shares		
	2012	2011	2010
Opening number of shares	2,440,196,187	2,440,196,187	2,440,196,187
Movement for the period	—	—	—
Closing number of shares	2,440,196,187	2,440,196,187	2,440,196,187

## (a) Ordinary shares

Ordinary shares, which have no par value, 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.

## (b) Capital risk management

The Group's objectives when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 December 2012 and 31 December 2011 were as follows:

	Notes	US\$ Million	
		2012	2011
Total borrowings	15	674.5	490.6
Less: cash and cash equivalents	10	(10.1)	(19.0)
Net debt		664.4	471.6
Debt		674.5	490.6
Total equity		2,628.5	2,854.0
Total capital		3,303.0	3,344.6
<b>Gearing ratio</b>		<b>20.1%</b>	<b>14.1%</b>

The increase in the gearing ratio during 2012 resulted primarily from an increase in net debt and a decrease in comprehensive income resulting primarily from the depreciation of the Brazilian Reais against the US dollar.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 20. SHARE-BASED PAYMENTS

*Alumina Employee Share Plan (ESP)*

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.

For performance rights granted since 2008, if less than 100% vest when tested initially at the end of a three year period, two further tests apply (over a four week period) 6 and 12 months after the initial test. Any performance rights which do not vest after the second retest will lapse.

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 directors decide otherwise.

The 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.

Set out below are the assumptions made for the performance rights granted on 9 March 2012:

Share Price at Valuation date	\$1.185
Risk Free rate	3.63%
Dividend Yield	3.1%
Volatility	47%

The volatility assumption is based on the actual volatility of Alumina Limited's daily closing share price over the three year period to the valuation date.

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

## 2012

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
13/1/2009	30/11/2011	352,500	—	—	(352,500)	—
12/2/2010	20/12/2012	496,600	—	—	(11,000)	485,600
18/2/2011	6/12/2013	428,400	—	—	(9,100)	419,300
9/3/2012	11/12/2014	—	680,240 <sup>1</sup>	—	(14,200)	666,040
<b>Total</b>		<b>1,277,500</b>	<b>680,240</b>	<b>—</b>	<b>(386,800)</b>	<b>1,570,940</b>

<sup>1</sup> Fair value per performance right at grant date was A\$0.78.

## 2011

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
8/2/2008	4/12/2010	15,850	—	—	(15,850)	—
13/1/2009	30/11/2011	352,500	—	—	—	352,500
12/2/2010	20/12/2012	634,300	—	—	(137,700)	496,600
18/2/2011	6/12/2013	—	559,900 <sup>1</sup>	—	(131,500)	428,400



Total	<u>1,002,650</u>	<u>559,900</u>	<u>—</u>	<u>(285,050)</u>	<u>1,277,500</u>
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<sup>2</sup> Fair value per performance right at grant date was A\$2.03.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.1 years (2011: 2.1 years)

**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:

	US\$ 000's		
	2012	2011	2010
Performance rights granted under the Alumina Employee Share Plan	673	580	388





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ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

21. RESERVES, RETAINED PROFITS AND TREASURY SHARES

	Notes	US\$ Million		
		2012	2011	2010
<b>Reserves</b>				
Asset revaluation reserve	21(c)	30.8	30.8	30.8
Capital reserve	21(c)	12.5	12.5	14.8
Foreign currency translation reserve	21(a)	(320.8)	(230.9)	(62.0)
Share-based payments reserve	21(b)	5.0	4.4	3.8
Option premium on convertible bonds	21(c)	18.6	18.6	18.6
Cash-flow hedge reserve	21(c)	(5.1)	(4.2)	0.8
		<u>(259.0)</u>	<u>(168.8)</u>	<u>6.8</u>
<b>(a) Foreign currency translation reserve</b>				
Balance brought forward		(230.9)	(62.0)	(292.0)
Currency translation differences arising during the year		<u>(89.9)</u>	<u>(168.9)</u>	<u>230.0</u>
Balance carried forward		<u>(320.8)</u>	<u>(230.9)</u>	<u>(62.0)</u>
<b>(b) Share-based payments reserve</b>				
Share based payments reserve at the beginning of the financial year:				
- Group		2.7	1.7	1.7
- Associates		<u>1.7</u>	<u>1.7</u>	<u>1.7</u>
		4.4	3.8	3.4
Performance rights expense				
- Group		0.6	0.6	0.4
- Associates		<u>—</u>	<u>—</u>	<u>—</u>
Balance carried forward		<u>5.0</u>	<u>4.4</u>	<u>3.8</u>
Share based payments reserve at end of the financial year:				
- Group		3.3	2.7	2.1
- Associates		<u>1.7</u>	<u>1.7</u>	<u>1.7</u>
		<u>5.0</u>	<u>4.4</u>	<u>3.8</u>

(c) 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) Capital reserve

The reserve records dividends arising from share of profits on sale of investments.

(iii) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange differences on the translation of non-US dollar functional currency operations within the Group into US dollars.

(iv) Share-based payments reserve

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

(v) Option premium on convertible bonds

The convertible bond was accounted for as a compound instrument at the Group level. The option premium represented the equity component (conversion rights) of the convertible bond. The convertible bond was fully redeemed in 2011.

(vi) Cash-flow hedge reserve

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 (refer Note 1(p)). The year-end balance and movements within the cash-flow hedge reserve of AWAC is accounted for via the equity accounting method.

## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 21. RESERVES, RETAINED PROFITS AND TREASURY SHARES (continued)

	Notes	US\$ Million		
		2012	2011	2010
<b>(d) Retained profits</b>				
Retained profits at the beginning of the financial year:				
- Group		928.5	903.6	803.0
- Associates		(58.3)	8.5	166.1
		870.2	912.1	969.1
(Loss)/profit attributable to the owners of Alumina Limited		(62.1)	126.6	34.6
Transfer from capital reserve		—	2.3	—
Dividend provided for or paid		(73.2)	(170.8)	(91.6)
Retained profits at the end of the financial year		734.9	870.2	912.1
Retained profits at the end of the financial year:				
- Group		902.3	928.5	903.6
- Associates	12(c)	(167.4)	(58.3)	8.5
		734.9	870.2	912.1
	Notes	US\$ Million		
		2012	2011	2010
<b>(e) Treasury shares <sup>1</sup></b>				
Balance brought forward		(1.5)	(1.5)	(1.0)
Movement for the period		—	—	(0.5)
Balance carried forward		(1.5)	(1.5)	(1.5)

<sup>1</sup> Under IAS 32, if an entity reacquires its own equity instruments, those instruments shall be deducted from equity. Alumina Limited, through its Employee Share Plan Trust, purchased shares for its long term incentive plan.

## 22. NOTES TO THE CASH FLOW STATEMENTS

		US\$ Million		
		2012	2011	2010
<i>(a) Reconciliation of operating profit after income tax to net cash inflow from operating activities</i>				
Operating (loss)/profit from continuing operations after income tax		(62.1)	126.6	34.6
Surplus of dividends received/receivable over equity share of profits	12(b)	109.1	66.8	157.6
Amortisation of option portion of convertible bond	6	—	1.7	8.1
Amortisation of commitment and upfront fees		2.4	4.4	3.1
Commitment and upfront fees capitalised		(1.6)	(1.5)	(3.4)
Non-cash employee benefits expense-share based payments		0.6	0.6	0.4
Net exchange differences		—	(0.1)	0.4
<b>Sub total</b>		48.4	198.5	200.8
<i>Change in assets and liabilities</i>				
(Increase)/decrease in:				
- receivables		0.1	—	(0.1)
- other assets		1.0	0.3	(0.5)
(Decrease)/increase in:				
- payables		(0.4)	(2.8)	0.6
- other liabilities		(0.5)	0.1	(0.2)
<b>Net cash inflow from operating activities</b>		48.6	196.1	200.6

**(b) Acquisition/disposal of controlled entities**

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

**(c) Non-cash financing and investing activities**

There were no non-cash financing or investing activities in 2012 (2011 and 2010: nil).



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 23. FINANCING FACILITIES

	Notes	US\$ Million	
		2012	2011
The facilities available at balance date were as follows:			
Total loan facilities		929.5	785.6
Used at end of reporting period	15	674.5	490.6
Available at balance date		<u>255.0</u>	<u>295.0</u>

Funding facilities include bilateral bank facilities, a syndicated facility and a development bank loan. All bilateral bank facilities are available in US dollars, of which two are also available in Australian dollars and one is also available in EURO. The syndicated facility is available in US dollars. The development bank loan is fully drawn in US dollars and Brazilian Reais and amortises at approximately \$52 million per annum. Funding facilities in currencies other than US dollars have been converted to US dollar equivalents at period end exchange rates.

During the year, Alumina Limited added \$200 million in new committed debt facilities with terms of two to five years and refinanced the US\$107 million committed bank facility due for maturity in November 2013 to December 2017. The next scheduled debt maturity for Alumina Limited is US\$100 million in March 2014.

Current liabilities of \$59.8 million exceed current assets of \$15.1 million, however the Directors have concluded that the liabilities will be met using available cash and undrawn committed facilities whose maturities extend beyond 31 December 2013.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 24. FINANCIAL INSTRUMENTS

## (a) Interest rate risk

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

*Interest rate risk exposure*

The consolidated entity's exposure to interest rate risk and the effective weighted interest rate after the effect of derivative instruments is set out below:

## As at 31 December 2012

US\$ Million	Notes	Floating interest	1 year or less	Fixed interest	Non-interest bearing	Total
<b>Financial Assets</b>						
Cash and cash equivalents	10	10.1	—	—	—	10.1
Receivables	11	—	—	—	0.1	0.1
		<u>10.1</u>	<u>—</u>	<u>—</u>	<u>0.1</u>	<u>10.2</u>
<b>Financial Liabilities</b>						
Payables	14	—	—	—	2.7	2.7
Interest-bearing liabilities	15	674.5	—	—	—	674.5
		<u>674.5</u>	<u>—</u>	<u>—</u>	<u>2.7</u>	<u>677.2</u>
<b>Weighted average interest rate after derivative instruments</b>		3.18%				
Net financial liabilities		<u>(664.4)</u>	<u>—</u>	<u>—</u>	<u>(2.6)</u>	<u>(667.0)</u>

## As at 31 December 2011

US\$ Million	Notes	Floating interest	1 year or less	Fixed interest	Non-interest bearing	Total
<b>Financial Assets</b>						
Cash and cash equivalents	10	19.0	—	—	—	19.0
Receivables	11	—	—	—	0.2	0.2
		<u>19.0</u>	<u>—</u>	<u>—</u>	<u>0.2</u>	<u>19.2</u>
<b>Financial Liabilities</b>						
Payables	14	—	—	—	3.1	3.1
Interest-bearing liabilities	15	490.6	—	—	—	490.6
		<u>490.6</u>	<u>—</u>	<u>—</u>	<u>3.1</u>	<u>493.7</u>
<b>Weighted average interest rate after derivative instruments</b>		3.63%				
Net financial liabilities		<u>(471.6)</u>	<u>—</u>	<u>—</u>	<u>(2.9)</u>	<u>(474.5)</u>



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 24. FINANCIAL INSTRUMENTS (continued)

## (b) Fair value measurements

## Fair value measurements recognised on the balance sheet

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2012 and 31 December 2011 grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and

Level 3 - inputs for the asset or liability that are based on unobservable market data (unobservable inputs)

Group – as at 31 December 2012	Level 1 US\$ Million	Level 2 US\$ Million	Level 3 US\$ Million	Total US\$ Million
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	—	4.6	—	4.6
<b>Total financial liabilities</b>	—	4.6	—	4.6
Group – as at 31 December 2011	Level 1 US\$ Million	Level 2 US\$ Million	Level 3 US\$ Million	Total US\$ Million
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	—	1.3	—	1.3
<b>Total financial assets</b>	—	1.3	—	1.3



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 25. INVESTMENTS IN CONTROLLED ENTITIES

<u>Entities consolidated</u>	<u>Notes</u>	<u>Place of Incorporation</u>
<b>NAME</b>		
Alumina Limited		VIC, Australia
<i>All controlled entities are wholly-owned, unless otherwise indicated</i>		
<b>Controlled entities</b>		
Alumina Employee Share Plan Pty Ltd		VIC, Australia
Alumina Finance Limited	D	VIC, Australia
Alumina Holdings (USA) Inc.	A	Delaware, USA
Alumina International Holdings Pty. Ltd.	B	VIC, Australia
Alumina Brazil Holdings Pty Ltd	C	VIC, Australia
Alumina Limited Do Brasil SA	E	Brazil
Alumina (U.S.A.) Inc.	A	Delaware, USA
Butia Participações SA	F	Brazil
Westminer Acquisition (U.K.) Limited	F	UK
Westminer International (U.K.) Limited	G	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) has been granted relief from the necessity to prepare accounts pursuant to Australian Securities and Investment Commission ("ASIC") Class Order 98/1418.
- C) this is a small proprietary company, and is not required to prepare a financial report;
- D) this company was incorporated on 5 May 2008 and is 100% owned by Alumina Limited. It has a functional currency of US dollars and prepares separate audited accounts;
- E) this company was incorporated on 19 March 2009 and is 9.07% owned by Alumina Limited and 90.93% owned by Alumina International Holdings Pty. Ltd. It has a functional currency of US dollars and prepares separate audited accounts;
- F) prepares separate audited accounts;
- G) this company was dissolved on 10 May 2011.



## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010**26. CONTINGENT LIABILITIES**

There were no contingent liabilities of the Group as at 31 December 2012 (2011: nil). Contingent liabilities of the associates are detailed in Note 12(f).

**27. COMMITMENTS FOR EXPENDITURE**

	US\$ Million	
	2012	2011
<b>Lease commitments</b>		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	0.1	0.1
Later than one year but not later than 5 years	0.2	0.3
Later than 5 year	—	—
	<u>0.3</u>	<u>0.4</u>

The Group leases office facilities under non-cancellable operating leases expiring within two to five years.

**Capital commitments**

There are no contractual capital commitments at reporting date but there are expected to be capital injections to AWAC during 2013.

**28. RELATED PARTY TRANSACTIONS**

The parent entity within the Group is Alumina Limited. Balances and transactions between the parent entity and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

**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.





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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES

## (a) Directors

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

*Chairman – non-executive*

J Pizzey

*Executive directors*

J Bevan, *Chief Executive Officer*

*Non-executive directors*

P A F Hay  
E Stein  
P C Wasow

## (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:

<u>Name</u>	<u>Position</u>	<u>Employer</u>
S C Foster	General Counsel and Company Secretary	Alumina Limited
C Thiris	Chief Financial Officer	Alumina Limited

All of the persons above were also key management persons during the year ended 31 December 2012.

## (c) Remuneration of key management personnel

	US\$		
	2012	2011	2010
Short-term employee benefits	4,272,382	4,649,435	3,733,287
Post-employment benefits	114,777	118,089	89,400
Share based payments	582,355	532,570	323,898
Termination pay	—	547,986	—
	<u>4,969,514</u>	<u>5,848,080</u>	<u>4,146,585</u>

## (d) Equity instrument disclosures relating to key management personnel

## (i) Alumina Employee Performance Rights Plan

Performance rights over ordinary shares in the company are provided as remuneration. These rights vest at the end of the performance period if certain performance tests are achieved over that performance period.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

## (ii) Performance share rights holdings

The number of 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:

## 2012

Name	Type of equity-based instrument	Number of performance rights held at 1 January 2012 <sup>1</sup>	Number granted during the year as remuneration <sup>2</sup>	Number vested/exercised during the year	Number lapsed during the year <sup>3</sup>	Number held at 31 December 2012	Vested and exercisable at the end of the year
J Bevan	Performance rights	770,300	418,500	—	(191,600)	997,200	—
S C Foster	Performance rights	305,400	136,300	—	(113,600)	328,100	—
C Thiris <sup>4</sup>	Performance rights	—	—	—	—	—	—

<sup>1</sup> Includes the number of Performance Rights granted that were subject to testing in 2012 but not yet vested.

<sup>2</sup> Performance Rights granted in March 2012 for the 3 year performance test period concluding in December 2014.

<sup>3</sup> For Performance Rights granted under ESP in January 2009 and tested in December 2011 were subject to two further tests applied over a (4 week period) 6 and 12 months after the initial test. The testing of those Performance Rights in 2012 resulted in all of those Performance rights lapsing.

<sup>4</sup> Performance Rights are granted in respect of work conducted in the prior year. Mr Thiris was appointed interim Chief Financial Officer in September 2011 and was appointed Chief Financial Officer in December 2011 and as such, no Performance Rights were offered to Mr Thiris in respect of 2012.

## 2011

Name	Type of equity-based instrument	Number of performance rights held at 1 January 2011 <sup>(1)</sup>	Number granted during the year as remuneration <sup>(2)</sup>	Number vested/exercised during the year	Number lapsed during the year <sup>(3)</sup>	Number held at 31 December 2011	Vested and exercisable at the end of the year
J Bevan	Performance rights	504,500	265,800	—	—	770,300	—
S C Foster	Performance rights	231,400	86,600	—	(12,600)	305,400	—
J S Downes <sup>4</sup>	Performance rights	137,700	131,500	—	(269,200)	—	—

<sup>1</sup> Includes the number of Performance Rights granted that were subject to testing in 2011 but not yet vested.

<sup>2</sup> Performance Rights granted in February 2011 for the 3 year performance test period concluding in December 2013.

<sup>3</sup> For Performance Rights granted under ESP in February 2008 and tested in December 2010 were subject to two further tests applied over a (4 week period) 6 and 12 months after the initial test. The testing of those Performance Rights in 2011 resulted in all of those Performance rights lapsing.

<sup>4</sup> Ms Downes ceased employment with the Company on 24 August 2011 and pursuant to her employment contract and the Rules of the Alumina Employee Share Plan, she forfeited all invested Performance Rights as at her cessation date.



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## ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

## (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.

## 2012

Name	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
<b>Directors of Alumina Limited</b>				
<b>Ordinary shares</b>				
P A F Hay	112,598	—	—	112,598
J Pizzey	65,445	—	—	65,445
E Stein	14,281	—	—	14,281
J Bevan	432,152	—	—	432,152

**Other key management personnel of the company and consolidated entity**

<b>Ordinary shares</b>				
S C Foster	144,867	—	—	144,867

## 2011

Name	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
<b>Directors of Alumina Limited</b>				
<b>Ordinary shares</b>				
D M Morley <sup>1</sup>	951,670	—	—	951,670
P A F Hay	112,598	—	—	112,598
R J McNeilly <sup>2</sup>	115,145	—	—	115,145
J Pizzey	65,445	—	—	65,445
E Stein	—	—	14,281	14,281
J Bevan	355,380	—	76,772	432,152
J S Downes <sup>3</sup>	174,350	—	31,210	205,560

<sup>1</sup> Mr Morley retired from the Company on 30 November 2011. His shareholding is of that date.

<sup>2</sup> Mr McNeilly retired as a Director of Alumina Limited on 3 March 2011. His shareholding is of that date.

<sup>3</sup> Ms Downes ceased employment with the Company on 24 August 2011. Her shareholding is of that date.

**Other key management personnel of the company and consolidated entity**

<b>Ordinary shares</b>				
S C Foster	122,081	—	22,786	144,867

## (e) Loans to directors and executives

No loans were made to directors of Alumina Limited and other key management personnel of the Group, including their personally-related entities in 2012 or 2011.



ALUMINA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

30. REMUNERATION OF AUDITORS

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

	US\$ 000's		
	2012	2011	2010
<b>Amounts received or due and receivable by PricewaterhouseCoopers</b>			
<b>Australia:</b>			
Audit and review of the financial reports	865	867	807
Other assurance services	4	4	481
<b>Amounts received or due and receivable by related practices of</b>			
<b>PricewaterhouseCoopers Australia:</b>			
Overseas taxation services	16	65	38
<b>Total</b>	<b>885</b>	<b>936</b>	<b>1,326</b>

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important provided such arrangements do not compromise audit independence. These assignments are principally tax advice or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

31. FINANCIAL REPORTING BY SEGMENT

(a) *Geographical Segment Identification*

Years ended 31 December 2012 and 31 December 2011

Alumina Limited's primary assets are its 40% interest in the series of operating entities forming AWAC.

Alumina Limited has one reportable segment, namely the investment in the alumina/aluminium business through its equity interests in AWAC. Alumina Limited participates in AWAC through The Strategic Council, which consists of three members appointed by Alcoa Inc. and two members appointed by Alumina Limited. Operational decisions are made by Alcoa Inc.

(b) *Entity wide disclosures: Geographical location of assets*

Year ended 31 December 2012 Consolidated	US\$ Millions			
	Australia	Brazil	Other	Total
Investments in Associates	1,209.8	1,255.2	831.1	3,296.1
Other assets	13.8	0.6	0.9	15.3
Liabilities	(497.9)	(185.0)	—	(682.9)
<b>Consolidated net assets</b>				<b>2,628.5</b>
Year ended 31 December 2011 Consolidated	US\$ Millions			
	Australia	Brazil	Other	Total
Investments in Associates	1,218.4	1,357.5	748.9	3,324.8
Other assets	23.3	1.4	0.9	25.6
Liabilities	(255.1)	(241.3)	—	(496.4)
<b>Consolidated net assets</b>				<b>2,854.0</b>

Alumina Limited earns no revenue from external customers.

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 14 February 2013, Alumina Limited announced that CITIC\* unconditionally subscribed, in aggregate, for 366,029,428 fully paid ordinary shares in Alumina Limited, being 15% of Alumina Limited's current capital base, representing 13.04% of Alumina Limited's capital base following completion (the "Placement").



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**ALUMINA LIMITED**  
**FORM 20-F**

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The Placement raised approximately A\$452 million based on an issue price of A\$1.235 per share, which reflected a premium of approximately 3% to the closing price of Alumina Limited shares on 13 February 2013 and a premium of 11% to the volume weighted average price of Alumina Limited shares for the 30 day period ending 13 February 2013.

The new shares issued under the Placement ranked equally from allotment in all respects with existing Alumina Limited shares

\* The subscribers are CITIC Resources Australia Pty Ltd, an indirectly wholly-owned subsidiary of CITIC Resources Holding Limited, and Bestbuy Overseas Co., Ltd, an indirect wholly-owned subsidiary of CITIC Limited.



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**Report of Independent Registered Public Accounting Firm****To the Board of Directors and Shareholders of Alumina Limited**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, cash flows statements and statements of changes in equity present fairly, in all material respects, the financial position of Alumina Limited and its subsidiaries at 31 December 2012 and 31 December 2011, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 December 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15(b) in this Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States), and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**PricewaterhouseCoopers, ABN 52 780 433 757**

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**Report of Independent Registered Public Accounting Firm**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers

Melbourne, Australia

April 11, 2013





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**Report of Independent Registered Public Accounting Firm**

To the Members of the Strategic Council of  
Alcoa World Alumina and Chemicals  
(Majority-owned by Alcoa Inc.)

In our opinion, the accompanying combined balance sheets and the related combined statements of (loss) income, comprehensive income (loss), changes in members' equity and cash flows present fairly, in all material respects, the financial position of Alcoa World Alumina and Chemicals ("AWAC") at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of AWAC's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania  
March 4, 2013



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**  
**Combined Balance Sheets**  
**December 31, 2012 and 2011**

(U.S. dollars in millions)	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 126.0	\$ 204.0
Receivables from customers	154.0	234.7
Related party receivables (I)	214.7	235.7
Other receivables	88.9	64.8
Related party notes receivable (I)	88.7	82.9
Inventories (D)	808.0	777.3
Fair value of derivative contracts (N)	204.2	0.8
Prepaid expenses and other current assets	216.9	138.1
Total current assets	1,901.4	1,738.3
Properties, plants and equipment, net (E)	6,909.2	7,133.8
Investments (F)	593.1	401.1
Deferred income taxes (M)	575.5	467.3
Fair value of derivative contracts (N)	328.6	7.0
Other noncurrent assets (G)	1,110.2	1,175.1
Total assets	<u>\$11,418.0</u>	<u>\$10,922.6</u>
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of capital lease obligations (H)	\$ 69.6	\$ 38.5
Accounts payable, trade	753.1	771.9
Accounts payable, related party (H)	87.9	114.3
Accrued compensation and retirement costs	295.7	263.5
Taxes, including taxes on income	28.7	114.9
Deferred income taxes (M)	114.1	109.1
Deferred credit related to derivative contracts (N)	200.0	—
Other current liabilities	215.7	133.4
Total current liabilities	1,764.8	1,545.6
Capital lease obligations and long term debt (H)	68.7	31.0
Accrued pension benefits (K)	127.0	204.6
Accrued other postretirement benefits (K)	83.8	79.5
Deferred alumina sales revenue (A)	108.3	116.5
Deferred income taxes (M)	255.8	217.7
Deferred credit related to derivative contracts (N)	309.5	—
Other noncurrent liabilities and deferred credits	456.4	384.6
Total liabilities	<u>3,174.3</u>	<u>2,579.5</u>
Contingencies and commitments (P)		
<b>Members' equity</b>		
Members' equity	7,899.9	7,797.0
Accumulated other comprehensive income	343.8	546.1
Total members' equity	<u>8,243.7</u>	<u>8,343.1</u>
Total liabilities and members' equity	<u>\$11,418.0</u>	<u>\$10,922.6</u>

The accompanying notes are an integral part of these combined financial statements.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**  
**Combined Statements of (Loss) Income**  
**Years Ended December 31, 2012, 2011 and 2010**

(U.S. dollars in millions)	2012	2011	2010
<b>Revenues</b>			
Sales	\$3,645.0	\$4,144.6	\$3,452.4
Sales to related parties (I)	<u>2,170.3</u>	<u>2,522.4</u>	<u>2,004.1</u>
	<u>5,815.3</u>	<u>6,667.0</u>	<u>5,456.5</u>
<b>Costs and expenses</b>			
Cost of goods sold (exclusive of expenses below)	5,369.8	5,459.0	4,523.3
Selling, general administrative, and other expenses	110.7	113.5	94.1
Research and development expenses	22.2	21.3	20.3
Provision for depreciation, depletion and amortization	478.9	465.8	424.5
Restructuring and other charges (R)	8.1	52.9	13.2
Interest expense	5.6	4.3	12.6
Other (income) expense, net (S)	<u>(34.4)</u>	<u>(59.1)</u>	<u>(3.3)</u>
	<u>5,960.9</u>	<u>6,057.7</u>	<u>5,084.7</u>
(Loss)/Income before income taxes	(145.6)	609.3	371.8
(Benefit)/provision for taxes on income (M)	<u>(53.7)</u>	<u>139.6</u>	<u>36.5</u>
Net (loss)/income	<u>\$ (91.9)</u>	<u>\$ 469.7</u>	<u>\$ 335.3</u>

The accompanying notes are an integral part of these combined financial statements.



Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)  
Statements of Comprehensive Income (Loss)  
Years Ended December 31, 2012, 2011 and 2010

(U.S. dollars in millions)	2012	2011	2010
Net (loss) income	\$ (91.9)	\$ 469.7	\$ 335.3
Other comprehensive income (loss) income			
Foreign currency translation adjustments	(253.3)	(438.4)	861.4
Change in unrecognized gains (losses) and prior service cost related to pension and other postretirement benefit plans, net of tax	53.1	(99.9)	(15.8)
Unrecognized gains (losses) on derivatives, net of tax			
Net change from periodic revaluations	(2.1)	(13.9)	0.9
Net amount reclassified to income	—	1.4	51.6
Total Other comprehensive (loss) income	(202.3)	(550.8)	898.1
Comprehensive (loss) income	\$(294.2)	\$ (81.1)	\$1,233.4

The accompanying notes are an integral part of these combined financial statements.



**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**  
**Combined Statements of Cash Flows**  
**Years Ended December 31, 2012, 2011 and 2010**

(U.S. dollars in millions)	2012	2011	2010
<b>Cash from operations</b>			
Net (loss)/income	\$ (91.9)	\$ 469.7	\$ 335.3
Adjustments to reconcile net (loss)/income to cash from operations			
Depreciation, depletion and amortization	478.9	465.8	424.5
Deferred income taxes	(111.8)	(72.8)	(185.6)
Equity (income) loss, net of dividends	5.9	13.3	(2.5)
Restructuring and other charges (R)	8.1	52.9	13.2
Stock-based compensation (L)	4.9	4.6	4.0
Excess tax benefits from stock-based payment arrangements	—	(0.1)	—
Gain on sale of assets	(7.9)	(42.9)	(3.4)
Changes in assets and liabilities, excluding effects of foreign currency translation adjustments:			
Decrease (increase) in receivables	80.6	(111.6)	73.3
(Increase) decrease in inventories	(22.0)	(72.5)	53.8
(Increase) decrease in prepaid expenses and other current assets	(72.2)	10.5	10.6
Increase (decrease) in accounts payable and accrued expenses	42.2	102.7	(10.9)
(Decrease) increase in taxes, including taxes on income	(88.8)	(20.0)	46.4
Net change in noncurrent assets and liabilities, and other	15.9	(109.6)	(35.4)
<b>Cash provided from operations</b>	<u>241.9</u>	<u>690.0</u>	<u>723.3</u>
<b>Financing activities</b>			
Net change in short-term borrowings (original maturities of three months or less) (H)	(11.0)	3.6	(7.7)
Additions to debt (original maturities greater than three months) (H)	92.5	—	—
Payments on debt (original maturities greater than three months)	0.0	(218.5)	(3.7)
Net changes in capital lease obligations (H)	(12.7)	(11.0)	(3.4)
Capital contributions	428.4	426.7	433.5
Dividends paid and return of capital to members	(238.5)	(641.9)	(640.6)
Excess tax benefits from stock-based payment arrangements	—	0.1	—
<b>Cash provided from (used for) financing activities</b>	<u>258.7</u>	<u>(441.0)</u>	<u>(221.9)</u>
<b>Investing activities</b>			
Capital expenditures	(375.3)	(392.0)	(298.4)
Additions to investments	(202.9)	(68.2)	(70.6)
Proceeds from sale of assets	6.5	48.5	1.1
Net change in related party note receivable (I)	(3.6)	34.9	(28.0)
<b>Cash used for investing activities</b>	<u>(575.3)</u>	<u>(376.8)</u>	<u>(395.9)</u>
Effect of exchange rate changes on cash and cash equivalents	(3.3)	0.2	22.7
<b>Net change in cash and cash equivalents</b>	<u>(78.0)</u>	<u>(127.6)</u>	<u>128.2</u>
<b>Cash and cash equivalents</b>			
Beginning of year	204.0	331.6	203.4
End of year	<u>\$ 126.0</u>	<u>\$ 204.0</u>	<u>\$ 331.6</u>

The accompanying notes are an integral part of these combined financial statements.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**  
**Combined Statements of Changes in Members' Equity**  
**Years Ended December 31, 2012, 2011 and 2010**

(U.S. dollars in millions)	Members' Equity	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
<b>Balances at December 31, 2009</b>	\$7,405.7	\$ 198.8	\$7,604.5
Net income	335.3		335.3
Other comprehensive income		898.1	898.1
Capital contributions from members (B)	433.5		433.5
Dividends paid and return of capital to members	(640.6)		(640.6)
Stock-based compensation	4.0		4.0
<b>Balances at December 31, 2010</b>	7,537.9	1,096.9	8,634.8
Net income	469.7		469.7
Other comprehensive loss		(550.8)	(550.8)
Capital contributions from members (B)	426.7		426.7
Dividends paid and return of capital to members	(641.9)		(641.9)
Stock-based compensation	4.6		4.6
<b>Balances at December 31, 2011</b>	7,797.0	546.1	8,343.1
Net loss	(91.9)		(91.9)
Other comprehensive loss		(202.3)	(202.3)
Capital contributions from members (B)	428.4		428.4
Dividends paid and return of capital to members	(238.5)		(238.5)
Stock-based compensation	4.9		4.9
<b>Balances at December 31, 2012</b>	<u>\$7,899.9</u>	<u>\$ 343.8*</u>	<u>\$8,243.7</u>

\* Comprised of unrealized foreign currency translation adjustments of \$554.3, unrecognized losses and prior service costs, net related to pension and post-retirement benefit plans of (\$198.0), and unrecognized losses on derivatives of (\$12.5), all net of tax.

