

Δ L U M I N A  
LIMITED

CONCISE ANNUAL REPORT 2006  
> PART 1 OF 2

OUR DIRECTION IS CLEAR



# SOUND STRATEGIES BASED ON LONG-TERM VISION

## PART >1

### SECTION >01

CHAIRMAN AND CEO'S REPORT >04

### SECTION >02

RESULTS AND MARKET OUTLOOK >10

### SECTION >03

STRATEGY AND SUSTAINABILITY >18

## PART >2

CORPORATE GOVERNANCE REPORT >36

DIRECTORS' REPORT >47

REMUNERATION REPORT >50

CONCISE FINANCIAL REPORT >71

DIRECTOR'S DECLARATION >78

INDEPENDENT AUDITOR'S REPORT >79

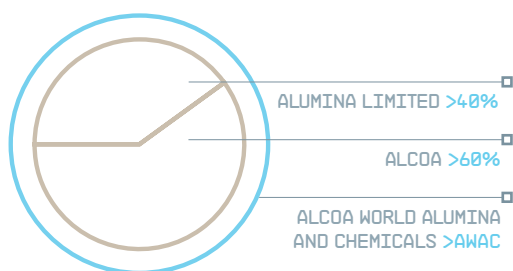
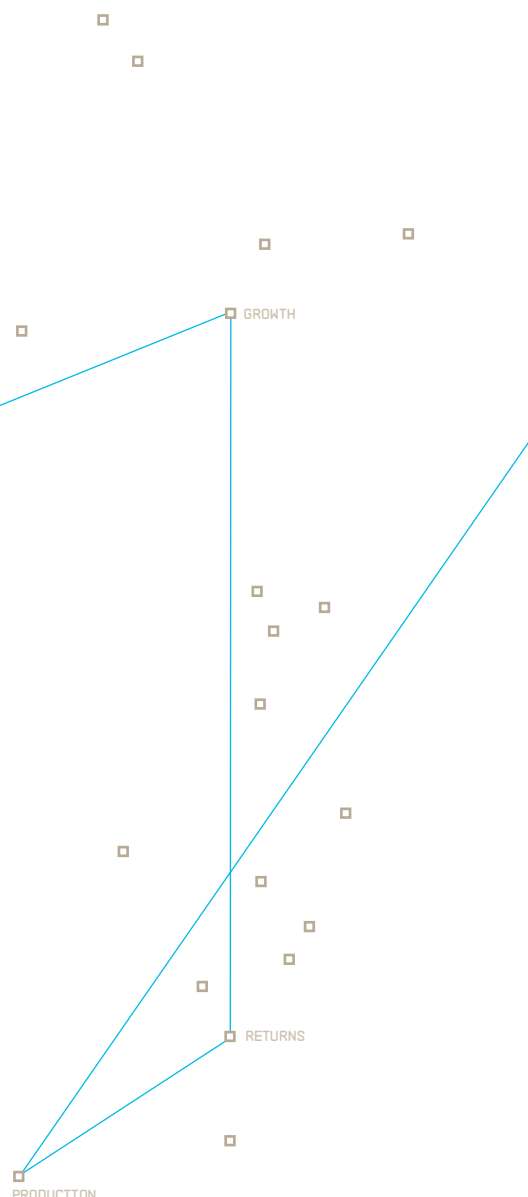
ALUMINA LIMITED ABN 85 004 820 419 >The Alumina Limited Concise Annual Report 2006 provides a review of Alumina Limited's, operating performance and financial data for the year ended 31 December 2006. The Concise Report for the purposes of section 314(2) of the Corporations Act 2001 comprises two parts: Part 1 (Concise Report) and Part 2 (Concise Report). The two parts are distributed together as one document and should be read together. These documents may be distributed by a person on the basis that Part 1 (Concise Report) and Part 2 (Concise Report) are distributed together. Printed reports are available for distribution to shareholders and prospective investors, or may be accessed via the Alumina Limited website [www.aluminalimited.com](http://www.aluminalimited.com). All dollar amounts are Australian dollars and all units of measurement are metric unless otherwise stated.

Some statements in this report 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 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 2005.

# DELIVERED RECORD RESULTS FOR OUR SHAREHOLDERS

STRATEGY AND EXECUTION IS DELIVERING RECORD RETURNS  
AND LONG-TERM PROFITABILITY FOR ALUMINA LIMITED SHAREHOLDERS.  
WE ARE INVESTING NOW TO PROVIDE SUSTAINABLE GROWTH AND  
DIVIDENDS FOR SHAREHOLDERS IN THE FUTURE.

# A SUCCESSFUL PARTNERSHIP WITH REAL MOMENTUM



**A PARTNERSHIP FOR TODAY AND TOMORROW** >Alumina Limited is a leading Australian company listed on the Australian Securities Exchange (ASX) and the New York Stock Exchange (NYSE). We invest worldwide in bauxite mining, alumina refining and selected aluminium smelting operations through our 40 per cent ownership of Alcoa World Alumina and Chemicals (AWAC), the world's largest alumina business. Our partner, Alcoa, owns the remaining 60 per cent of AWAC, and is the manager. The AWAC joint venture was formed in 1994 and our partnership with Alcoa dates back to 1961.

□ SUSTAINABILITY

□  
□

□ CAPACITY

□ STRATEGY

# VISION +STRATEGIES +EXECUTION =RECORD RESULTS

>VISION HIGHER FUTURE RETURNS AND SUSTAINABLE GROWTH

>STRATEGIES LOWER PRODUCTION COSTS, INCREASE PRODUCTION CAPACITY  
AND INVEST SOLELY IN AWAC >EXECUTION PINJARRA REFINERY UPGRADE  
COMPLETE AND ALUMAR EXPANSION UNDERWAY

>RECORD RESULTS ALUMINA'S

UNDERLYING EARNINGS UP 72% TO \$569 MILLION AND FULLY FRANKED

DIVIDENDS OF 22 CENTS PER SHARE, RECORD AWAC ALUMINA PRODUCTION

OF 14.3 MILLION TONNES.



SECTION >01

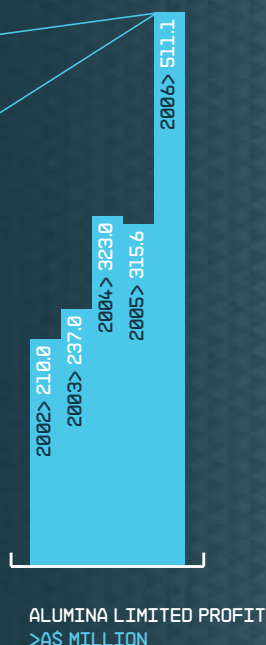
CHAIRMAN AND CEO'S REPORT  
DON MORLEY AND JOHN MARLAY

# >DELIVERING RECORD RETURNS AND INVESTING FOR GROWTH



THE COMPANY DELIVERED RECORD PROFITS AND DIVIDENDS  
IN 2006. THE STRENGTH OF AWAC OPERATING CASH FLOWS AND  
A NEW FUNDING AGREEMENT WITH OUR PARTNER, ALCOA, HAS CREATED  
THE FLEXIBILITY TO INCREASE RETURNS TO SHAREHOLDERS.

Alumina Limited reported record profits and dividends for the 2006 year, reflecting the strength of global demand for aluminium and the strong operating performance of the AWAC joint venture. Our 40 per cent interest in AWAC has once again delivered excellent returns.



#### RECORD 2006 RESULT

Net profit after tax increased 62 per cent to \$511 million and underlying earnings after tax increased 72 per cent to \$569 million. This record result was driven by higher realised alumina and aluminium prices and higher production and sales from the AWAC joint venture, which achieved record alumina production of 14.3 million tonnes (2005: 13.7 million tonnes).

Return on equity (based on underlying earnings) was 32 per cent, up from 22 per cent in the prior year, with higher underlying earnings more than offsetting the impact of significant capital investment in AWAC's growth projects. The strong returns reflect the quality of AWAC's global asset portfolio and leading market position, and build on AWAC's record of achieving returns on equity greater than its cost of capital in every year since its creation in 1995.

During the year Alumina Limited and Alcoa implemented new funding arrangements for AWAC's growth projects. The 2006 net profit, together with the new funding arrangements, enabled the Board to increase dividends to shareholders to a total of 22 cents per share, fully franked. These funding arrangements provide greater confidence in Alumina Limited's capacity to continue to declare fully franked dividends. The Board intends subject to business conditions, to maintain annual dividends at least at 24 cents per share, fully franked.

Alumina production costs for AWAC and across the alumina industry have increased substantially in recent years, as world demand for commodities has increased prices of raw

materials, freight, energy and labour. AWAC's alumina production costs increased by US\$18 per tonne in 2006. Notwithstanding this, average AWAC operating margins increased by 30 per cent.

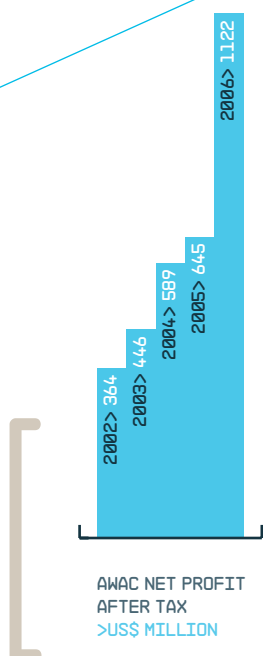
The AWAC joint venture is adding refining capacity, with low cash operating costs, to meet growth in demand from long-term contracted customers. AWAC production growth will generate strong future cash flows and underpin the sustainability of long-term returns to shareholders.

AWAC's total capital expenditure in 2006 was US\$836 million (2005: US\$604 million), with significant progress achieved on all growth projects.

The upgrade of the Pinjarra alumina refinery in Western Australia, AWAC's lowest cost refinery, was completed in the first half of 2006. Annual production capacity increased by 657,000 tonnes to 4.2 million metric tonnes per year (mtpy). Construction of the 146,000 mtpy early works project at Jamalco is due to be completed in the first half of 2007. Development of the new Juruti bauxite mine and the expansion of the Alumar refinery in Brazil by 2.1 million mtpy (AWAC 54 per cent share) commenced in 2006.

Government environmental approval was received for the proposed 2 million mtpy expansion of the Wagerup alumina refinery in Western Australia. A decision on this expansion will be made in 2008 following the completion of detailed engineering and design work which is currently underway.

>INCREASING DEMAND  
+AWAC EXPANSION  
=INCREASED PRODUCTION



Alumina Limited net debt declined to \$419 million from \$463 million in 2005. Dividends of \$521 million received from AWAC funded contributions for the Company's investment in AWAC expansion projects in Brazil and Jamaica and dividends to Alumina Limited shareholders. Dividends from Alcoa of Australia are expected to substantially fund the Company's investments in AWAC's growth and sustaining capital projects in 2007. Additional debt facilities will finance the balance of the Company's capital expenditure requirements.

The Company is undertaking a \$250 million off-market share buy-back in the first half of 2007. Directors reviewed the Company's capital structure in the light of the Company's strong earnings and cashflow, continuing positive outlook for the alumina and aluminium markets and strong franking account balance, the outlook of which is more secure due to the Funding Agreement signed with Alcoa during 2006. Directors believe that shareholders will benefit by the buy-back improving the Company's debt and equity mix by increasing the Company's debt level, bringing its capital structure more in line with that of other Australian public companies. The buy-back is expected to also result in improvements to the Company's earnings per share and return on equity. Alumina Limited's financial position is strong, with an A- rating with Standard & Poor's. AWAC is expected to remain essentially debt free.

AWAC IS THE WORLD'S LARGEST ALUMINA PRODUCER, WITH LONG LIFE ASSETS AND THE CAPACITY TO EXPAND ITS LOW COST REFINERIES TO MEET GROWTH IN ALUMINIUM MARKET DEMAND. OUR INVESTMENT IN AWAC HAS DELIVERED AN AVERAGE RETURN ON EQUITY OF 20.7 PER CENT SINCE 2002.



## GOVERNANCE

Alumina Limited's corporate governance practices are designed to protect shareholder interests, to address business risks, and to maximise value for shareholders. Alumina Limited meets the ASX best practice corporate governance principles. A complete outline of our corporate governance practices is set out in Part 2 of this report.

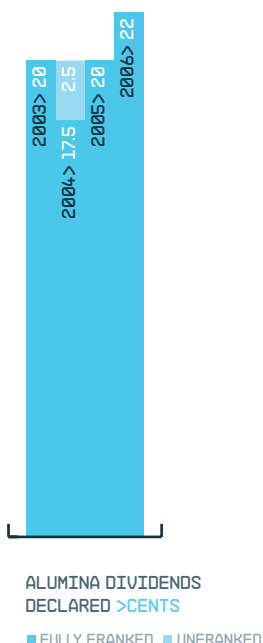
Alumina Limited's annual results are reported on the basis of Australian equivalents to International Financial Reporting Standards (A-IFRS). The Company also reports its underlying earnings, in addition to net profit under A-IFRS, as Directors believe this provides a better understanding of the Company's performance. The calculation of underlying earnings is described on page 12.