The accompanying notes are an integral part of these combined financial statements.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**  
**Notes to Combined Financial Statements**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

**A. Summary of Significant Accounting Policies**

***Principles of Combination and Basis of Presentation***

The combined financial statements of Alcoa World Alumina and Chemicals ("AWAC") have been prepared pursuant to a Formation Agreement dated December 21, 1994 between Alcoa Inc. ("Alcoa") and WMC Limited of Melbourne, Australia ("WMC"), as amended. Effective December 11, 2002, WMC shareholders voted to create two entities, WMC Resources Limited and Alumina Limited, resulting in existing WMC shareholders receiving shares in a new listed entity 'WMC Resources Limited', which holds non AWAC businesses. AWAC is owned 60% by Alcoa and 40% by Alumina Limited and consists principally of bauxite, alumina and alumina-based chemicals businesses and investments managed and controlled by Alcoa.

The combined financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and require management to make certain judgments, estimates, and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and affect the amounts of revenues and expenses reported during the period. Actual results could differ from those estimates upon subsequent resolution of identified matters. Certain amounts in previously issued financial statements were reclassified to conform to the 2012 presentation.

The following operating entities represent the combined operations of AWAC and form the basis of the combined financial statements:

<u>Entity</u>	<u>Country</u>
Alcoa World Alumina (AWA) LLC*	United States
Alcoa of Australia	Australia
Alumina Espanola	Spain
AWA Brazil	Brazil
AWA Saudi Limited**	Saudi Arabia
Enterprise Partnership	Australia

\* Alcoa World Alumina LLC holds AWAC's mining and refining interests in the United States, Suriname, Jamaica and Guinea (collectively referred to as the "Combined LLCs").

\*\* AWA Saudi Limited holds AWAC's investment in a mining and refining operating joint venture in the Kingdom of Saudi Arabia owned 25.1% by AWAC and 74.9% by Saudi Arabian Mining Company ("Ma'aden").

The combined financial statements have been carved out from the books and records of Alcoa. All transactions between entities included in the combined financial statements have been eliminated. The statements of income include all items of revenue and income generated by AWAC and all items of expense directly incurred by AWAC. These include expenses charged to AWAC by Alcoa in the normal course of business. The amounts have been allocated on a basis considered reasonable by management using either specific identification or proportional allocations based on usage, headcount or other reasonable methods of allocation. As a result of these allocated amounts, the financial statements of AWAC may not be indicative of the results that would be presented if AWAC had operated as an independent stand-alone entity. The combined financial statements reflect amounts necessary in order to depict the combined financial position, results of operations and cash flows of AWAC on a stand-alone basis. For additional information concerning expenses charged to AWAC by Alcoa see Note I.



**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)*****Related Party Transactions***

AWAC sells alumina and aluminum to Alcoa. These transactions are intended to represent amounts negotiated at arms-length terms. Additionally, Alcoa provides employee, administrative and other services to AWAC. These amounts have been recorded on a reasonable basis representative of cost. AWAC has amounts due to and from related parties as a result of these transactions. For additional information on related party transactions see Note I.

***Cash and Cash Equivalents***

Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

***Inventory Valuation***

Inventories are carried at the lower of cost or market, with cost for U.S. inventories determined under the last-in, first-out (“LIFO”) method. The cost of other inventories is principally determined under the average-cost method. See Note D for additional information.

***Properties, Plants and Equipment***

Properties, plants and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets. For greenfield assets, which refer to the construction of new assets on undeveloped land, the units of production method is used to record depreciation. These assets require a significant period (generally greater than one-year) to ramp-up to full production capacity. As a result, the units of production method is deemed a more systematic and rational method for recognizing depreciation on these assets. Depreciation is recorded on temporarily idled facilities until such time management approves a permanent shutdown. The following table details the weighted-average useful lives of structures and machinery and equipment (numbers in years):

	<u>Structures</u>	<u>Machinery and Equipment</u>
Alumina refining	30	25
Bauxite mining	33	19
Aluminum smelting	35	21

Gains or losses from the sale of assets are generally recorded in other income. Repairs and maintenance are charged to expense as incurred. Interest related to construction of qualifying assets is capitalized as part of construction costs. See Note E for additional information.

Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets (asset group) may not be recoverable. Recoverability of assets is determined by comparing the estimated undiscounted net cash flows of the operations to which the assets (asset group) related to their carrying amount. An impairment loss would be recognized when the carrying amount of the assets (asset group) exceeds the estimated undiscounted net cash flows. The amount of the impairment loss to be recorded is calculated as the excess of the carrying value of the assets (asset group) over their fair value, with fair value determined using the best information available, which generally is a discounted cash flow (DCF) analysis. The determination of what constitutes an asset group, the associated estimated undiscounted cash flows, and the estimated useful lives of assets also require significant judgments.

**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)*****Goodwill***

Goodwill is not amortized; instead, it is tested for impairment annually (in the fourth quarter) or more frequently if indicators of impairment exist or if a decision is made to sell a business. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, negative developments in equity and credit markets, adverse changes in the markets in which an entity operates, increases in input costs that have a negative effect on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair values that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill.

Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. AWAC has two reporting units: Alumina and Primary Metals.

In September 2011, the Financial Accounting Standards Board in the U.S. issued new accounting guidance for testing goodwill for impairment. The guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The ultimate outcome of the goodwill impairment review for a reporting unit should be the same whether an entity chooses to perform the qualitative assessment or proceeds directly to the two-step quantitative impairment test.

In the 2011 fourth quarter, in conjunction with management's annual review of goodwill for impairment, AWAC early adopted the new guidance. AWAC performed the qualitative assessment for one of its reporting units (Alumina for 2011) and proceeded directly to the two-step quantitative impairment test for the other (Primary Metals for 2011).

Under the qualitative assessment, various events and circumstances (or factors) that would affect the estimated fair value of a reporting unit are identified (similar to impairment indicators above). These factors are then classified by the type of impact they would have on the estimated fair value using positive, neutral and adverse categories based on current business conditions. Additionally, an assessment of the level of impact that a particular factor would have on the estimated fair value is determined using high, medium, and low weighting. Furthermore, management considers the results of the most recent two-step quantitative impairment test completed for a reporting unit and compares the weighted average cost of capital (WACC) between the current and prior years for each reporting unit.

Under the two-step quantitative impairment test, the evaluation of impairment involves comparing the current fair value of a reporting unit to its carrying value, including goodwill. AWAC uses a DCF model to estimate the current fair value of its reporting units when testing for impairment, as management believes forecasted cash flows are the best indicator of such fair value. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate, and working capital changes. Most of these assumptions vary significantly among the reporting units. Cash flow forecasts are generally based on approved business unit operating plans for the early years and historical relationships in later years. The betas used in calculating the individual reporting units' WACC rate are estimated for each business with the assistance of valuation experts.

**Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**

In the event the estimated fair value of a reporting unit per the DCF model is less than the carrying value, additional analysis would be required. The additional analysis would compare the carrying amount of the reporting unit's goodwill with the implied fair value of that goodwill, which may involve the use of valuation experts. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value amounts assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized, which could significantly and adversely impact reported results of operations and members' equity.

During the 2012 annual review of goodwill, management proceeded directly to the two-step quantitative impairment test for both the Alumina and Primary Metals reporting units. The estimated fair values of these reporting units exceeded their fair values, resulting in no impairment. In developing the fair value of these reporting units, AWAC estimates future cash flows using London Metal Exchange (LME) forward curve pricing and operating cost assumptions management believes are reasonable based on expected and historical performance. The following could have a negative impact on the estimated fair values of Alumina and Primary Metals: a significant, protracted decrease in LME and alumina prices; decrease in long-term profitability; decrease in the long-term demand for aluminum; substantial reductions in AWAC's end markets and volume assumptions; and an increase in discount rates.

***Intangible Assets***

Computer software costs consist primarily of software costs associated with an enterprise business solution ("EBS"). Capitalized EBS costs are amortized over ten years.

***Accounts Payable Arrangements***

AWAC participates in computerized payable settlement arrangements with certain vendors and third-party intermediaries. The arrangements provide that, at the vendor's request, the third-party intermediary advances the amount of the scheduled payment to the vendor, less an appropriate discount, before the scheduled payment date. AWAC makes payment to the third-party intermediary on the date stipulated in accordance with the commercial terms negotiated with its vendors. The amounts outstanding under these arrangements that will be paid to the third-party intermediaries have been classified as short-term borrowings in the combined balance sheet and as cash provided from financing activities in the combined statement of cash flows. See Note H for additional information.

***Equity Investments***

AWAC invests in a number of privately-held companies, primarily through joint ventures and consortia, which are accounted for on the equity method. The equity method is applied in situations where AWAC has the ability to exercise significant influence, but not control, over the investee. Management reviews equity investments for impairment whenever certain indicators are present suggesting that the carrying value of an investment is not recoverable. This analysis requires a significant amount of judgment from management to identify events or circumstances indicating that an equity investment is impaired. The following items are examples of impairment indicators: significant, sustained declines in an investee's revenue, earnings, and cash flow trends; adverse market conditions of the investee's industry or geographic area; the investee's ability to continue operations measured by several items, including liquidity; and other factors. Once an impairment indicator is identified, management uses considerable judgment to determine if the impairment is other than temporary, in which case the equity investment is written down to its estimated fair value as determined through use of a DCF model. An impairment that is other than temporary could significantly and adversely impact reported results of operations and members' equity.

**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)*****Revenue Recognition***

AWAC recognizes revenue when title, ownership, and risk of loss pass to the customer, all of which occurs upon shipment or delivery of the product and is based on the applicable shipping terms. The shipping terms vary across customers and depend on the product, the country of origin, and the type of transportation (truck, train, or vessel).

***Deferred Alumina Sales Revenue***

AWAC periodically enters into long-term supply contracts with alumina and aluminum customers and receives advance payments for product to be delivered in future periods. These advance payments are recorded as deferred revenue, and revenue is recognized as shipments are made and title, ownership, and risk of loss pass to the customer during the term of the contracts. As a result, prepayment of \$240.0 related to an agreement with a third party customer received in 1997, is being amortized over the life of the contract based on the tonnage shipped. The amount of the prepayment still deferred at December 31, 2012 and 2011 was \$116.0 and \$124.0, respectively. The amount of revenue recognized related to this agreement was \$8.0, \$9.0 and \$7.0, for the years ended December 31, 2012, 2011 and 2010, respectively.

***Environmental Expenditures***

Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability may include costs such as site investigations, consultant fees, feasibility studies, outside contractors, and monitoring expenses. Estimates are generally not discounted or reduced by potential claims for recovery. Claims for recovery are recognized as agreements are reached with third parties. The estimates also include costs related to other potentially responsible parties to the extent that AWAC has reason to believe such parties will not fully pay their proportional share. The liability is continuously reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity, and other factors that may be relevant, including changes in technology or regulations. See Note Q for additional information.

***Litigation Matters***

For asserted claims and assessments, liabilities are recorded when an unfavorable outcome of a matter is deemed to be probable and the loss is reasonably estimable. Management determines the likelihood of an unfavorable outcome based on many factors such as the nature of the matter, available defenses and case strategy, progress of the matter, views and opinions of legal counsel and other advisors, applicability and success of appeals processes, and the outcome of similar historical matters, among others. Once an unfavorable outcome is deemed probable, management weighs the probability of estimated losses, and the most reasonable loss estimate is recorded. If an unfavorable outcome of a matter is deemed to be only reasonably possible, then the matter is disclosed and no liability is recorded. With respect to unasserted claims or assessments, management must first determine that the probability that an assertion will be made is likely, then, a determination as to the likelihood of an unfavorable outcome and the ability to reasonably estimate the potential loss is made. Legal matters are reviewed on a continuous basis to determine if there has been a change in management's judgment regarding the likelihood of an unfavorable outcome or the estimate of a potential loss. See Note P for additional information.

***Asset Retirement Obligations***

AWAC recognizes asset retirement obligations ("AROs") related to legal obligations associated with the normal operation of AWAC's bauxite mining, alumina refining and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. AWAC also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over

**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

time for the change in present value. Additionally, AWAC capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over the remaining useful life. See Note C for additional information.

Certain conditional asset retirement obligations (“CAROs”) related to alumina refineries and aluminum smelters have not been recorded in the combined financial statements due to uncertainties surrounding the ultimate settlement date. A CARO is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within AWAC’s control. Such uncertainties exist as a result of the perpetual nature of refineries and smelters, maintenance and upgrade programs, and other factors preventing a reasonable estimation surrounding the ultimate settlement date. At the date a reasonable estimate of the ultimate settlement date can be made, AWAC would record a retirement obligation for the removal, treatment, transportation, storage and/or disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, polychlorinated biphenyls (“PCBs”), various process residuals, solid wastes, electronic equipment waste and various other materials. If AWAC was required to shutdown all such facilities immediately, the estimated CARO as of December 31, 2012 ranges from \$3.4 to \$26.7 per facility (10 structures) in today’s dollars.

***Mineral Rights***

AWAC recognizes mineral rights upon specific acquisitions of land that include such underlying rights, primarily in Jamaica. This land is purchased for the sole purpose of mining bauxite. The underlying bauxite reserves are known at the time of acquisition based on associated drilling and analysis and are considered to be proven reserves. The acquisition cost of the land and mineral rights are amortized as the bauxite is produced based on the level of minable tons determined at the time of purchase. Mineral rights are included in Properties, plants, and equipment on the accompanying Combined Balance Sheet.

***Deferred Mining Costs***

AWAC recognizes deferred mining costs during the development stage of a mine life cycle. Such costs include the construction of access and haul roads, detailed drilling and geological analysis to further define the grade and quality of the known bauxite, and overburden removal costs. These costs relate to sections of the related mines where AWAC is either currently extracting bauxite or is preparing for production in the near term. These sections are outlined and planned incrementally and generally are mined over periods ranging from one to five years, depending on mine specifics. The amount of geological drilling and testing necessary to determine the economic viability of the bauxite deposit being mined is such that the reserves are considered to be proven, and the mining costs are amortized based on this level of reserves. Deferred mining costs are included in Other noncurrent assets on the accompanying Combined Balance Sheet.

***Income Taxes***

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, the provision for income taxes represents income taxes paid or payable (or received or receivable) for the current year plus the change in deferred taxes during the year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid, and result from differences between the financial and tax bases of AWAC’s assets and liabilities and are adjusted for changes in tax rates and tax laws when enacted.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In evaluating the need for a valuation allowance, management considers all potential sources of taxable income, including income available in carryback periods, future reversals of taxable temporary differences, projections of taxable income, and income from tax planning strategies, as well as all available positive and negative evidence. Positive evidence includes factors such as a history of profitable operations, projections of future profitability within the carryforward period, including from tax planning strategies, and the Company's experience with similar operations. Existing favorable contracts and the ability to sell products into established markets are additional positive evidence. Negative evidence includes items such as cumulative losses, projections of future losses, or carryforward periods that are not long enough to allow for the utilization of a deferred tax asset based on existing projections of income. Deferred tax assets for which no valuation allowance is recorded may not be realized upon changes in facts and circumstances, resulting in a future charge to establish a valuation allowance.

Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the statute of limitation has expired or the appropriate taxing authority has completed their examination even though the statute of limitations remains open. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

AWAC consists of a variety of different tax-paying legal entities. Income taxes are accrued and recorded on the financial statements of entities within AWAC except for entities that are multiple member limited liability companies ("LLCs"). LLC income is taxable to the members that hold the LLC interest (for U.S. federal and most state income tax purposes). Therefore, current and deferred U.S. and most state tax assets and liabilities of the LLCs are recorded in the financial statements of the members and, thus, are not reflected in AWAC's combined financial statements. See Note M for additional information.

***Stock-Based Compensation***

Certain employees of AWAC receive stock-based awards under Alcoa's stock incentive plans, and AWAC records an expense for these plans. AWAC recognizes compensation expense for employee equity grants using the nonsubstantive vesting period approach, in which the expense (net of estimated forfeitures) is recognized ratably over the requisite service period based on the grant date fair value. Determining the fair value of stock options at the grant date requires judgment, including estimates for the average risk-free interest rate, dividend yield, volatility, annual forfeiture rate and exercise behavior. These assumptions may differ significantly between grant dates because of changes in the actual results of these inputs over time.

Most plan participants can choose whether to receive their award in the form of stock options, restricted share units, or a combination of both. This choice is made before the grant is issued and is irrevocable.



**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)*****Derivatives and Hedging***

Derivatives are held for purposes other than trading and are part of a formally documented risk management program. For derivatives designated as cash flow hedges, AWAC measures hedge effectiveness by formally assessing, at least quarterly, the probable high correlation of the expected future cash flows of the hedged item and the derivative hedging instrument. The ineffective portions of these hedges are recorded in other income or expense in the current period. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, future gains or losses on the derivative are recorded in other income or expense.

AWAC accounts for hedges of foreign currency exposures and certain forecasted transactions as cash flow hedges. The fair values of the derivatives are recorded in other current and noncurrent assets and liabilities in the combined balance sheet. The effective portions of the changes in the fair values of these derivatives are recorded in other comprehensive income (loss) and are reclassified to sales or other income or expense in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. These contracts cover the same periods as known or expected exposures, generally not exceeding two years.

If no hedging relationship is designated, the derivative is marked to market through earnings.

Cash flows from derivatives are recognized in the combined statement of cash flows in a manner consistent with the underlying transactions. See Note N for additional information.

***Foreign Currency***

The local currency is the functional currency for AWAC's significant operations outside the U.S., except in Jamaica and Suriname, which use the U.S. dollar. The determination of the functional currency in these countries is made based on the appropriate economic and management indicators.

Effective January 1, 2010, the functional currency in Brazil was changed from the U.S. dollar to the Brazilian real (BRL). This change was made as a result of changes in the operations of the business following the completion of the São Luís refinery expansion and Juruti bauxite mine development. In connection with this change, on January 1, 2010, an adjustment of \$309 was recorded as an increase to the net nonmonetary assets of this entity (primarily properties, plants, and equipment) with a corresponding adjustment to the foreign currency translation component of accumulated other comprehensive income.

***Other (Income) Expense, Net***

Transactions which result in a gain or loss that are not part of ongoing operations are classified in other (income) expense, net in the Combined Statement of (Loss) Income. During 2011, the sale of Hotham Farm in Australia resulted in a gain of approximately \$42.9. See Note S for additional information.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)*****Recently Adopted Accounting Guidance******Fair Value Accounting***

On January 1, 2012, AWAC adopted changes issued by the Financial Accounting Standards Board (FASB) to conform existing guidance regarding fair value measurement and disclosure between GAAP and International Financial Reporting Standards. These changes both clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and amend certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The clarifying changes relate to the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, and disclosure of quantitative information about unobservable inputs used for Level 3 fair value measurements. The amendments relate to measuring the fair value of financial instruments that are managed within a portfolio; application of premiums and discounts in a fair value measurement; and additional disclosures concerning the valuation processes used and sensitivity of the fair value measurement to changes in unobservable inputs for those items categorized as Level 3, a reporting entity's use of a nonfinancial asset in a way that differs from the asset's highest and best use, and the categorization by level in the fair value hierarchy for items required to be measured at fair value for disclosure purposes only. Other than the additional disclosure requirements (Note N), the adoption of these changes had no impact on the combined financial statements.

On January 1, 2011, AWAC adopted changes issued by the FASB to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes were applied to the disclosures in Note K and Note N to the combined financial statements.

Effective January 1, 2010, AWAC adopted changes issued by the FASB on January 21, 2010 to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. The changes also clarify existing disclosure requirements related to how assets and liabilities should be grouped by class and valuation techniques used for recurring and nonrecurring fair value measurements. The adoption of these changes had no impact on the combined financial statements.

***Goodwill and Other Intangible Assets***

On January 1, 2011, AWAC adopted changes issued by the FASB to the testing of goodwill for impairment. These changes require an entity to perform all steps in the test for a reporting unit whose carrying value is zero or negative if it is more likely than not (more than 50%) that a goodwill impairment exists based on qualitative factors. This will result in the elimination of an entity's ability to assert that such a reporting unit's goodwill is not impaired and additional testing is not necessary despite the existence of qualitative factors that indicate otherwise. Based on the then most recent impairment review of AWAC goodwill (2011 fourth quarter), the adoption of these changes had no impact on the combined financial statements.



**Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)  
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In September 2011, the FASB issued changes to the testing of goodwill for impairment. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, go directly to the two-step quantitative impairment test. Under either option) the ultimate outcome of the goodwill impairment test should be the same. These changes are required to become effective, for AWAC for any goodwill impairment test performed on January 1, 2012 or later; however, early adoption is permitted. AWAC elected to early adopt these changes in conjunction with management's annual review of goodwill in the fourth quarter of 2011 (see the Goodwill and Other Intangible Assets section of Note A above). The adoption of these changes had no impact on the combined financial statements.

*Derivative Instruments and Hedging Activities*

On July 1, 2010, AWAC adopted changes to existing accounting requirements for embedded credit derivatives. Specifically, the changes clarify the scope exception regarding when embedded credit derivative features are not considered embedded derivatives subject to potential bifurcation and separate accounting. The adoption of these changes had no impact on the combined financial statements.

*Other*

On January 1, 2012, AWAC adopted changes issued by the FASB to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Management elected to present the two-statement option. Other than the change in presentation, the adoption of these changes had no impact on the combined financial statements.

On January 1, 2011, AWAC adopted changes issued by the FASB to revenue recognition for multiple-deliverable arrangements. These changes require separation of consideration received in such arrangements by establishing a selling price hierarchy (not the same as fair value) for determining the selling price of a deliverable, which will be based on available information in the following order: vendor-specific objective evidence, third-party evidence, or estimated selling price; eliminate the residual method of allocation and require that the consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the arrangement to each deliverable on the basis of each deliverable's selling price; require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis; and expand the disclosures related to multiple-deliverable revenue arrangements. The adoption of these changes had no impact on the combined financial statements, as AWAC does not currently have any such arrangements with its customers.

On January 1, 2011, AWAC adopted changes issued by the FASB to the classification of certain employee share-based payment awards. These changes clarify that there is not an indication of a condition that is other than market, performance, or service if an employee share-based payment



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**Alcoa World Alumina and Chemicals**  
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award's exercise price is denominated in the currency of a market in which a substantial portion of the entity's equity securities trade and differs from the functional currency of the employer entity or payroll currency of the employee. An employee share-based payment award is required to be classified as a liability if the award does not contain a market, performance, or service condition. Prior to this guidance, the difference between the currency denomination of an employee share-based payment award's exercise price and the functional currency of the employer entity or payroll currency of the employee was not a factor considered by management when determining the proper classification of a share-based payment award. The adoption of these changes had no impact on the combined financial statements.

On January 1, 2010, AWAC adopted changes issued by the FASB to accounting for transfers of financial assets. These changes remove the concept of a qualifying special-purpose entity and remove the exception from the application of variable interest accounting to variable interest entities that are qualifying special-purpose entities; limit the circumstances in which a transferor derecognizes a portion or component of a financial asset; define a participating interest; require a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and require enhanced disclosure. The adoption of these changes had no impact on the combined financial statements.

***Recently Issued Accounting Guidance***

In December 2011, the FASB issued changes to the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity's financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. These changes become effective for AWAC on January 1, 2013. Other than the additional disclosure requirements, management has determined that the adoption of these changes will not have an impact on the combined financial statements.

On February 5, 2013, the FASB issued an amendment to the disclosure requirements for reporting reclassifications out of accumulated other comprehensive income ("AOCI"). The new amendments require presentation, either on the statement of income or in the notes, of the effect on the line items of the statement of income of significant amounts reclassified out of AOCI directly to net income in their entirety in the same reporting period. The update also requires the new disclosure to be cross referenced to other financial statement disclosures required for other reclassification items that are not reclassified directly to net income in their entirety in the same reporting period. These changes become effective January 1, 2014. Other than the additional presentation and disclosure requirements, management has determined that the adoption of these changes will not have an impact on the combined financial statements.

**B. Nature of Operations**

AWAC is owned 60% by Alcoa and 40% by Alumina Limited and consists principally of bauxite, alumina and alumina-based chemicals businesses and investments managed and contributed by Alcoa. Primarily all bauxite mined by AWAC entities is refined into alumina by AWAC through a chemical process. The alumina is then sold to customers to be smelted into primary aluminum. Approximately 46%, 42%, and 44% of AWAC's respective 2012, 2011, and 2010 alumina production was sold to Alcoa. In addition, Alcoa of Australia ("AofA"), a significant entity within AWAC, operates integrated aluminum facilities in Australia including mining, refining and smelting operations. Approximately 80%, 80%, and 77% of AofA's 2012, 2011, and 2010 revenues were derived from alumina, and the balance was derived principally from primary aluminum.

**Alcoa World Alumina and Chemicals**  
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During 2012, capital contributions from members of \$428.4 were primarily used to fund the Ma'aden investment and their interest in the Enterprise Partnership. The remaining contributions were used to fund final construction on the Juruti mine, and to support operations in Spain.

During 2011, capital contributions from members were used to support operations in Spain, totaling \$275.8, with the remaining contributions of \$150.9 primarily used to fund remaining construction at the Juruti mine (Brazil).

During 2010, capital contributions from members of \$433.5 were primarily used to fund the continued construction of the new bauxite mine and refinery in Brazil, a \$61.7 contribution for the Ma'aden investment (Saudi Arabia) and a \$26.0 contribution to support operations in Spain.

The following summarizes the concentrations of sales and net assets by major geographic region:

	2012	2011	2010
<b>Sales</b>			
Australia	\$3,013.8	\$3,396.8	\$2,693.2
U.S.	2,141.8	2,505.7	2,110.2
Other	659.7	764.5	653.1
Total sales	<u>\$5,815.3</u>	<u>\$6,667.0</u>	<u>\$5,456.5</u>
	2012	2011	
<b>Net assets</b>			
Australia	\$3,466.7	\$3,264.5	
Brazil	3,433.3	3,790.7	
U.S.	149.8	225.2	
Other	1,193.9	1,062.7	
Total net assets	<u>\$8,243.7</u>	<u>\$8,343.1</u>	

**C. Asset Retirement Obligations**

AWAC has recorded AROs related to legal obligations associated with the normal operations of bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure.

In addition to the above AROs, certain CAROs related to alumina refineries and aluminum smelters have not been recorded in the combined financial statements due to uncertainties surrounding the ultimate settlement date. Such uncertainties exist as a result of the perpetual nature of the refineries and smelters, maintenance upgrade programs and other factors. At the date a reasonable estimate of the ultimate settlement date can be made, AWAC would record a retirement obligation for the removal, treatment, transportation, storage and (or) disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, PCBs, various process residuals, solid wastes, electronic equipment waste and various other materials. If AWAC was required to shutdown all such facilities immediately, the estimated CARO as of December 31, 2012 ranges from \$3.4 to \$26.7 per facility (10 structures) in today's dollars.

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The following table details the changes in the carrying amounts of AROs at December 31:

	2012	2011
Balance at beginning of year	\$353.0	\$328.0
Accretion expense	17.1	13.8
Liabilities incurred	62.4	52.9
Payments	(40.1)	(40.9)
Translation and other	8.9	(0.8)
Balance at end of year	<u>\$401.3</u>	<u>\$353.0</u>

ARO's are recorded in Other current liabilities and Other noncurrent liabilities and deferred credits on the accompanying Combined Balance Sheet.

**D. Inventories**

	2012	2011
Finished goods	\$ 4.2	\$ 5.9
Work-in-process	67.4	69.3
Bauxite and alumina	318.3	298.6
Purchased raw materials	262.8	244.9
Operating supplies	155.3	158.6
	<u>\$808.0</u>	<u>\$777.3</u>

Approximately 12% and 10% of total inventories at December 31, 2012 and 2011, respectively, were valued on a LIFO basis. If valued on an average cost basis, total inventories would have been \$59.7 and \$61.4 higher at the end of 2012 and 2011, respectively.

**E. Properties, Plants, and Equipment, Net**

	2012	2011
Land and land rights, including mines	\$ 311.8	\$ 297.3
Structures	4,903.2	4,861.5
Machinery and equipment	7,139.6	7,007.4
	12,354.6	12,166.2
Less: Accumulated depreciation and depletion	6,071.6	5,610.3
	6,283.0	6,555.9
Construction work-in-progress	626.2	577.9
	<u>\$ 6,909.2</u>	<u>\$ 7,133.8</u>

Alcoa World Alumina and Chemicals  
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## F. Investments

	2012	2011
Ma'aden	\$292.3	\$107.3
Dampier to Bunbury Natural Gas Pipeline ("DBNGP")	137.4	135.4
Halco Mining, Inc.	110.1	103.9
Other	53.3	54.5
	<u>\$593.1</u>	<u>\$401.1</u>

As of December 31, 2012 and 2011, equity investments included the Ma'aden project, a natural gas pipeline in Australia (DBNGP, see Note P), and bauxite mining interests in Guinea (45% of Halco Mining, Inc.).

AWAC and the Saudi Arabian Mining Company, known as Ma'aden, have a 30-year joint venture shareholders' agreement (automatic extension for an additional 20 years, unless the parties agree otherwise or unless earlier terminated) setting forth the terms for the development, construction, ownership and operation of an integrated bauxite mine and alumina refinery, in Saudi Arabia. Specifically, the project to be developed by the joint venture will consist of a bauxite mine for the extraction of approximately 4,000 kmt of bauxite from the Al Ba'itha bauxite deposit near Quiba in the northern part of Saudi Arabia, and an alumina refinery with an initial capacity of 1,800 kmt. The refinery is being constructed in an industrial area at Ras Al Khair (formerly Ras Az Zawr) on the east coast of Saudi Arabia. First production for the mine and refinery is expected in 2014. The joint venture is owned 74.9% by Ma'aden and 25.1% by AWAC.

## G. Other Noncurrent Assets

	2012	2011
Deferred mine development	\$ 221.2	\$ 218.5
Prepaid gas transmission contract	362.8	345.6
Value-added tax receivable	335.4	413.1
Prepaid pension benefit	54.4	50.7
Goodwill	39.3	38.7
Computer software costs	18.0	25.7
Other	79.1	82.8
	<u>\$1,110.2</u>	<u>\$1,175.1</u>

## H. Short-Term Borrowings, Long-Term Debt and Capital Lease Obligations

During 2012, AWA LLC received a loan from Alcoa Inc. for \$42.5 to make a payment to Aluminium Bahrain B.S.C. ("Alba") in October of 2012. At December 31, 2012, this balance is still outstanding and recorded in Short-term borrowings. See Note P for more information on the Alba matter.

Also during 2012, AofA and Alcoa Inc. entered into a long-term loan agreement where AofA may borrow up to \$300.0 to assist them with managing their daily cash requirements. At December 31, 2012, the balance on this loan is \$50.0 and is recorded in Long-term debt. Other balances in long-term debt consist of a loan recorded in Spain of \$3.0 and \$2.9 at December 31, 2012 and 2011, respectively.



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**Alcoa World Alumina and Chemicals**  
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AofA has capital lease obligations recorded, primarily related to mining equipment and the Booragoon, Australia office. Outstanding amounts under these leases classified as short-term are \$3.3 and \$2.7 at December 31, 2012 and 2011, respectively. Outstanding amounts under these leases classified as long-term are \$5.3 and \$7.5 at December 31, 2012 and 2011, respectively.

During 2008, AWA Brazil entered into a capital lease arrangement for energy assets. The term of this arrangement is for five years. Annual payments of approximately \$7.0 are required. Amounts outstanding under this arrangement were \$18.6 (\$8.2 short-term) and \$29.5 (\$9.0 short-term) as of December 31, 2012 and 2011, respectively.

AWAC participates in computerized payable settlement arrangements with certain vendors and third-party intermediaries. As of December 31, 2012 and 2011, short-term borrowings included \$15.6 and \$26.6, respectively, of amounts that will be paid to the third-party intermediaries. The arrangements provide that, at the vendor's request, the third-party intermediary advances the amount of the scheduled payment to the vendor, less an appropriate discount, before the scheduled payment date. AWAC makes payment to the third-party intermediary on the date stipulated in accordance with the commercial terms negotiated with its vendors. Imputed interest on the borrowings were \$0.4, \$0.6 and \$0.5 in 2012, 2011 and 2010, respectively. See Note A for additional information.

**I. Related Party Transactions**

Sales to related parties included in the combined statements of (loss) income consist of sales of alumina and alumina-based chemicals to the majority owner of AWAC, Alcoa. The terms for all transactions and agreements between related parties and AWAC are established by negotiation between the parties.

Entities within AWAC have entered into contractual agreements with Alcoa for employee services, an administrative services agreement, a commodity hedging agreement and an alumina sales agreement. Total costs incurred by AWAC for these agreements were approximately \$84.2 in 2012, \$75.2 in 2011, and \$72.9 in 2010. AWAC also has a long-term bauxite purchase agreement with an equity investee. Total purchases under this agreement were approximately \$193.0, \$162.9 and \$126.9 during 2012, 2011 and 2010, respectively.

Certain employees of AWAC receive stock-based awards under Alcoa's stock incentive plans, and AWAC records an expense for these plans. In 2012, 2011 and 2010, AWAC was charged and paid \$1.4, \$3.5 and \$2.7, respectively, for stock option exercises and restricted share unit distributions under Alcoa stock incentive plans. As options are exercised, amounts to reimburse for issuance of shares were reflected as a dividend paid to partners, net of \$0.4 in 2012, \$1.1 in 2011 and \$0.9 in 2010. See Note L for additional information.

**Casualty Losses**

In 2010, AWAC reduced cost of goods sold by \$14.4 for insurance proceeds received from a captive insurance entity owned 100% by Alcoa related to business interruption losses (\$7.7) and property damage (\$6.7) caused by Hurricane Dean to the Jamaica facility.

**Related Party Notes Receivable**

In 2011, three AWAC entities entered into an arrangement with Alcoa Global Treasury Services (AGTS), where the entities' excess cash is swept to AGTS periodically in exchange for a note receivable bearing short-term interest. The participating AWAC entities are Australia, Spain and Suriname. The value of the notes at December 31, 2012 are \$77.5, \$11.2 and \$0.0, respectively. The value of the notes at December 31, 2011 are \$63.6, \$9.7 and \$9.6, respectively.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)****J. Lease Expense**

Certain equipment, including process control hardware and software, as well as warehousing, office space, and ocean going vessels are under operating lease agreements. Total expense from continuing operations for all leases was \$95.6 in 2012, \$111.6 in 2011 and \$100.5 in 2010. Under operating leases, minimum annual rentals are \$64.1 in 2013, \$55.9 in 2014, \$50.5 in 2015, \$42.6 in 2016, \$41.2 for 2017 and a total of \$215.6 for 2018 and thereafter.

**K. Pension Plans and Other Postretirement Benefits**

Entities within AWAC maintain pension plans covering certain non U.S. employees. Pension benefits generally depend upon length of service, job grade, and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due.

Entities within AWAC maintain health care and life insurance benefit plans covering certain non U.S. retired employees. Generally, the medical plans pay a percentage of medical expenses, reduced by deductibles and other coverages. Life benefits are generally provided by insurance contracts. The entities retain the right, subject to existing agreements, to change or eliminate these benefits.





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The table below reflects the status of AWAC's pension and postretirement benefit plans.

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$1,195.1	\$1,029.2	\$ 84.0	\$ 79.9
Service cost	49.5	41.6	0.7	0.6
Interest cost	48.6	54.4	4.0	4.2
Amendments	—	1.5	—	(0.7)
Actuarial (gains) losses	(55.6)	126.4	2.9	4.6
Benefits paid	(83.2)	(76.4)	(3.7)	(4.6)
Participants' contributions	17.4	21.2	—	—
Exchange rate	22.4	(2.8)	0.3	—
Projected benefit obligation at end of year	<u>\$1,194.2</u>	<u>\$1,195.1</u>	<u>\$ 88.2</u>	<u>\$ 84.0</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$1,036.0	\$ 989.6	\$ —	\$ —
Actual return on plan assets	77.9	49.1	—	—
Employer contributions	75.4	70.4	—	—
Participants' contributions	17.4	21.2	—	—
Benefits paid	(83.2)	(76.4)	—	—
Administrative expenses	(17.2)	(17.0)	—	—
Exchange rate	16.7	(0.9)	—	—
Fair value of plan assets at end of year	<u>\$1,123.0</u>	<u>\$1,036.0</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	\$ (71.2)	\$ (159.1)	\$ (88.2)	\$ (84.0)
Amounts attributed to joint venture partners	(1.4)	5.2	0.6	0.8
Net funded status	<u>\$ (72.6)</u>	<u>\$ (153.9)</u>	<u>\$ (87.6)</u>	<u>\$ (83.2)</u>
<b>Amounts recognized in the Combined Balance Sheets consist of</b>				
Noncurrent assets	\$ 54.4	\$ 50.7	\$ —	\$ —
Current liabilities	—	—	(3.8)	(3.7)
Noncurrent liabilities	(127.0)	(204.6)	(83.8)	(79.5)
Net amount recognized	<u>\$ (72.6)</u>	<u>\$ (153.9)</u>	<u>\$ (87.6)</u>	<u>\$ (83.2)</u>
<b>Amounts recognized in accumulated other comprehensive income consist of</b>				
Net actuarial (gains) loss	\$ 398.1	\$ 470.7	\$ (9.0)	\$ (12.5)
Prior service cost	2.6	4.3	0.3	0.8
Total, before tax effect	400.7	475.0	(8.7)	(11.7)
Less: Amounts attributed to joint venture partners	10.7	17.3	(0.2)	—
Net amount recognized, before tax effect	<u>\$ 390.0</u>	<u>\$ 457.7</u>	<u>\$ (8.5)</u>	<u>\$ (11.7)</u>

Alcoa World Alumina and Chemicals  
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	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
<b>Components of net periodic benefit costs</b>				
Service cost	\$ 47.0	\$ 39.4	\$ 0.7	\$ 0.5
Interest cost	46.1	51.7	3.9	4.1
Expected return on plan assets	(71.6)	(69.1)	—	—
Amortization of prior service cost	1.7	1.0	0.5	0.6
Recognized actuarial (gains) losses	39.8	23.1	(0.9)	(2.0)
Net periodic benefit costs	<u>\$ 63.0</u>	<u>\$ 46.1</u>	<u>\$ 4.2</u>	<u>\$ 3.2</u>

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
<b>Other changes in Plan assets and benefit obligations recognized in other comprehensive income consist of</b>				
Net loss (gain)	\$(32.8)	\$163.1	\$ 2.6	\$ 4.6
Amortization of net gain (loss)	(39.8)	(23.1)	0.9	2.1
Prior service cost (credit)	—	1.4	—	(0.7)
Amortization of prior service (cost) benefit	(1.7)	(1.0)	(0.5)	(0.6)
Totals before tax effect	(74.3)	140.4	3.0	5.4
Less: Amounts attributed to joint venture partners	(6.6)	2.7	(0.2)	(0.4)
Net amount recognized before tax effect	<u>\$(67.7)</u>	<u>\$137.7</u>	<u>\$ 3.2</u>	<u>\$ 5.8</u>

	Pension Benefits 2013	Postretirement Benefits 2013
<b>Amounts expected to be recognized in net periodic benefit cost</b>		
Prior service cost recognition	\$ 1.6	\$ —
Actuarial loss (gain) recognition	29.1	(1.3)

*Pension Plan Benefit Obligations*

	Pension Benefits	
	2012	2011
The projected benefit obligation and accumulated benefit obligation for all defined benefit pension plans was as follows		
Projected benefit obligation	\$1,194.2	\$1,195.1
Accumulated benefit obligation	1,143.1	1,078.1
The aggregate projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets was as follows		
Projected benefit obligation	1,097.3	1,099.0
Fair value of plan assets	967.3	887.0
The aggregate accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets was as follows		
Accumulated benefit obligation	1,056.7	859.5
Fair value of plan assets	967.3	744.2

Alcoa World Alumina and Chemicals  
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December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**Assumptions**

Weighted average assumptions used to determine benefit obligations at December 31:

	<u>2012</u>	<u>2011</u>
<b>Weighted average assumptions</b>		
Discount rate, at year end	4.81%	4.16%
Rate of compensation increase	3.89%	3.93%

For a significant portion of the AWAC benefit obligation, the discount rate is based upon a yield available on government bonds plus a corporate bond spread with a term suitable to match the liabilities.

For plans in countries that have a deep corporate bond market, the discount rate is determined using an AWAC-specific yield curve model (above-median) developed with the assistance of an external actuary. The cash flows of these plans' projected benefit obligations are discounted using a single equivalent rate derived from yields on high quality corporate bonds, which represent a broad diversification of issuers in various sectors, including finance and banking, manufacturing, transportation, insurance, and pharmaceutical, among others. The yield curve model parallels the plans' projected cash flows, which have an average duration of ten years, and the underlying cash flows of the bonds included in the model exceed the cash flows needed to satisfy AWAC's plans' obligations multiple times.

Weighted average assumptions used to determine the net cost for years ended December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Weighted average assumptions</b>			
Discount rate, at year end	4.16%	5.56%	5.88%
Expected long-term return on plan assets	7.34%	7.35%	7.67%
Rate of compensation increase	3.93%	3.97%	4.08%

The expected return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy.

Assumed health care cost trend rates at December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Health care cost trend rate assumed for next year	6.0%	6.5%	6.5%
Rate to which the cost trend rate gradually declines	4.5%	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain	2017	2016	2015

The assumed health care cost trend rate is used to measure the expected cost of gross eligible charges covered by Alcoa's other postretirement benefit plans. For 2013, due to recent favorable experience and management's best estimate of the change in future health care costs covered by the plans, a 6.0% trend rate will be used.



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**Notes to Combined Financial Statements—(Continued)**  
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Assumed health care cost trend rates have an effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1%	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 0.8	\$ (0.7)
Effect on postretirement benefit obligations	13.4	(10.9)

**Plan Assets**

AWAC's pension plans' investment policy, weighted average asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

Asset category	Policy Range	Plan Assets	
		<u>2012</u>	<u>2011</u>
Equity securities	20-80%	36%	37%
Debt securities	0-80%	46%	44%
Real estate	0-20%	10%	9%
Other	0-40%	8%	10%
		<u>100%</u>	<u>100%</u>

The basic goal underlying the pension plan investment policy is to ensure that the assets of the plan, along with expected plan sponsor contributions, will be invested in a prudent manner to meet the obligations of the plan as those obligations come due. Investment practices must comply with applicable laws and regulations.

Each of the AWAC's pension plans has its own policy range and their assets at year end are within those ranges. The Australia pension plan assets approximate 60% of the total assets and therefore, their policy range is disclosed.

Numerous asset classes with differing expected rates of return, return volatility and correlations are utilized to reduce risk by providing diversification. Debt securities comprise a significant portion of the portfolio due to their plan-liability-matching characteristics and to address the plans' cash flow requirements. Additionally, diversification of investments within each asset class is utilized to further reduce the impact of losses in single investments. The use of derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. Currently, the use of derivative instruments is not significant when compared to the overall investment portfolio.



**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**

**Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

The following section describes the valuation methodologies used by the trustee to measure the fair value of pension plan assets, including an indication of the level in the fair value hierarchy in which each type of asset is generally classified.

***Equity Securities***

These securities consist of direct investments in the stock of publicly traded companies and are valued based on the closing price reported in an active market on which the individual securities are traded. As such, the direct investments are generally classified in Level 1. Also, these securities consist of the plans' share of commingled funds that are invested in the stock of publicly traded companies and are valued at the net asset value of shares held at December 31. As such, these securities are generally included in Level 2.

***Debt Securities***

These securities consist of publicly traded U.S. and non U.S. fixed interest obligations (principally corporate bonds and debentures). Such investments are valued through consultation and evaluation with brokers in the institutional market using quoted prices and other observable market data. As such, a portion of these securities are included in both Level 1 and 2. Additionally these securities consist of commercial and residential mortgage-backed securities and are valued by investment managers based on the most recent financial information available, which typically represents significant unobservable data. As such, these investments are generally classified as Level 3.

***Other Investments***

These investments include, among others, cash and cash equivalents, exchange traded funds, hedge funds, real estate investment trusts, and direct investments of private real estate and private equity. Cash and cash equivalents consist of government securities with maturities less than one year and commingled funds. Such investments are generally valued using quoted prices or observable market data. As such, these funds are included in both Level 1 and 2. Exchange traded funds, such as gold, and real estate investment trusts are valued based on the closing price reported in an active market on which the investments are traded, and therefore, are included in Level 1. Direct investments of private real estate and private equity are valued by investment managers based on the most recent financial information available, which typically represents significant unobservable data. As such, these investments are generally classified as Level 3. If fair value is able to be determined through the use of quoted market prices of similar assets or other observable market data, then the investments are classified in Level 2.

The fair value methods described above may not be indicative of net realizable value or reflective of future fair values. Additionally, while AWAC believes the valuation methods used by the plans' trustee are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)

The following tables present the fair value of pension and postretirement plan assets classified under the appropriate level of the fair value hierarchy:

	2012			Total
	Level 1	Level 2	Level 3	
Equity securities	\$241.4	\$160.9	\$ —	\$ 402.3
Debt securities	125.0	387.0	6.3	518.3
Other investments	21.7	83.8	96.9	202.4
	<u>\$388.1</u>	<u>\$631.7</u>	<u>\$103.2</u>	<u>\$1,123.0</u>

	2011			Total
	Level 1	Level 2	Level 3	
Equity securities	\$239.4	\$147.6	\$ —	\$ 387.0
Debt securities	126.6	326.5	6.4	459.5
Other investments	20.9	76.3	92.8	190.0
	<u>\$386.9</u>	<u>\$550.4</u>	<u>\$ 99.2</u>	<u>\$1,036.5</u>

Pension plan assets classified as Level 3 in the fair value hierarchy represent other investments in which the trustee has used significant unobservable inputs in the valuation model. The following table presents a reconciliation of activity for such alternative investments:

	2012	2011
Balance at beginning of year	\$ 99.2	\$ 87.3
Realized gains	2.8	9.4
Unrealized (losses) gains	2.1	(4.7)
Purchases	14.0	34.6
Sales	(15.5)	(27.9)
Exchange rate	0.6	0.5
Transfers	—	—
Balance at end of year	<u>\$103.2</u>	<u>\$ 99.2</u>

\* In 2012 and 2011, there were no transfers of financial instruments into or out of Level 3.



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Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**Cash Flows**

The minimum required cash contribution to the pension plans in 2013 is estimated to be \$46.0.

Benefit payments expected to be paid to plan participants are as follows:

	Pension Benefits	Postretirement Benefits
Years Ending		
2013	\$ 93.7	\$ 3.8
2014	98.0	3.8
2015	98.3	4.1
2016	99.3	4.2
2017	102.7	4.3
2018 through 2022	548.4	23.3
	<u>\$1,040.4</u>	<u>\$ 43.5</u>

**Other Plans**

Certain AWAC employees participate in a number of defined contribution plans sponsored by Alcoa. Expenses recognized by AWAC for these plans were \$45.7 in 2012, \$41.9 in 2011 and \$35.4 in 2010.

Certain AWAC employees participate in pension and other postretirement benefit plans sponsored by Alcoa. Expenses recognized by AWAC for these plans were \$6.8 and \$4.1 in 2012, \$5.1 and \$5.4 in 2011, and \$3.8 and \$5.4 in 2010, respectively.

**L. Stock-Based Compensation**

Stock options to purchase stock of Alcoa under Alcoa's stock-based compensation plans have been granted at not less than market prices on the dates of grant. Prior to 2011, stock options including both service conditions and performance conditions were granted to certain individuals. For stock options including performance conditions granted in 2010, the final number of options earned was based on Alcoa's adjusted free cash flow and profitability against pre-established targets.

Stock option features based on date of original grant are as follows:

Date of Original Grant	Vesting	Term	Reload Feature
2002 and prior	One year	10 years	One reload over option term
2003	3 years ( $\frac{1}{3}$ each year)	10 years	One reload in 2004 for $\frac{1}{3}$ vesting in 2004
2004 - 2009	3 years ( $\frac{1}{3}$ each year)	6 years	None
2010 and forward	3 years ( $\frac{1}{3}$ each year)	10 years	None



Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)

In addition to the stock options described above, Alcoa granted restricted share units that vest in three years from the date of grant. In 2010, certain of these restricted share units were granted with the same performance conditions described above for performance stock options. For performance share awards granted in 2012 and 2011, the final number of awards earned will be based on the achievement of Alcoa's sales and profitability against targets over a three-year period. One third of the award will be earned in each year based on pre-established performance targets for that year. The earned awards will vest after three years.

Most plan participants can choose whether to receive their award in the form of stock options, restricted share units, or a combination of both. This choice is made before the grant is issued and is irrevocable.

The following table summarizes the total compensation expense recognized for all options and restricted share units. There was no stock-based compensation expense capitalized in 2012, 2011 or 2010.

	2012	2011	2010
Compensation expense reported in income			
Stock option grants	\$1.0	\$1.3	\$1.7
Restricted share unit grants	3.9	3.3	2.3
Total compensation expense before income taxes	4.9	4.6	4.0
Income tax benefit	1.6	1.5	1.3
Total compensation expense, net of income tax benefit	\$3.3	\$3.1	\$2.7

The fair value of options is estimated on the date of grant using the lattice pricing model with the following assumptions:

	2012	2011	2010
Weighted average fair value per option	\$ 3.11	\$ 4.96	\$ 4.67
Average risk-free interest rate	0.06-1.89%	0.19-3.44 %	0.14-3.62 %
Expected dividend yield	0.9%	0.9%	1.1%
Expected volatility	39-45%	36-43 %	47-51%
Expected annual forfeiture rate	5%	5%	4%
Expected exercise behavior	45%	45%	35%
Expected life (years)	5.8	5.8	5.6

The range of risk-free interest rates is based on a yield curve of interest rates at the time of the grant based on the contractual life of the option. The expected dividend yields are based on a one-year average. Expected volatility is based on historical and implied volatilities over the term of the option. AWAC utilizes historical option forfeiture data to estimate expected annual pre- and post-vesting forfeitures. The expected exercise behavior assumption represents a weighted average exercise ratio of gains based on historical exercise patterns for grants issued over the number of years in the contractual option term.

Alcoa World Alumina and Chemicals  
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December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)

The activity for stock options is as follows (shares and aggregate intrinsic value in millions):

	2012	2011	2010
Outstanding, beginning of year			
Number of options	1.9	2.3	2.8
Weighted average exercise price	\$19.78	\$22.05	\$26.18
Granted			
Number of options	0.3	0.1	0.3
Weighted average exercise price	\$10.17	\$16.24	\$13.54
Exercised			
Number of options	(0.1)	(0.1)	(0.1)
Weighted average exercise price	\$ 8.33	\$ 8.65	\$ 8.33
Expired or forfeited			
Number of options	(0.7)	(0.5)	(0.8)
Weighted average exercise price	\$31.77	\$31.34	\$37.56
Transferred in			
Number of options	0.1	0.1	0.5
Weighted average exercise price	\$13.39	\$16.19	\$28.52
Transferred out			
Number of options	—	—	(0.4)
Weighted average exercise price	\$ 8.89	\$18.27	\$26.69
Outstanding, end of year			
Number of options	1.5	1.9	2.3
Weighted average exercise price	\$13.09	\$19.78	\$22.05
Exercisable, end of year			
Number of options	1.0	1.3	1.4
Weighted average exercise price	\$13.78	\$23.78	\$29.02

The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was \$0.0, \$1.1 and \$0.5, respectively. In 2012, 2011 and 2010, the cash received from exercises was \$0.7, \$1.1 and \$0.9, and the tax benefit was \$0.0, \$0.3 and \$0.1, respectively.

The following tables summarize certain stock option information at December 31, 2012 (shares and intrinsic value in millions):

*Options Fully Vested and/or Expected to Vest\**

Range of Exercise Price	Number	Weighted Average Contractual Life	Weighted Average Exercise Price	Intrinsic Value
\$8.33	0.6	2.06	\$ 8.33	\$ 0.2
\$8.34 - \$16.24	0.7	7.72	12.33	—
\$16.25 - \$36.52	0.2	0.25	26.26	—
	<u>1.5</u>	<u>4.29</u>	<u>\$ 13.09</u>	<u>\$ 0.2</u>

\* Expected forfeitures are immaterial to AWAC and are not reflected in the table above.

Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)*Options Fully Vested and Exercisable*

<u>Range of Exercise Price</u>	<u>Number</u>	<u>Weighted Average Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Intrinsic Value</u>
\$8.33	0.6	2.06	\$ 8.33	\$ 0.2
\$8.34 - \$16.24	0.2	7.07	14.10	—
\$16.25 - \$36.52	0.2	0.25	26.26	—
	<u>1.0</u>	<u>2.54</u>	<u>\$ 13.78</u>	<u>\$ 0.2</u>

In addition to stock option awards, restricted share units and performance share awards were granted. Both vest three years from the date of grant. Performance share awards are issued at target, and the final award amount is determined at the end of the performance period.

The following table summarizes the restricted share units and performance share awards (shares in millions):

	<u>Restricted Share Units</u>	<u>Performance Share Awards</u>	<u>Total</u>	<u>Weighted Average Per Share FMV</u>
Outstanding at January 1, 2012	0.58	0.07	0.65	\$ 13.75
Granted	0.30	0.04	0.34	10.13
Distributed	(0.11)	(0.02)	(0.13)	8.53
Forfeited	(0.01)	—	(0.01)	13.82
Transferred in	0.04	—	0.04	13.08
Transferred out	(0.01)	—	(0.01)	14.68
Performance share adjustment	—	—	—	12.52
Outstanding at December 31, 2012	<u>0.79</u>	<u>0.09</u>	<u>0.88</u>	<u>\$ 13.09</u>

At December 31, 2012, there was \$0.4 of unrecognized compensation expense related to nonvested stock option grants, and \$3.0 of unrecognized compensation expense related to restricted share unit grants. These expenses are expected to be recognized over a weighted average period of 1.5 years. As of December 31, 2012, the following table summarizes the unrecognized compensation expense expected to be recognized in future periods.

	<u>Stock-Based Compensation Expense (Pre-tax)</u>
2013	\$ 2.3
2014	1.0
2015	0.1
	<u>\$ 3.4</u>



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Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**M. Income Taxes**

The components of (loss) income before taxes were:

	2012	2011	2010
U.S.	\$ (65.5)	\$ (26.8)	\$ (78.5)
Foreign	(80.1)	636.1	450.3
	<u>\$(145.6)</u>	<u>\$609.3</u>	<u>\$371.8</u>

The (benefit) provision for taxes on income consisted of:

	2012	2011	2010
<b>Current</b>			
U.S. federal	\$ 5.1	\$ 5.2	\$ 10.0
Foreign	53.0	207.2	212.1
	58.1	212.4	222.1
<b>Deferred</b>			
U.S. federal	(0.6)	(0.2)	(4.8)
Foreign	(111.2)	(72.6)	(180.8)
	(111.8)	(72.8)	(185.6)
	<u>\$ (53.7)</u>	<u>\$139.6</u>	<u>\$ 36.5</u>

Reconciliation of the U.S. federal statutory rate to AWAC's effective tax rate follows:

	2012	2011	2010
U.S. federal statutory rate	35.0%	35.0%	35.0%
Losses not taxed to AWAC (pass-through entities)	(13.7)	1.4	6.8
Goodwill amortization benefit	17.1	(4.3)	(7.9)
Tax holiday adjustment	—	—	(13.8)
Taxes on foreign income	1.7	(6.8)	(13.0)
Changes in valuation allowance	(4.9)	1.1	2.7
Other	1.7	(3.5)	—
Effective tax rate	<u>36.9%</u>	<u>22.9%</u>	<u>9.8%</u>

AWAC has unamortized tax-deductible goodwill of \$63.0 resulting from intercompany reorganizations. AWAC recognizes the tax benefits associated with this tax-deductible goodwill as it is amortized for local income tax purposes rather than in the period in which the transaction is consummated.

The 2010 tax provision includes a \$49.0 out-of-period adjustment related to re-measuring deferred tax assets in Brazil that arose during 2008 and 2009 from the difference between the holiday rate and the statutory rate. This adjustment increased foreign deferred tax assets and reduced the 2010 foreign deferred tax provision by \$49.0 (\$20.0 related to 2008 and \$29.0 related to 2009). The impact of these adjustments to current and prior periods is not material.

Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
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The components of net deferred tax assets and liabilities at December 31 follows:

	2012		2011	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	\$ 119.7	\$ 286.0	\$ 110.2	\$ 256.5
Employee benefits	190.8	3.7	189.3	—
Loss provisions	97.6	13.7	89.9	7.0
Tax loss carryforwards	505.5	—	396.8	—
Tax credit carryforwards	4.7	—	3.8	—
Deferred income/expense	5.2	181.7	—	161.0
Other	31.6	128.1	42.9	147.6
	955.1	613.2	832.9	572.1
Valuation allowance	(118.9)	—	(108.4)	—
	<u>\$ 836.2</u>	<u>\$ 613.2</u>	<u>\$ 724.5</u>	<u>\$ 572.1</u>

The following table details the expiration periods of the deferred tax assets presented above:

	Expires within 0-10 Years	Expires within 11-20 Years	No Expiration	Other	Total
Tax loss carryforwards	\$ 65.5	\$ 119.3	\$ 320.7	\$ —	\$ 505.5
Tax credit carryforwards	0.7	4.0	—	—	4.7
Other	—	—	287.2	157.7	444.9
Valuation allowances	(37.7)	—	(32.8)	(48.4)	(118.9)
	<u>\$ 28.5</u>	<u>\$ 123.3</u>	<u>\$ 575.1</u>	<u>\$109.3</u>	<u>\$ 836.2</u>

Deferred tax assets with no expiration may still have annual limitations on utilization. Other represents deferred tax assets whose expiration is dependent upon the reversal of the underlying temporary difference. A substantial amount of Other relates to employee benefits that will become deductible for tax purposes over an extended period of time as contributions are made to employee benefit plans and payments are made to retirees.

The total deferred tax asset (net of valuation allowance) is supported by taxable temporary differences that reverse within the carryforward period (approximately 29%), and projections of future improvements in taxable income exclusive of reversing temporary differences (approximately 71%).

**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In evaluating the need for a valuation allowance, management considers all potential sources of taxable income, including income available in carryback periods, future reversals of taxable temporary differences, projections of taxable income, and income from tax planning strategies, as well as all available positive and negative evidence. Positive evidence includes factors such as a history of profitable operations, projections of future profitability within the carryforward period, including from tax planning strategies, and the Company's experience with similar operations. Existing favorable contracts and the ability to sell product into established markets are additional positive evidence. Negative evidence includes items such as cumulative losses, projections of future losses, or carryforward periods that are not long enough to allow the utilization of the deferred tax asset based on existing projections of income. In certain jurisdictions, deferred tax assets related to cumulative losses exist without a valuation allowance where in management's judgment the weight of the positive evidence more than offsets the negative evidence of the cumulative losses. Upon changes in facts and circumstances, management may conclude that deferred tax assets for which no valuation allowance is currently recorded may not be realizable in future periods, resulting in a future charge to record a valuation allowance. Existing valuation allowances are re-examined under the same standards of positive and negative evidence. If it is determined that it is more likely than not that a deferred tax asset will be realized, the appropriate amount of the valuation allowance, if any, is released. Deferred tax assets and liabilities are also re-measured to reflect changes in underlying tax rates due to law changes and the granting and lapse of tax holidays.

In December 2011, AWA Brazil applied for a tax holiday related to its expanded mining and refining operations. If approved, the tax rate for this subsidiary will decrease significantly, resulting in future cash tax savings over the 10-year holiday period (would be effective as of January 1, 2013). Additionally, the net deferred tax asset of the subsidiary would be remeasured at the lower rate in the period the holiday is approved. This remeasurement would result in a decrease to the net deferred tax asset and a noncash charge to earnings of approximately \$60.0 to \$120.0. As of December 31, 2012, AWA Brazil's application is still pending.

The following table details the changes in the valuation allowance at December 31:

	<u>2012</u>	<u>2011</u>
Balances at beginning of year	\$108.4	\$112.8
Increase to allowance	9.8	2.3
Release of allowance	(0.2)	(6.7)
Foreign currency translation	0.9	—
Balances at end of year	<u>\$118.9</u>	<u>\$108.4</u>

**N. Derivatives and Other Financial Instruments**

AWAC is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding AWAC's exposure to the risks of changing commodity prices and foreign currency exchange rates.

AWAC's commodity and derivative activities are subject to the management, direction, and control of Alcoa's Strategic Risk Management Committee (SRMC). The SRMC is composed of the chief executive officer, the chief financial officer, and other officers and employees that the chief executive officer selects. The SRMC meets on a periodic basis to review derivative positions and strategy and reports to the Board of Directors on the scope of its activities.