In 2007, Alumina Limited will provide its first report on internal financial controls under the Sarbanes-Oxley Act. The internal financial control report is a substantial exercise, which has increased corporate costs. Together with the management time required, the costs to shareholders to complete this report are substantial and, in the view of Directors, exceed the benefits to shareholders.

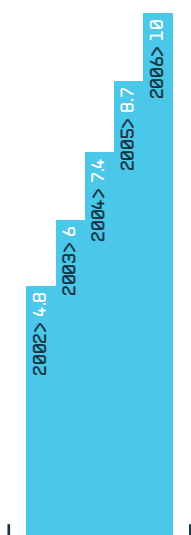
We have also clearly stated the Company's policies on sustainability and environment. These are explained further on page 23 of this report and on our website [www.aluminalimited.com](http://www.aluminalimited.com).

The policy debate on greenhouse gas emissions and climate change is moving rapidly towards wide acceptance that the world community must develop ways to reduce the level of greenhouse gas emissions. The Company's Chief Executive Officer has been appointed to a joint government/business Task Group to advise the Australian Government on workable global emissions trading systems in which Australia could participate. Alumina Limited supports the introduction of a properly designed emissions trading scheme covering all major emitters and sectors, which will ensure Australian industry remains internationally competitive. In 2007 Alumina Limited will participate in the Carbon Disclosure Project and also provide our first Sustainability Report.

## INVESTMENT



THE CONSUMPTION OF ALUMINIUM WITHIN CHINA HAS RISEN BY OVER 110% SINCE 2000 – IT HAS BEEN THE KEY DRIVER BEHIND RECENT GROWTH IN WORLD ALUMINIUM CONSUMPTION.



CHINESE ALUMINIUM  
CONSUMPTION  
>MILLION MT

## GROWTH AND OUTLOOK

The outlook for the aluminium industry continues to be positive. Global demand for both alumina and aluminium was strong throughout 2006 with average aluminium prices increasing 36 per cent on the prior year.

Consumption of aluminium is forecast to double between 2005 and 2020. This growth will come from both Asian developing economies and western world markets. To meet this additional demand, primary metal capacity (including bauxite mining, alumina refining and aluminium smelting) will need to increase at three times the rate of growth achieved over the last 20 years.

Alumina Limited is taking advantage of strong global growth in demand for aluminium and alumina through further investment in the AWAC joint venture. AWAC is currently constructing or evaluating growth projects to add more than 3 million mtpy to existing capacity of 14.5 million mtpy, while reducing overall refining cost per tonne.

Construction costs for alumina refinery expansions have increased in recent years due to higher construction contracting costs, materials prices and contract labour costs, and foreign exchange variations. At the same time, the strength of world demand for commodities has also generated higher aluminium and alumina prices.

Decisions on AWAC's expansion projects will continue to be driven by these dynamic project economics, worldwide demand for alumina, and long-term customer supply agreements.

AWAC's growth strategy to add low-cost production capacity principally through brownfield expansions builds on proven AWAC competencies. AWAC's refining operations will continue to grow and maintain their low cost position and, at the same time, address the challenges of higher construction and energy costs. Ownership of quality, low-cost bauxite resources, such as that being developed at Juruti, is increasingly important to ensure a competitive cost position in alumina refining. New capacity, funded primarily from AWAC cash flows, is underpinned by long-term customer supply contracts.

The sensitivity for Alumina Limited's 2007 underlying earnings to a US 1 cent movement in the aluminium metal price is expected to be approximately A\$10 million, based on 2006 underlying earnings and 2006 average LME and A\$/US\$ exchange rates.

The sensitivity to the A\$/US\$ exchange rate is A\$7 million for each 1 cent movement. These sensitivities exclude any impact of accounting for embedded derivatives.

AWAC's alumina production costs are expected to increase in 2007 by approximately US\$4 per tonne, due to higher average energy and bauxite prices and shipping costs.

A number of important strategic improvements made in 2006, including negotiating the new funding agreements with Alcoa and strengthening the Company's capital structures, are the direct result of Alumina Limited's management. We thank the Company's employees for their contribution, and the positive results.

Our joint venture interest in AWAC has again delivered excellent returns in 2006. Directors and management will continue to work to ensure AWAC provides sustainable value for shareholders in 2007 and beyond.



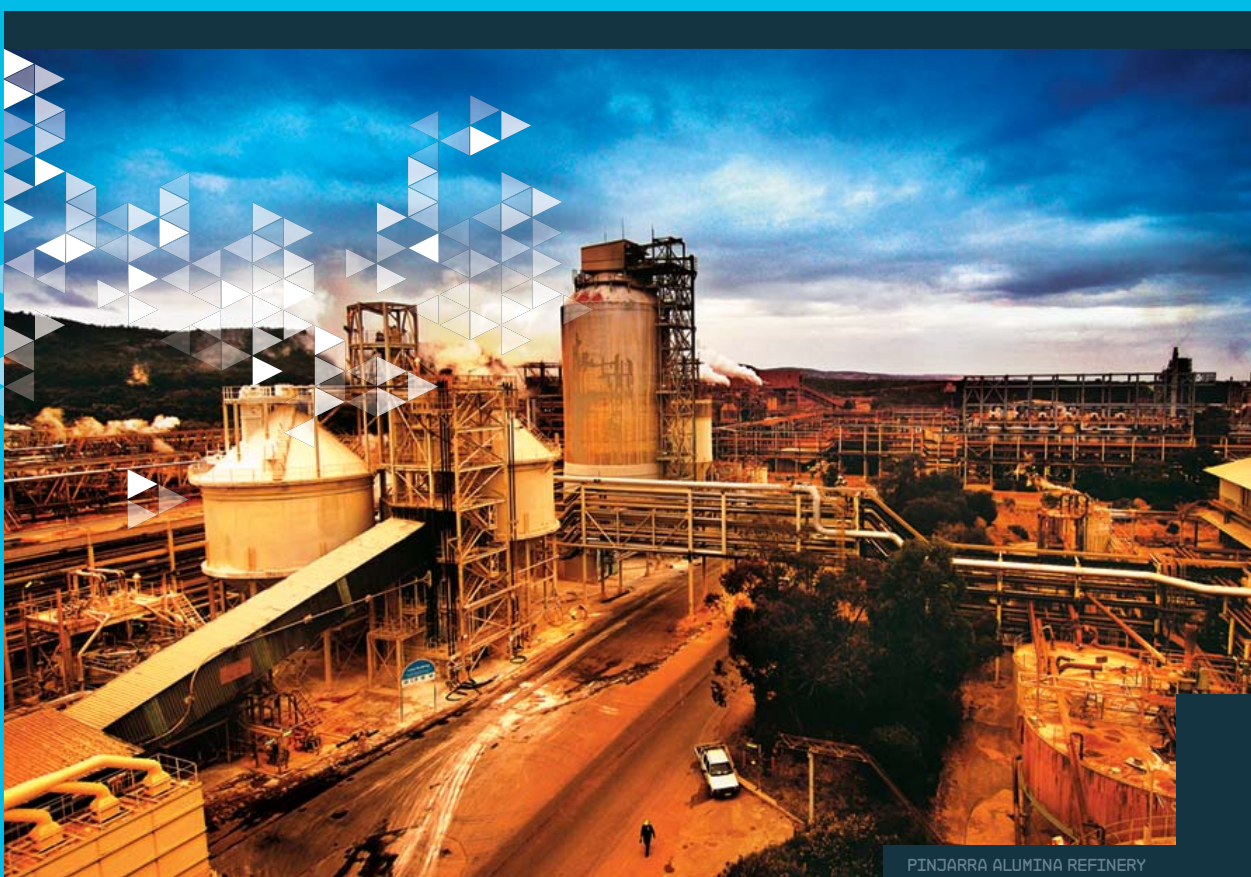
DON MORLEY  
>CHAIRMAN



JOHN MARLAY  
>CHIEF EXECUTIVE OFFICER



PINJARRA ALUMINA REFINERY



PINJARRA ALUMINA REFINERY

## SECTION >02

### RESULTS AND MARKET OUTLOOK

# >RECORD RESULTS REINFORCING OUR STRATEGIC DIRECTION

ALUMINA LIMITED OWNS 40 PER CENT OF ALCOA WORLD ALUMINA AND CHEMICALS (AWAC), A GLOBAL JOINT VENTURE. ALCOA OWNS 60 PER CENT AND IS THE ENTERPRISE MANAGER.





## RETURNS

### OBJECTIVES

### ACHIEVEMENTS IN 2006

#### DELIVER SUBSTANTIAL RETURNS TO SHAREHOLDERS

- > Record underlying earnings up 72% to \$569 million
- > Net profit up 62% to a record \$511 million
- > Fully franked dividends increased to 22 cents per share
- > Return on equity, based on underlying earnings, of 32%
- > Share buy-back in first half of 2007
- > Future annual dividends expected to be at least 24 cents per share fully franked, subject to business conditions

[For more on financial results, turn to page 12](#)

#### MAINTAIN AWAC'S LEADERSHIP IN THE ALUMINA INDUSTRY

- > AWAC alumina production – a 4.4% increase to a record 14.3 million tonnes
- > AWAC sales revenue increased by 26%
- > AWAC produced 377,351 tonnes of aluminium, in line with 2005
- > AWAC cash dividends to Alumina Limited increased to \$521 million

[For more on AWAC's operations, turn to page 13](#)

#### GROW AWAC TO MEET MARKET DEMANDS AND MAINTAIN LEADERSHIP POSITION

- > AWAC completed the Pinjarra efficiency upgrade, increasing annual production capacity by 657,000 tonnes
- > Construction of the Jamalco refinery capacity increase of 146,000 mtpy will be completed in 1Q 2007
- > AWAC continued construction of the 2.1 million mtpy expansion of the jointly owned Alumar alumina refinery in Brazil (AWAC 54% interest)
- > AWAC commenced development of the 2.6 million mtpy Juruti bauxite mine in Brazil

[For more on AWAC's strategies for growth, turn to page 19](#)

#### PARTICIPATE IN THE STRATEGIC DIRECTION OF AWAC

- > AWAC is well positioned geographically to supply future market growth
- > AWAC review of the alumina industry in China
- > Implemented new funding arrangements for AWAC growth projects

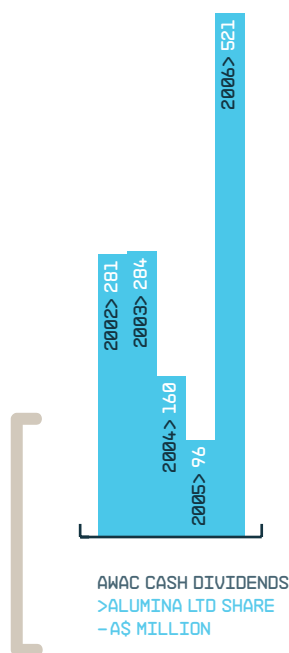
[For more on strategic direction, turn to page 19](#)

## ALUMINA LIMITED FINANCIAL PERFORMANCE

Alumina Limited's underlying earnings after tax rose 72 per cent to \$569 million in 2006 (compared with \$331 million in 2005). Net profit after tax of \$511 million in 2006 increased by 62 per cent over 2005. Cash flow from operating activities in 2006 was \$497 million (\$72 million in 2005).

Return on equity, based on underlying earnings for 2006, was 32.5 per cent (21.7 per cent in 2005). We report the Company's underlying earnings in addition to net profit under A-IFRS, as Alumina Limited believes this provides a better understanding of the Company's performance.

Alumina Limited's equity share of AWAC's profit reflects AWAC's increased alumina sales and higher alumina and aluminium margins.



AWAC's sales revenue increased by 26 per cent compared with 2005, driven by both higher realised prices and increased alumina sales. Increased global demand for alumina and aluminium was largely attributable to growth in consumption in China, which rose more than 17 per cent year on year. The average London Metal Exchange (LME) 3 month aluminium price increased by 36 per cent during 2006 to 117¢/lb (86¢/lb).

Higher realised alumina prices were partially offset by production cost increases of US\$18/tonne, due to price increases for energy and raw materials, including bauxite, and additional caustic soda usage. Costs were also impacted by maintenance and contractor cost increases. Aluminium production costs rose due to higher alumina and power prices.

Alumina Limited received cash dividends of \$521 million from AWAC in 2006, compared with \$96 million in 2005. This reflected a higher AWAC net profit, the strong operating cash flows generated by AWAC, and the additional dividends paid as part of the new AWAC funding arrangements. In 2005 dividends were lower as a result of funding being provided within Alcoa of Australia for the Pinjarra efficiency upgrade. Ninety-eight per cent of the 2006 AWAC dividends were fully franked.

Underlying earnings are calculated by adding back to reported net profit for the period an amount of \$58.3 million relating to the net value of non-cash entries which do not reflect the year's operations.