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Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)

The aluminum, energy, interest rate, and foreign exchange contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and to cover underlying exposures. AWAC is not involved in trading activities for energy, weather derivatives, or other nonexchange commodity trading activities.

The fair values of outstanding derivative contracts recorded as assets in the accompanying combined balance sheet were as follows:

	<u>Balance Sheet Location</u>	<u>Level</u>	<u>2012</u>	<u>2011</u>
<b>Asset Derivatives</b>				
Derivatives designated as hedging instruments:				
Energy contracts	Fair value of derivative contracts, noncurrent	1	\$ 0.1	\$—
Energy contracts	Fair value of derivative contracts, noncurrent	3	2.9	2.0
Derivatives not designated as hedging instruments*:				
Aluminum contracts	Fair value of derivative contracts, current	2	—	0.8
Aluminum contracts	Fair value of derivative contracts, current	3	204.2	—
Aluminum contracts	Fair value of derivative contracts, noncurrent	3	325.6	5.0
Total asset derivatives			<u>\$532.8</u>	<u>\$ 7.8</u>

\* See the "Other" section within Note N for additional information on AWAC's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

There were no derivative contracts recorded as liabilities in the accompanying combined balance sheet at December 31, 2012 and 2011.

The following table shows the net fair values of outstanding derivative contracts at December 31, 2012 and the effect on these amounts of a hypothetical change (increase or decrease of 10%) in the market prices or rates that existed at December 31, 2012:

	<u>Fair Value</u>	<u>Index change of +/- 10%</u>
Aluminum contracts	\$ 529.8	\$ 3.5
Energy contracts	3.0	250.2



**Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)  
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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs that are both significant to the fair value measurement and unobservable.

The following section describes the valuation methodologies used by AWAC to measure derivative contracts at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, and any significant assumptions. These valuation models are reviewed and tested at least on an annual basis.

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. Such financial instruments consist of aluminum, energy, and foreign exchange contracts. The fair values for the majority of these derivative contracts are based upon current quoted market prices. These financial instruments are all exchange-traded and are classified within Level 1 or Level 2 of the fair value hierarchy as the quotations are deemed to be an active market.

For certain derivative contracts whose fair value is based upon trades in liquid markets, such as aluminum options embedded within supply contracts, valuation model inputs can generally be verified and valuation techniques do not involve significant management judgment. The fair value of such financial instruments are generally classified within Level 2 of the fair value hierarchy.

AWAC has other derivative contracts that do not have observable market quotes. For these financial instruments, management uses significant other observable inputs. For periods beyond the term of quoted market prices for energy, management has developed a forward curve based on independent consultant market research. Where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used (Level 3). If a significant input that is unobservable in one period becomes observable in a subsequent period, the related asset or liability would be transferred to the appropriate level classification (1 or 2) in the period of such change.



**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)**  
**Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

The following table presents AWAC's derivative contract assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy (there were no transfers in or out of Levels 1 and 2 during the periods presented):

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Level 1	\$ 0.1	\$—
Level 2	—	0.8
Level 3	532.7	7.0
	<u>\$532.8</u>	<u>\$ 7.8</u>
<b>Liabilities</b>		
Level 1	\$ —	\$—
Level 2	—	—
Level 3	—	—
	<u>\$ —</u>	<u>\$—</u>

Financial instruments classified as Level 3 in the fair value hierarchy represent derivative contracts in which management has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for such derivative contracts on a net basis:

	<u>Aluminum Contracts</u>	<u>Energy Contracts</u>
Balances at January 1, 2012	\$ 5.0	\$ 2.0
Total gains (losses) (realized and unrealized) included in		
Sales	—	—
Cost of goods sold	(103.9)	—
Other (income) expense, net	16.2	—
Other comprehensive loss	—	0.9
Purchases, sales, issuances and settlements	583.3	—
Transfers in and (or) out of Level 3	—	—
Foreign currency translation	29.2	—
Balances at December 31, 2012	<u>\$ 529.8</u>	<u>\$ 2.9</u>
Change in unrealized gains or losses included in earnings for derivative contracts held at December 31, 2012		
Sales	\$ —	\$ —
Cost of goods sold	—	—
Other income, net	16.2	—



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Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)

	Aluminum Contracts	Energy Contracts
Balances at January 1, 2011	\$ —	\$ 9.0
Total gains (losses) (realized and unrealized) included in		
Sales	—	—
Cost of goods sold	—	—
Other (income) expense, net	0.2	—
Other comprehensive loss	—	(7.0)
Purchases, sales, issuances and settlements	—	—
Transfers in and (or) out of Level 3	4.8	—
Foreign currency translation	—	—
Balances at December 31, 2011	<u>\$ 5.0</u>	<u>\$ 2.0</u>
Change in unrealized gains or losses included in earnings for derivative contracts held at December 31, 2012		
Sales	\$ —	\$ —
Cost of goods sold	—	—
Other income, net	0.2	—

As reflected in the table above, the net unrealized gain on derivative contracts using Level 3 valuation techniques was about \$532.7 and \$7.0 as of December 31, 2012 and 2011, respectively. These gains were mainly attributed to embedded derivatives in power contracts.

In July 2012, as provided for in the arrangements, management elected to modify the pricing for two existing power contracts, which end in 2014 and 2016 (see directly below), for AWAC's two smelters in Australia. These contracts contain an LME-linked embedded derivative, which previously was not recorded as an asset in AWAC's Combined Balance Sheet. Beginning on January 1, 2001, all derivative contracts were required to be measured and recorded at fair value on an entity's balance sheet under GAAP; however, an exception existed for embedded derivatives upon meeting certain criteria. The LME-linked embedded derivative in these two contracts met such criteria at that time. Management's election to modify the pricing of these contracts qualifies as a significant change to the contracts thereby requiring that the contracts now be evaluated under derivative accounting as if they were new contracts. As a result, AWAC recorded a derivative asset in the amount of about \$583.3 with an offsetting liability (deferred credit) recorded in Deferred credit related to derivative contracts, current and noncurrent. Unrealized gains and losses from the embedded derivative were included in Other (income) expense, net on the accompanying Combined Statements of (Loss) Income, while realized gains and losses were included in Cost of goods sold on the accompanying Combined Statements of (Loss) Income as electricity purchases are made under the contract. The deferred credit is recognized in Other (income) expense, net on the accompanying Combined Statements of (Loss) Income as power is received over the life of the contract. The embedded derivative is valued using the probability and interrelationship of future LME prices, Australian dollar to U.S. dollar exchange rates, and the U.S. consumer price index. Significant increases or decreases in the LME price would result in a higher or lower fair value measurement. An increase in actual LME price over the inputs used in the valuation model will result in a higher cost of power and a decrease to the embedded derivative asset.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

In 2010, AWAC entered into derivative contracts that will hedge the anticipated power requirements at AWAC's two smelters in Australia once the existing contracts expire in 2014 and 2016. These derivatives hedge forecasted power purchases through December 2036. Beyond the term where market information is available, management has developed a forward curve, for valuation purposes, based on independent consultant market research. The effective portion of gains and losses on these contracts were recorded in Other comprehensive (loss) income on the accompanying Combined Balance Sheet until the designated hedge periods begin in 2014 and 2016. Once the hedge periods begin, realized gains and losses will be recorded in Cost of goods sold. Significant increases or decreases in the power market may result in a higher or lower fair value measurement. Higher prices in the power market would cause the derivative asset to increase in value.

Also, AWAC has a six-year natural gas supply contract, which has an LME-linked ceiling. This contract is valued using probabilities of future LME aluminum prices and the price of Brent crude oil (priced on Platts), including the interrelationships between the two commodities subject to the ceiling. Any change in the interrelationship would result in a higher or lower fair value measurement. An LME ceiling was embedded into the contract price to protect against an increase in the price of oil without a corresponding increase in the price of LME. An increase in oil prices with no similar increase in the LME price would limit the increase of the price paid for natural gas. At inception, this contract had a fair value of \$4.8. Unrealized gains and losses from this contract were included in Other (income) expense, net on the accompanying Combined Statements of (Loss) Income, while realized gains and losses will be included in Cost of goods sold on the accompanying Combined Statements of (Loss) Income as gas purchases are made under the contract.

The following table presents quantitative information for Level 3 derivative contracts:

	Fair Value at December 31, 2012	Valuation Technique	Unobservable Input	Range (\$ in full amounts)
<b>Assets</b>				
Aluminum contract	\$ 2.3	Discounted cash flow	Interrelationship of future aluminum and oil prices	Aluminum: \$2,037 per metric ton in 2013 to \$2,542 per metric ton in 2018 Oil: \$90 to \$111 per barrel
Aluminum contract	527.5	Discounted cash flow	Interrelationship of future aluminum prices, foreign currency exchange rates, and the U.S. consumer price index (CPI)	Aluminum: \$2,046 per metric ton in 2013 to \$2,400 per metric ton in 2016 Foreign currency: A\$1 = \$1.03 in 2013 to \$0.94 in 2016 CPI: 1982 base year of 100 and 232 in 2013 to 254 in 2016
Energy contracts	2.9	Discounted cash flow	Price of electricity beyond forward curve	\$78 per megawatt hour in 2013 to \$170 per megawatt hour in 2036



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Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)*Cash Flow Hedges*

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) December 31,			Location of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion)*	Amount of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion)* December 31,			Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded From Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded From Effectiveness Testing)** December 31,		
	2012	2011	2010		2012	2011	2010		2012	2011	2010
Derivatives in cash flow hedging relationships											
Aluminum contract	\$—	\$—	\$ 15.0	Sales	\$—	\$—	\$ (28.6)	Other (income) expense, net	\$—	\$—	\$—
Energy contracts	0.4	(4.1)	(12.2)	Cost of Goods sold	—	—	(14.4)	Other (income) expense, net	0.1	—	—
Foreign exchange contracts	—	—	(1.5)	Sales	—	—	(8.6)	Other (income) expense, net	—	—	—
Interest rate contracts***	(2.5)	(9.8)	(0.4)	Other (income) expense, net	(1.4)	—	—	Other (income) expense, net	—	—	—
	<u>\$ (2.1)</u>	<u>\$ (13.9)</u>	<u>\$ 0.9</u>		<u>\$—</u>	<u>\$ (1.4)</u>	<u>\$ (51.6)</u>		<u>\$ 0.1</u>	<u>\$—</u>	<u>\$—</u>

\* Assuming market rates remain constant with the rates at December 31, 2012, a loss of \$1.8 is expected to be recognized in earnings over the next 12 months.

\*\* In 2012, 2011 and 2010, there was no amount of gain or (loss) recognized in earnings related to the ineffective portion of the hedging relationships. There was \$0.1 recognized in earnings related to the amount excluded from the assessment of hedge effectiveness in 2012. There were no amounts of gain or (loss) recognized in earnings related to the amount excluded from the assessment of hedge effectiveness in 2011 or 2010.

\*\*\* Alcoa invests in an equity method investment which holds interest rate swaps which are designated as cash flow hedges.

**Aluminum and Energy**

AWAC anticipates the continued requirement to purchase aluminum and certain other commodities, such as electricity and natural gas, for its operations. AWAC enters into forwards and option contracts to reduce volatility in the price of these commodities. In 2010, AWAC entered into contracts to hedge the anticipated power requirements at two smelters in Australia. These derivatives hedge forecasted power purchases through December 2036.

**Interest Rates**

An investment accounted for on the equity method by AWAC has entered into interest rate contracts, which are designated as cash flow hedges. AWAC's share of the activity of these cash flow hedges is reflected in the table above.

**Foreign Exchange**

AWAC is subject to exposure from fluctuations in foreign currency exchange rates. Contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency.

Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)

AWAC had the following outstanding forward and option contracts that were entered into to hedge forecasted transactions:

	2012	2011
Energy contracts		
Electricity (megawatt hours)	100,578,295	100,578,295
Natural gas (million British thermal units)	19,160,000	—

*Other*

AWAC has certain derivative contracts that do not qualify for hedge accounting treatment and, therefore, the fair value gains and losses on these contracts are recorded in earnings as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives		
		2012	2011	2010
Aluminum contracts	Other (income) expenses, net	\$15.3	\$—	\$—

The aluminum contracts relate to embedded derivatives (recognized in Other (income) expenses, net) entered into to minimize AWAC's price risk related to certain electricity pricing arrangements.

*Material Limitations*

The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under AWAC's control and could vary significantly from those factors disclosed.

AWAC is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers' commitments. Although nonperformance is possible, AWAC does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

*Other Financial Instruments*

The carrying values and fair values of AWAC's financial instruments at December 31 were as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 126.0	\$126.0	\$ 204.0	\$204.0
Related party notes receivable	88.7	88.7	82.9	82.9
Short-term borrowings	69.6	69.6	38.5	38.5

**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

The following methods were used to estimate the fair value of other financial instruments:

***Cash and Cash Equivalents and Short-Term Borrowings***

The carrying amounts approximate fair value because of the short maturity of the instruments. The fair value amounts for Cash and cash equivalents were classified in Level 1 and Short-term borrowings were classified in Level 2.

***Notes Receivable***

The fair value of notes receivable is based on anticipated cash flows which approximates carrying value and was classified in Level 2 of the fair value hierarchy.

**O. Cash Flow Information**

Cash payments for interest and taxes follow:

	2012	2011	2010
Interest	\$ 5.6	\$ 4.2	\$ 12.7
Income taxes	166.7	237.7	106.9

**P. Contingencies and Commitments*****Contingencies******Litigation******Alba Civil Suit***

On February 27, 2008, Alcoa received notice that Alba had filed suit against Alcoa, AWA, and William Rice (collectively, the “Alcoa Parties”), 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 Phillip Dahdaleh. The complaint alleged that certain Alcoa entities and their agents, including Victor Phillip Dahdaleh, had engaged in a conspiracy over a period of 15 years to defraud Alba. The complaint further alleged 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 alleged that Alcoa and the other defendants violated the Racketeer Influenced and Corrupt Organizations Act (RICO) and committed fraud. Alba claimed damages in excess of \$1,000. Alba’s complaint sought treble damages with respect to its RICO claims; compensatory, consequential, exemplary, and punitive damages; rescission of the 2005 alumina supply contract; and attorneys’ fees and costs.

In response to a motion filed by the U.S. Department of Justice (“DOJ”) on March 27, 2008 (see “Government Investigations” below), the Court ordered the Alba civil suit administratively closed and stayed all discovery to allow the DOJ to fully conduct an investigation. On November 8, 2011, at Alcoa’s request, the Court removed the case from administrative stay and ordered Alba to file an Amended Complaint by November 28, 2011, and a RICO Case Statement 30 days thereafter for the limited purpose of allowing Alcoa to move to dismiss Alba’s lawsuit. Alcoa filed a motion to dismiss, which was denied on June 11, 2012.

On October 9, 2012, the Alcoa Parties, without admitting any liability, entered into a settlement agreement with Alba. The agreement called for AWA to pay Alba \$85.0 in two equal installments, one-half at time of settlement and one-half one year later, and for the case against the Alcoa Parties





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**Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**

to be dismissed with prejudice. Additionally, AWA and Alba entered into a long-term alumina supply agreement. On October 9, 2012, pursuant to the settlement agreement, AWA paid Alba \$42.5, and all claims against the Alcoa Parties were dismissed with prejudice. Under the agreement, AWA is obligated to pay an additional \$42.5, without interest or contingency, on October 9, 2013. Based on the settlement agreement, in the 2012 third quarter, Alcoa recorded a \$40 (\$15 after-tax and noncontrolling interest) charge in addition to the \$45 (\$18 after-tax and noncontrolling interest) charge it recorded in the 2012 second quarter in respect of the suit. In addition, based on an agreement between Alcoa and Alumina Limited (which holds a 40% equity interest in AWA), Alcoa estimates an additional reasonably possible after-tax charge of between \$25 to \$30 to reallocate a portion of the costs (including legal fees) of the Alba civil settlement from AWA to Alcoa, but this would occur only if a settlement is reached with the DOJ and the Securities and Exchange Commission (the "SEC") regarding their investigations (see "Government Investigations" below).

*Government Investigations*

On February 26, 2008, Alcoa Inc. advised the DOJ and the SEC that it had recently become aware of the claims by Alba as alleged in the Alba civil suit, had already begun an internal investigation, and intended to cooperate fully in any investigation that the DOJ or the SEC may commence. On March 17, 2008, the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has been cooperating with the government since that time.

Alcoa is actively negotiating with the DOJ and the SEC to reach a resolution of their investigations of the Alba matter; however, Alcoa has not reached any agreement with either agency. Given the uncertainty regarding whether a settlement can be reached and, if reached, on what terms, Alcoa is not able to estimate a range of reasonably possible loss with regard to any such settlement. If a settlement of the government investigations is reached, Alcoa believes that the settlement amount would be material to Alcoa's results of operations for the relevant fiscal period. If a settlement cannot be reached, Alcoa will proceed to trial with the DOJ and the SEC and under those circumstances is unable to predict an outcome or to estimate its reasonably possible loss. There can be no assurance that the final outcome of the government's investigations will not have a material adverse effect on Alcoa.

On April 23, 2004, St. Croix Renaissance Group, L.L.L.P. (SCRG), Brownfield Recovery Corp., and Energy Answers Corporation of Puerto Rico (collectively referred to as "Plaintiffs") filed a suit against St. Croix Alumina L.L.C. and Alcoa World Alumina, LLC (collectively referred to as "Alcoa") in the Territorial Court of the Virgin Islands, Division of St. Croix for claims related to the sale of Alcoa's former St. Croix alumina refinery to Plaintiffs. Alcoa thereafter removed the case to federal court and after a several year period of discovery and motion practice, a jury trial on the matter took place in St. Croix from January 11, 2011 to January 20, 2011. The jury returned a verdict in favor of Plaintiffs and awarded damages as described: on a claim of breaches of warranty, the jury awarded \$13.0; on the same claim, the jury awarded punitive damages in the amount of \$6.0; and on a negligence claim for property damage, the jury awarded \$10.0. Plaintiffs filed a motion seeking pre-judgment interest on the jury award. On February 17, 2011, Alcoa filed post-trial motions seeking judgment notwithstanding the verdict or, in the alternative, a new trial. On May 31, 2011, the court granted Alcoa's motion for judgment regarding Plaintiffs' \$10.0 negligence award and denied the remainder of Alcoa's motions. Additionally, the court awarded Plaintiffs pre judgment interest of \$2.0 on the breach of warranty award. As a result of the court's post-trial decisions, Alcoa recorded a charge of \$20.3 in 2011 (Note Q). On June 14, 2011, Alcoa filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit regarding Alcoa's denied post-trial motions. On June 22, 2011, SCRG filed a notice of cross appeal with the Third Circuit Court related to certain pre-trial decisions of the court and of the court's post-trial ruling on the negligence claim. The Third Circuit Court referred this matter to mediation as is its standard practice in appeals. Following mediation and further, separate settlement discussions, the parties executed an agreement dated September 30,



**Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**

2011 resolving the matter in its entirety, and subsequently jointly petitioned (i) the District Court to release Alcoa from the jury verdict and (ii) the Third Circuit Court of Appeals to dismiss the matter. On March 13, 2012, the District Court entered an order discharging Alcoa from the jury verdict and, on March 14, 2012, the Third Circuit Court of Appeals dismissed the matter. This matter is now fully resolved.

***Other***

In addition to the matters discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against 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 AWAC's liquidity or results of operations 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 material adverse effect, individually or in the aggregate, on the combined financial position of AWAC.

Pursuant to the terms of the 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 preformation liabilities, such as existing environmental conditions, to the extent of their preformation ownership of the company or asset with which the liability is associated.

***Commitments***

In October 2004, AWAC agreed to acquire a 20% interest in a consortium formed to acquire the DBNGP in Western Australia in exchange for an initial cash investment of \$17.0. The investment in the DBNGP, which is classified as an equity investment, was made in order to secure a competitively priced long-term supply of natural gas to Alcoa's refineries in Western Australia. AWAC has made additional contributions of \$140.8 for its share of the pipeline capacity expansion and other operational purposes of the consortium through September 2011. No further expansion of the pipeline's capacity is planned at this time. In late 2011, the consortium initiated a three-year equity call plan to improve its capital structure. This plan requires AWAC to contribute \$40.0, of which \$12.7 and \$5.3 was made in 2012 and 2011, respectively. In addition to its equity ownership, AWAC has an agreement to purchase gas transmission services from the DBNGP. At December 31, 2012, AWAC has recorded a noncurrent asset of \$362.8 representing prepayments made under an agreement for future gas transmission services. AWAC's maximum exposure to loss on the investment and related contract is approximately \$520.0 as of December 31, 2012.

In connection with the sale of Alcoa Specialty Chemicals ("ASC"), in 2004 AWAC entered into a 20 year agreement to supply ASC with approximately 488,000 tons of alumina feedstock annually. The first five years of the contract provide for a fixed price with adjustments in pricing to the extent certain AWAC costs fluctuate outside of agreed upon thresholds. In years six through ten pricing is tied to an industry-accepted index, and in the final ten years the pricing is to be negotiated.

AWAC has entered into other purchase commitments for energy, raw materials, freight and other goods and services which total \$1,596.2 in 2013, \$1,340.7 in 2014, \$1,366.7 in 2015, \$1,340.8 in 2016, \$1,349.9 in 2017 and \$15,907.9 thereafter.

AWAC has outstanding letters of credit primarily related to environmental and leasing activities. The total amount committed under these letters of credit, which expire at various dates, mostly in 2013, was \$17.5 at December 31, 2012. AWAC also has outstanding bank guarantees related to legal, customs duties, environmental, and leasing obligations, among others. The total amount committed under these guarantees, which expire at various dates, was \$101.6 at December 31, 2012.



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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)**

AWAC has outstanding surety bonds primarily related to customs duties. The total amount committed under these bonds, which automatically renew or expire at various dates, mostly in 2013, was \$0.7 at December 31, 2012.

**Q. Environmental Matters**

AWAC continues to participate in environmental assessments and cleanups at a number of locations. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information. As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements and technological changes. Therefore, it is not possible to determine the outcomes or estimate with any degree of accuracy the potential costs for certain of these matters.

AWAC's remediation reserve balance at the end of 2012 and 2011 was \$12.3 and \$10.9, respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Of the \$12.3 reserve at December 31, 2012, \$2.9 is classified as current on the combined balance sheet.

Alcoa World Alumina and Chemicals  
(Majority owned by Alcoa Inc.)Notes to Combined Financial Statements—(Continued)  
December 31, 2012, 2011 and 2010  
(U.S. dollars in millions)**R. Restructuring and Other Charges**

Restructuring and other charges were \$8.1, \$52.9 and \$13.2 during 2012, 2011 and 2010, respectively. In 2012, the majority of the charge was for severance costs, primarily in Point Henry. In 2011, \$20.3 was recorded for the St. Croix remediation settlement (Note O), \$14.1 was recorded as an asset impairment for the permanent shut down of an Australian spent pot lining processing facility, and \$18.5 was recorded for severance charges, primarily related to Australia actions. In 2010, \$7.6 was recorded as an asset impairment charge for the Point Comfort assets related to the closure of the aluminum fluoride plant, along with additional charges of \$2.6 for asset retirement obligations and contract termination charges. Also in 2010, unrelated to Point Comfort, there were severance charges of \$4.0 and an environmental reserve reversal of (\$1.0).

	Employee Termination and Severance Costs
<b>Reserve balance at January 1, 2010</b>	<b>\$ 8.4</b>
Cash payments	(8.6)
Restructuring charges	13.2
Impairment charges	(7.6)
Other	1.5
Reserve balance at December 31, 2010	<u>\$ 6.9</u>
Cash payments	(16.6)
Restructuring charges	52.9
Impairment charges	(14.1)
St. Croix remediation settlement	(20.3)
Other	0.2
Reserve balance at December 31, 2011	<u>\$ 9.0</u>
Cash payments	(10.1)
Restructuring charges	8.1
Other	2.8
Reserve balance at December 31, 2012	<u>\$ 9.8</u>

**S. Other (Income) Expense, Net**

	2012	2011	2010
Interest income	\$ (3.4)	\$ (5.2)	\$ (5.1)
Equity income	(4.7)	(25.1)	(9.9)
Gain on sale of Hotham Farm	—	(42.9)	—
Gain from Suriname land sales	(7.9)	—	—
Foreign currency gains/losses, net	(8.3)	13.2	13.7
Other, net	(10.1)	0.9	(2.0)
	<u>\$(34.4)</u>	<u>\$(59.1)</u>	<u>\$(3.3)</u>

In 2011, equity income included higher earnings of \$24.0 from the DBNGP investment in Australia due to the recognition of a discrete income tax benefit by the consortium.



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**ALUMINA LIMITED**  
**FORM 20-F**

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**Alcoa World Alumina and Chemicals**  
**(Majority owned by Alcoa Inc.)****Notes to Combined Financial Statements—(Continued)**  
**December 31, 2012, 2011 and 2010**  
**(U.S. dollars in millions)****T. Subsequent Events**

Management evaluated all activity of AWAC through March 4, 2013 and concluded that no subsequent events have occurred that would require recognition in the combined financial statements or disclosure in the notes to the combined financial statements



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**ALUMINA LIMITED**  
**FORM 20-F**

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Page 1 of 1

**Exhibit 4.1.13**

# Allens > < Linklaters

## Subscription Agreement

Alumina Limited

CITIC Limited

Bestbuy Overseas Co., Ltd

Agreement for the subscription for ordinary shares to be  
issued by Alumina Limited

Allens  
101 Collins Street  
Melbourne VIC 3000  
Tel +61 3 9614 1011  
Fax +61 3 9614 4661  
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## Subscription Agreement

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Date	14 February 2013
Parties	<ol style="list-style-type: none"> <li>1. <b>Alumina Limited</b> (ABN 85 004 820 419) of Level 12, IBM Centre, 60 City Road, Southbank, Victoria, Australia (the <b>Company</b>).</li> <li>2. <b>CITIC Limited</b> (中国中信股份有限公司) (incorporated in China) of Capital Mansion, 6 Xinyuannanlu, Chaoyang District, Beijing 100004, China (<b>Holdco</b>).</li> <li>3. <b>Bestbuy Overseas Co., Ltd</b> (Company Number 363344, incorporated in British Virgin Islands) having its registered office at PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the <b>Subscriber</b>).</li> </ol>
Recitals	<p>A The Subscriber agrees to subscribe for the Subscription Shares on the terms and conditions of this Agreement.</p>

It is agreed as follows.

## 1. Definitions and Interpretation

## 1.1 Definitions

The following definitions apply in this Agreement unless the contrary intention appears or the context otherwise requires.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** means, in relation to a person, an associate (within the meaning given in sections 12 to 17 of the Corporations Act) of the person in relation to the Company.

**ASX** means ASX Limited (ABN 98 008 624 691) and, where the context requires, its Related Bodies Corporate, or the financial market known as 'ASX' operated by ASX Limited.

**Authorisation** means:

- (a) an authorisation, consent, licence, declaration, approval, exemption or waiver, however it is described; and
- (b) in relation to anything that could be prohibited or restricted by law if a Government Agency acts in any way within a specified period, the expiry of that period without that action being taken,

including any renewal or amendment of any of the above.

**AWAC Joint Venture** means the Alcoa World Alumina and Chemicals joint venture.



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**AWAC Joint Venture Agreement** means all those agreements governing the establishment and operation of the AWAC Joint Venture, including but not limited to the following key agreements:

- (a) the Formation Agreement dated 21 December 1994 between, among others, Alcoa Inc. and the Company;
- (b) the Charter of the Strategic Council dated 21 December 1994 between Alcoa Inc. and the Company; and
- (c) the Shareholders Agreement regarding Alcoa of Australia Limited dated 10 May 1996 between Alcoa Australian Holdings Pty Ltd (as successor to Alcoa International Holdings Company) and the Company.

**Bank Account** means the bank account established in the name of "Alumina Limited" with Australia and New Zealand Banking Group Limited, the details of which are as follows.

Address: Cnr Queen & Creek Streets, Brisbane Qld 4000, Australia

Swift ID: ANZBAU3M

BSB Number: 014 002

Account Number: 8373-16664

**Board** means the board of directors of the Company.

**Business Day** has the meaning given in the Listing Rules.

**Company Securities** means:

- (a) any shares in or other securities of the Company, or any securities convertible into shares in or other securities of the Company; or
- (b) any legal or equitable interest in such shares or securities.

**Confidentiality Deed** means the deed of that name entered into between CITIC Resources Holdings Limited and the Company on 31 July 2012.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Disclosure Material** means all information disclosed by, or on behalf of, the Company to Holdco, the Subscriber or any of their respective Related Bodies Corporate in connection with the Subscriber's proposed investment in the Company, including information relating to the business, assets or affairs of the Company or any of its Related Bodies Corporate or any of the entities of the AWAC Joint Venture, and all past, current and prospective financial, accounting, legal, trading, marketing, technical and business information.

**Dispose** means, in relation to a Share (or any interest in the Share), to enter into a transaction:

- (a) which results in a person other than the registered holder of the Share:
  - (i) acquiring or having any equitable or beneficial interest in the Share, including an equitable interest arising under a declaration of trust, an agreement for sale and purchase or an option agreement or an agreement creating a charge or other Security Interest over the Share; or



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- (ii) having any financial interest in, or economic exposure to, a Share, but only in circumstances where the transaction creating that interest or exposure arises through entry into an equity swap or derivative; or
- (iii) acquiring or having any rights of pre-emption, first refusal or other direct or indirect control over the disposal of the Share; or
- (iv) acquiring or having any rights of direct or indirect control over the exercise of any voting rights or rights to appoint directors attaching to the Share; or
- (b) which results in a person other than the registered holder of the Share otherwise acquiring or having legal or equitable rights against the registered holder of the Share (or against a person who directly or indirectly controls the affairs of the registered holder of the Shares) which have the effect of placing the other person in substantially the same position as if the person had acquired a legal or equitable interest in the Share itself,

but excludes a transaction permitted by this Agreement, and *Disposal* has a corresponding meaning.

**FATA** means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

**Government Agency** means any:

- (a) government or governmental, semi-governmental or judicial entity; or
- (b) minister, department, office, commission, delegate, instrumentality, agency, board or authority of any government.

It also includes any regulatory organisation established under statute or any stock exchange.

**Insolvency Event** means any of the following events in relation to a party:

- (a) a liquidator, receiver, receiver and manager, administrator, official manager or other controller (as defined in the Corporations Act), trustee or controlling trustee or similar official is appointed over any of the property or undertaking of the party;
- (b) the party is, or becomes unable to, pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act, or is presumed to be insolvent under the Corporations Act;
- (c) something having a substantially similar effect to (a) or (b) happens in connection with the party under the law of any jurisdiction;
- (d) the party stops or suspends or threatens to stop or suspend payment of all or a class of its debts;
- (e) the party ceases to carry on business; or
- (f) an order is made for the administration, winding up or liquidation of the party or a resolution is passed to liquidate the party, otherwise than for the purpose of an amalgamation or reconstruction.

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**Listing Rules** means the Listing Rules of the ASX (including the ASX Settlement Operating Rules, the ASX Operating Rules and the ASX Clear Operating Rules) as waived or modified by the ASX in respect of the Company in any particular case.

**Placement Issue Time** means 10 am on the second Business Day after the date of this Agreement.

**Placement Payment Time** means 5 pm on the first Business Day after the date of this Agreement.

**Prescribed Percentage** means:

- (a) for the period of 24 months from the date of this Agreement – 15.0%; and
- (b) thereafter – 19.99%.

**Professional or Sophisticated Investor** means a category of investor under sections 708(8) or 708(11) of the Corporations Act to whom an offer of a body's securities can be made without disclosure.

**Representative** means an employee, agent, officer, director, sub-contractor, professional adviser, lawyer, investment bank, accountant, auditor or other person who may be employed or engaged by the Company to act for it, or on its behalf.

**Security Interest** includes any mortgage, pledge, lien or charge or any security or preferential interest or arrangement of any kind or any other right of, or arrangement with, any creditor to have its claim satisfied in priority to other creditors with, or from the proceeds of, any asset. It includes retention of title other than in the ordinary course of day to day trading and a deposit of money by way of security but it excludes a charge or lien arising in favour of a Government Agency by operation of statute unless there is default in payment of money secured by that charge or lien.

**Shares** means fully paid ordinary shares in the capital of the Company.

**Subscription Amount** means \$180,818,537.19.

**Subscription Shares** means 146,411,771 Shares.

**1.2 Interpretation**

Headings are for convenience only and do not affect interpretation. The following rules apply in interpreting this Agreement unless the contrary intention appears or the context otherwise requires.

- (a) The singular includes the plural and the converse.
- (b) A gender includes all genders.
- (c) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a **clause** is a reference to a clause of this Agreement.
- (f) A reference to time is a reference to the time in Melbourne, Victoria, Australia.



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- (g) A reference to a party to this Agreement or another agreement or document includes the party's successors and substitutes or assigns.
- (h) A reference to any agreement or document is to the agreement or document as amended, novated, supplemented, varied or replaced from time to time, except to the extent prohibited by this Agreement.
- (i) A reference to legislation or to a provision of legislation includes a modification or re-enactment of or substitution for it and a regulation or statutory instrument issued under it.
- (j) A reference to **dollars** and **\$** is a reference to the lawful currency of Australia.
- (k) A reference to **writing** includes a facsimile transmission and any means of reproducing words in a tangible and permanently visible form.
- (l) A reference to **conduct** includes an omission, statement or undertaking, whether or not in writing.
- (m) A reference to **includes** or **including** means includes, without limitation, or including, without limitation, respectively.
- (n) Unless stated otherwise, one provision does not limit the effect of another.
- (o) All obligations in this Agreement are to be performed duly and punctually.
- (p) A term or expression starting with a capital letter which is defined in the Corporations Act but is not defined in this Agreement, has the meaning given in the Corporations Act.

**1.3 Business Days**

If the day on or by which a person must do something under this Agreement is not a Business Day:

- (a) if the act involves a payment that is due on demand, the person must do it on or by the next Business Day; and
- (b) in any other case, the person must do it on or by the previous Business Day.

**2. Subscription Shares****2.1 Subscription**

The Subscriber will subscribe, and the Company will issue to the Subscriber, the Subscription Shares at or before the Placement Issue Time for the Subscription Amount.

**2.2 Use of Subscription Amount**

The Company must use the funds paid to it by the Subscriber as the Subscription Amount for the general corporate purposes of the Company and its Related Bodies Corporate.

**2.3 Agreement to serve as application**

On execution of this Agreement by all parties, this Agreement serves as an application by the Subscriber to subscribe for the Subscription Shares and it will not be necessary for the



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## Subscription Agreement

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Subscriber to provide a separate application form to the Company for the Subscription Shares. The Subscriber agrees to be bound by the constitution of the Company upon the issue of the Subscription Shares.

### 2.4 Settlement and allotment of Subscription Shares

- (a) The Subscriber must pay the Subscription Amount in Australian dollars to the Company in immediately available funds to the Company's Bank Account at or before the Placement Payment Time.
- (b) The funds received by the Company from the Subscriber under clause 2.4(a) must be held by or on behalf of the Company in trust for the Subscriber pending the issue of the Subscription Shares to the Subscriber.
- (c) At or before the Placement Issue Time, in consideration for the Subscriber applying for the Subscription Shares and paying the Subscription Amount to the Company, the Company must issue the Subscription Shares to the Subscriber. The obligation of the Company to issue the Subscription Shares to the Subscriber is conditional on the Subscriber paying the Subscription Amount to the Company at or before the Placement Payment Time.

## 3. Rights Attaching to Shares and Quotation

### 3.1 Rights attaching to the Shares

When issued, the Subscription Shares will:

- (a) be issued free from any Security Interest;
- (b) be credited as fully paid; and
- (c) rank equally in all respects with the existing Shares on issue.

### 3.2 Quotation

In respect of the Subscription Shares, the Company must:

- (a) on or before their day of issue:
  - (i) cause the Company's share register to register the Subscriber as the holder of the Subscription Shares; and
  - (ii) apply for, and do everything the ASX reasonably requires to obtain, quotation of the Subscription Shares on the ASX; and
- (b) no later than 7 days after their day of issue, cause the Company's share register to provide the Subscriber with a holding statement or other confirmation stating its shareholding in the Company.





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### 4. Undertakings

#### 4.1 The Company's undertakings

The Company will:

- (a) at all times, be in compliance with all material obligations imposed on it under the Listing Rules and the Corporations Act;
- (b) prepare and lodge on a prompt and timely basis all documents required by the Listing Rules and the Corporations Act as necessary for the consummation of the transactions contemplated by this Agreement;
- (c) use all reasonable efforts to co-operate with the Subscriber and Holdco to prepare all announcements, circulars and other documents as are required to be issued by Holdco in connection with the execution, delivery and performance of this Agreement and the transactions contemplated by it (to the extent that such documents relate to the Company); and
- (d) use all reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary or appropriate to consummate the transactions contemplated by this Agreement.

#### 4.2 The Subscriber's and Holdco's undertakings

- (a) The Subscriber and Holdco will use all reasonable efforts to co-operate with the Company and its Representatives to prepare all documents to be lodged by the Company with the ASX in connection with the execution, delivery and performance of this Agreement and the transactions contemplated by it (to the extent that such documents relate to the Subscriber or Holdco, respectively).
- (b) The Subscriber and Holdco will use all reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary or appropriate to consummate the transactions contemplated by this Agreement.

### 5. On-sale of Subscription Shares

#### 5.1 Issue without disclosure document

As no formal disclosure document (such as a prospectus) will be lodged with ASIC for the issue of the Subscription Shares, the Subscription Shares will only be offered and issued to a person that is a Professional or Sophisticated Investor.

#### 5.2 Acknowledgements and confirmations by the Subscriber and Holdco

The Subscriber and Holdco acknowledge:

- (a) that section 707(3) of the Corporations Act imposes certain restrictions on the capacity of a person to whom securities have been issued other than pursuant to a formal disclosure document to on-sell those securities within 12 months after their issue;





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- (b) that this Agreement imposes no obligation on the Company, whether express or implied, to assist the Subscriber to on-sell the Subscription Shares, including by way of a disclosure document or a notice under section 708A(5)(e) of the Corporations Act; and
- (c) that the Company is not issuing the Subscription Shares for the purposes of the Subscriber selling or transferring them, or granting, issuing or transferring interests in, or options or warrants over, them, and that the Company requires that the Subscriber acquires the Subscription Shares as an investment to be held for at least the medium term (ie longer than 12 months), subject to the terms of this Agreement.

The Subscriber further confirms that it is not subscribing for the Subscription Shares for the purposes of selling or transferring them, or granting, issuing or transferring interests in, or options or warrants over, them within the period of 12 months from their date of issue.

### 6. Representations and Warranties

#### 6.1 By all parties

Each party represents and warrants to the other parties that each of the matters set out in Part 1 of the Schedule, in so far as it relates to itself, is true, accurate and not misleading as at the date of this Agreement and immediately prior to the issue of the Subscription Shares.

#### 6.2 By the Company

The Company represents and warrants to the Subscriber and Holdco that each of the matters set out in Part 2 of the Schedule is true, accurate and not misleading as at the date of this Agreement.

#### 6.3 By the Subscriber and Holdco

The Subscriber and Holdco severally represent and warrant to the Company that each of the matters set out in Part 3 of the Schedule, in so far as it relates to itself, is true, accurate and not misleading as at the date of this Agreement and immediately prior to the issue of the Subscription Shares.

#### 6.4 Independence

Each of the paragraphs set out in the Schedule shall be construed independently and no paragraph shall be limited by implications arising from any other paragraph.

#### 6.5 Reliance

Each party acknowledges that each other party has executed this Agreement and agreed to take part in the transactions that this Agreement contemplates in reliance on the representations and warranties that are made in clauses 6.1 to 6.3.

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### 6.6 Acknowledgments

The Subscriber and Holdco acknowledge and agree that:

- (a) except as expressly set out in this Agreement, neither the Company, its Representatives nor any other person acting on behalf of or associated with the Company has made any representation, given any advice or given any warranty or undertaking, promise or forecast of any kind in relation to the Subscription Shares, the Company, the Disclosure Material or this Agreement;
- (b) without limiting paragraph (a), no representation, no advice, no warranty, no undertaking, no promise and no forecast is given in relation to:
  - (i) any economic, fiscal or other interpretations or evaluations by the Company or any person acting on behalf of or associated with the Company or any other person; or
  - (ii) future matters, including future or forecast costs, prices, revenues or profits;
- (c) without limiting paragraph (a) or (b), and except for the statements made in the Schedule, no statement or representation by the Company or its Representatives:
  - (i) has induced or influenced the Subscriber or Holdco to enter into this Agreement or agree to any or all of its terms;
  - (ii) has been relied on in any way as being accurate by the Subscriber or Holdco;
  - (iii) has been warranted to the Subscriber or Holdco as being true; or
  - (iv) has been taken into account by the Subscriber or Holdco as being important to its decision to enter into this Agreement or agree to any or all of its terms; and
- (d) without limiting paragraph (a), (b) or (c), to the maximum extent permitted by law neither the Company, its Representatives nor any other person acting on behalf of or associated with the Company (each, a **Relevant Person**) is liable in any way for, and each of the Subscriber and Holdco unconditionally and irrevocably releases each Relevant Person from any liability for and waives any right to make any claim in respect of, any inaccuracy, incompleteness or other defect in any information relating to future matters (if any) provided in the Disclosure Material (including without limitation information (if any) as to future or forecast costs, prices, revenues, profits or dividends) by a Relevant Person to (or for the benefit of) the Subscriber, Holdco, any of their Related Bodies Corporate or any of their respective employees, officers, advisers or agents, including liability in negligence or other tort, or for misrepresentation or misleading and deceptive conduct.

### 6.7 Notice of breach

- (a) The Company undertakes to the Subscriber and Holdco that it will notify them as soon as practicable after it becomes aware of a breach of any representation or



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warranty under clause 6.1 relating to it or of any representation or warranty under clause 6.2 or any undertaking given by it in this Agreement.

- (b) The Subscriber and Holdco each undertakes to the Company that it will notify the Company as soon as practicable after it becomes aware of a breach of any representation or warranty under clause 6.1 relating to it or of any representation or warranty under clause 6.3 or any undertaking given by it in this Agreement.

## 6.8 Survival

The representations and warranties given by a party under this Agreement shall not merge upon completion of the transactions contemplated by this Agreement.

## 7. Shareholding

## 7.1 No insider trading

The Subscriber and Holdco each acknowledges that some of the Disclosure Material may be 'inside information' within the meaning of Part 7.10, Division 3 of the Corporations Act in relation to Company Securities. Without limiting anything else in this Agreement, each of the Subscriber and Holdco must not do, and must each ensure that none of its directors, officers, employees or Related Bodies Corporate does, anything which results or could result in the Subscriber, Holdco or their respective directors, officers, employees or Related Bodies Corporate or the Company being in breach of any provision of Part 7.10, Division 3 of the Corporations Act, including by dealing or causing any person to deal in any Company Securities.

## 7.2 Acquisition of Shares

- (a) Subject to clause 7.2(b), each of the Subscriber and Holdco must:

- (i) not undertake any action;
- (ii) procure that its Subsidiaries do not undertake any action; and
- (iii) use its best endeavours to procure that its other Related Bodies Corporate, and its reasonable endeavours to procure that its other Associates, do not undertake any action,

that would result in:

- (iv) the aggregate Voting Power (without duplication) of the Subscriber, CITIC Group Corporation (中国中信集团有限公司 of Capital Mansion, 6 Xinyuannanlu, Chaoyang District, Beijing 100004, China) and their respective Related Bodies Corporate (the **Relevant Entities** and each a **Relevant Entity**) in the Company exceeding (or further exceeding) the Prescribed Percentage; or
- (v) the aggregate economic interests (without duplication) in, or exposure to, the Company of the Relevant Entities and their respective Associates exceeding (or further exceeding) that attaching to Shares which represent the Prescribed Percentage of the share capital of the Company from time



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to time, including through entry into any derivative, swap, option or any other financial instrument or arrangement,

without the prior written approval of the Company and, if such approval is granted, only to the extent of such approval.

- (b) The restriction in paragraph (a) shall not apply:
- (i) to acquisitions pursuant to a takeover bid by a Relevant Entity or an Associate of a Relevant Entity in respect of all issued Shares, where that bid is made:
    - (A) after a third party (not being a Relevant Entity or an Associate of a Relevant Entity) has made a takeover bid in respect of all issued Shares which was not solicited by a Relevant Entity or an Associate of a Relevant Entity (*Third Party Bid*), offers under that Third Party Bid remain capable of acceptance and a majority of the Board has recommended that holders of Shares accept such offers; or
    - (B) after the Company has proposed a scheme of arrangement under Part 5.1 of the Corporations Act pursuant to which a third party (not being a Relevant Entity or an Associate of a Relevant Entity) would acquire all Shares not already held by it, and the Company has not ceased to prosecute that scheme of arrangement;
  - (ii) to acquisitions pursuant to a capital raising by the Company, including:
    - (A) a dividend reinvestment plan (other than in the capacity of sub-underwriter of such a plan);
    - (B) a pro-rata offer to its shareholders (to the extent only of the pro rata interest of a Relevant Entity or an Associate of a Relevant Entity); or
    - (C) a share purchase plan of the Company; or
  - (iii) to increases in the aggregate Voting Power (without duplication) of the Relevant Entities in the Company above the Prescribed Percentage as a direct result of a reduction in the number of Shares on issue (for example, if a Relevant Entity does not participate in a Share buy-back by the Company).
- (c) If, before the expiration of 24 months from the date of this Agreement, the Subscriber is interested in acquiring more shares in the Company but would be prevented from doing so under clause 7.2(a), the Company and the Subscriber will have discussions in good faith and the Company will give consideration to increasing the Prescribed Percentage and permitting such an acquisition on the basis of such terms and timing as may be agreed at the time between the Company and the Subscriber.
- (d) If the Company proposes to issue any Shares or securities convertible into Shares before or after the expiration of 24 months from the date of this Agreement by way



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of a placement (**Further Placement**) and, at that time, the Relevant Entities hold in aggregate full legal and beneficial interests in at least 7.5% of all Shares then on issue, then, except to the extent that the Board considers its fiduciary or statutory duties require otherwise, the Company and the Subscriber will have discussions in good faith and the Company will give consideration to the Subscriber or one or more of its Related Bodies Corporate participating in that Further Placement (on the same terms and conditions as any other participant in the Further Placement and otherwise subject to the ASX Listing Rules and Australian law) in such a manner as to prevent the Subscriber's Voting Power in the Company from being diluted as a result of the Further Placement.

**7.3 Restriction on Disposal of Shares**

- (a) Subject to clauses 7.3(c) and 7.4, each of the Subscriber and Holdco must not, and must procure that its Subsidiaries do not, Dispose of any Subscription Shares at any time before the expiration of 24 months from the date of this Agreement without the prior written approval of the Company and, if such approval is granted, only to the extent of such approval.
- (b) If the Subscriber wishes to Dispose of any Subscription Shares before the expiration of 24 months from the date of this Agreement but would be prevented from doing so under clause 7.3(a), the Subscriber and the Company will have discussions in good faith and the Company will give consideration to permitting such a Disposal on the basis of such terms and timing as may be agreed at the time between the Company and the Subscriber.
- (c) Clause 7.3(a) does not restrict a Disposal occurring at least 12 months after the date of issue of the Subscription Shares, where such Disposal:
  - (i) involves the grant of a Security Interest in respect of the Subscription Shares in connection with any financing arrangement entered into by the Subscriber or any of its Related Bodies Corporate, provided that the provider of that financing arrangement does so, and obtains the Security Interest, in the ordinary course of its financial services business and not pursuant to, or part of, any transaction or proposal for a person to acquire a Relevant Interest in 20% or more of all Shares then on issue or of the total number of any other Company Securities; or
  - (ii) is made to a Related Body Corporate of the Subscriber, provided that clause 7.3(d) (to the extent applicable) is first complied with.
- (d) Prior to the Subscriber, Holdco or any of their respective Subsidiaries Disposing of any Subscription Shares, whether before or after the expiration of 24 months from the date of this Agreement, to a Related Body Corporate of the Subscriber that is not a Subsidiary of the Subscriber (the **Transferee**), the Transferee and any Related Body Corporate of the Transferee specified by the Company (acting reasonably) must execute a deed with the Company and Holdco agreeing to be bound by the obligations imposed on the Subscriber and Holdco (as applicable) in



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this Agreement. The Subscriber and Holdco will remain liable to the Company for any subsequent breach of this Agreement by the Transferee.

- (e) Holdco shall procure that if any Subsidiary of Holdco that holds Subscription Shares ceases to be a Subsidiary of Holdco, prior to that entity ceasing to be a Subsidiary of Holdco the entity transfers its Subscription Shares to Holdco or another Subsidiary of Holdco.

**7.4 Permitted Disposals of Shares**

The Subscriber, Holdco and each of their respective Subsidiaries may Dispose of all or any of the Subscription Shares at any time pursuant to:

- (a) the acceptance of an offer made in connection with a takeover bid for all issued Shares where that bid is made after a third party (not being a Relevant Entity or an Associate of a Relevant Entity) has made a takeover bid and:
- (i) the third party has acquired a Relevant Interest in more than 50% of all Shares; or
  - (ii) a majority of the Board has recommended that the third party's bid be accepted;
- (b) a scheme of arrangement under Part 5.1 of the Corporations Act between the Company and its members (and, for the avoidance of doubt, Relevant Entities and their Associates are not precluded from voting at a meeting to approve such scheme of arrangement); or
- (c) a buy-back of Shares by the Company.

**7.5 Remedies**

If the Subscriber or Holdco contravenes any provision of this clause 7, the Company may take any action lawfully available to it to remedy that contravention.

**7.7 Exception for CITIC Securities Company Limited**

Clause 7.2(a) shall not apply to increases in Voting Power or aggregate economic interests in, or exposure to, the Company arising solely as a result of action undertaken by CITIC Securities Company Limited (of CITIC Securities Tower, No. 48 Liangmaqiao Road, Chaoyang District, Beijing 100125, China) or any of its Subsidiaries:

- (a) in the ordinary course of its business of providing financial or securities services; and
- (b) not pursuant to, or part of, any transaction or proposal for a person to acquire a Relevant Interest in 20% or more of all Shares then on issue or of the total number of any other Company Securities; and
- (c) not undertaken on behalf of a Relevant Entity or an Associate of a Relevant Entity.

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**8. Termination****8.1 Termination by the Subscriber and Holdco**

The Subscriber and Holdco may jointly (but not severally) terminate their obligations under this Agreement (but only to the extent that such obligations have not been performed as at the date of termination) at any time prior to:

- (a) in the case of paragraphs (c), (e) and (g), the Placement Payment Time; and
- (b) in the case of paragraphs (d), (f) and (h), the issue of any Subscription Shares, by notice to the Company if:
  - (c) any of the representations and warranties made by the Company in the Schedule is not true and correct or is misleading in any material respect as at the date of this Agreement;
  - (d) an Insolvency Event occurs in relation to the Company or any of its Related Bodies Corporate;
  - (e) an Insolvency Event occurs in relation to any of the entities of the AWAC Joint Venture that are material to the business and operations of the AWAC Joint Venture;
  - (f) the AWAC Joint Venture is dissolved, or the relevant parties issue a valid notice or otherwise initiate formal steps in accordance with the AWAC Joint Venture Agreement to terminate or dissolve the AWAC Joint Venture;
  - (g) the Company is in material breach of the AWAC Joint Venture Agreement; or
  - (h) the Company is prohibited from proceeding with the issue of the Subscription Shares by order from ASIC or any other Australian and United States regulatory body or Australian or United States court order.

**8.2 Termination by the Company**

The Company may terminate its obligations under this Agreement (but only to the extent not yet performed) at any time prior to:

- (a) in the case of paragraph (c), the Placement Payment Time; and
- (b) in the case of paragraphs (d), (e) and (f), the issue of any Subscription Shares, by notice to the Subscriber and Holdco if:
  - (c) any of the representations and warranties made by the Subscriber or Holdco in the Schedule is not true and correct or is misleading in any material respect as at the date of this Agreement;
  - (d) the Company is prohibited from proceeding with the issue of any Subscription Shares by order from ASIC or any other Australian or United States regulatory body or Australian or United States court order;
  - (e) an Insolvency Event occurs in relation to the Subscriber; or



## Subscription Agreement

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- (f) the Subscriber does not pay the Subscription Amount to the Company in accordance with clause 2 at or before the Placement Payment Time.

**9. General****9.1 Costs**

Each party must bear its own costs arising out of the negotiation, preparation and execution of this Agreement.

**9.2 Governing law**

This Agreement is governed by the laws of Victoria, Australia. The parties submit to the non-exclusive jurisdiction of courts exercising jurisdiction there, and agree that they will not object to the venue or claim that the relevant action or proceedings have been brought in an inconvenient forum.

**9.3 Process agent**

- (a) Each of Holdco and the Subscriber irrevocably:
- (i) nominates CITIC Resources Australia Pty Ltd (ACN 107 652 817) as its agent to receive service of process or other documents in any action or proceedings in the courts of Australia; and
  - (ii) agrees that service on that agent or any other person appointed under paragraph (b) will be sufficient service on it.
- (b) Each of Holdco and the Subscriber shall ensure that its process agent remains authorised to accept service on its behalf. If the process agent ceases to have an office in the place specified, each of Holdco and the Subscriber shall ensure that there is another person in Australia acceptable to the Company to receive process on its behalf and shall promptly notify the Company of the appointment of that other person.

**9.4 GST**

- (a) Terms used in this clause 9.4 have the same meaning as the meaning given to those terms in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) and related imposition Acts. GST Amount means in relation to a Taxable Supply the amount of GST payable on that Taxable Supply.
- (b) If GST is payable on a Taxable Supply made under, by reference to or in connection with this Agreement, the party providing the Consideration for that Taxable Supply must also pay the GST Amount as additional Consideration. No payment is required until the supplier has provided a Tax Invoice. This clause does not apply to the extent that the Consideration for the Taxable Supply is expressly stated to be GST inclusive.
- (c) Any reference in the calculation of any indemnity, reimbursement or similar amount to a cost, expense or other liability incurred by a party, must exclude the amount of



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## Subscription Agreement

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any Input Tax Credit entitlement in relation to the relevant cost, expense or other liability.

- (d) This clause 9.4 will continue to apply after expiration or termination of this Agreement.

### 9.5 Confidentiality Deed

- (a) Subject to paragraph (b) and clause 9.6, each of Holdco and the Subscriber agrees to abide by the obligations imposed on CITIC Resources Holdings Limited under the Confidentiality Deed as if it were a party to that Deed.
- (b) The parties acknowledge that the Confidentiality Deed was amended by the parties to that deed on or about the date of this Agreement by deleting clauses 6.2 to 6.4 and 7 of the Confidentiality Deed.

### 9.6 Public announcements

- (a) Subject to paragraph (b), a party must not make any public announcement or statement concerning this Agreement or its terms or effect (or, in the case of the Company, concerning the Subscriber or Holdco) without the prior approval of the other parties except to the extent (and only to the extent) it is unable to do so as a result of applicable legislation or other legal requirement or under the rules or regulations of any recognised stock exchange which are applicable to the disclosure. Subject to any requirements of law and paragraph (b), the parties must use their reasonable endeavours to agree on the wording and timing of all public announcements and statements by them in connection with this Agreement and its subject matter before the relevant announcement or statement is made.
- (b) The initial public announcement by the Company to the ASX in relation to the subject matter contemplated by this Agreement shall be substantially in the form set out in the Annexure. It is agreed and acknowledged that, together with or subsequent to the initial public announcement, the Company may disclose this Agreement in its entirety to the ASX and that the consent of the other parties shall not be required to such disclosure.

## 10. Notices

### 10.1 How to give a notice

A notice, consent, approval, waiver or other communication under this agreement is only effective if it is:

- (a) in writing, signed by or on behalf of the person giving it;
- (b) addressed to the person to whom it is to be given; and
- (c) either:
- (i) delivered or sent by pre-paid mail (by airmail, if the addressee is overseas) to that person's address; or



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## Subscription Agreement

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- (ii) sent by fax to that person's fax number and the machine from which it is sent produces a report that states that it was sent in full.

## 10.2 When a notice is given

A notice, consent approval, waiver or other communication that complies with this clause is regarded as given and received:

- (a) if it is delivered or sent by fax:
- (i) by 5pm (local time in the place of receipt) on a Business Day – on that day; or
  - (ii) after 5pm (local time in the place of receipt) on a Business Day, or on a day that is not a Business Day – on the next Business Day; and
- (b) if it is sent by mail – on actual receipt.

## 10.3 Address for notices

A person's address and fax number are those set out below, or as the person notifies the sender:

**Company**

Address: Level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006, Australia  
 Fax number: +61 3 8699 2650  
 Attention: Company Secretary

**Holdco**

Address: Capital Mansion, 6 Xinyuannanlu, Chaoyang District, Beijing 100004, China  
 Fax number: +86 10 5966 0658  
 Attention: Ms. Yimin Mao, Assistant Director General of Finance Department

**Subscriber**

Address: Capital Mansion, 6 Xinyuannanlu, Chaoyang District, Beijing 100004, China  
 Fax number: +86 10 5966 0658  
 Attention: Ms. Yimin Mao, Director

## 11. Acknowledgments

## 11.1 Rights personal

The Subscriber and Holdco acknowledge that the offer for the Subscriber to subscribe for the Subscription Shares is personal to the Subscriber, and the Subscriber and Holdco may not assign, transfer or otherwise deal with their rights or obligations under this Agreement without the prior written consent of the Company.



## Subscription Agreement

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### 11.2 No waiver

No acquiescence, waiver or other indulgence granted by a party to any other party will in any way discharge or relieve that other party from any of its other obligations under this Agreement.

### 11.3 Several and not joint liability

Holdco shall not be liable to the Company or any other party for any breach of this Agreement by the Subscriber, except to the extent that this Agreement expressly imposes on Holdco an obligation to procure (or to use any endeavours to procure) that the Subscriber does or does not do any thing, whether by reference specifically to the Subscriber or by reference to the Subscriber as a Subsidiary, Related Body Corporate or Associate of Holdco, and except to the extent that any other obligation of Holdco under this Agreement to do any thing or take any action would require Holdco to procure that the Subscriber does any things or takes any action.

### 11.4 Severability

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will be ineffective as to that jurisdiction to the extent of the prohibition or unenforceability. That will not invalidate the remaining provisions of this Agreement nor affect the validity or enforceability of that provision in any other jurisdiction.

### 11.5 Extent of obligations

If any payment under this Agreement becomes void by any statutory provision or otherwise, the obligations of the party that made the payment will be taken not to have been discharged in respect of that payment and the parties shall be restored to the rights which each respectively would have had if that payment had not been made.

### 11.6 Entire agreement

This Agreement contains the entire agreement of the parties with respect to its subject matter. It sets out the only conduct relied on by the parties and supersedes all earlier conduct by the parties with respect to its subject matter.

### 11.7 Further assurances

Each party must do all things necessary to give full effect to this Agreement and the transactions contemplated by this Agreement.

### 11.8 No merger

The rights and obligations of the parties will not merge on the completion of any transaction contemplated by this Agreement. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing a transaction.

### 11.9 Counterparts

(a) This Agreement may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.



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## Subscription Agreement

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- (b) If a party executes this Agreement and provides a signed copy to the other parties (including a copy that is faxed or an original or copy in PDF format that is transmitted by email), any subsequent failure or delay in providing the other parties with an original signed counterpart shall in no way invalidate its agreement or otherwise impugn the ability of the other parties to proceed in reliance on the existence of a binding agreement.



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## Subscription Agreement

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**Executed** as an agreement.**Executed** in accordance with section 127 of  
the Corporations Act 2001 by **Alumina****Limited:**  
\_\_\_\_\_  
Director Signature  
GEORGE JOHN PIZZETTI  
\_\_\_\_\_  
Print Name  
\_\_\_\_\_  
Director/Secretary Signature  
JOHN BEVAN  
\_\_\_\_\_  
Print Name**Executed by CITIC Limited** by its duly  
authorised signatory:\_\_\_\_\_  
Signature of authorised signatory\_\_\_\_\_  
Print Name**Executed by Bestbuy Overseas Co., Ltd**  
by its duly authorised signatory:\_\_\_\_\_  
Signature of authorised signatory\_\_\_\_\_  
Print Name



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Page 1 of 1

## Subscription Agreement

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## Executed as an agreement

Executed in accordance with section 127 of  
the *Corporations Act 2001* by Alumina  
Limited

Director Signature

Director/Secretary Signature

Print Name

Print Name

Executed by CITIC Limited by its duly  
authorised signatory:

Signature of authorised signatory

TU WEIMIN

Print Name

Executed by Bestbuy Overseas Co., Ltd  
by its duly authorised signatory:

Signature of authorised signatory

MAO YIMIN

Print Name





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## Subscription Agreement

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## Schedule

## Warranties

## Part 1: By the Parties

- (a) **(Status)** It is a company limited by shares under the laws of the place of its incorporation.
- (b) **(Capacity)** It has full legal capacity and power to enter into this Agreement and to carry out the transactions contemplated by this Agreement.
- (c) **(Corporate authority)** It has taken all corporate action that is necessary or desirable to authorise its entry into this Agreement and its carrying out of the transactions that this Agreement contemplates.
- (d) **(Authorisation)** It holds each Authorisation that is necessary to:
  - (i) execute this Agreement and to carry out the transactions that this Agreement contemplates;
  - (ii) ensure that this Agreement is legal, valid, binding and admissible in evidence; and
  - (iii) enable it to properly carry on its business,
 and it is complying with any conditions to which any of these Authorisations is subject.
- (e) **(Agreement effective)** This Agreement constitutes its legal, valid and binding obligations, enforceable against it in accordance with its terms subject to any necessary stamping or registration.