These non-cash entries relate to mark-to-market valuations of AWAC embedded derivatives in energy purchase contracts, which reflect higher future aluminium prices based on the forward market at the end of the period, and adjustments resulting from actuarial assessment of the market value of assets held in AWAC employee benefit plans.

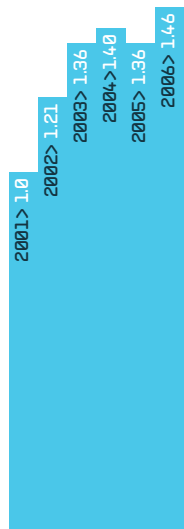
Some AWAC energy purchase contracts contain, in the energy price, an aluminium price component so that costs are partially linked to the price of aluminium. This provides a sound economic hedge. Under A-IFRS this is accounted for as an embedded derivative and so revalued, under period-end market conditions, for the entire remaining life of the contract. The result is booked to profit & loss at the end of each financial period. The resulting charge, which introduces unpredictable volatility and does not relate to the period's operating activities, has been removed in calculating underlying earnings.

## AWAC PRODUCTION

AWAC's alumina production was a new record at 14.3 million tonnes (2005 13.7 million tonnes) and seven of AWAC's refineries achieved record annual production. Most of the production increase came from the Pinjarra refinery following commissioning of the 657,000tpa capacity upgrade in the second quarter. Increased production levels at the Wagerup, Kwinana and Suralco refineries, and capacity creep at other AWAC refineries, accounted for the remainder of the production increase.

AWAC's performance has been continually enhanced by refinery production capacity creep, and by improvement in productivity across the AWAC refinery system. These improvements include lowering raw material consumption, reducing energy intensity, de-bottlenecking operations and technology leverage.

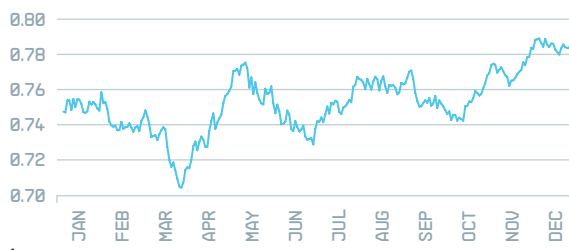
Aluminium margins increased and 2006 production was 377,351 tonnes (2005 377,259 tonnes). This production increase was achieved notwithstanding a power outage at the Portland smelter in November 2005, which affected potline capacity until the third quarter of 2006. The Point Henry smelter achieved record annual production.



REFINING PRODUCTIVITY  
IMPROVEMENT  
>ALUMINA PRODUCTION  
PER FULL-TIME EQUIVALENT  
EMPLOYEE

PERFORMANCE

RECORD PRODUCTION



AUD EXCHANGE RATE >2006  
>A\$/US\$

## AWAC FINANCIAL PERFORMANCE

AWAC's net profit after tax increased to US\$1,122 million in 2006, up 74 per cent. AWAC's operating cash flow for the year was US\$1,282 million, compared with US\$802 million in the previous year. The strong growth in AWAC profits and cash flows in 2006 delivered excellent returns to Alumina Limited shareholders.

Strong demand for alumina and aluminium led to substantially higher realised alumina and aluminium prices. AWAC's sales revenues increased by 26 per cent compared with 2005.

The strong world economy in recent years has led to the price of inputs, such as energy, caustic soda, bauxite and freight, rising to historically high levels. This has contributed to alumina production cost increases of over US\$40 per tonne over the last two years. AWAC continues to seek to mitigate these cost impacts by improving its efficiency in usage of production inputs and expanding its low-cost refineries.

The Australian dollar averaged US\$0.75 for the year—lower than the average of US\$0.76 for 2005. At year-end the Australian dollar was US\$0.79 (US\$0.75 in 2005).

The movement in the year-end exchange rate affected the Australian dollar carrying value of US dollar assets held by Alcoa of Australia, resulting in balance sheet revaluations. The revaluations reduced Alumina Limited's net profit by \$8 million after tax.

Neither AWAC nor Alumina Limited generally hedge their exposure to aluminium price risk or the currency exposures arising from their operating activities, however AWAC does maintain limited short-term energy price hedging for fuel oil and gas.

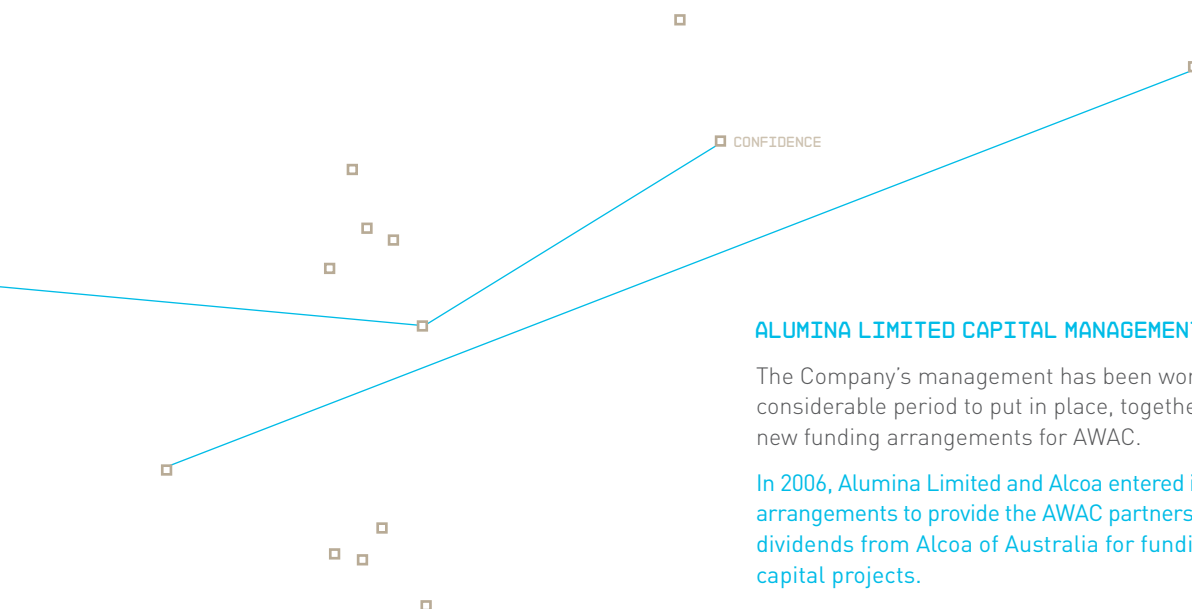
AWAC's net cash held at 31 December 2006 was US\$163 million (US\$115 million 31 December 2005).

AWAC's capital expenditure was US\$836 million in 2006, compared with US\$608 million in 2005. Capital expenditure of US\$547 million in 2006 for growth projects was spent on the Pinjarra refinery capacity upgrade, Jamalco refinery early works program, the Alumar refinery expansion and the Juruti bauxite development. AWAC's strategy is to grow its low-cost refinery capacity to meet increasing alumina demand from long-term contracted customers, with this growth in capacity expected to continue over the next several years.

BAUXITE CONVEYER, HUNTLY MINE







## ALUMINA LIMITED CAPITAL MANAGEMENT

The Company's management has been working for a considerable period to put in place, together with Alcoa, new funding arrangements for AWAC.

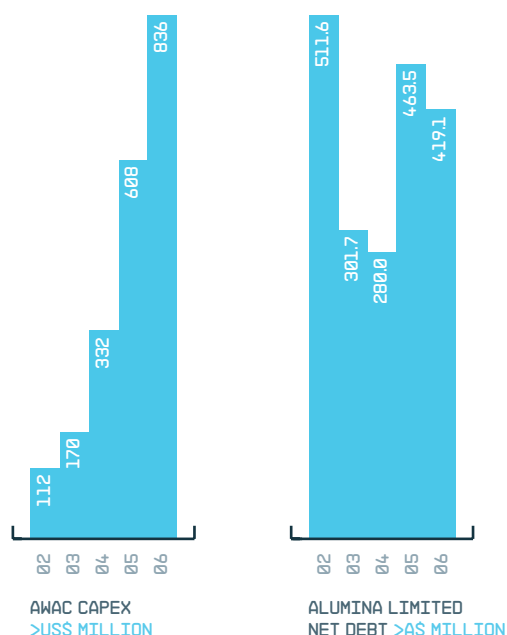
**In 2006, Alumina Limited and Alcoa entered into new funding arrangements to provide the AWAC partners with additional dividends from Alcoa of Australia for funding AWAC's capital projects.**

The funding arrangements provide greater certainty to Alcoa and Alumina Limited of future dividend flows and franking credits. During 2006, Alumina Limited received fully franked dividends of \$511 million from Alcoa of Australia.

The Company's capital structure has been reviewed in the light of strong earnings and cash flow, continuing positive outlook for alumina and aluminium markets and robust franking account balance which, under the funding agreement signed with Alcoa during 2006, is expected to continue to be strong. The Company is managing its financial position to efficiently distribute franking credits, while also maintaining a prudent financial structure, including greater use of debt funding. Alumina Limited's Directors have increased the final 2006 dividend to 12 cents per share (compared with 10 cents per share in 2005), and are also undertaking an off-market share buy-back during the first half of 2007. In addition, it is the Board's intention, subject to business conditions, to maintain annual dividends at least at 24 cents per share, fully franked.

Dividends from Alcoa of Australia are expected to substantially fund our investment in AWAC's growth projects and sustaining capital projects in 2007. Alumina Limited's share of any remaining funding requirements will be met by Company borrowings. As a result, interest costs are expected to rise.

Alumina Limited's debt, net of cash, of A\$419.1 million, was A\$44.4 million lower than at the beginning of 2006. At year end, Alumina's Limited's borrowings were A\$588.1 million, A\$109.4 million higher than at the beginning of 2006. Drawdowns of US\$293 million during the year were offset by debt repayments of US\$180 million. The increase in debt at year end reflects our contributions to fund AWAC expansion projects in Brazil and Jamaica. Cash at year end was A\$169 million (A\$15 million in 2005).



## MARKETS

The average LME aluminium price increased 36 per cent during 2006. Higher LME aluminium prices reflect strong world-wide demand and low stock levels, with Chinese aluminium consumption continuing to be the driver.

Aluminium consumption in China rose by 17 per cent year-on-year, with strong demand from construction, transport, infrastructure and industrial production. 7 per cent growth in 2006 in world-wide demand for aluminium continued the trend of strong demand since 2003.

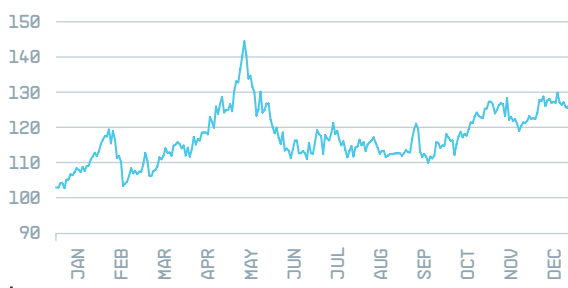
The demand for aluminium in recent years have led to the construction of new greenfield aluminium smelters particularly in China. At the same time, higher energy costs in Western Europe and North America has resulted in the closure of some smelters. Global demand for aluminium and alumina is forecast to continue to grow through 2007, with Chinese domestic demand for aluminium projected to grow by at least 14 per cent, and Western world growth at approximately 3 per cent. In 2007, aluminium markets are expected to be balanced or marginally short.

Alumina markets moved from being in deficit in 2005 and during the first half of 2006 to finish the year with surplus production capacity. China reduced its dependence on imports by adding approximately 5 million tonnes of alumina production capacity in 2006; a faster capacity growth than expected.

Alumina markets are expected to be in an oversupply of between 1.5 to 3.0 million tonnes, dependent upon the pace of construction and ramp up of new alumina refining capacity in China and further curtailment of higher cost western world refineries. The flexibility to alter alumina production at AWAC's Point Comfort refinery enables AWAC to respond to the changing alumina market. The addition of alumina capacity within China at competitive cost levels reinforces the need for AWAC to continue to expand its low-cost refineries and improve performance at its refinery network.

Long-term alumina contract prices increased in 2006, driven by their links to the higher aluminium price. The majority of AWAC customer sales are long-term, with only a small percentage sold in the spot market. AWAC's strategy is to continue to negotiate such long-term contracts to support its investment in future capacity expansion.

Alcoa, AWAC's largest customer, entered into a new five-year alumina supply contract in 2006. Sales of alumina from AWAC to Alcoa (other than certain contracts for supply of product to entities which have, during the term of those contracts, been acquired by Alcoa), are priced at the average of sales prices under third party (non-Alcoa) contracts.

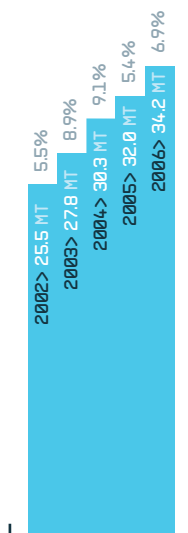


ALUMINIUM PRICE >2006  
>US CENTS/LB



Spot alumina prices were very high in the first half of 2006, reaching US\$600 per tonne. However, the rapid increase in alumina production within China resulted in spot alumina prices falling to US\$200 to US\$250 per tonne by the year's end. In the second half of the year, long-term contract alumina prices exceeded the spot alumina price.

Alumina Limited continues to be well placed to profit from the strong global demand for aluminium and alumina through its 40 per cent interest in AWAC. AWAC alumina sales in 2007 are forecast to grow, principally to supply Alcoa's new Iceland smelter, scheduled to start up from 2Q 2007. AWAC's 2007 production is expected to increase with Pinjarra operating at an increased capacity, the commissioning of the Jamalco early works program, and capacity creep at other refineries. The Point Comfort refinery is expected to operate at approximately 85 per cent of capacity during 2007. The majority of AWAC's alumina sales contracts are priced by reference to average LME prices. AWAC will benefit from the current high aluminium prices through its contractual pricing formulae.



WORLD PRIMARY ALUMINIUM  
CONSUMPTION  
>PER CENT INCREASE  
FROM PREVIOUS YEAR  
Source: Brook Hunt

SECTION >03

STRATEGY AND SUSTAINABILITY

# >INVESTMENTS BUILDING IN A GROWTH MARKET

PROFITABLE GROWTH FROM SUSTAINABLE EXPANSION

OF AWAC REFINERIES IS ON TRACK TO PROVIDE LONG-TERM CAPITAL  
GROWTH AND SUBSTANTIAL DIVIDENDS FOR SHAREHOLDERS.



MINE SITE REHABILITATION, WESTERN AUSTRALIA



DIVIDENDS

EXPANSION

STRATEGY

#### ALUMINA LIMITED'S STRATEGY

Alumina Limited's strategy is to participate in bauxite mining, alumina refining and selected aluminium smelting operations globally, solely through our 40 per cent interest in AWAC.

#### GENERATE PROFITABLE GROWTH FOR ALUMINA SHAREHOLDERS FROM SUSTAINABLE EXPANSION OF THE AWAC ENTERPRISE

- > Expand AWAC's existing alumina and bauxite capacity to meet growth in global alumina markets
- > Participate in strategic greenfield refinery and bauxite mine investments that meet AWAC's risk and return criteria, to enhance AWAC's long-term capacity and cost position
- > Undertake smelting investments within AWAC, where investment returns are high

#### CONTINUE TO ENSURE LONG-TERM CAPITAL GROWTH AND SUBSTANTIAL DIVIDENDS FOR SHAREHOLDERS

- > Maintain fully franked dividends of at least 24 cents per share annually, subject to business conditions
- > Invest cash in high-return opportunities in AWAC, or return cash to shareholders
- > Actively manage Alumina Limited's capital structure to improve returns per share



# >AWAC A GLOBALLY CONNECTED SYSTEM

## JAMALCO >2

**CURRENT GROWTH PROJECT**  
146,000 mtpy Q1, 2007.

## JURUTI >5

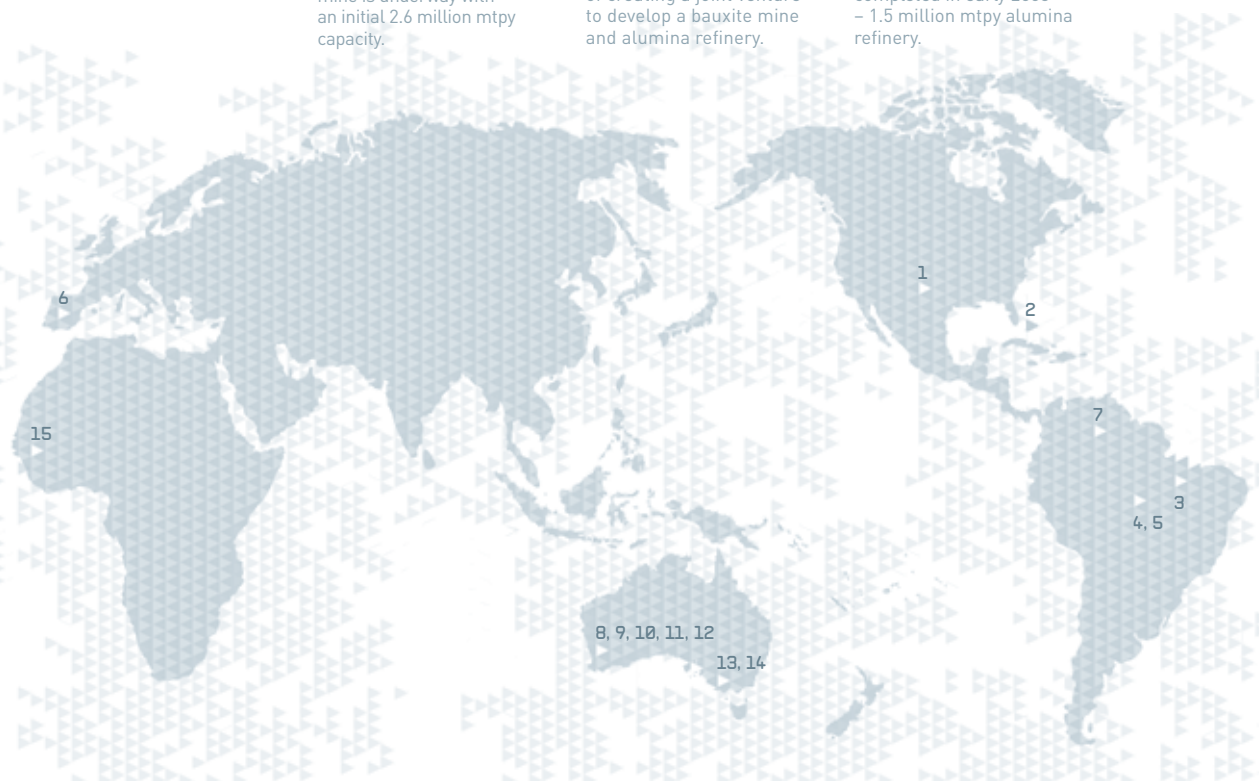
**CURRENT GROWTH PROJECT**  
Development of a bauxite mine is underway with an initial 2.6 million mtpy capacity.

## VIETNAM

**POTENTIAL GROWTH PROJECT**  
Investigating the feasibility of creating a joint venture to develop a bauxite mine and alumina refinery.

## GUINEA >15

**POTENTIAL GROWTH PROJECT**  
Feasibility study to be completed in early 2008 – 1.5 million mtpy alumina refinery.



## PINJARRA >10

**GROWTH PROJECT**  
657,000 mtpy upgrade completed in 2006. Total production capacity 4.2 million mtpy.

## WAGERUP >12

**POTENTIAL GROWTH PROJECT**  
2 million mtpy expansion under consideration.

## ALUMAR >3

**CURRENT GROWTH PROJECT**  
2.1 million mtpy expansion. Completion due 2008. AWAC 54 per cent interest.

## AWAC'S GLOBAL INTERESTS

> B AWAC bauxite mines/interests

> R AWAC alumina refineries

> S AWAC aluminium smelters

### USA

1 Point Comfort R

### JAMAICA

2 Jamalco B R

### BRAZIL

3 Alumar R

4 Trombetas B

5 Juruti B

### SPAIN

6 San Ciprian R

### SURINAME

7 Suralco B R

### AUSTRALIA

8 Kwinana R

9 Huntly B

10 Pinjarra R

11 Willowdale B

12 Wagerup R

13 Portland S

14 Point Henry S

### GUINEA

15 Sangaredi B

## AWAC GROWTH PROJECTS

AWAC completed two significant refinery growth projects in the last two years. A further three projects are underway, and feasibility studies have commenced for additional projects. AWAC's Suralco and Pinjarra refineries have increased production capacity at a time of strong global alumina demand and prices. The progress of AWAC's expansion projects through the approval and development phases will depend upon growth in market demand. Growth in global aluminium consumption since 2003 has supported aluminium and alumina prices rising strongly.

The Pinjarra alumina refinery upgrade in Western Australia was completed in the first half of 2006 at a capital cost of US\$510 million. The upgrade at AWAC's lowest cost refinery added 657,000 tonnes of annual capacity, increasing total capacity at the refinery to 4.2 million mtpy.

The 146,000 mtpy early works program of the Jamalco alumina refinery in Jamaica will be completed in the first quarter of 2007. A second phase expansion of 1.35 million mtpy has been deferred pending the outcome of negotiations on an agreement between the Jamaican and Trinidad Governments to bring natural gas to Jamaica and the Jamalco refinery, and changes to the joint venture agreement.

Construction of a 2.1 million mtpy expansion of the Alumar alumina refinery in Brazil by the consortium partners (AWAC, BHP Billiton and Alcan), commenced in 2006. Total refinery capacity will increase to 3.5 million mtpy on completion of the expansion, planned for the second half of 2008. AWAC has a 54 per cent interest in the expansion, (1.08 million mtpy of additional capacity).

A new bauxite mine is also being developed in Brazil at Juruti, a large high-quality bauxite deposit. A 100 per cent AWAC development, the Juruti mine will initially produce 2.6 million tonnes of bauxite per year to supply AWAC's share of the expanded Alumar facility. This development is the first stage of what is expected to be a much larger bauxite mine. The initial 2.6 million tonne project includes infrastructure that supports further mine expansions. The Juruti mine development is an important part of AWAC's strategy to own high-quality, low-cost bauxite mining operations close to its refineries.

Capital costs for AWAC's current investments in Brazil have increased, principally due to the appreciation of the Brazilian currency and increased construction costs. The contracting market for major projects in Brazil is experiencing substantial increases for project engineering fees, construction equipment and labour costs. AWAC's share of the Alumar refinery expansion and the Juruti bauxite mine is estimated to be approximately US\$1.7 billion.

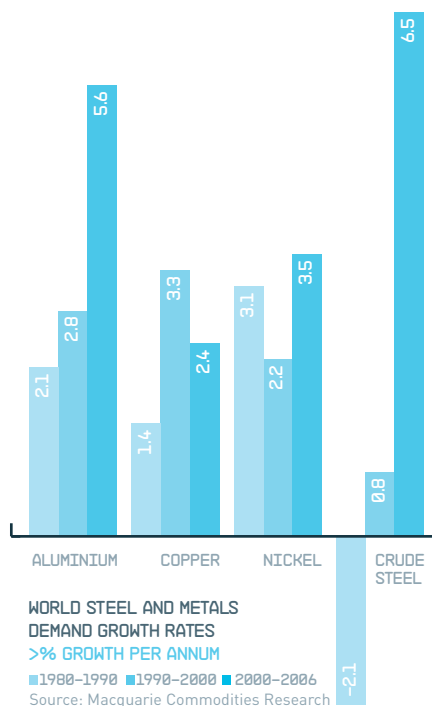
The planned capacity expansion of the Wagerup alumina refinery received Western Australian Government environmental approval in September 2006. The expansion, by up to 2 million mtpy will require construction of a third production unit and upgrading existing plant and would provide additional alumina production at low cash operating costs. Detailed engineering and design work is being undertaken in 2007. AWAC has committed to implementing the expansion with no increase in noise, dust or odour impacts. A decision on the expansion project will be made in 2008.

## AWAC FUTURE GROWTH

AWAC, Alcan and the Government of Guinea have signed a Basic Agreement that sets the framework to develop a 1.5 million mtpy alumina refinery in Guinea. A detailed feasibility study is now expected to be completed in early 2008. AWAC has a long-standing involvement in bauxite production in Guinea through its 45 per cent equity interest in Halco Mining which holds a 51 per cent interest in Compagnie Guinée.

AWAC signed a Memorandum of Understanding with Vietnam National Coal – Minerals Group in March 2006 to explore the feasibility of creating a joint venture to develop a bauxite mine and alumina refinery in the Dak Nong Province in Vietnam.

CONSUMPTION OF ALUMINIUM IS FORECAST TO DOUBLE BETWEEN 2005 AND 2020. THIS GROWTH WILL COME FROM BOTH ASIAN DEVELOPING ECONOMIES AND WESTERN WORLD MARKETS.





## CHINA'S CHANGING MARKETS

### Aluminium

The consumption of aluminium within China has risen by more than 110 per cent since 2000. It has been the key driver behind recent growth in world aluminium consumption. Aluminium production in China has grown to nearly match consumption. This rapid increase in China's aluminium consumption is forecast to continue. China is expected to be largely self-sufficient in aluminium, but is unlikely to become a significant and sustained exporter of primary aluminium.

### Alumina

During 2006, independently owned smelters in China constructed significant new alumina refining capacity, utilising both domestic and imported bauxite resources, resulting in an increase in domestic alumina production capacity, to approximately 13 million mtpy. Imports of alumina into China in 2006 are estimated at approximately 6-7 million mtpy, at a similar level as in 2005.