## Part 2: By the Company

- (a) **(Subscription Shares)** On the issue of the Subscription Shares to the Subscriber in accordance with this Agreement, full beneficial and legal title in the Subscription Shares will vest in the Subscriber.
- (b) **(Share capital)** There are 2,440,196,187 Shares on issue as at the date of this Agreement. There is not outstanding any right (whether present, or future and whether contingent or not) granted by the Company or any of its Related Bodies Corporate under which any person may call for the allotment or issue of any shares in the Company (including option and conversion rights, but excluding any right granted under an employee incentive scheme operated by the Company), there are no Security Interests in the Subscription Shares and there are no dividends or other distributions that have been declared or determined by the Company but not yet paid in which the Subscription Shares will not participate.
- (c) **(Listing Rules)** The issue of the Subscription Shares will not contravene the Listing Rules (as waived) in respect of the Company or with any provision of the Corporations Act or any other relevant Australian legislation.
- (d) **(Compliance with Listing Rule 3.1)** The Company is in compliance with Listing Rule 3.1, such that all information concerning the Company that a reasonable person would expect

## Subscription Agreement

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to have a material effect on the price or value of Shares has been disclosed to the ASX, and there is no information which has been withheld from disclosure under that rule (excluding under any one of the permitted exceptions to that rule).

- (e) **(Disclosure of other material information)** Any information which the Company is withholding from disclosure under one of the permitted exceptions to Listing Rule 3.1 has been disclosed to the Subscriber (or to one of its Related Bodies Corporate or Associates for the benefit of the Subscriber), and (without limiting clause 5.2(b)) there is no other information that the Company would be required to set out in a notice under section 708A(5)(e) of the Corporations Act in order to comply with section 708A(6)(e) (taking into account sections 708A(7) and (8)) of the Corporations Act and, to the best of the Company's knowledge and belief acting in good faith, all historical information comprised in the Disclosure Material disclosed by, or on behalf of, the Company to (or for the benefit of) the Subscriber is (taking into account all other information that the Company has disclosed to the ASX or that is otherwise in the public domain) complete and accurate in all material respects and is not misleading in any material respect. To avoid doubt, no warranty is given by the Company as to the completeness, accuracy or non-misleading nature of future matters (if any) included in any information disclosed in the Disclosure Material or otherwise by, or on behalf of, the Company to (or for the benefit of) the Subscriber, including without limitation information (if any) as to future or forecast costs, prices, revenues, profits or dividends.

- (f) **(Insolvency Event)** No Insolvency Event has occurred or subsists in relation to the Company or any of its Related Bodies Corporate.

**Part 3: By the Subscriber and Holdco**

- (a) **(FATA)** The requisite approval of the Treasurer of Australia has been obtained for the Subscriber to acquire the Subscription Shares.
- (b) **(Professional or Sophisticated Investor)** The Subscriber is a Professional or Sophisticated Investor.
- (c) **(Compliance with law)** The Subscriber is a person to whom the offer and issue of Shares as contemplated by this Agreement can be undertaken in compliance with all applicable laws, and all relevant Chinese regulatory approvals required in order for the Subscriber to enter into and carry out the transactions contemplated by this Agreement, including those from the National Development Reform Commission and the Ministry of Finance, have been obtained and are final, unconditional, irrevocable and in full force and effect.



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Subscription Agreement

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Annexure

Draft Release to the ASX

To: The Manager  
Announcements  
Company Announcements Office  
Australian Securities Exchange



## Public Announcement 2013 – 3AWC

### ALUMINA LIMITED SECURES STRATEGIC INVESTMENT OF A\$452M BY CITIC

- Strategic investment of A\$452 million in Alumina by CITIC
- Funds will be used primarily to repay bank debt
- Vice Chairman and CEO of CITIC Resources Holdings Limited, Mr Chen Zeng, will be appointed to the Alumina Board
- The placement has received all necessary approvals and is not subject to any conditions

Alumina Limited ("Alumina") today announced that CITIC\* will unconditionally subscribe, in aggregate, for 366,029,428 fully paid ordinary shares in Alumina, being 15% of Alumina's current capital base, representing 13.04% of Alumina's capital base following completion (the "Placement"). The Placement will raise approximately A\$452 million based on an issue price of A\$1.235 per share, which reflects a premium of approximately 3% to the closing price of Alumina shares on 13 February 2013 and a premium of 11% to the volume weighted average price of Alumina shares for the month ending 13 February 2013. The new shares issued under the Placement, which is to be completed in two tranches, today and by Monday 18 February 2013, will rank equally from allotment in all respects with existing Alumina shares.

The Placement introduces CITIC as a strategically aligned and financially strong long-term investor to the Alumina share register. The funds raised under the Placement will be applied by Alumina primarily to repay bank debt. Alumina's net debt position will fall from approximately US\$681 million currently to approximately US\$216 million as a result of the Placement.

The Alumina board of directors intends to enlarge its board by appointing Mr Chen Zeng as a director. Mr Zeng is the Vice Chairman and CEO of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange. Following appointment, Mr Zeng would be subject to election at Alumina's Annual General Meeting in May 2013.

Alumina Limited CEO, John Bevan, commented, "This secures a strategic, long-term investor at a premium to our recent share price. CITIC's investment demonstrates their confidence in the alumina industry and their understanding of Alumina Limited's unique position in the global market. We look forward to working with CITIC on ways to enhance the value of Alumina's interest in the AWAC joint venture."

Alumina Limited

ABN 85 004 820 419

GPO Box 5411  
Melbourne Vic 3001  
Australia

Level 12 IBM Centre  
60 City Road  
Southbank Vic 3006  
Australia

Tel +61 (0)3 8699 2600  
Fax +61 (0)3 8699 2699



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"CITIC has a long history of investment in the metals and mining industry in Australia. CITIC's first Australian investment was in the AWAC joint venture's Portland Aluminium Smelter in 1986 and it now owns a 22.5% stake in the Smelter. We look forward to the industry expertise and insight into the market that Mr Zeng will bring to the Board of Alumina Limited".

Mr Zeng commented, "CITIC is a diversified energy and natural resources investment company with existing investment in the aluminium sector, so today's investment in Alumina is a natural progression of our strategy. The Placement provides CITIC with the opportunity to invest in one of Australia's leading companies with a world class, global portfolio of upstream mining and refining operations in the aluminium sector."

#### Subscription Agreements

Alumina and CITIC have entered into two Subscription Agreements to give effect to the Placement. A full copy of each of the two Subscription Agreements is attached to this announcement.

CITIC's investment in Alumina via the Placement has been approved by the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975 (Cth), and by the National Development and Reform Commission of the People's Republic of China and other relevant Chinese regulatory authorities.

Flagstaff Partners is acting as financial adviser to Alumina.

ANZ Corporate Advisory is acting as financial adviser to CITIC.

#### Shareholder Enquiries

For investor enquiries:

John Bevan  
Chief Executive Officer  
Phone: +61 3 8699 2601  
[john.bevan@aluminalimited.com](mailto:john.bevan@aluminalimited.com)

Chris Thiris  
Chief Financial Officer  
Phone: +61 3 8699 2607  
[chris.thiris@aluminalimited.com](mailto:chris.thiris@aluminalimited.com)

For media enquiries:

Nerida Mossop  
Hinton and Associates  
Phone: +61 3 9600 1979  
Mobile: +61 437 361 433



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**About Alumina Limited**

Alumina Limited is a leading Australian company listed on the ASX and the NYSE. Its strategy is to invest world-wide in bauxite mining, alumina refining and selected aluminium smelting operations through the 40% ownership of Alcoa World Alumina & Chemicals (AWAC), the world's largest alumina business. Our partner, Alcoa, owns the remaining 60% of AWAC and is the manager.

**About CITIC**

CITIC Group Corporation is a state-owned enterprise established in 1979 with the approval of the State Council of the People's Republic of China and a large multinational conglomerate based in China. It has a full range of financial businesses, including banking, securities, insurance, trust, fund management, asset management and futures. It also has extensive interests in a number of other industries including real estate and regional development, project contracting, infrastructure, resources and energy, machinery manufacturing, IT and high-tech industries. CITIC Limited, a wholly-owned subsidiary of CITIC Group Corporation, was established on 27 December 2011 to hold most of CITIC's operating assets.

CITIC Group Corporation indirectly holds approximately 59% of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange with a market capitalisation of approximately A\$1.2bn (HK\$9.3bn).

\*The subscribers are CITIC Resources Australia Pty Ltd, an indirect wholly-owned subsidiary of CITIC Resources Holdings Limited, and Bestbuy Overseas Co., Ltd, an indirect wholly-owned subsidiary of CITIC Limited.



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**NOT FOR RELEASE OR DISTRIBUTION IN THE UNITED STATES**

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to, or for the account or benefit of, any "U.S. person" (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act")) ("U.S. Persons"). The securities to be issued in the Placement and the Entitlement Offer have not and will not be registered under the U.S. Securities Act. Securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons unless the securities have been registered under the U.S. Securities Act or in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act.

**Important information**

Some statements in this public announcement are forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements also include those containing such words as 'anticipate', 'estimates', 'should', 'will', 'expects', 'plans' or similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual outcomes to be different from the forward-looking statements. Important factors that could cause actual results to differ from the forward-looking statements include: (a) material adverse changes in global economic, alumina or aluminium industry conditions and the markets served by AWAC; (b) changes in production and development costs and production levels or to sales agreements; (c) changes in laws or regulations or policies; (d) changes in alumina and aluminium prices and currency exchange rates; and (e) the other risk factors summarised in Alumina's Form 20-F for the year ended 31 December 2011.

**Stephen Foster**  
Company Secretary

14 February 2013





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## Subscription Agreement

Alumina Limited

CITIC Resources Holdings Limited

CITIC Resources Australia Pty Ltd

Agreement for the subscription for ordinary shares to be  
issued by Alumina Limited

Allens  
101 Collins Street  
Melbourne VIC 3000  
Tel +61 3 9614 1011  
Fax +61 3 9614 4661  
[www.allens.com.au](http://www.allens.com.au)

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## Subscription Agreement

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## Subscription Agreement

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<b>Date</b>	14 February 2013
<b>Parties</b>	
1.	<b>Alumina Limited</b> (ABN 85 004 820 419) of Level 12, IBM Centre, 60 City Road, Southbank, Victoria, Australia (the <b>Company</b> ).
2.	<b>CITIC Resources Holdings Limited</b> (incorporated in Bermuda) having its registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and having its principal place of business at Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong SAR ( <b>Holdco</b> ).
3.	<b>CITIC Resources Australia Pty Ltd</b> (ACN 107 652 817) of CITIC House, Level 7, 99 King Street, Melbourne, Victoria, Australia (the <b>Subscriber</b> ).
<b>Recitals</b>	
A	The Subscriber agrees to subscribe for the Subscription Shares on the terms and conditions of this Agreement.

It is agreed as follows.

**1. Definitions and Interpretation****1.1 Definitions**

The following definitions apply in this Agreement unless the contrary intention appears or the context otherwise requires.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** means, in relation to a person, an associate (within the meaning given in sections 12 to 17 of the Corporations Act) of the person in relation to the Company.

**ASX** means ASX Limited (ABN 98 008 624 691) and, where the context requires, its Related Bodies Corporate, or the financial market known as 'ASX' operated by ASX Limited.

**Authorisation** means:

- (a) an authorisation, consent, licence, declaration, approval, exemption or waiver, however it is described; and
- (b) in relation to anything that could be prohibited or restricted by law if a Government Agency acts in any way within a specified period, the expiry of that period without that action being taken,

including any renewal or amendment of any of the above.

**AWAC Joint Venture** means the Alcoa World Alumina and Chemicals joint venture.

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**AWAC Joint Venture Agreement** means all those agreements governing the establishment and operation of the AWAC Joint Venture, including but not limited to the following key agreements:

- (a) the Formation Agreement dated 21 December 1994 between, among others, Alcoa Inc. and the Company;
- (b) the Charter of the Strategic Council dated 21 December 1994 between Alcoa Inc. and the Company; and
- (c) the Shareholders Agreement regarding Alcoa of Australia Limited dated 10 May 1996 between Alcoa Australian Holdings Pty Ltd (as successor to Alcoa International Holdings Company) and the Company.

**Bank Account** means the bank account established in the name of "Alumina Limited" with Australia and New Zealand Banking Group Limited, the details of which are as follows.

Address: Cnr Queen & Creek Streets, Brisbane Qld 4000, Australia

Swift ID: ANZBAU3M

BSB Number: 014 002

Account Number: 8373-16664

**Board** means the board of directors of the Company.

**Business Day** has the meaning given in the Listing Rules.

**Company Securities** means:

- (a) any shares in or other securities of the Company, or any securities convertible into shares in or other securities of the Company; or
- (b) any legal or equitable interest in such shares or securities.

**Confidentiality Deed** means the deed of that name entered into between Holdco and the Company on 31 July 2012.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Disclosure Material** means all information disclosed by, or on behalf of, the Company to Holdco, the Subscriber or any of their respective Related Bodies Corporate in connection with the Subscriber's proposed investment in the Company, including information relating to the business, assets or affairs of the Company or any of its Related Bodies Corporate or any of the entities of the AWAC Joint Venture, and all past, current and prospective financial, accounting, legal, trading, marketing, technical and business information.

**Dispose** means, in relation to a Share (or any interest in the Share), to enter into a transaction:

- (a) which results in a person other than the registered holder of the Share:
  - (i) acquiring or having any equitable or beneficial interest in the Share, including an equitable interest arising under a declaration of trust, an agreement for sale and purchase or an option agreement or an agreement creating a charge or other Security Interest over the Share; or



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## Subscription Agreement

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- (ii) having any financial interest in, or economic exposure to, a Share, but only in circumstances where the transaction creating that interest or exposure arises through entry into an equity swap or derivative; or
- (iii) acquiring or having any rights of pre-emption, first refusal or other direct or indirect control over the disposal of the Share; or
- (iv) acquiring or having any rights of direct or indirect control over the exercise of any voting rights or rights to appoint directors attaching to the Share; or
- (b) which results in a person other than the registered holder of the Share otherwise acquiring or having legal or equitable rights against the registered holder of the Share (or against a person who directly or indirectly controls the affairs of the registered holder of the Shares) which have the effect of placing the other person in substantially the same position as if the person had acquired a legal or equitable interest in the Share itself,

but excludes a transaction permitted by this Agreement, and **Disposal** has a corresponding meaning.

**FATA** means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

**Government Agency** means any:

- (a) government or governmental, semi-governmental or judicial entity; or
- (b) minister, department, office, commission, delegate, instrumentality, agency, board or authority of any government.

It also includes any regulatory organisation established under statute or any stock exchange.

**HKSX** means The Stock Exchange of Hong Kong Limited.

**HKSX Listing Rules** means the Rules Governing the Listing of Securities on the HKSX.

**Insolvency Event** means any of the following events in relation to a party:

- (a) a liquidator, receiver, receiver and manager, administrator, official manager or other controller (as defined in the Corporations Act), trustee or controlling trustee or similar official is appointed over any of the property or undertaking of the party;
- (b) the party is, or becomes unable to, pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act, or is presumed to be insolvent under the Corporations Act;
- (c) something having a substantially similar effect to (a) or (b) happens in connection with the party under the law of any jurisdiction;
- (d) the party stops or suspends or threatens to stop or suspend payment of all or a class of its debts;
- (e) the party ceases to carry on business; or
- (f) an order is made for the administration, winding up or liquidation of the party or a resolution is passed to liquidate the party, otherwise than for the purpose of an amalgamation or reconstruction.

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**Listing Rules** means the Listing Rules of the ASX (including the ASX Settlement Operating Rules, the ASX Operating Rules and the ASX Clear Operating Rules) as waived or modified by the ASX in respect of the Company in any particular case.

**Placement Settlement Time** means 2.00 pm on the date of this Agreement.

**Prescribed Percentage** means:

- (a) for the period of 24 months from the date of this Agreement – 15.0%; and
- (b) thereafter – 19.99%.

**Professional or Sophisticated Investor** means a category of investor under sections 708(8) or 708(11) of the Corporations Act to whom an offer of a body's securities can be made without disclosure.

**Representative** means an employee, agent, officer, director, sub-contractor, professional adviser, lawyer, investment bank, accountant, auditor or other person who may be employed or engaged by the Company to act for it, or on its behalf.

**Security Interest** includes any mortgage, pledge, lien or charge or any security or preferential interest or arrangement of any kind or any other right of, or arrangement with, any creditor to have its claim satisfied in priority to other creditors with, or from the proceeds of, any asset. It includes retention of title other than in the ordinary course of day to day trading and a deposit of money by way of security but it excludes a charge or lien arising in favour of a Government Agency by operation of statute unless there is default in payment of money secured by that charge or lien.

**Shares** means fully paid ordinary shares in the capital of the Company.

**Subscription Amount** means \$271,227,806.40.

**Subscription Shares** means 219,617,657 Shares.

## 1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply in interpreting this Agreement unless the contrary intention appears or the context otherwise requires.

- (a) The singular includes the plural and the converse.
- (b) A gender includes all genders.
- (c) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a **clause** is a reference to a clause of this Agreement.
- (f) A reference to time is a reference to the time in Melbourne, Victoria, Australia.
- (g) A reference to a party to this Agreement or another agreement or document includes the party's successors and substitutes or assigns.





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- (h) A reference to any agreement or document is to the agreement or document as amended, novated, supplemented, varied or replaced from time to time, except to the extent prohibited by this Agreement.
- (i) A reference to legislation or to a provision of legislation includes a modification or re-enactment of or substitution for it and a regulation or statutory instrument issued under it.
- (j) A reference to **dollars** and **\$** is a reference to the lawful currency of Australia.
- (k) A reference to **writing** includes a facsimile transmission and any means of reproducing words in a tangible and permanently visible form.
- (l) A reference to **conduct** includes an omission, statement or undertaking, whether or not in writing.
- (m) A reference to **includes** or **including** means includes, without limitation, or including, without limitation, respectively.
- (n) Unless stated otherwise, one provision does not limit the effect of another.
- (o) All obligations in this Agreement are to be performed duly and punctually.
- (p) A term or expression starting with a capital letter which is defined in the Corporations Act but is not defined in this Agreement, has the meaning given in the Corporations Act.

### 1.3 Business Days

If the day on or by which a person must do something under this Agreement is not a Business Day:

- (a) if the act involves a payment that is due on demand, the person must do it on or by the next Business Day; and
- (b) in any other case, the person must do it on or by the previous Business Day.

## 2. Subscription Shares

### 2.1 Subscription

The Subscriber will subscribe, and the Company will issue to the Subscriber, the Subscription Shares at or about the Placement Settlement Time for the Subscription Amount.

### 2.2 Use of Subscription Amount

The Company must use the funds paid to it by the Subscriber as the Subscription Amount for the general corporate purposes of the Company and its Related Bodies Corporate.

### 2.3 Agreement to serve as application

On execution of this Agreement by all parties, this Agreement serves as an application by the Subscriber to subscribe for the Subscription Shares and it will not be necessary for the Subscriber to provide a separate application form to the Company for the Subscription



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Shares. The Subscriber agrees to be bound by the constitution of the Company upon the issue of the Subscription Shares.

### 2.4 Settlement and allotment of Subscription Shares

- (a) The Subscriber must pay the Subscription Amount in Australian dollars to the Company in immediately available funds to the Company's Bank Account at or before the Placement Settlement Time.
- (b) The funds received by the Company from the Subscriber under clause 2.4(a) must be held by or on behalf of the Company in trust for the Subscriber pending the issue of the Subscription Shares to the Subscriber.
- (c) At or about the Placement Settlement Time, in consideration for the Subscriber applying for the Subscription Shares and paying the Subscription Amount to the Company, the Company must issue the Subscription Shares to the Subscriber. The obligation of the Company to issue the Subscription Shares to the Subscriber is conditional on the Subscriber paying the Subscription Amount to the Company at or before the Placement Settlement Time.

## 3. Rights Attaching to Shares and Quotation

### 3.1 Rights attaching to the Shares

When issued, the Subscription Shares will:

- (a) be issued free from any Security Interest;
- (b) be credited as fully paid; and
- (c) rank equally in all respects with the existing Shares on issue.

### 3.2 Quotation

In respect of the Subscription Shares, the Company must:

- (a) on or before their day of issue:
  - (i) cause the Company's share register to register the Subscriber as the holder of the Subscription Shares; and
  - (ii) apply for, and do everything the ASX reasonably requires to obtain, quotation of the Subscription Shares on the ASX; and
- (b) no later than 7 days after their day of issue, cause the Company's share register to provide the Subscriber with a holding statement or other confirmation stating its shareholding in the Company.

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### 4. Undertakings

#### 4.1 The Company's undertakings

The Company will:

- (a) at all times, be in compliance with all material obligations imposed on it under the Listing Rules and the Corporations Act;
- (b) prepare and lodge on a prompt and timely basis all documents required by the Listing Rules and the Corporations Act as necessary for the consummation of the transactions contemplated by this Agreement;
- (c) use all reasonable efforts to co-operate with the Subscriber and Holdco to prepare all announcements, circulars and other documents as are required to be issued by Holdco under the HKEX Listing Rules in connection with the execution, delivery and performance of this Agreement and the transactions contemplated by it (to the extent that such documents relate to the Company), and otherwise to enable Holdco to comply with its obligations under the HKEX Listing Rules; and
- (d) use all reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary or appropriate to consummate the transactions contemplated by this Agreement.

#### 4.2 The Subscriber's and Holdco's undertakings

- (a) The Subscriber and Holdco will use all reasonable efforts to co-operate with the Company and its Representatives to prepare all documents to be lodged by the Company with the ASX in connection with the execution, delivery and performance of this Agreement and the transactions contemplated by it (to the extent that such documents relate to the Subscriber or Holdco, respectively).
- (b) The Subscriber and Holdco will use all reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary or appropriate to consummate the transactions contemplated by this Agreement.

### 5. On-sale of Subscription Shares

#### 5.1 Issue without disclosure document

As no formal disclosure document (such as a prospectus) will be lodged with ASIC for the issue of the Subscription Shares, the Subscription Shares will only be offered and issued to a person that is a Professional or Sophisticated Investor.

#### 5.2 Acknowledgements and confirmations by the Subscriber and Holdco

The Subscriber and Holdco acknowledge:

- (a) that section 707(3) of the Corporations Act imposes certain restrictions on the capacity of a person to whom securities have been issued other than pursuant to a formal disclosure document to on-sell those securities within 12 months after their issue;



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- (b) that this Agreement imposes no obligation on the Company, whether express or implied, to assist the Subscriber to on-sell the Subscription Shares, including by way of a disclosure document or a notice under section 708A(5)(e) of the Corporations Act; and
- (c) that the Company is not issuing the Subscription Shares for the purposes of the Subscriber selling or transferring them, or granting, issuing or transferring interests in, or options or warrants over, them, and that the Company requires that the Subscriber acquires the Subscription Shares as an investment to be held for at least the medium term (ie longer than 12 months), subject to the terms of this Agreement.

The Subscriber further confirms that it is not subscribing for the Subscription Shares for the purposes of selling or transferring them, or granting, issuing or transferring interests in, or options or warrants over, them within the period of 12 months from the date of this Agreement.

## 6. Representations and Warranties

### 6.1 By all parties

Each party represents and warrants to the other parties that each of the matters set out in Part 1 of the Schedule, in so far as it relates to itself, is true, accurate and not misleading as at the date of this Agreement and immediately prior to the issue of the Subscription Shares.

### 6.2 By the Company

The Company represents and warrants to the Subscriber and Holdco that each of the matters set out in Part 2 of the Schedule is true, accurate and not misleading as at the date of this Agreement.

### 6.3 By the Subscriber and Holdco

The Subscriber and Holdco severally represent and warrant to the Company that each of the matters set out in Part 3 of the Schedule, in so far as it relates to itself, is true, accurate and not misleading as at the date of this Agreement and immediately prior to the issue of the Subscription Shares.

### 6.4 Independence

Each of the paragraphs set out in the Schedule shall be construed independently and no paragraph shall be limited by implications arising from any other paragraph.

### 6.5 Reliance

Each party acknowledges that each other party has executed this Agreement and agreed to take part in the transactions that this Agreement contemplates in reliance on the representations and warranties that are made in clauses 6.1 to 6.3.



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### 6.6 Acknowledgments

The Subscriber and Holdco acknowledge and agree that:

- (a) except as expressly set out in this Agreement, neither the Company, its Representatives nor any other person acting on behalf of or associated with the Company has made any representation, given any advice or given any warranty or undertaking, promise or forecast of any kind in relation to the Subscription Shares, the Company, the Disclosure Material or this Agreement;
- (b) without limiting paragraph (a), no representation, no advice, no warranty, no undertaking, no promise and no forecast is given in relation to:
  - (i) any economic, fiscal or other interpretations or evaluations by the Company or any person acting on behalf of or associated with the Company or any other person; or
  - (ii) future matters, including future or forecast costs, prices, revenues or profits;
- (c) without limiting paragraph (a) or (b), and except for the statements made in the Schedule, no statement or representation by the Company or its Representatives:
  - (i) has induced or influenced the Subscriber or Holdco to enter into this Agreement or agree to any or all of its terms;
  - (ii) has been relied on in any way as being accurate by the Subscriber or Holdco;
  - (iii) has been warranted to the Subscriber or Holdco as being true; or
  - (iv) has been taken into account by the Subscriber or Holdco as being important to its decision to enter into this Agreement or agree to any or all of its terms; and
- (d) without limiting paragraph (a), (b) or (c), to the maximum extent permitted by law neither the Company, its Representatives nor any other person acting on behalf of or associated with the Company (each, a **Relevant Person**) is liable in any way for, and each of the Subscriber and Holdco unconditionally and irrevocably releases each Relevant Person from any liability for and waives any right to make any claim in respect of, any inaccuracy, incompleteness or other defect in any information relating to future matters (if any) provided in the Disclosure Material (including without limitation information (if any) as to future or forecast costs, prices, revenues, profits or dividends) by a Relevant Person to (or for the benefit of) the Subscriber, Holdco, any of their Related Bodies Corporate or any of their respective employees, officers, advisers or agents, including liability in negligence or other tort, or for misrepresentation or misleading and deceptive conduct.

### 6.7 Notice of breach

- (a) The Company undertakes to the Subscriber and Holdco that it will notify them as soon as practicable after it becomes aware of a breach of any representation or

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warranty under clause 6.1 relating to it or of any representation or warranty under clause 6.2 or any undertaking given by it in this Agreement.

- (b) The Subscriber and Holdco each undertakes to the Company that it will notify the Company as soon as practicable after it becomes aware of a breach of any representation or warranty under clause 6.1 relating to it or of any representation or warranty under clause 6.3 or any undertaking given by it in this Agreement.

## 6.8 Survival

The representations and warranties given by a party under this Agreement shall not merge upon completion of the transactions contemplated by this Agreement.

## 7. Shareholding

## 7.1 No insider trading

The Subscriber and Holdco each acknowledges that some of the Disclosure Material may be 'inside information' within the meaning of Part 7.10, Division 3 of the Corporations Act in relation to Company Securities. Without limiting anything else in this Agreement, each of the Subscriber and Holdco must not do, and must each ensure that none of its directors, officers, employees or Related Bodies Corporate does, anything which results or could result in the Subscriber, Holdco or their respective directors, officers, employees or Related Bodies Corporate or the Company being in breach of any provision of Part 7.10, Division 3 of the Corporations Act, including by dealing or causing any person to deal in any Company Securities.

## 7.2 Acquisition of Shares

- (a) Subject to clause 7.2(b), each of the Subscriber and Holdco must:
- (i) not undertake any action;
  - (ii) procure that its Subsidiaries do not undertake any action; and
  - (iii) use its best endeavours to procure that its other Related Bodies Corporate, and its reasonable endeavours to procure that its other Associates, do not undertake any action, that would result in:
    - (iv) the aggregate Voting Power (without duplication) of the Subscriber, CITIC Group Corporation (中国中信集团有限公司 of Capital Mansion, 6 Xinyuannanlu, Chaoyang District, Beijing 100004, China) and their respective Related Bodies Corporate (the **Relevant Entities** and each a **Relevant Entity**) in the Company exceeding (or further exceeding) the Prescribed Percentage; or
    - (v) the aggregate economic interests (without duplication) in, or exposure to, the Company of the Relevant Entities and their respective Associates exceeding (or further exceeding) that attaching to Shares which represent the Prescribed Percentage of the share capital of the Company from time



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to time, including through entry into any derivative, swap, option or any other financial instrument or arrangement,

without the prior written approval of the Company and, if such approval is granted, only to the extent of such approval.

(b) The restriction in paragraph (a) shall not apply:

- (i) to acquisitions pursuant to a takeover bid by a Relevant Entity or an Associate of a Relevant Entity in respect of all issued Shares, where that bid is made:
    - (A) after a third party (not being a Relevant Entity or an Associate of a Relevant Entity) has made a takeover bid in respect of all issued Shares which was not solicited by a Relevant Entity or an Associate of a Relevant Entity (*Third Party Bid*), offers under that Third Party Bid remain capable of acceptance and a majority of the Board has recommended that holders of Shares accept such offers; or
    - (B) after the Company has proposed a scheme of arrangement under Part 5.1 of the Corporations Act pursuant to which a third party (not being a Relevant Entity or an Associate of a Relevant Entity) would acquire all Shares not already held by it, and the Company has not ceased to prosecute that scheme of arrangement;
  - (ii) to acquisitions pursuant to a capital raising by the Company, including:
    - (A) a dividend reinvestment plan (other than in the capacity of sub-underwriter of such a plan);
    - (B) a pro-rata offer to its shareholders (to the extent only of the pro rata interest of a Relevant Entity or an Associate of a Relevant Entity); or
    - (C) a share purchase plan of the Company; or
  - (iii) to increases in the aggregate Voting Power (without duplication) of the Relevant Entities in the Company above the Prescribed Percentage as a direct result of a reduction in the number of Shares on issue (for example, if a Relevant Entity does not participate in a Share buy-back by the Company).
- (c) If, before the expiration of 24 months from the date of this Agreement, the Subscriber is interested in acquiring more shares in the Company but would be prevented from doing so under clause 7.2(a), the Company and the Subscriber will have discussions in good faith and the Company will give consideration to increasing the Prescribed Percentage and permitting such an acquisition on the basis of such terms and timing as may be agreed at the time between the Company and the Subscriber.
- (d) If the Company proposes to issue any Shares or securities convertible into Shares before or after the expiration of 24 months from the date of this Agreement by way



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of a placement (**Further Placement**) and, at that time, the Relevant Entities hold in aggregate full legal and beneficial interests in at least 7.5% of all Shares then on issue, then, except to the extent that the Board considers its fiduciary or statutory duties require otherwise, the Company and the Subscriber will have discussions in good faith and the Company will give consideration to the Subscriber or one or more of its Related Bodies Corporate participating in that Further Placement (on the same terms and conditions as any other participant in the Further Placement and otherwise subject to the ASX Listing Rules and Australian law) in such a manner as to prevent the Subscriber's Voting Power in the Company from being diluted as a result of the Further Placement.