The construction of new alumina refining capacity in China is expected to continue in 2007, with a number of projects under construction. This should result in Chinese domestic alumina refining capacity increasing to approximately 18-19 million mtpy, and alumina imports of 3-4 million mtpy, in 2007. Some high cash-cost alumina production capacity in the western world has also been curtailed, in response to the new capacity growth in China.

An AWAC study team visited sites in China to review the rapid increase in alumina capacity within China. The results of the study are available on Alumina Limited's website.

AWAC's growth in alumina production capacity will primarily supply both existing and new western world customers.

## SUSTAINABLE GROWTH

Sustainability is integral to all of our business decisions. Alumina Limited understands the fundamental link between the long-term profitability of the Company and the sustainability of operating performance. Decisions and actions the Company makes today influence future economic, environmental and social outcomes.

These outcomes impact profitability and returns for the Company's shareholders, employees, the communities in which AWAC operates, and other stakeholders.

Sustainable development is fundamental to how AWAC operates. Alumina Limited's commitment to sustainable development is formalised in its Sustainability Policy, defining our strategy and action plans for sustainable development, and shaping the Company's decision making, behaviours, attitudes and actions.

Alumina Limited is developing a Sustainability Report, which will be available on the Company website. Alumina Limited will also participate in the Carbon Disclosure Project in 2007.

Alumina Limited strongly supports Alcoa's leadership as manager of AWAC, in health, safety and environmental performance. We also support the Australian Aluminium Council initiatives and Alcoa's targets to reduce greenhouse gas emissions.

Alumina Limited's commitment to sustainability also aims to promote and achieve an injury-free work environment, employee health, efficient use of energy and natural resources, high ethical standards and best practice methods in all that we do.

AWAC has continuously demonstrated a commitment to planned sustainable development. Mining of the Western Australia bauxite deposits commenced in 1963 and strategies and actions to rehabilitate the mines have been developed and improved continuously to provide world class rehabilitation.

Since mining commenced approximately 12,400 hectares has been cleared, of which more than 10,500 hectares are revegetated. AWAC's development and successful restoration of 100 per cent plant species richness of the Jarrah forest in rehabilitated bauxite mines in Western Australia is a strong demonstration of AWAC's commitment to planned sustainable development.



# >AWAC AND ALUMINA A SUSTAINABLE FUTURE

## PUTTING WASTE TO USE >AWAC

At AWAC's Kwinana alumina refinery in Western Australia, CO<sub>2</sub>, a major contributor to greenhouse gas emissions, is being used to reduce the alkalinity of bauxite residue. This carbonation process takes two waste products, CO<sub>2</sub> and bauxite residue, to create a potentially useful resource. Refineries produce large amounts of residue, that is principally mud, sand and water. The residue is quite alkaline due to the chemical process used to extract alumina from the bauxite, and it requires careful management both in the short and longer term.

Alcoa Research and Development has developed the carbonation technology that passes CO<sub>2</sub> through the bauxite residue to neutralise the alkalinity. As a result, environmental risks associated with long-term storage are reduced, and it provides an opportunity for the treated bauxite residue to be used in the future.

The CO<sub>2</sub> that would normally find its way into the atmosphere is being mixed into the bauxite residue. Waste CO<sub>2</sub> is also piped from a nearby (non-AWAC) ammonia plant for use in the carbonation process. At full capacity the process will utilise 70,000 tonnes of CO<sub>2</sub> a year, the equivalent of taking 12,000 cars off the road.

## LOCAL COMMUNITY >AWAC

At Juruti, a remote community located on Brazil's Amazon river, AWAC's manager Alcoa is funding a training program in partnership with SENAI (National Industrial Training Service) to equip local people with new skills. Juruti is the site of AWAC's newest bauxite mine.

Initially the training programs will include skills such as basic information technology, carpentry and metal-work, later advancing to heavy machinery operations, industrial electrical and plumbing skills. This is providing a much needed service in the community and is training local people for future employment opportunities to provide the community with a sustainable future. It is anticipated that 1,300 workers will benefit from the training over a two-year period. The tuition is currently being conducted on a boat-school while Alcoa funds the construction of a permanent school facility.

## COMMUNITY WELFARE >ALUMINA LIMITED

Alumina Limited is partnering with Save the Children, a charitable organisation committed to providing children with the best possible start in life, to establish a Future Parents Program in the inner-Melbourne suburb of Maribyrnong. The aim of the program is to prevent child abuse by giving vulnerable young people the knowledge and skills they need to be good parents and carers.

Alumina Limited's sponsorship of the Maribyrnong initiative which operates from 'The Gathering Place', provides services and programs to the community, particularly young Indigenous people. The Future Parents Program has a proven track record in assisting young people to develop improved methods of providing care to children, to increase their knowledge of child abuse, neglect and domestic violence issues, and prevention strategies.

## HEALTH AND SAFETY >AWAC

AWAC has established the highest health and safety targets, a 100 per cent injury-free workplace with zero fatalities, lost-work-days and recordable injuries. To reach this goal, safety procedures are constantly refined across the AWAC network of operations. Comprehensive risk evaluation and risk reduction programs including operational hazard analysis and fault analysis have been introduced to assist in attaining the zero injury goal.

In 2006, the lost-work-day rate for AWAC operations declined from 0.12 per 200,000 man hours worked in 2005 to 0.06. Overall the AWAC recordable injury rate in 2006 was 1.87 (2.19 in 2005).

## WASTE AND EMISSIONS REDUCTION >AWAC

AWAC's Point Henry aluminium smelter in Victoria implemented environmental improvements that reduced landfill waste from 17,068 tonnes in 1997 to 371.5 tonnes in 2004. Fluoride emissions have been reduced 75 per cent since 2002 and even with increased production, on site greenhouse gas intensity at Point Henry has reduced 65 per cent since 1990.

AWAC's three alumina refineries in Western Australia have reduced their greenhouse gas intensity to 8 per cent below the 1990 base level.

# >THE ALUMINIUM PROCESS



Alumina (aluminium oxide) is the raw material from which aluminium is produced, and is found in bauxite ore.



Alumina (a white powdery substance) is extracted from the bauxite in a refining process.



The alumina is processed in a smelter and converted into aluminium metal.

## A SUSTAINABLE METAL

Aluminium is one of the world's most sustainable metals. Its unique properties mean that aluminium can be continually recycled and reused without degradation. Approximately 70 per cent of all aluminium ever commercially produced is still in use today. Importantly, recycling requires only 5 per cent of the energy initially used to produce aluminium metal from raw materials. Current stocks of aluminium therefore represent 'energy in reserve' because it can be recycled and repeatedly used in any number of practical applications without needing to expend 95 per cent of the energy used to originally manufacture the metal. Recycling 1kg of aluminium can save approximately 14kW of electricity, 8kg of bauxite and 4kg of chemical products.

Recycling also saves an annual estimated 84 million tonnes of greenhouse gas emissions, the equivalent of one year's emissions from 15 million motor vehicles.

Aluminium vehicle components such as engine parts, wheels, body panels and electronics also contribute to lowering greenhouse gas emissions. Aluminium components generally weigh 40-50 per cent less than the steel equivalent and the reduction in weight of a vehicle reduces fuel consumption and therefore reduces carbon dioxide (CO<sub>2</sub>) emissions. Every kilogram of aluminium used in vehicle manufacture results in a 20kg reduction in CO<sub>2</sub> over the life of the vehicle.

**The potential for reduction in greenhouse gas emissions achievable from aluminium recycling and the use of aluminium in transport could offset the carbon producing activities of the manufacture of aluminium, and thereby make aluminium climate-neutral by 2020.**

Source: International Aluminium Institute Sustainability Report.

## > THE BOARD OF DIRECTORS

Alumina Limited Directors in office as at 31 December 2006 were:



### > MR DONALD M MORLEY

Age 67 – BSc MBA FAusIMM

**Chair**

**Independent Non-Executive Director**

Mr Morley was elected a Director and appointed Chairman of Alumina Limited on 11 December 2002. He is a director of Iluka Resources Ltd. a role he has held since December 2002 and has also been a director of SPARK Infrastructure Ltd since November 2005. He was previously a director of WMC Limited, in the role of director of Finance until April 2001, and he retired from his executive duties with WMC in October 2002. Mr Morley is a member of the Audit Committee, Compensation Committee and the Nomination Committee. He has wide ranging financial skills and considerable resource industry experience.



### > MR PETER A F HAY

Age 56 – LLB

**Independent Non-Executive Director**

Mr Hay has been a Director of Alumina Limited since 11 December 2002. He is a director of Pacifica Group Limited, Chairman, Investment Banking at Carnegie Wylie & Company and from July 2000 to July 2005 he was the chief executive officer of the law firm Freehills. He is a member of the Audit Committee, Compensation Committee and Chair of the Nomination Committee. Mr Hay brings to the Board considerable legal experience and advisory skills particularly in relation to public company takeovers, corporate governance matters and risk management.

GUIDANCE

EXPERIENCE



#### > MR RON J MCNEILLY

Age 63 – BCom, MBA, FCPA, FAICD  
**Independent Non-Executive Director**

Mr McNeilly was elected a Director of Alumina Limited on 11 December 2002. He is the deputy Chairman of BlueScope Steel Limited; Chairman of Worley Parsons Limited; Chairman of Melbourne Business School Limited; past director of BHP Billiton Limited, QCT Resources Limited, Tubemakers of Australia Limited and Ausmelt; past executive director Global Markets BHP Billiton Limited from 2001 to 2002; past executive director and president of BHP Minerals from 1999 to 2001. Mr McNeilly is a member of the Audit and Nomination Committee and chair of the Compensation Committee. Mr McNeilly brings substantial practical experience and skills gained from over 30 years in the resource sector.



#### > MR MARK R RAYNER

Age 69 – BSc (Hons) ChemEng FTSE  
 FAusIMM FIEA FAICD  
**Independent Non-Executive Director**

Mr Rayner was elected a Director of Alumina Limited on 11 December 2002. He was Chief Executive of Comalco Limited 1978 to 1989, deputy chairman 1989 to 1997; executive director CRA Ltd 1989 to 1995. director of National Australia Bank Limited from 1985 to 2001 and chairman from 1997 to 2001. Director of Pasminco Limited from 1989 to 2003 and Chairman from 1992 to 2003; director of Mayne Nickless Limited from 1995 to 2002 and Chairman from 1997 to 2002. He is a director of Boral Ltd, a role he has held since February 1996. Mr Rayner is a member of the Nomination Committee, Compensation Committee and Chair of the Audit Committee. He brings extensive industry specific experience in the bauxite, alumina and aluminium industry of over 35 years.



#### > MR JOHN MARLAY

Age 58 – BSc FAICD  
**Chief Executive Officer**

Mr Marlay was elected as executive director and Chief Executive Officer on 11 December 2002. He joined WMC in August 2002, following role as Head of Strategy for RMC Group Plc in London. In December 2006 Mr Marlay was appointed as a non-executive director of Incitec Pivot Limited. Mr Marlay was previously Executive General Manager Business Integration, Hanson Plc from 2000 to 2001. He has held senior management roles with Pioneer International Ltd, James Hardie Industries Limited and Esso Australia Ltd. Mr Marlay has extensive resource sector experience operating in international management roles, including capital-intensive joint ventures.

# >FIVE YEAR FINANCIAL SUMMARY

## ALUMINA LIMITED AND CONTROLLED ENTITIES

as at 31 December	2006 <sup>1</sup> \$ millions	2005 <sup>1</sup> \$ millions	2004 <sup>1</sup> \$ millions	2003 <sup>2</sup> \$ millions	2002 <sup>2,3</sup> \$ millions
Revenue from continuing operations	1.4	4.0	8.9	4.8	1.3
Other income	-	-	44.5	-	-
Share of net profits of associates accounted for using the equity method	546.6	337.1	283.5	244.1	216.3
Finance costs	(25.1)	(15.3)	(8.1)	(8.7)	(0.6)
General and administrative expenses	(10.7)	(10.2)	(8.7)	(12.6)	(7.6)
Income tax (expense)/credit	(1.1)	-	(3.7)	9.3	0.3
Net profit attributable to members of Alumina Limited	511.1	315.6	316.4	236.9	209.7
Underlying earnings <sup>4</sup>	569.4	331.3	315.9	n/a	n/a
Total assets	2,357.6	2,013.5	1,823.2	1,799.1	1,695.1
Total liabilities	603.0	483.3	411.3	475.3	541.6
Net assets	1,754.6	1,530.2	1,411.9	1,323.8	1,153.5
Shareholders' funds	1,754.6	1,530.2	1,411.9	1,323.8	1,153.5
Dividends provided for or paid	233.2	232.8	232.2	259.6	202.3
<b>Statistics</b>					
Dividends declared per ordinary share	22c	20c	20c	20c	18c
Dividend payout ratio	46.0%	74.0%	74.0%	109.0%	96.0%
Earnings per ordinary share	43.8c	27.1c	27.2c	20.9c	15.7c
Return on equity <sup>5</sup>	29.1%	20.6%	22.4%	17.9%	15.1%
Gearing (net debt to equity)	23.9%	30.3%	19.8%	22.8%	44.3%
Net tangible assets backing per share	\$1.25	\$1.06	\$0.96	\$0.99	\$0.85

<sup>1</sup> December 2006, 2005 and 2004 reflect results prepared under Australian equivalents to International Financial Reporting Standards (A-IFRS).