**7.3 Restriction on Disposal of Shares**

- (a) Subject to clauses 7.3(c) and 7.4, each of the Subscriber and Holdco must not, and must procure that its Subsidiaries do not, Dispose of any Subscription Shares at any time before the expiration of 24 months from the date of this Agreement without the prior written approval of the Company and, if such approval is granted, only to the extent of such approval.
- (b) If the Subscriber wishes to Dispose of any Subscription Shares before the expiration of 24 months from the date of this Agreement but would be prevented from doing so under clause 7.3(a), the Subscriber and the Company will have discussions in good faith and the Company will give consideration to permitting such a Disposal on the basis of such terms and timing as may be agreed at the time between the Company and the Subscriber.
- (c) Clause 7.3(a) does not restrict a Disposal occurring at least 12 months after the date of this Agreement, where such Disposal:
  - (i) involves the grant of a Security Interest in respect of the Subscription Shares in connection with any financing arrangement entered into by the Subscriber or any of its Related Bodies Corporate, provided that the provider of that financing arrangement does so, and obtains the Security Interest, in the ordinary course of its financial services business and not pursuant to, or part of, any transaction or proposal for a person to acquire a Relevant Interest in 20% or more of all Shares then on issue or of the total number of any other Company Securities; or
  - (ii) is made to a Related Body Corporate of the Subscriber, provided that clause 7.3(d) (to the extent applicable) is first complied with.
- (d) Prior to the Subscriber, Holdco or any of their respective Subsidiaries Disposing of any Subscription Shares, whether before or after the expiration of 24 months from the date of this Agreement, to a Related Body Corporate of the Subscriber that is not a Subsidiary of the Subscriber (the **Transferee**), the Transferee and any Related Body Corporate of the Transferee specified by the Company (acting reasonably) must execute a deed with the Company and Holdco agreeing to be bound by the obligations imposed on the Subscriber and Holdco (as applicable) in



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this Agreement. The Subscriber and Holdco will remain liable to the Company for any subsequent breach of this Agreement by the Transferee.

- (e) Holdco shall procure that if any Subsidiary of Holdco that holds Subscription Shares ceases to be a Subsidiary of Holdco, prior to that entity ceasing to be a Subsidiary of Holdco the entity transfers its Subscription Shares to Holdco or another Subsidiary of Holdco.

**7.4 Permitted Disposals of Shares**

The Subscriber, Holdco and each of their respective Subsidiaries may Dispose of all or any of the Subscription Shares at any time pursuant to:

- (a) the acceptance of an offer made in connection with a takeover bid for all issued Shares where that bid is made after a third party (not being a Relevant Entity or an Associate of a Relevant Entity) has made a takeover bid and:
- (i) the third party has acquired a Relevant Interest in more than 50% of all Shares; or
  - (ii) a majority of the Board has recommended that the third party's bid be accepted;
- (b) a scheme of arrangement under Part 5.1 of the Corporations Act between the Company and its members (and, for the avoidance of doubt, Relevant Entities and their Associates are not precluded from voting at a meeting to approve such scheme of arrangement); or
- (c) a buy-back of Shares by the Company.

**7.5 Remedies**

If the Subscriber or Holdco contravenes any provision of this clause 7, the Company may take any action lawfully available to it to remedy that contravention.

**7.7 Exception for CITIC Securities Company Limited**

Clause 7.2(a) shall not apply to increases in Voting Power or aggregate economic interests in, or exposure to, the Company arising solely as a result of action undertaken by CITIC Securities Company Limited (of CITIC Securities Tower, No. 48 Liangmaqiao Road, Chaoyang District, Beijing 100125, China) or any of its Subsidiaries:

- (a) in the ordinary course of its business of providing financial or securities services; and
- (b) not pursuant to, or part of, any transaction or proposal for a person to acquire a Relevant Interest in 20% or more of all Shares then on issue or of the total number of any other Company Securities; and
- (c) not undertaken on behalf of a Relevant Entity or an Associate of a Relevant Entity.

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**8. Board Representation**

- (a) The Company will procure that, by no later than 15 March 2013, the Board appoints one nominee of the Subscriber as a director to fill one of the existing casual vacancies on the Board.
- (b) The Company will use best endeavours to procure that the Board supports, and seeks shareholder approval for, the election of the nominee referred to in paragraph (a) to the Board at the first general meeting of the Company convened after the appointment of that nominee to the Board (subject to compliance by the directors of the Company with their statutory and fiduciary duties).
- (c) Any nominee elected by shareholders will be subject to re-election as required by the Listing Rules or the constitution of the Company, but the Company will use best endeavours to procure that the Board supports, and seeks shareholder approval to, any such re-election subject to:
  - (i) the Relevant Entities continuing to hold in aggregate full legal and beneficial interests in at least 7.5% of all Shares then on issue; and
  - (ii) compliance by the directors of the Company with their statutory and fiduciary duties.
- (d) If the Relevant Entities cease to hold in aggregate full legal and beneficial interests in at least:
  - (i) 10% of all Shares then on issue – the Company, Holdco and the Subscriber will have discussions in good faith for the purposes of determining whether Holdco and the Subscriber wish to remain a medium to long term investor in the Company and accordingly, whether it is appropriate for the Subscriber and/or Holdco to continue to have a nominee appointed to the Board; and
  - (ii) 7.5% of all Shares on issue, and that continues for a period of at least six weeks – Holdco and the Subscriber must use best endeavours to procure that any nominee of the Subscriber and/or Holdco that has been appointed as a director of the Company resigns from that position as soon as is practicable.

**9. Termination****9.1 Termination by the Subscriber and Holdco**

The Subscriber and Holdco may jointly (but not severally) terminate their obligations under this Agreement (but only to the extent that such obligations have not been performed as at the date of termination) at any time prior to the issue of any Subscription Shares by notice to the Company if:

- (a) any of the representations and warranties made by the Company in the Schedule is not true and correct or is misleading in any material respect as at the date of this Agreement or immediately prior to the issue of the Subscription Shares;

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- (b) an Insolvency Event occurs in relation to the Company or any of its Related Bodies Corporate;
- (c) an Insolvency Event occurs in relation to any of the entities of the AWAC Joint Venture that are material to the business and operations of the AWAC Joint Venture;
- (d) the AWAC Joint Venture is dissolved, or the relevant parties issue a valid notice or otherwise initiate formal steps in accordance with the AWAC Joint Venture Agreement to terminate or dissolve the AWAC Joint Venture;
- (e) the Company is in material breach of the AWAC Joint Venture Agreement; or
- (f) the Company is prohibited from proceeding with the issue of the Subscription Shares by order from ASIC or any other Australian and United States regulatory body or Australian or United States court order.

### 9.2 Termination by the Company

The Company may terminate its obligations under this Agreement (but only to the extent not yet performed) at any time prior to the issue of any Subscription Shares by notice to the Subscriber and Holdco if:

- (a) any of the representations and warranties made by the Subscriber or Holdco in the Schedule is not true and correct or is misleading in any material respect as at the date of this Agreement or immediately prior to the issue of the Subscription Shares;
- (b) the Company is prohibited from proceeding with the issue of any Subscription Shares by order from ASIC or any other Australian or United States regulatory body or Australian or United States court order;
- (c) an Insolvency Event occurs in relation to the Subscriber; or
- (d) the Subscriber does not pay the Subscription Amount to the Company in accordance with clause 2 at or before the Placement Settlement Time.

## 10. General

### 10.1 Costs

Each party must bear its own costs arising out of the negotiation, preparation and execution of this Agreement.

### 10.2 Governing law

This Agreement is governed by the laws of Victoria, Australia. The parties submit to the non-exclusive jurisdiction of courts exercising jurisdiction there, and agree that they will not object to the venue or claim that the relevant action or proceedings have been brought in an inconvenient forum.



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## Subscription Agreement

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## 10.3 Process agent

- (a) Holdco irrevocably:
  - (i) nominates the Subscriber as its agent to receive service of process or other documents in any action or proceedings in the courts of Australia; and
  - (ii) agrees that service on that agent or any other person appointed under paragraph (b) will be sufficient service on it.
- (b) Holdco shall ensure that its process agent remains authorised to accept service on its behalf. If the process agent ceases to have an office in the place specified, Holdco shall ensure that there is another person in Australia acceptable to the Company to receive process on its behalf and shall promptly notify the Company of the appointment of that other person.

## 10.4 GST

- (a) Terms used in this clause 10.4 have the same meaning as the meaning given to those terms in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) and related imposition Acts. GST Amount means in relation to a Taxable Supply the amount of GST payable on that Taxable Supply.
- (b) If GST is payable on a Taxable Supply made under, by reference to or in connection with this Agreement, the party providing the Consideration for that Taxable Supply must also pay the GST Amount as additional Consideration. No payment is required until the supplier has provided a Tax Invoice. This clause does not apply to the extent that the Consideration for the Taxable Supply is expressly stated to be GST inclusive.
- (c) Any reference in the calculation of any indemnity, reimbursement or similar amount to a cost, expense or other liability incurred by a party, must exclude the amount of any Input Tax Credit entitlement in relation to the relevant cost, expense or other liability.
- (d) This clause 10.4 will continue to apply after expiration or termination of this Agreement.

## 10.5 Confidentiality Deed

- (a) Subject to paragraph (b) and clause 10.6, the Subscriber agrees to abide by the obligations imposed on Holdco under the Confidentiality Deed as if it were a party to that Deed.
- (b) Holdco and the Company agree to amend the Confidentiality Deed by deleting clauses 6.2 to 6.4 and 7 of that deed.

## 10.6 Public announcements

- (a) Subject to paragraph (b), a party must not make any public announcement or statement concerning this Agreement or its terms or effect (or, in the case of the Company, concerning the Subscriber or Holdco) without the prior approval of the



## Subscription Agreement

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other parties except to the extent (and only to the extent) it is unable to do so as a result of applicable legislation or other legal requirement or under the rules or regulations of any recognised stock exchange which are applicable to the disclosure. Subject to any requirements of law and paragraph (b), the parties must use their reasonable endeavours to agree on the wording and timing of all public announcements and statements by them in connection with this Agreement and its subject matter before the relevant announcement or statement is made.

- (b) The initial public announcement by the Company to the ASX, and the initial public announcement by Holdco to the HKSX, in relation to the subject matter contemplated by this Agreement shall be substantially in the forms set out in the Annexure. It is agreed and acknowledged that, together with or subsequent to the initial public announcements, each party may disclose this Agreement in its entirety to the ASX or the HKSX (as the case may be) and/or make it available for inspection by the public in accordance with the Listing Rules and the HKSX Listing Rules (as the case may be) and that the consent of the other parties shall not be required to such disclosure.

## 11. Notices

### 11.1 How to give a notice

A notice, consent, approval, waiver or other communication under this agreement is only effective if it is:

- (a) in writing, signed by or on behalf of the person giving it;
- (b) addressed to the person to whom it is to be given; and
- (c) either:
  - (i) delivered or sent by pre-paid mail (by airmail, if the addressee is overseas) to that person's address; or
  - (ii) sent by fax to that person's fax number and the machine from which it is sent produces a report that states that it was sent in full.

### 11.2 When a notice is given

A notice, consent approval, waiver or other communication that complies with this clause is regarded as given and received:

- (a) if it is delivered or sent by fax:
  - (i) by 5pm (local time in the place of receipt) on a Business Day – on that day; or
  - (ii) after 5pm (local time in the place of receipt) on a Business Day, or on a day that is not a Business Day – on the next Business Day; and
- (b) if it is sent by mail – on actual receipt.





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## 11.3 Address for notices

A person's address and fax number are those set out below, or as the person notifies the sender:

**Company**

Address: Level 12, IBM Centre, 60 City Road, Southbank, Victoria 3006, Australia  
 Fax number: +61 3 8699 2650  
 Attention: Company Secretary

**Holdco**

Address: Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong  
 Fax number: +852 2815 9723  
 Attention: Chief Executive Officer/Secretary

**Subscriber**

Address: CITIC House, Level 7, 99 King Street, Melbourne, Victoria 3000, Australia  
 Fax number: +61 3 9614 8800  
 Attention: Chief Financial Officer / Company Secretary

## 12. Acknowledgments

## 12.1 Rights personal

The Subscriber and Holdco acknowledge that the offer for the Subscriber to subscribe for the Subscription Shares is personal to the Subscriber, and the Subscriber and Holdco may not assign, transfer or otherwise deal with their rights or obligations under this Agreement without the prior written consent of the Company.

## 12.2 No waiver

No acquiescence, waiver or other indulgence granted by a party to any other party will in any way discharge or relieve that other party from any of its other obligations under this Agreement.

## 12.3 Several and not joint liability

Holdco shall not be liable to the Company or any other party for any breach of this Agreement by the Subscriber, except to the extent that this Agreement expressly imposes on Holdco an obligation to procure (or to use any endeavours to procure) that the Subscriber does or does not do any thing, whether by reference specifically to the Subscriber or by reference to the Subscriber as a Subsidiary, Related Body Corporate or Associate of Holdco, and except to the extent that any other obligation of Holdco under this Agreement to do any thing or take any action would require Holdco to procure that the Subscriber does any things or takes any action.

## 12.4 Severability

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will be ineffective as to that jurisdiction to the extent of the prohibition or unenforceability. That





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## Subscription Agreement

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will not invalidate the remaining provisions of this Agreement nor affect the validity or enforceability of that provision in any other jurisdiction.

**12.5 Extent of obligations**

If any payment under this Agreement becomes void by any statutory provision or otherwise, the obligations of the party that made the payment will be taken not to have been discharged in respect of that payment and the parties shall be restored to the rights which each respectively would have had if that payment had not been made.

**12.6 Entire agreement**

This Agreement and the Confidentiality Deed (as amended by this Agreement) contain the entire agreement of the parties with respect to their subject matter. They set out the only conduct relied on by the parties and supersedes all earlier conduct by the parties with respect to their subject matter.

**12.7 Further assurances**

Each party must do all things necessary to give full effect to this Agreement and the transactions contemplated by this Agreement.

**12.8 No merger**

The rights and obligations of the parties will not merge on the completion of any transaction contemplated by this Agreement. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing a transaction.

**12.9 Counterparts**

- (a) This Agreement may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.
- (b) If a party executes this Agreement and provides a signed copy to the other parties (including a copy that is faxed or an original or copy in PDF format that is transmitted by email), any subsequent failure or delay in providing the other parties with an original signed counterpart shall in no way invalidate its agreement or otherwise impugn the ability of the other parties to proceed in reliance on the existence of a binding agreement.

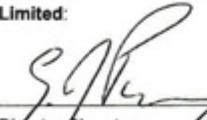


## Subscription Agreement

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**Executed** as an agreement.

**Executed** in accordance with section 127 of the Corporations Act 2001 by **Alumina Limited**:

  
\_\_\_\_\_  
Director Signature  
GEORGE Ivan Pizzey  
\_\_\_\_\_  
Print Name

  
\_\_\_\_\_  
Director/Secretary Signature  
David BELL  
\_\_\_\_\_  
Print Name

**Executed by CITIC Resources Holdings Limited** by its duly authorised signatories:

  
\_\_\_\_\_  
Signature of authorised signatory  
CHEN ZENG  
\_\_\_\_\_  
Print Name

  
\_\_\_\_\_  
Signature of authorised signatory  
Ting Hu Gao  
\_\_\_\_\_  
Print Name

**Executed** in accordance with section 127 of the Corporations Act 2001 by **CITIC Resources Australia Pty Ltd**:

  
\_\_\_\_\_  
Director Signature  
CHEN ZENG  
\_\_\_\_\_  
Print Name

  
\_\_\_\_\_  
Director/Secretary Signature  
Ting Hu Gao  
\_\_\_\_\_  
Print Name



## Subscription Agreement

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### Schedule

### Warranties

#### Part 1: By the Parties

- (a) **(Status)** It is a company limited by shares under the laws of the place of its incorporation.
- (b) **(Capacity)** It has full legal capacity and power to enter into this Agreement and to carry out the transactions contemplated by this Agreement.
- (c) **(Corporate authority)** It has taken all corporate action that is necessary or desirable to authorise its entry into this Agreement and its carrying out of the transactions that this Agreement contemplates.
- (d) **(Authorisation)** It holds each Authorisation that is necessary to:
  - (i) execute this Agreement and to carry out the transactions that this Agreement contemplates;
  - (ii) ensure that this Agreement is legal, valid, binding and admissible in evidence; and
  - (iii) enable it to properly carry on its business,
 and it is complying with any conditions to which any of these Authorisations is subject.
- (e) **(Agreement effective)** This Agreement constitutes its legal, valid and binding obligations, enforceable against it in accordance with its terms subject to any necessary stamping or registration.

#### Part 2: By the Company

- (a) **(Subscription Shares)** On the issue of the Subscription Shares to the Subscriber in accordance with this Agreement, full beneficial and legal title in the Subscription Shares will vest in the Subscriber.
- (b) **(Share capital)** There are 2,440,196,187 Shares on issue as at the date of this Agreement. There is not outstanding any right (whether present, or future and whether contingent or not) granted by the Company or any of its Related Bodies Corporate under which any person may call for the allotment or issue of any shares in the Company (including option and conversion rights, but excluding any right granted under an employee incentive scheme operated by the Company), there are no Security Interests in the Subscription Shares and there are no dividends or other distributions that have been declared or determined by the Company but not yet paid in which the Subscription Shares will not participate.
- (c) **(Listing Rules)** The issue of the Subscription Shares will not contravene the Listing Rules (as waived) in respect of the Company or with any provision of the Corporations Act or any other relevant Australian legislation.
- (d) **(Compliance with Listing Rule 3.1)** The Company is in compliance with Listing Rule 3.1, such that all information concerning the Company that a reasonable person would expect



## Subscription Agreement

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to have a material effect on the price or value of Shares has been disclosed to the ASX, and there is no information which has been withheld from disclosure under that rule (excluding under any one of the permitted exceptions to that rule).

- (e) **(Disclosure of other material information)** Any information which the Company is withholding from disclosure under one of the permitted exceptions to Listing Rule 3.1 has been disclosed to the Subscriber (or to one of its Related Bodies Corporate or Associates for the benefit of the Subscriber), and (without limiting clause 5.2(b)) there is no other information that the Company would be required to set out in a notice under section 708A(5)(e) of the Corporations Act in order to comply with section 708A(6)(e) (taking into account sections 708A(7) and (8)) of the Corporations Act and, to the best of the Company's knowledge and belief acting in good faith, all historical information comprised in the Disclosure Material disclosed by, or on behalf of, the Company to (or for the benefit of) the Subscriber is (taking into account all other information that the Company has disclosed to the ASX or that is otherwise in the public domain) complete and accurate in all material respects and is not misleading in any material respect. To avoid doubt, no warranty is given by the Company as to the completeness, accuracy or non-misleading nature of future matters (if any) included in any information disclosed in the Disclosure Material or otherwise by, or on behalf of, the Company to (or for the benefit of) the Subscriber, including without limitation information (if any) as to future or forecast costs, prices, revenues, profits or dividends.
- (f) **(Insolvency Event)** No Insolvency Event has occurred or subsists in relation to the Company or any of its Related Bodies Corporate.

### Part 3: By the Subscriber and Holdco

- (a) **(FATA)** The requisite approval of the Treasurer of Australia has been obtained for the Subscriber to acquire the Subscription Shares.
- (b) **(Professional or Sophisticated Investor)** The Subscriber is a Professional or Sophisticated Investor.
- (c) **(Compliance with law)** The Subscriber is a person to whom the offer and issue of Shares as contemplated by this Agreement can be undertaken in compliance with all applicable laws, and all relevant Chinese regulatory approvals required in order for the Subscriber to enter into and carry out the transactions contemplated by this Agreement, including those from the National Development Reform Commission and the Ministry of Finance, have been obtained and are final, unconditional, irrevocable and in full force and effect.



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ALUMINA LIMITED  
FORM 20-F

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Page 1 of 1

Subscription Agreement

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Annexure

Draft Releases to the ASX and HKSX

To: The Manager  
Announcements  
Company Announcements Office  
Australian Securities Exchange



## Public Announcement 2013 – 3AWC

### ALUMINA LIMITED SECURES STRATEGIC INVESTMENT OF A\$452M BY CITIC

- Strategic investment of A\$452 million in Alumina by CITIC
- Funds will be used primarily to repay bank debt
- Vice Chairman and CEO of CITIC Resources Holdings Limited, Mr Chen Zeng, will be appointed to the Alumina Board
- The placement has received all necessary approvals and is not subject to any conditions

Alumina Limited ("Alumina") today announced that CITIC\* will unconditionally subscribe, in aggregate, for 366,029,428 fully paid ordinary shares in Alumina, being 15% of Alumina's current capital base, representing 13.04% of Alumina's capital base following completion (the "Placement"). The Placement will raise approximately A\$452 million based on an issue price of A\$1.235 per share, which reflects a premium of approximately 3% to the closing price of Alumina shares on 13 February 2013 and a premium of 11% to the volume weighted average price of Alumina shares for the month ending 13 February 2013. The new shares issued under the Placement, which is to be completed in two tranches, today and by Monday 18 February 2013, will rank equally from allotment in all respects with existing Alumina shares.

The Placement introduces CITIC as a strategically aligned and financially strong long-term investor to the Alumina share register. The funds raised under the Placement will be applied by Alumina primarily to repay bank debt. Alumina's net debt position will fall from approximately US\$681 million currently to approximately US\$216 million as a result of the Placement.

The Alumina board of directors intends to enlarge its board by appointing Mr Chen Zeng as a director. Mr Zeng is the Vice Chairman and CEO of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange. Following appointment, Mr Zeng would be subject to election at Alumina's Annual General Meeting in May 2013.

Alumina Limited CEO, John Bevan, commented, "This secures a strategic, long-term investor at a premium to our recent share price. CITIC's investment demonstrates their confidence in the alumina industry and their understanding of Alumina Limited's unique position in the global market. We look forward to working with CITIC on ways to enhance the value of Alumina's interest in the AWAC joint venture."

Alumina Limited

ABN 85 004 820 419

GPO Box 5411  
Melbourne Vic 3001  
Australia

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Southbank Vic 3006  
Australia

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"CITIC has a long history of investment in the metals and mining industry in Australia. CITIC's first Australian investment was in the AWAC joint venture's Portland Aluminium Smelter in 1986 and it now owns a 22.5% stake in the Smelter. We look forward to the industry expertise and insight into the market that Mr Zeng will bring to the Board of Alumina Limited".

Mr Zeng commented, "CITIC is a diversified energy and natural resources investment company with existing investment in the aluminium sector, so today's investment in Alumina is a natural progression of our strategy. The Placement provides CITIC with the opportunity to invest in one of Australia's leading companies with a world class, global portfolio of upstream mining and refining operations in the aluminium sector."

#### Subscription Agreements

Alumina and CITIC have entered into two Subscription Agreements to give effect to the Placement. A full copy of each of the two Subscription Agreements is attached to this announcement.

CITIC's investment in Alumina via the Placement has been approved by the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975 (Cth), and by the National Development and Reform Commission of the People's Republic of China and other relevant Chinese regulatory authorities.

Flagstaff Partners is acting as financial adviser to Alumina.

ANZ Corporate Advisory is acting as financial adviser to CITIC.

#### Shareholder Enquiries

For investor enquiries:

John Bevan  
Chief Executive Officer  
Phone: +61 3 8699 2601  
[john.bevan@aluminalimited.com](mailto:john.bevan@aluminalimited.com)

Chris Thiris  
Chief Financial Officer  
Phone: +61 3 8699 2607  
[chris.thiris@aluminalimited.com](mailto:chris.thiris@aluminalimited.com)

For media enquiries:

Nerida Mossop  
Hinton and Associates  
Phone: +61 3 9600 1979  
Mobile: +61 437 361 433





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**About Alumina Limited**

Alumina Limited is a leading Australian company listed on the ASX and the NYSE. Its strategy is to invest world-wide in bauxite mining, alumina refining and selected aluminium smelting operations through the 40% ownership of Alcoa World Alumina & Chemicals (AWAC), the world's largest alumina business. Our partner, Alcoa, owns the remaining 60% of AWAC and is the manager.

**About CITIC**

CITIC Group Corporation is a state-owned enterprise established in 1979 with the approval of the State Council of the People's Republic of China and a large multinational conglomerate based in China. It has a full range of financial businesses, including banking, securities, insurance, trust, fund management, asset management and futures. It also has extensive interests in a number of other industries including real estate and regional development, project contracting, infrastructure, resources and energy, machinery manufacturing, IT and high-tech industries. CITIC Limited, a wholly-owned subsidiary of CITIC Group Corporation, was established on 27 December 2011 to hold most of CITIC's operating assets.

CITIC Group Corporation indirectly holds approximately 59% of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange with a market capitalisation of approximately A\$1.2bn (HK\$9.3bn).

\*The subscribers are CITIC Resources Australia Pty Ltd, an indirect wholly-owned subsidiary of CITIC Resources Holdings Limited, and Bestbuy Overseas Co., Ltd, an indirect wholly-owned subsidiary of CITIC Limited.



**NOT FOR RELEASE OR DISTRIBUTION IN THE UNITED STATES**

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to, or for the account or benefit of, any "U.S. person" (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act")) ("U.S. Persons"). The securities to be issued in the Placement and the Entitlement Offer have not and will not be registered under the U.S. Securities Act. Securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons unless the securities have been registered under the U.S. Securities Act or in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act.

**Important information**

Some statements in this public announcement are forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements also include those containing such words as 'anticipate', 'estimates', 'should', 'will', 'expects', 'plans' or similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual outcomes to be different from the forward-looking statements. Important factors that could cause actual results to differ from the forward-looking statements include: (a) material adverse changes in global economic, alumina or aluminium industry conditions and the markets served by AWAC; (b) changes in production and development costs and production levels or to sales agreements; (c) changes in laws or regulations or policies; (d) changes in alumina and aluminium prices and currency exchange rates; and (e) the other risk factors summarised in Alumina's Form 20-F for the year ended 31 December 2011.

**Stephen Foster**  
Company Secretary

14 February 2013



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**CITIC RESOURCES HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 1205)

**DISCLOSEABLE TRANSACTION**

**SUBSCRIPTION FOR SHARES IN ALUMINA LIMITED**

**Subscription for Alumina Shares**

CRA, an indirect wholly-owned subsidiary of the Company, has agreed to subscribe for 219,617,657 Alumina Shares for an aggregate Subscription Price of A\$271,227,806.40 (HK\$2,196,945,231.84).

**Listing Rules Implications**

The Subscription constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

**INTRODUCTION**

CRA, an indirect wholly-owned subsidiary of the Company, has entered into the Subscription Agreement pursuant to which CRA has agreed to subscribe for, and Alumina has agreed to issue to CRA, 219,617,657 Alumina Shares for an aggregate Subscription Price of A\$271,227,806.40 (HK\$2,196,945,231.84). The Subscription Shares shall represent 7.826% of all Alumina Shares in issue following Completion.

Alumina is a leading Australian company listed on the ASX and the NYSE. Its strategy is to invest world-wide in bauxite mining, alumina refining and selected aluminium smelting operations through its 40% ownership of AWAC, the world's largest alumina producer.



#### DETAILS OF THE SUBSCRIPTION

##### Date of the Subscription Agreement

14 February 2013

##### Parties to the Subscription Agreement

- (1) CRA
- (2) the Company
- (3) Alumina

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, Alumina and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

##### Subscription Shares

CRA has agreed to subscribe for 219,617,657 Alumina Shares.

Following Completion, the Subscription Shares shall represent 7.826% of all Alumina Shares in issue and rank equally in all respects with all other Alumina Shares in issue.

##### Subscription Price

The aggregate Subscription Price for the Subscription Shares is A\$271,227,806.40 (HK\$2,196,945,231.84), payable by CRA in cash at Completion. The aggregate Subscription Price will be financed by CRA from internal resources.

The Subscription Price represents:

- (i) a premium of 2.9% to the closing price of A\$1.200 (HK\$9.720) per Alumina Share as quoted on the ASX on the Last ASX Trading Day;
- (ii) a premium of 7.3% to the average closing price of A\$1.151 (HK\$9.323) per Alumina Share as quoted on the ASX for the five trading days immediately prior to and including the Last ASX Trading Day; and
- (iii) a premium of 8.7% to the average closing price of A\$1.136 (HK\$9.202) per Alumina Share as quoted on the ASX for the ten trading days immediately prior to and including the Last ASX Trading Day.

The Subscription Price was agreed following arm's length negotiations between CRA and Alumina and determined by reference to, among other things, the recent market prices of Alumina Shares traded on the ASX.

Each of CRA, the Company and Alumina will bear its own costs and expenses incurred in respect of the Subscription.



#### **Completion Date of the Subscription**

Completion shall take place on 14 February 2013.

#### **Director Nomination Right**

CRA has the right to nominate one director to the Alumina Board so long as the aggregate shareholding in Alumina of the Relevant Entities is not less than 7.5% of all Alumina Shares in issue and the nominee shall be subject to election and re-election by Alumina shareholders in accordance with the ASX Listing Rules. Following Completion, CRA shall hold 7.826% of all Alumina Shares in issue and together with CITIC Group (upon completion of the subscription by its wholly-owned subsidiary for 146,411,771 Alumina Shares representing 5.217% of all Alumina Shares in issue) shall hold 13.043% of all Alumina Shares in issue.

#### **Lock-up**

Subject to certain limited exceptions, CRA may not dispose of any of the Subscription Shares during the period of 24 months following the date of the Subscription Agreement without the prior written consent of Alumina.

#### **Restrictions on the Acquisition of Additional Alumina Shares**

Subject to certain limited exceptions, CRA and the Company shall not (and shall procure that its subsidiaries do not, shall use best endeavours to procure that its other Related Bodies Corporate do not and shall use reasonable endeavours to procure that its other Associates do not) without the prior written consent of Alumina acquire any additional Alumina Shares or any interests in Alumina Shares:

- (A) during the period of 24 months following the date of the Subscription Agreement, if it would result in (i) the Relevant Entities being able to exercise more than 15% of the voting rights of Alumina; or (ii) the Relevant Entities and their respective Associates having economic interests in, or exposure to, Alumina Shares representing more than 15% of all Alumina Shares in issue; and
- (B) at any time after the expiry of the period of 24 months following the date of the Subscription Agreement, if it would result in (i) the Relevant Entities being able to exercise more than 19.99% of the voting rights of Alumina; or (ii) the Relevant Entities and their respective Associates having economic interests in, or exposure to, Alumina Shares representing more than 19.99% of all Alumina Shares in issue.