<sup>2</sup> December 2003 and 2002 represent results under previous Australian Generally Accepted Accounting Principles (AGAAP).

<sup>3</sup> 2002 reflects results from continuing operations.

<sup>4</sup> Underlying earnings has been calculated by adding back to reported net profit amounts relating to non-cash entries which do not reflect the operations of the Company. These non-cash entries related to mark-to market valuations of AWAC embedded derivatives, and adjustments resulting from actuarial assessment of market value of assets held in AWAC employee benefit plans.

<sup>5</sup> Based on net profit attributable to members of Alumina Limited.



# >GLOSSARY

**A-IFRS** > Australian equivalents to International Financial Reporting Standards. Statutory accounts must be prepared in accordance with A-IFRS for reporting periods commencing 1 January 2005. For a more detailed explanation refer to page 20.

**ALUMINA LIMITED** > Alumina Limited (ABN 85 004 820 419).

**A OF A** > Alcoa of Australia Limited (ABN 93 004 879 298).

**ALCOA** > Alcoa Inc of 201 Isabella Street, 7th Street Bridge, Pittsburgh, Pennsylvania, USA, a company incorporated in the Commonwealth of Pennsylvania.

**ALLOY** > a substance with metallic properties, composed of two or more chemical elements of which at least one is a metal. More specifically, aluminium plus one or more other elements, produced to have certain specific, desirable characteristics.

**ALUMINA** > aluminium oxide produced from bauxite by an intricate chemical process. It is a white powdery material that looks like granulated sugar. Alumina is an intermediate step in the production of aluminium from bauxite and is also a valuable chemical on its own.

**AWAC** > the unincorporated joint venture between Alumina Limited and Alcoa known as Alcoa World Alumina and Chemicals.

**BAUXITE** > the ore from which alumina is extracted and from which aluminium is eventually smelted. About four kilograms of bauxite are required to produce one kilogram of aluminium.

**BROWNFIELD EXPANSION** > is developing existing operations.

**COMPAGNIE GUINÉE** > Compagnie des Bauxites de Guinée.

**EMBEDDED DERIVATIVE** > an embedded derivative (within a contract) may exist when some or all of the cash flows that would otherwise arise from the contract dependent on movements in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices, credit rating or credit index, or other variable. AWAC has a number of long-term contracts for the purchase of energy that have with their pricing formulae mechanisms to vary the price depending on the LME aluminium price at the time.

**GREENFIELD REFINERY** > is a new refinery.

**JAMALCO** > the joint venture between Alcoa Minerals of Jamaica LLC and Clarendon.

**LME (LONDON METALS EXCHANGE)** > the international trading body that facilitates the worldwide open-market buying and selling of metals.

**ORE** > is a mineralisation that can be profitably mined and treated.

**REFINE** > a process whereby alumina is extracted from the bauxite ore using a refining process that relies on heat, pressure and chemical reaction.

**SMELT** > is to fuse or melt ore in order to extract or refine the metal it contains.

**SURALCO** > means Suriname Aluminum Company LLC.

Design and production > ERD Design Communications  
Photography > Joe Vittorio, Peter Garside Printing > Finsbury Green Printing  
Paper > Splendorgel, Spicers Paper, ISO 14001 Environmental Accreditation.

**ALUMINA LIMITED**

ABN 85 004 820 419

Registered Corporate Head Office  
Level 12, IBM Centre 60 City Road  
Southbank Victoria 3006 Australia

GPO Box 5411

Melbourne Victoria 3001 Australia

Telephone +61 (0)3 8699 2600

Facsimile +61 (0)3 8699 2699

Website [www.aluminalimited.com](http://www.aluminalimited.com)

**SHARE REGISTRY**

Computershare Investor Services Pty Limited

Yarra Falls 452 Johnston Street

Abbotsford Victoria 3067 Australia

GPO Box 2975

Melbourne Victoria 3001 Australia

Telephone +61 (0)3 9415 4027

or 1300 556 050 (for callers within Australia)

Facsimile +61 (0)3 9473 2500

Email [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)





# >CORPORATE GOVERNANCE

Alumina Limited's core values – respect, integrity, honesty, personal commitment and high performance – underpin the way we conduct our business and all of Alumina Limited's activities.

VALUES
+ CODE OF CONDUCT
+ BEHAVIOURS AND ACTIVITIES
+ BEST PRACTICE CORPORATE GOVERNANCE
= CREATING SUSTAINABLE VALUE FOR STAKEHOLDERS

Alumina Limited's corporate governance practices are reviewed regularly by local and international corporate governance rating agencies. In 2006 GovernanceMetrics International, a leading global corporate governance rating agency, assessed Alumina Limited as nine out of 10, compared to an overall average of 6.3 for companies in Australia.

Alumina Limited meets each of the requirements of the Australian Securities Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

## GOALS, RESOURCES AND PROCESS – THE ROLE OF ALUMINA LIMITED'S BOARD OF DIRECTORS

Alumina Limited's Board of Directors represents the shareholders' interests. Its aim is to create sustainable value for shareholders through the performance of Alumina Limited's interest in the Alcoa World Alumina and Chemicals (AWAC) business. The Board is ultimately responsible for the success of the Company by setting its strategic goals, establishing resources and ensuring its management processes are effective.

The primary roles of the Board are to:

- > appoint the Chief Executive Officer, and monitor the performance of the Chief Executive Officer and senior executives
- > monitor and optimise business performance
- > formulate Alumina Limited's strategic direction and monitor its execution
- > protect the interests of shareholders
- > approve Alumina Limited's external financial reporting.

Management of Alumina Limited is delegated to and executed by the Chief Executive Officer and the executive team. The executive team is responsible for meeting the Board's requirements for quality and timely information, to enable the Board to fulfil its responsibilities.

The role, duties and responsibilities of the Board are defined in the Board Charter, which is available on our website [www.aluminalimited.com](http://www.aluminalimited.com).

## BOARD MEMBERSHIP

The Board consists of four non-executive Directors including the Chairman, and an executive Director – the Chief Executive Officer, Mr John Marlay.

Alumina Limited's Constitution requires that one-third of the Directors (excluding the Chief Executive Officer) must retire and are eligible for re-election by members at each Annual General Meeting (AGM) of Alumina Limited. Recommendation by the Board that shareholders vote in favour of a retiring Director's re-election is subject to an appraisal and recommendation by the Nomination Committee of the Board. Mr Hay is the director standing for re-election at the 2007 AGM.

Non-executive Directors must retire after nine years of continuous service, unless requested to continue by the Board.

A brief biography of the Alumina Limited directors is available on page 26 in Part 1 of this report.

## BOARD SUCCESSION PLANNING AND DIRECTOR APPOINTMENT

The Nomination Committee regularly reviews the size and composition of the Board and the balance of skills and expertise of its members. The Nomination Committee is also responsible for the Board's succession planning and, as necessary, nominating to the Board candidates to fill any vacancy on the Board. The procedure for selection and appointment is detailed in the Nomination Committee Charter annexure, available on the Company website.

## DIRECTOR INDEPENDENCE

The Board considers that independence from management and non-alignment with any other interest or relationship with the Company is essential for impartial decision making and effective governance. However, it also recognises the importance of attracting and retaining Directors who have an appropriate mix of skills and expertise to provide effective corporate leadership.

Directors are deemed to be independent if they are independent of management and have no material business or other relationship with the Alumina Limited Group that could materially impede their objectivity or the exercise of independent judgement, or materially influence their ability to act in the best interests of the Group.

The Board assesses director independence on an annual basis, or more frequently if warranted, depending on disclosures from individual directors.

In reaching their judgements on director independence, the Board considers:

- > any existing relationships with the Company, including professional affiliations and contractual arrangements, whether directly or indirectly with the Director
- > any past relationships with Alumina Limited, either direct or indirect
- > materiality thresholds
- > the definitions of independence embodied in Australian and US Corporate governance standards.

**Alumina Limited's guidance for materiality includes:**

- > the value of a contractual relationship is the greater of \$250,000 or 2 per cent of the other company's consolidated gross revenues
- > in relation to a principal of or employee of a present or former material professional adviser or consultant of the Company within the previous three years, the greater of \$250,000 or 2 per cent of the professional adviser's or consultant's gross revenues, or
- > for an employee or any family member currently employed as an executive officer by another company that makes payments to or receives payments from the Alumina Limited Group for property or services in an amount that exceeds, in any single fiscal year, the greater of \$250,000 or 2 per cent of the other company's consolidated gross revenues.

## CORPORATE GOVERNANCE

The Board has concluded that all non-executive Directors are independent. In reaching this conclusion the Board has considered the following relationships and associations:

- > Mr Morley held an executive position with WMC Limited until October 2002. The Board has concluded that his previous position does not result in him taking into account any interests other than those of the Company in acting as Director and Chairman.
- > Mr Hay is a former partner of the legal firm Freehills, a provider of services to the company. The Board reviewed the Company's past association with Freehills and concluded that the past association, which was below our materiality threshold of \$250,000 or 2 per cent of Freehills' consolidated revenue, does not materially prejudice Mr Hay's independence.
- > Mr Rayner and Mr McNeilly do not have any previous association with the Company or any other relationships that are relevant to their independence.

For further information on materiality thresholds and director independence, please refer to our Director Independence Policy, available on our website.

### DIRECTORS' AND EXECUTIVES' REMUNERATION

Details of the remuneration policies and practices of Alumina Limited are set out in the Remuneration Report on pages 50–70 of this report. Shareholders will have the opportunity to vote on a non-binding resolution to adopt the Remuneration Report at the 2007 AGM.

### DIRECTORS' SHARE OWNERSHIP

Non-executive Directors are required to buy shares in Alumina Limited equivalent to a minimum value of 10 per cent of their annual fees. They are also required to hold shares equal to, or greater than, one year's annual fees by the expiry of their first term as a Director. Details of the non-executive Director share acquisition policy and number of shares held by each non-executive Director are disclosed on page 67 of the Remuneration Report.

### CHIEF EXECUTIVE OFFICER

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

### BOARD MEETINGS

Alumina Limited's full Board held 12 scheduled meetings during 2006. In addition one ad hoc Board committee meeting was convened to consider specific matters.

Non-executive Directors conduct meetings from time to time without the presence of executives. The Chairman, Mr Morley, chairs these meetings. To enable interested parties to make any concern known to non-executive Directors, the General Counsel/Company Secretary, Mr Foster, acts as an agent for the non-executive Directors. Procedures for the handling of all direct communications for non-executive Directors are detailed on our website.

Each year the Board devotes a meeting to review Alumina Limited's strategic plan and approve the strategic direction of the Company.

Directors' attendance at Board and Committee meetings is detailed on page 43 of this report.

### DIRECTOR EDUCATION

The Directors are briefed on corporate and regulatory changes by receiving regular updates relating to corporate governance, accounting standards and relevant industry matters.

They also receive briefings on the aluminium and alumina industry by independent technical experts. This is supplemented by visits to operating sites for business reviews and by presentations to the Board from AWAC executives. During 2006 the Board visited AWAC bauxite mining and alumina refining operations in Spain, Jamaica, Australia and the United States.

An induction program is available for new non-executive Directors.

### BOARD COMMITTEES AND MEMBERSHIP

Each committee operates under its own charter and consists solely of the Board's four non-executive Directors. Committee membership and the record of attendance are detailed in the table on page 43.

### Audit Committee

The Audit Committee's role is to assist the Board to fulfil its responsibilities for Alumina Limited's accounts and external reporting. This is achieved by ensuring that appropriate processes are in place to support the Board in fulfilling its responsibilities relating to:

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

In 2007 the role of the Audit Committee has been expanded to include responsibility for oversight of sustainable development.

Other responsibilities of the Audit Committee include managing the relationship with the external auditor including their appointment and compensation, as well as agreeing the scope and monitoring the effectiveness of the annual internal and external audit plans. It also annually reviews an assessment of business risk for Alumina Limited to determine whether there is appropriate coverage in the internal audit plans, and to review other issues as requested by the Board or the Chief Executive Officer. The Audit Committee met eight times during 2006 and considered matters such as the appropriateness of accounting policies, compliance with accounting and regulatory standards and policies and adoption of the financial reports.

For further information on the scope and responsibilities of the Audit Committee in relation to the external audit function and sustainable development, refer to our website.