#### **Further Placement**

If Alumina proposes to undertake a Further Placement and the aggregate number of Alumina Shares held by the Relevant Entities is not less than 7.5% of all Alumina Shares in issue, then, except to the extent that the Alumina Board considers its fiduciary or statutory duties require otherwise, Alumina and CRA shall have discussions in good faith and Alumina shall give consideration to CRA or one or more of its Related Bodies Corporate participating in that Further Placement (on the same terms and conditions as any other participant in the Further Placement and otherwise subject to the ASX Listing Rules and Australian law) in such a manner as to prevent CRA's voting power in Alumina from being diluted as a result of the Further Placement.



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**REASONS FOR THE SUBSCRIPTION**

The Company is a diversified energy and natural resources investment holding company and has existing investments in the aluminium sector through its 22.5% interest in the Portland Aluminium Smelter joint venture. The Board regards aluminium as a key strategic commodity and Alumina has significant interests in key assets in bauxite mining, alumina refining and selected aluminium smelting operations through its 40% ownership of AWAC, the world's largest alumina producer.

The Board believes that the Subscription provides the Group with the opportunity to invest in one of Australia's leading companies with a world-class global portfolio of upstream mining and refining operations in the aluminium sector. The investment in Alumina is in line with the Company's strategy of investing in upstream resources assets.

The Directors (including the independent non-executive Directors) believe the terms and conditions of the Subscription are fair and reasonable and in the interests of the Company and Shareholders as a whole.

**INFORMATION ON THE COMPANY**

The Company is the listed natural resources flagship of CITIC Group and an integrated provider of strategic natural resources and key commodities.

Through its subsidiaries and associates, the Company has interests in oil, coal mining, import and export of commodities, aluminium smelting and manganese mining and processing.

**INFORMATION ON ALUMINA**

Alumina is a leading Australian company listed on the ASX and the NYSE. Its strategy is to invest world-wide in bauxite mining, alumina refining and selected aluminium smelting operations through its 40% ownership of AWAC, the world's largest alumina producer. Alcoa owns the remaining 60% of AWAC.

AWAC is an unincorporated joint venture between Alumina and Alcoa. Day-to-day management of AWAC's global network of mining, refining and smelting interests rests with Alcoa. Alumina contributes to strategy and other key decisions through the Strategic Council, AWAC's governing body.

The audited consolidated profit of Alumina (both before and after tax and extraordinary items) for the two financial years immediately preceding the date of the Subscription Agreement are set out below:

	Year ended 31 December			
	2011		2010	
	US\$ million	equivalent to HK\$ million	US\$ million	equivalent to HK\$ million
Profit before tax and extraordinary items	127.6	995.3	34.6	269.9
Profit after tax and extraordinary items	126.6	987.5	34.6	269.9

The unaudited consolidated profit/(loss) of Alumina (both before and after tax and extraordinary items) for the six months ended 30 June 2011 and 2012 are set out below:

	Six months ended 30 June			
	2012		2011	
	US\$ million	equivalent to HK\$ million	US\$ million	equivalent to HK\$ million
Profit/(loss) before tax and extraordinary items	(14.2)	(110.8)	58.9	459.4
Profit/(loss) after tax and extraordinary items	(14.6)	(113.9)	58.9	459.4





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The audited consolidated total assets of Alumina as at 31 December 2011 and 2010 were US\$3,350.4 million (HK\$26,133.1 million) and US\$3,542.5 million (HK\$27,631.5 million) respectively and the unaudited consolidated total assets as at 30 June 2012 were US\$3,294.4 million (HK\$25,696.3 million).

The audited consolidated net assets of Alumina as at 31 December 2011 and 2010 were US\$2,854.0 million (HK\$22,261.2 million) and US\$3,071.5 million (HK\$23,957.7 million) respectively and the unaudited consolidated net assets as at 30 June 2012 were US\$2,645.0 million (HK\$20,631.0 million).

#### LISTING RULES IMPLICATIONS

The Subscription constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

#### DEFINITIONS

For the purpose of this announcement, the following words and expressions shall have the following meanings:

"Alcoa"	Alcoa Inc., a company incorporated in Pennsylvania, the United States of America and whose shares are listed on the NYSE and the ASX
"Alumina"	Alumina Limited, a company incorporated in Australia with limited liability and whose shares are listed on the ASX and the NYSE
"Alumina Board"	the board of directors of Alumina
"Alumina Shares"	ordinary shares in the share capital of Alumina
"Associate"	an associate within the meaning ascribed to it in sections 12 to 17 of the Corporations Act
"ASX"	ASX Limited (ABN 98 008 624 691) and, where the context requires, its Related Bodies Corporate, or the financial market known as "ASX" operated by ASX Limited
"ASX Listing Rules"	the listing rules of the ASX (including the ASX Settlement Operating Rules, the ASX Operating Rules and the ASX Clear Operating Rules) as waived or modified by the ASX
"AWAC"	Alcoa World Alumina and Chemicals joint venture
"Board"	the board of Directors
"CITIC Group"	中國中信集團有限公司 (CITIC Group Corporation), a wholly state-owned company incorporated in the People's Republic of China
"Company"	CITIC Resources Holdings Limited, a company incorporated in Bermuda with limited liability and whose Shares are listed on the Main Board of the Stock Exchange





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"Completion"	completion of the Subscription
"connected person"	has the meaning ascribed to it in the Listing Rules
"Corporations Act"	the Australian Corporations Act 2001 (Cth)
"CRA"	CITIC Resources Australia Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability and an indirect wholly-owned subsidiary of the Company
"Directors"	the directors of the Company
"Further Placement"	the issue of new Alumina Shares or securities convertible into Alumina Shares by way of a placement by Alumina during the period of 24 months following the date of the Subscription Agreement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Last ASX Trading Day"	13 February 2013, being the last trading day on the ASX immediately before the date the Subscription Agreement was entered into
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"NYSE"	the New York Stock Exchange
"Related Bodies Corporate"	has the meaning ascribed to it in the Corporations Act
"Relevant Entities"	CRA, CITIC Group and their Related Bodies Corporate
"Shareholders"	holders of ordinary shares of HK\$0.05 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for the Subscription Shares by CRA pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 14 February 2013 between CRA, the Company and Alumina relating to the subscription for the Subscription Shares by CRA
"Subscription Price"	the price of A\$1.235 (HK\$10.004) per Subscription Share
"Subscription Shares"	219,617,657 Alumina Shares to be subscribed for by CRA pursuant to the Subscription Agreement
"A\$"	Australian dollars, the lawful currency of Australia
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong



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ALUMINA LIMITED  
FORM 20-F

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"US\$"

United States dollars, the lawful currency of the United States of America

"%"

per cent.

*In this announcement, amounts in A\$ and US\$ have been converted into HK\$ or vice-versa at the rates of A\$1 = HK\$8.1 and US\$1 = HK\$7.8 respectively for illustration purposes only. No representation is made that any amounts in A\$, HK\$ or US\$ have been or could have been or can be converted at the aforementioned rates or at any other rate or at all.*

By Order of the Board  
CITIC Resources Holdings Limited  
Zeng Chen  
Vice Chairman and Chief Executive Officer

Hong Kong, 14 February 2013

*As at the date hereof, the executive directors of the Company are Mr. Zeng Chen; Mr. Guo Tinghu and Ms. Li So Mui, the non-executive directors are Mr. Ju Weimin; Mr. Qiu Yiyong; Mr. Tian Yuchuan; Mr. Wong Kim Yin and Mr. Zhang Jijing, and the independent non-executive directors are Mr. Fan Ren Da, Anthony; Mr. Gao Pei Ji; Mr. Hu Weiping and Mr. Ngai Man.*



**Exhibit 12.1**

**Chief Executive Officer 302 Certification**

I, John Bevan, Chief Executive Officer of Alumina Limited, certify that:

1. I have reviewed this annual report on Form 20-F of Alumina Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 11, 2013

/s/ John Bevan

Name: John Bevan

Title: Chief Executive Officer



**Exhibit 12.2**

**Chief Financial Officer 302 Certification**

I, Chris Thiris, Chief Financial Officer of Alumina Limited, certify that:

1. I have reviewed this annual report on Form 20-F of Alumina Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 11, 2013

/s/ Chris Thiris

Name: Chris Thiris

Title: Chief Financial Officer



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**ALUMINA LIMITED**  
**FORM 20-F**

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**Exhibit 13.1**

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**CERTIFICATION****PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Alumina Limited, an Australian corporation (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2012 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 11, 2013

/s/ John Bevan

Name: John Bevan

Title: Chief Executive Officer



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**ALUMINA LIMITED**  
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**Exhibit 13.2**

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**CERTIFICATION****PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Alumina Limited, an Australian company (the “Company”), hereby certifies, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2012 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 11, 2013

/s/ Chris Thiris

Name: Chris Thiris

Title: Chief Financial Officer





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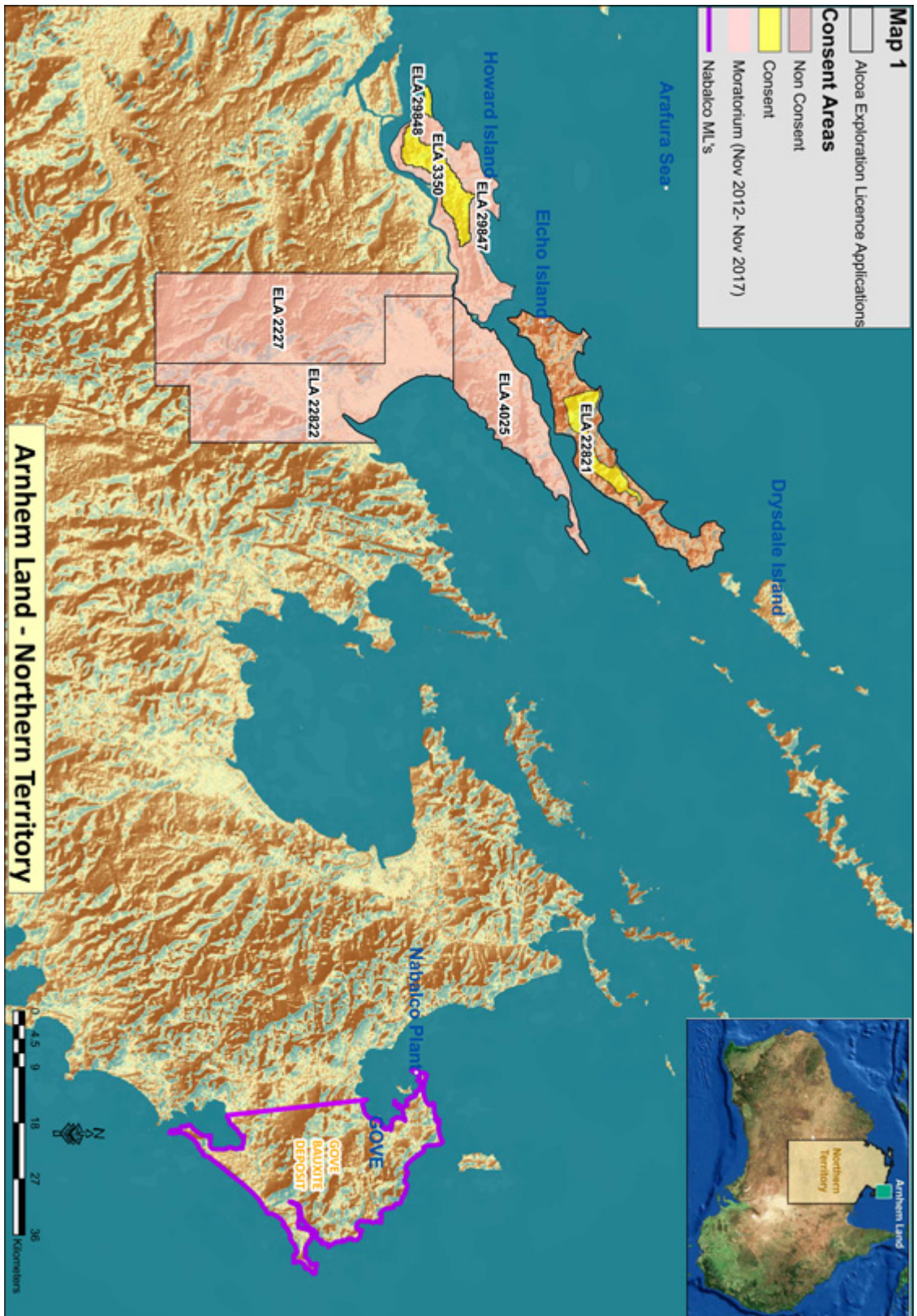
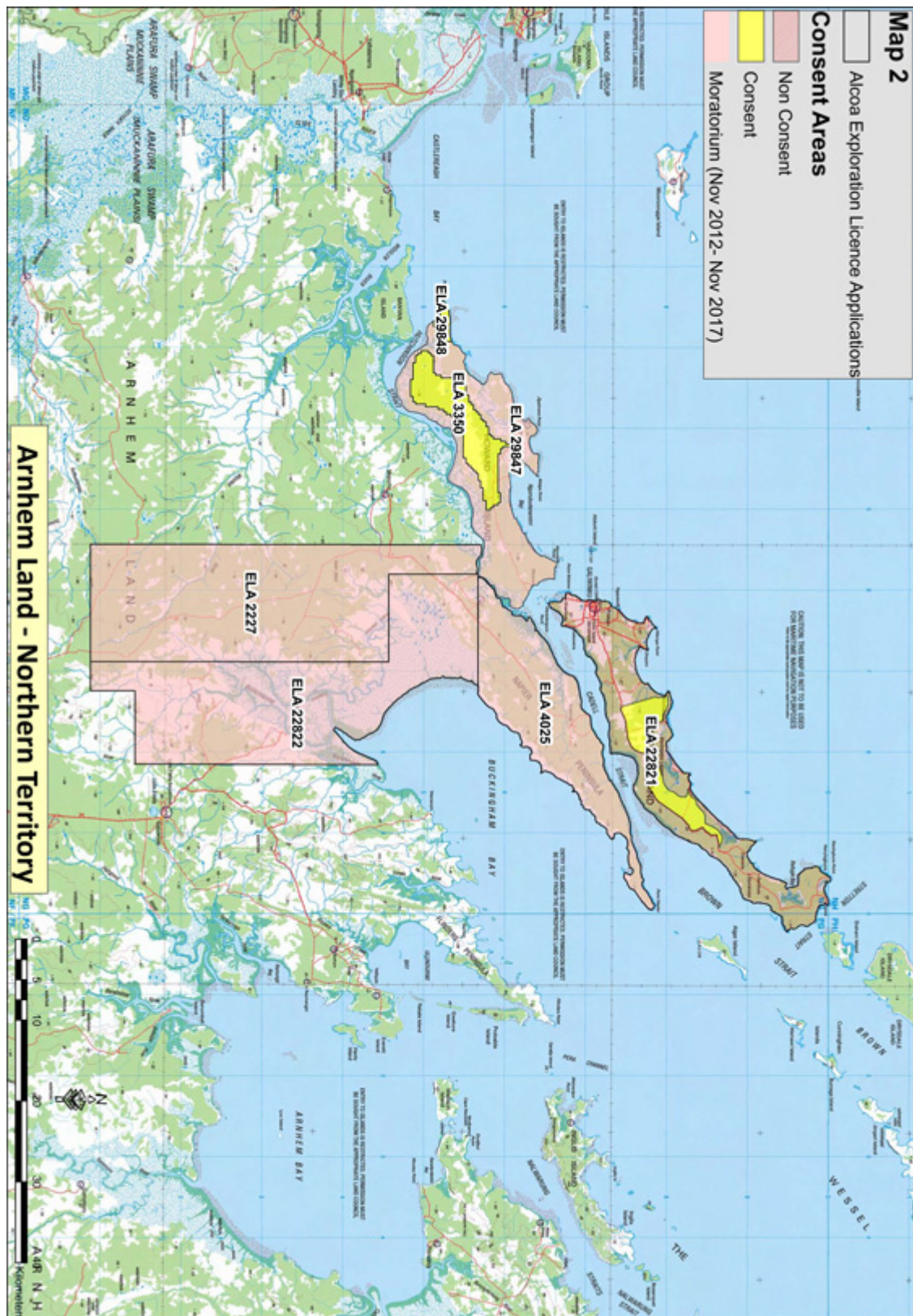


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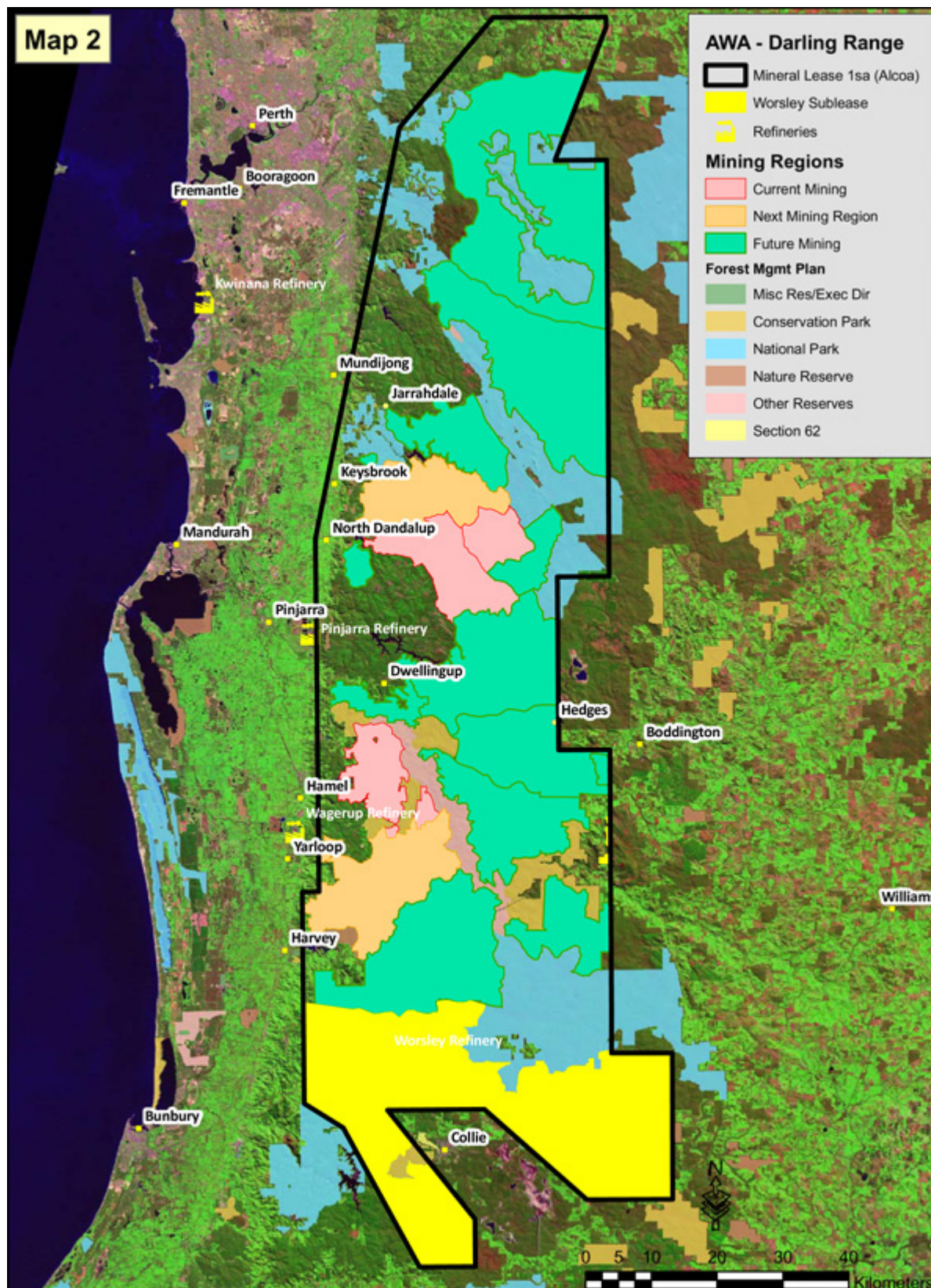




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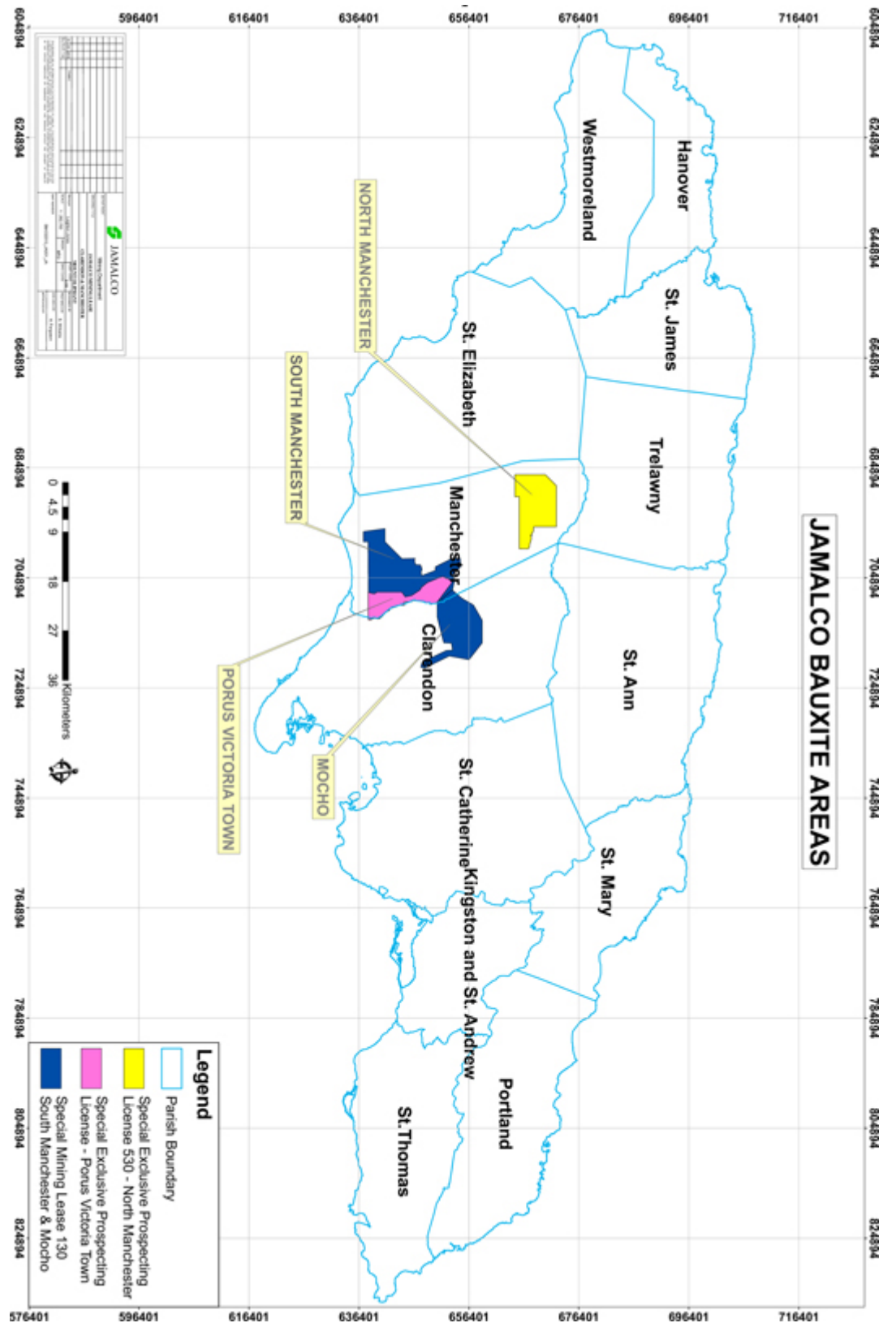




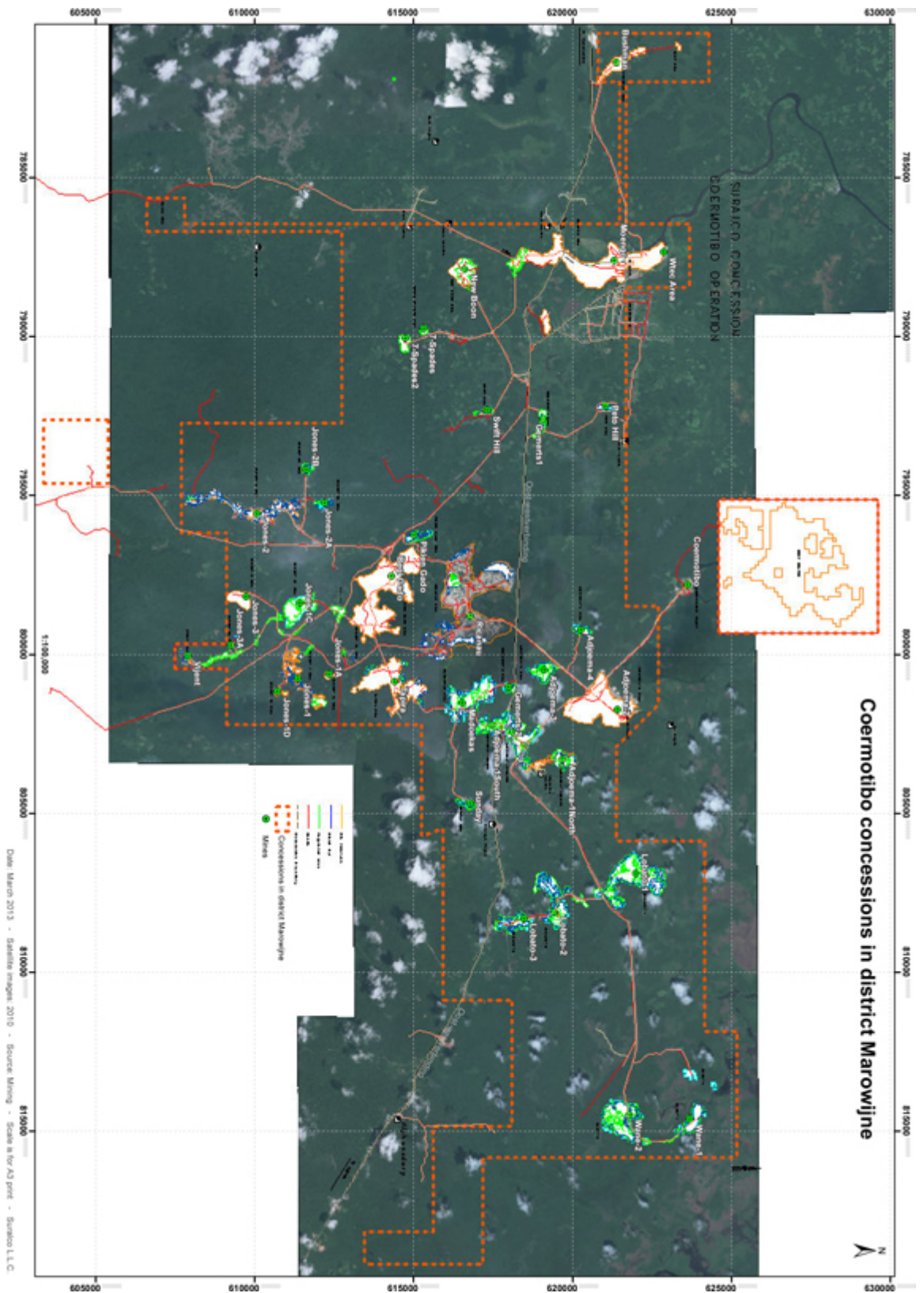




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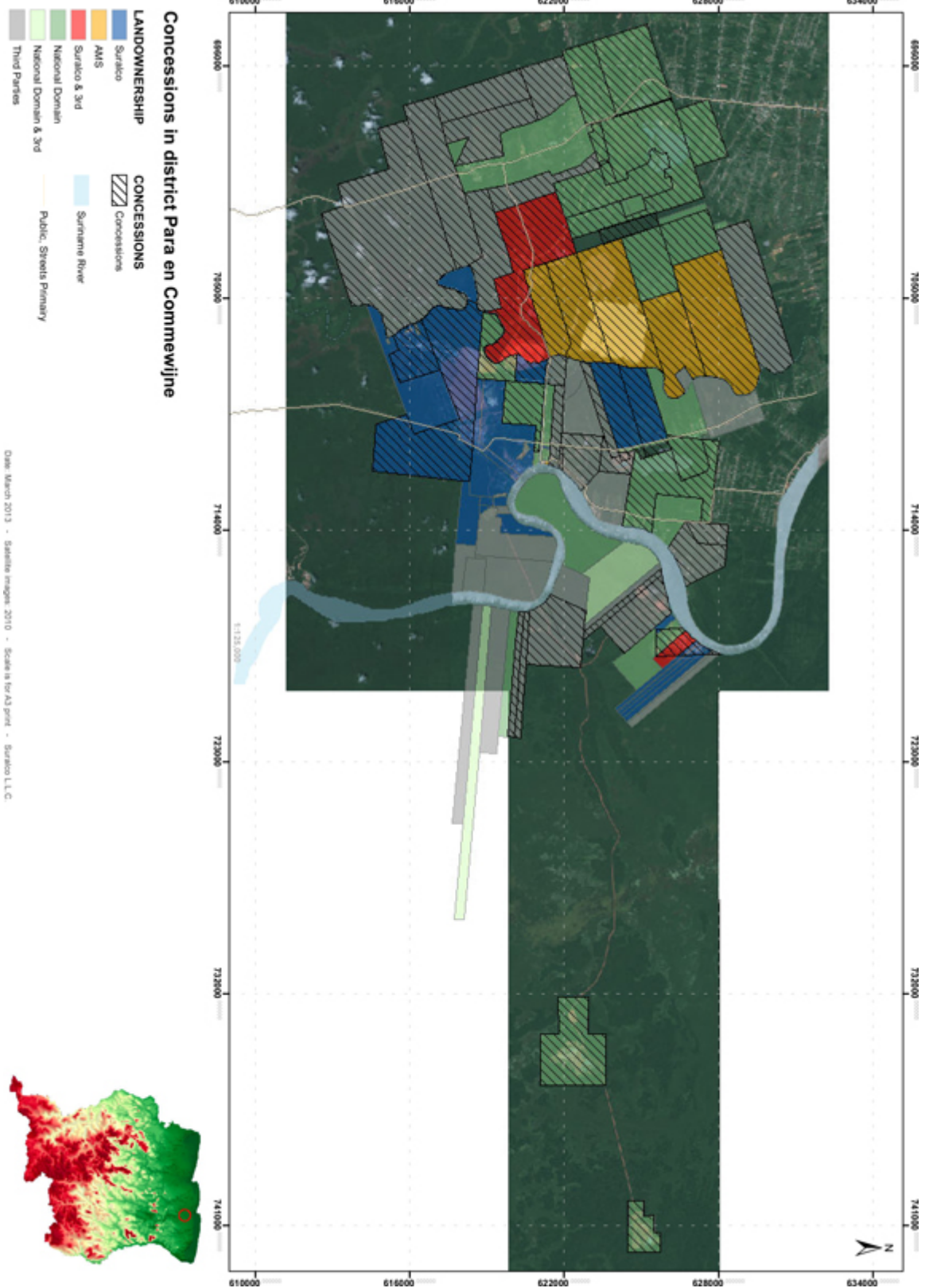
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