### Compensation Committee

The Compensation Committee oversees Alumina Limited's remuneration and compensation plans, policies and practices on behalf of the Board and shareholders to ensure that:

- > shareholder and employee interests are aligned
- > Alumina Limited is able to attract, develop and retain talented employees
- > the integrity of Alumina Limited's reward program is maintained.

To ensure that the review of remuneration practices and strategies on which decision making is based is objective and well founded, the committee engages external remuneration consultants.

The Compensation Committee met six times during 2006.

### Nomination Committee

The Nomination Committee assists the Board in fulfilling its responsibilities to shareholders with regard 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.

To ensure that the Board has an appropriate mix of skills and experience, the Nomination Committee will consider individuals for Board membership who have demonstrated high levels of integrity and performance in improving shareholder returns, and who can apply such skills and experience to the benefit of the Company.

The Nomination Committee met once during 2006.

## CORPORATE GOVERNANCE

### BOARD AND BOARD COMMITTEE PERFORMANCE EVALUATION

The Board undertakes annual evaluations of both the collective performance of the Board and performance of individual members. Annual performance evaluations are also conducted for each Board committee. In 2006, the Directors conducted a self-assessment process involving the completion and evaluation of detailed questionnaires covering knowledge, satisfaction, reporting and performance in relation to relevant business, management and governance matters. The results were collated and analysed by the Board on a topic-by-topic basis. Initiatives to improve any issues identified in the performance evaluation are discussed and approved. The Chairman of the Board reviews each Director's individual performance. The Chairman of the Nomination Committee reviewed, with other Directors, the Chairman's performance. Additional information about the process of performance evaluation of the Board, its committees and individual Directors, and key executives, can be obtained from our website.

### DIRECTORS' ACCESS TO INDEPENDENT ADVICE

The Directors may be required to evaluate and make decisions about matters that require technical or specialised knowledge, or an independent perspective. In these circumstances the Board collectively, as well as each Director individually, has the right to seek independent professional advice. Any expenses incurred by Directors who exercise this right will be met by Alumina Limited, provided that prior approval by the Chairman or the Board to obtain such advice has been given.

### PROMOTING ETHICAL CONDUCT AND BEHAVIOUR

Alumina Limited has adopted a Code of Conduct that is applicable to all Directors, officers and employees. The Code of Conduct was developed by aligning the Company's agreed core values with best practice corporate governance models. The Code of Conduct sets parameters for ethical behaviour and business practices for directors, employees and contractors. The Code of Conduct is reviewed regularly to ensure it is relevant and accurately reflects best practice principles.

Alumina Limited's Code of Conduct and more information about Alumina Limited's values are available on our website.

### COMPANY SECRETARY

Mr Stephen Foster is the Company Secretary/General Counsel. A profile of Mr Foster's qualifications and experience is set out on page 43. The role of Company Secretary/General Counsel in Alumina Limited includes:

- > providing legal advice to the Board and management as required
- > advising the Board on corporate governance principles
- > management of the legal and secretariat functions
- > generally attending all Board meetings and preparing the minutes
- > managing compliance with regulatory requirements
- > company disclosures.

The position of Company Secretary/General Counsel is ratified by the Board.

### CORPORATE REPORTING

The Chief Executive Officer and the Chief Financial Officer have made the following certifications to the Board:

- > Alumina Limited's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of Alumina Limited and the Alumina Limited Group, and are in accordance with relevant accounting standards.
- > The above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and ensures that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

### SHARE TRADING POLICY

Alumina Limited has established a policy on the trading of its shares by its Directors and employees. The Board believes it is in the interests of all shareholders for Directors and employees to own shares of the Company, and so encourages shareholding subject to prudent controls and guidelines on share trading. The policy prohibits Directors and employees from engaging in short-term trading of any Alumina Limited securities, and buying or selling Alumina Limited shares if they possess unpublished, price-sensitive information.

In addition, Directors and senior management must not buy or sell Alumina Limited shares in the period between the end of the half or full financial year and the release of the results for the relevant period. Directors and senior management must also receive approval from the Chairman, Chief Executive Officer or Company Secretary before buying or selling Company shares.

A copy of Alumina Limited's Share Trading Policy can be found in the corporate governance section of our website.

## DISCLOSURE POLICY

Alumina Limited is committed to providing best practice continuous disclosure and has comprehensive policies and procedures designed to ensure compliance with the continuous and periodic disclosure obligations under the Corporations Act and the ASX Listing Rules. Responsibility for meeting ASX disclosure requirements rests primarily with the Company Secretary. Training is conducted annually with all staff to ensure they understand the Company's obligations, and their role in fulfilling them, under the continuous disclosure provisions. A review of continuous disclosure matters, if any, is conducted at each Board meeting. Alumina Limited's Continuous Disclosure Policy is available on our website.

## CONFLICTS OF INTEREST

The Board recognises that its ability to make impartial decisions would be jeopardised by any conflicting interests. Each Director has an ongoing responsibility to disclose to the Board details of transactions or interests, actual or potential, that may create a conflict of interest. Alumina Limited's Constitution expressly forbids a director voting on a matter in which they have a direct or indirect material personal interest as defined in Section 195 of the *Corporations Act 2001*. No conflict of interest arose during 2006.

## AUDIT GOVERNANCE

### External Audit

PricewaterhouseCoopers is Alumina Limited's external audit services provider. The external auditor's report to Alumina Limited's Audit Committee, which is responsible for agreeing the scope of the work performed by the auditor and monitoring its progress against plan.

All reports issued by the auditor to the Committee are prepared in accordance with Australian Accounting Standards. In accordance with the applicable provisions of the *Corporations Act 2001*, the external auditor provides an annual declaration of its independence to the Audit Committee. The partner responsible for Alumina Limited's audit was appointed in 2002, and, under the terms of engagement, will be required to rotate off the audit after 2006.

Further information on the relationship with the external auditor is covered in the Audit Committee Charter which is available on our website.

### Non-Audit Services

Alumina Limited and PricewaterhouseCoopers have adopted the following policy in relation to any work undertaken by PricewaterhouseCoopers that does not directly relate to auditing:

- PricewaterhouseCoopers' services which have fees of up to \$100,000 requires 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 PricewaterhouseCoopers' services of more than \$100,000 and less than \$250,000, the provision of such services requires the prior approval of the Audit Committee;
- For PricewaterhouseCoopers' services of more than \$250,000, the proposed services are to be put to competitive tender with the requirement for Chief Financial Officer, Chief Executive Officer and Audit Committee Chairman's approval of the inclusion of PricewaterhouseCoopers in the tender list. The awarding of a contract, following a competitive tender, to PricewaterhouseCoopers for the provision of these services also requires the prior approval of the Audit Committee.

Details of non-audit services are described in the Directors' Report on page 49.

## CORPORATE GOVERNANCE

### Attendance at the Annual General Meeting

The partner representing the external auditor attends Alumina Limited's AGM and is available at the meeting to respond to shareholder questions relating to content and conduct of the audit and accounting policies adopted by the Company in relation to preparation of the financial statements. Written questions for the auditor will be accepted by Alumina Limited up to five days before the AGM.

### Internal Audit

Alumina Limited contracts the services of independent accounting firm KPMG for the provision of the internal audit function. It is the internal auditor's role to provide assurance that an effective risk management and control framework exists, and to report their findings to the Audit Committee. The Audit Committee approves the annual internal audit plan and reviews reports on internal audit findings at least annually.

### MANAGING BUSINESS RISK

Alumina Limited's Risk Management Policy sets out its policies and procedures for covering risks such as those relating to markets, credit, price, operating, safety, health, environment, financial reporting and internal control. The Risk Management Policy has been adopted by the Board.

Alumina Limited is exposed to risks, both indirectly through its investment in AWAC, and directly as a separately listed public company.

Alcoa, as manager of AWAC, has direct responsibility for managing the risks associated with the AWAC business. Alumina Limited is subject to those risks and Alcoa utilises its policies and management systems to identify, manage and mitigate those risks. Alumina Limited reviews the management and mitigation of AWAC risks through its participation on the AWAC Strategic Council and the boards of the key operating entities within AWAC.

Alumina Limited uses internal controls as well as risk management policies that are appropriate to its risks as an independent corporate entity.

Alumina Limited's most significant risk exposures are to the AUD/USD exchange rate and the aluminium price. Alumina Limited's exposures are significant through AWAC's exposure to aluminium prices and to operating costs and capital expenditures in foreign currencies.

Alumina Limited's Risk Management Policy and controls are covered in more detail in the Governance section of our website.

### EXCHANGE RATE AND ALUMINIUM PRICE RISK

Alumina Limited's current financial position is strong and debt levels are modest. AWAC's operations are low-cost and long-life, generating substantial positive net cash inflow. AWAC's revenues are underpinned by medium and long-term sales contracts with high-quality industry participants with which, in most cases, AWAC has longstanding relationships.

Given this strong underlying business position, shareholders' interests are best served by Alumina Limited and AWAC remaining exposed to aluminium price and exchange rate risk, and generally not seeking to manage that risk through the use of derivative instruments.

When managing interest rate risk, we seek to reduce the adverse effect of variations in the overall cost of funds. We maintain a preference for floating interest rate exposure, as global interest rates are generally positively correlated with AWAC's selling prices.

### WHISTLEBLOWING

Alumina has a Whistleblower Policy that encourages, and offers protection for staff to report, in good faith, any behaviour, practice or activity that they have reasonable grounds to believe involves:

- > unethical or improper conduct
- > financial malpractice, impropriety or fraud
- > contravention or suspected contravention of legal or regulatory provisions
- > auditing non-disclosure or manipulation of the internal or external audit process.

A copy of the Whistleblower Policy can be found on our website.

### POLITICAL DONATIONS

Alumina Limited makes donations each year to non-profit and charitable organisations in the areas of health, education, welfare and the arts. The Company does not make donations to political parties.

## Senior Management

Alumina Limited is managed by an experienced management team focusing on maximising returns and growing the Company, ensuring our shareholders benefit fully from Alumina Limited's interest in the AWAC joint venture, and providing our shareholders with consistent returns. The Alumina Limited executive management team comprises:



### John Marlay

BSc FAICD

Chief Executive Officer

John Marlay has responsibility for the overall management of Alumina Limited in accordance with the strategy, policies and business processes adopted by the Board. Mr Marlay was appointed as a non-executive director of Incitec Pivot Limited in December 2006.

### Ken Dean

BCom (Hons) FCPA MAICD

Chief Financial Officer

Ken Dean is responsible for finance, accounting, treasury, investor relations and tax. He has extensive financial and resource sector experience gained from a 30-year career with Shell, both in Australia and overseas. Mr Dean is also a non-executive director of Santos Ltd.

### Stephen Foster

BCom LLB(Hons) GDipAppFin (Sec Inst)

GradDip CSP ACIS

General Counsel & Company Secretary

Stephen Foster is responsible for legal, company secretarial, shareholder services, insurance and human resources. Mr Foster has a wide range of legal and commercial experience gained over 20 years, at Village Roadshow, WMC Limited, and the legal firm of Arthur Robinson & Hedderwicks (now Allens Arthur Robinson).

## ALUMINA LIMITED DIRECTORS' ATTENDANCE AT MEETINGS JANUARY TO DECEMBER 2006

Directors	Board meetings		Board Committee meetings		Audit Committee meetings		Compensation Committee meetings		Nomination Committee meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P A F Hay	12	12	–	–	8	8	6	5	1	1
J Marlay	12	12	1	1	–	–	–	–	–	–
R J McNeilly	12	12	–	–	8	8	6	6	1	1
D M Morley	12	12	–	–	8	8	6	6	1	1
M R Rayner	12	11	–	–	8	7	6	6	1	1
K A Dean*	–	–	1	1	–	–	–	–	–	–

\*Mr Dean is an alternate director for Mr Rayner.



## CORPORATE GOVERNANCE

### SHAREHOLDERS

Alumina Limited has approximately 86,000 shareholders, with the 20 largest holding 69 per cent of the approximately 1.167 billion shares on issue. Approximately 95 per cent of all registered shareholders have registered addresses in Australia. A more detailed analysis of our shareholders is available in the full financial report, available on request, or on our website. Alumina Limited's shares are listed on the Australian Securities Exchange (ASX) and New York Stock Exchange (NYSE).

### SHAREHOLDER COMMUNICATION

Effective and timely communication with Alumina Limited shareholders and the market is a critical objective of the Company. We also recognise that communication is two-way.

Alumina Limited uses internet-based information systems to provide efficient communication with shareholders and the investment community. Examples include posting Company announcements on our website (usually within one hour of lodgement with the ASX), and webcasting financial presentations and briefings. Shareholders may elect to receive all Company reports and correspondence by mail or email.

In 2004, Alumina Limited became a member of eTree, an incentive scheme to encourage shareholders of Australian companies to receive their shareholder communications electronically. For every shareholder who registers their email address via eTree, Alumina Limited donates \$2 to Landcare Australia to support reforestation projects.

We are interested in shareholder questions and feedback which can be directed to the Company either through the mail or via the feedback facility available on our website.

For further information on shareholder communication initiatives, including our Continuous Disclosure Policy, refer to the Governance section of our website.

### COMPARISON OF CORPORATE GOVERNANCE PRACTICES WITH THE NYSE LISTING RULES

Alumina Limited shares trade in the form of American Depositary Receipts (ADRs) on the NYSE and, qualifying as a non-US issuer, Alumina Limited is allowed to follow home-country practice in lieu of the NYSE Listing Rules. However, the Company is required to meet NYSE rules on Audit Committee requirements and to disclose any

significant way in which Alumina Limited's corporate governance practices differ from those followed by US companies under the NYSE listing rules.

More detail about the ways in which Alumina Limited's corporate governance practices differ from those stipulated by the NYSE listing rules can be found in the Governance section of our website.

### SHARE ENQUIRIES

Investors seeking information about their Alumina Limited shareholding or dividends should contact:

**Computershare Investor Services Pty Limited**  
GPO Box 2975  
Melbourne, Victoria 3001 Australia

**Telephone**  
1300 556 050 (for callers within Australia)  
+61 (0) 3 9415 4027 (for international callers)

**Facsimile**  
(03) 9473 2500 (for callers within Australia)  
+61 (0) 3 9473 2500 (for international callers)

**Email** [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

Please note, when seeking information, shareholders will be required to provide their Shareholder Reference Number or Holder Identification Number, which is recorded on their shareholding statements.

### American Depositary Receipts

Alumina Limited shares are traded on the NYSE as ADRs. This facility enables American investors to conveniently hold and trade Alumina Limited securities. Each ADR represents four Alumina Limited shares. Investors seeking information about Alumina Limited's ADRs should contact our depositary, The Bank of New York:

**The Bank of New York**  
**Investor Services**  
PO Box 11258  
Church Street Station  
New York, NY 10286-1258

**Toll free number**  
(for callers within the USA) 1-888-BNY-ADRs  
**Telephone** (for non-US callers): +1 (212) 815 3700

**Website** [www.stockbny.com](http://www.stockbny.com)

**Email** [shareowners@bankofny.com](mailto:shareowners@bankofny.com)

## COMPARISON TO ASX CORPORATE GOVERNANCE BEST PRACTICE RECOMMENDATIONS

PRINCIPLE	RECOMMENDATION	COMPLIANCE	PAGE
<b>1</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	✓	36
<b>2</b>	<b>Structure the board to add value</b>		
2.1	A majority of the Board should be independent Directors.	✓	37
2.2	The chairperson should be an independent director.	✓	37
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	✓	37
2.4	The board should establish a nomination committee.	✓	39
2.5	Provide related disclosures.	✓	n/a
<b>3</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	Establish a code of conduct to guide directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	✓	40
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	✓	40
3.3	Provide related disclosures.	✓	n/a
<b>4</b>	<b>Safeguard integrity in financial reporting</b>		
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	✓	40
4.2	The board should establish an audit committee	✓	39
4.3	Structure the audit committee so that it consists of: > only non-executive directors > a majority of independent directors > an independent chairperson, who is not chairperson of the board > at least three members	✓	38
4.4	The audit committee should have a formal charter.	✓	38
4.5	Provide relevant disclosures.	✓	n/a
<b>5</b>	<b>Make timely and balanced disclosure</b>		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	✓	41
5.2	Provide relevant disclosures.	✓	n/a

## COMPARISON TO ASX CORPORATE GOVERNANCE BEST PRACTICE RECOMMENDATIONS

PRINCIPLE	RECOMMENDATION	COMPLIANCE	PAGE
<b>6</b>	<b>Respect the rights of shareholders</b>		
6.1	Design and disclose a communications strategy to promote effective communications with shareholders and encourage effective participation at general meetings.	✓	44
6.2	Request the external auditor to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	✓	42
<b>7</b>	<b>Recognise and manage risk</b>		
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	✓	42
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:		
	7.2.1 the statement given in accordance with best practice recommendations 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.	✓	40
	7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	✓	40
7.3	Provide relevant disclosures.	✓	n/a
<b>8</b>	<b>Encourage enhanced performance</b>		
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	✓	40
<b>9</b>	<b>Remunerate fairly and responsibly</b>		
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	✓	50-55
9.2	The board should establish a remuneration committee.	✓	39
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	✓	59,60
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	✓	52,53
9.5	Provide relevant disclosures.	✓	n/a
<b>10</b>	<b>Recognise the legitimate interests of stakeholders</b>		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	✓	40

# >DIRECTORS' REPORT

The financial statements and specific disclosures included in this Concise Financial Report have been derived from the full financial report. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing activities of Alumina Limited and its subsidiaries as the full Financial Report.

The Directors present their report for the financial year ended 31 December 2006 on the consolidated entity consisting of Alumina Limited ('the Company') and the entities it controlled during or at the end of the financial year (the 'Group').

## DIRECTORS

- A** The names of each person holding the position of director of the parent entity during the financial year are:

D M Morley (Chairman)  
J Marlay (Chief Executive Officer)  
P A F Hay  
R J McNeilly  
M R Rayner (Alternate K A Dean)

## BOARD OF DIRECTORS

- B** Alumina Limited Directors in office as at 31 December 2006 were:

**Mr Donald M Morley Age 67**  
BSc MBA FAusIMM  
Chair, Independent Non-Executive Director

Mr Morley was elected a Director and appointed Chairman of Alumina Limited on 11 December 2002. He is a director of Iluka Resources Ltd, a role he has held since December 2002, and has also been a director of SPARK Infrastructure Ltd since November 2005. He was previously a director of WMC Limited, in the role of Director of Finance until April 2001, and he retired from his executive duties with WMC in October 2002. Mr Morley is a member of the Audit Committee, Compensation Committee and the Nomination Committee. He has wide-ranging financial skills and considerable resource industry experience.

**Mr Peter A F Hay Age 56**  
LLB  
Independent Non-Executive Director

Mr Hay has been a Director of Alumina Limited since 11 December 2002. He is a director of Pacifica Group

Limited, Chairman, Investment Banking at Carnegie Wylie & Company and from July 2000 to July 2005 he was the Chief Executive Officer of the law firm Freehills. He is a member of the Audit Committee, and Compensation Committee and Chair of the Nomination Committee. Mr Hay brings to the Board considerable legal experience and advisory skills particularly in relation to public company takeovers, corporate governance matters and risk management.

**Mr Ronald J McNeilly Age 63**  
BCom MBA, FCPA, FAICD  
Independent Non-Executive Director

Mr McNeilly was elected a Director of Alumina Limited on 11 December 2002. He is the Deputy Chairman of BlueScope Steel Limited; Chairman of Worley Parsons Limited; Chairman of Melbourne Business School Limited; past director of BHP Billiton Limited, QCT Resources Limited, Tubemakers of Australia Limited and Ausmelt; past executive director Global Markets BHP Billiton Limited from 2001 to 2002; past executive director and President of BHP Minerals from 1999 to 2001. He is a member of the Audit and Nomination Committee and Chair of the Compensation Committee. Mr McNeilly brings substantial practical experience and skills gained from over 30 years working in the resource sector.

**Mr Mark R Rayner Age 69**  
BSc (Hons) ChemEng FTSE FAusIMM FIEA FAICD  
Independent Non-Executive Director

Mr Rayner was elected to take office as Director of Alumina Limited on 11 December 2002. He was Chief Executive of Comalco Limited 1978 to 1989, Deputy Chairman 1989 to 1997; executive director CRA Ltd 1989 to 1995, director of National Australia Bank Limited from 1985 to 2001 and Chairman from 1997 to 2001, a director of Pasminco Limited from 1989 to 2003 and Chairman from 1992 to 2003; director of Mayne Nickless Limited from 1995 to 2002; Chairman Mayne Nickless from 1997 to 2002. He is a director of Boral Ltd, a role he has held since February 1996. Mr Rayner is a member of the Nomination Committee and Compensation Committee, and Chair of the Audit Committee. He brings extensive industry specific experience in the bauxite, alumina and aluminium industry of over 35 years.

## DIRECTORS' REPORT

### Mr John Marlay Age 58

BSc FAICD

#### Chief Executive Officer

Mr Marlay was elected as Executive Director and Chief Executive Officer on 11 December 2002. He joined WMC in August 2002, following his role as Head of Strategy for RMC Group Plc in London. Mr Marlay was previously Executive General Manager Business Integration, Hanson Plc from 2000 to 2001. He has held senior management roles with Pioneer International Ltd, James Hardie Industries Limited and Esso Australia Ltd. In December 2006 Mr Marlay was appointed as a non-executive director of Incitec Pivot Limited. Mr Marlay has extensive resource sector experience operating in international management roles, including capital-intensive joint ventures.

### C Company Secretary

#### Stephen Foster

BCom LLB(Hons) GDipAppFin (Sec Inst)

GradDip CSP, ACIS

#### General Counsel/Company Secretary

Mr Foster is responsible for legal, company secretarial, shareholder services, insurance and human resources. He has a wide range of legal and commercial experience gained over 20 years, more recently at Village Roadshow and WMC Limited, after working with the legal firm of Arthur Robinson & Hedderwicks (now Allens Arthur Robinson)

Details of the Company Secretary role are contained on page 40.

- D Particulars of the numbers of meetings of the Company's Directors (including meetings of committees of Directors) and the number of meetings attended by each Director are detailed on page 43.
- E Particulars of relevant interests of shares held by the directors of the Company in the Company or in any related body corporate as at the date of this report are set out on page 67.

### INSURANCE OF OFFICERS

- F During or since the end of the financial year, the Group has paid the premiums in respect of a contract to insure directors and officers of the Group against liabilities incurred in the performance of their duties on behalf of the Group.

The officers of the Group covered by the insurance policy include any natural person acting in the course of duties

for the Group who is or was a Director, secretary or executive officer as well as senior and executive staff. The Company is prohibited, under the terms of the insurance contract, from disclosing details of the nature of liability insured against and the amount of the premium.

### DIVIDENDS

- G Details of the dividends paid during the financial year are referred to in Note 2 of the Concise Financial Statements.

### PRINCIPAL ACTIVITIES

- H The principal activities of the Group relate to its 40 per cent interest in the series of operating entities forming Alcoa World Alumina and Chemicals (AWAC). AWAC has interests in bauxite mining, alumina refining, and aluminium smelting.

### REVIEW OF OPERATIONS AND RESULTS

- I The financial results for Alumina Limited include the 12 months results of AWAC and associated corporate activities.
- J The Group's net profit attributable to members of Alumina Limited was \$511.1 million (2005: \$315.6 million). The Group's underlying earnings for 2006 was \$569 million (2005: \$331 million). For further information on the operations of the Group during the financial year and the results of these operations (including the calculation of underlying earnings), refer to section 2 on page 12 of Part 1 Concise Annual Report.

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

- K At the date of this report no further matters or circumstances have arisen since 31 December 2006 which significantly affected or may significantly affect:
  - i. operations of the Group; or
  - ii. results of those operations; or
  - iii. state of affairs of the Group in future years.

### LIKELY DEVELOPMENTS

- L In the opinion of the Directors it would prejudice the interests of the Group to provide additional information, except as reported in this Directors' Report, relating to likely developments in the operations of the Group and expected results of those operations in the financial years subsequent to the financial year ended 31 December 2006.

## ENVIRONMENTAL REGULATION

- M** AWAC's Australian operations are subject to various Commonwealth and state laws governing the protection of the environment in areas such as air and water quality, waste emission and disposal, environmental impact assessments, mine rehabilitation, and access to and use of ground water. In particular, most operations are required to be licensed to conduct certain activities under the environmental protection legislation of the state in which they operate, and such licenses include requirements specific to the subject site.

## ROUNDING OF AMOUNTS

- O** The company is of a kind referred to in the Australian Securities and Investments Commission Class Order 98/0100. Amounts shown in the Concise Financial Report and this Directors' Report have been rounded off to the nearest hundred thousand dollars, except where otherwise required, in accordance with that Class Order.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- P** There have been no significant changes in the state of affairs of the consolidated entity during the financial year.

## AUDITOR

- Q** PricewaterhouseCoopers continues in office, in accordance with the *Corporations Act 2001*.

## NON-AUDIT SERVICES

- R** The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

## REMUNERATION OF AUDITORS

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

	CONSOLIDATED ENTITY \$THOUSAND	
	2006	2005
<b>a) Remuneration for audit or review of the parent entity or any entity in the consolidated entity:</b>		
Audit of parent entity – PricewaterhouseCoopers – fees for annual audit	367	283
Audit of Annual Report on US Form 20-F – fees for annual audit	105	105
Advice on accounting standards (including transition to A-IFRS)	11	321
	483	709
<b>(b) Remuneration for other assurance services:</b>		
Other	97	–
<b>(c) Remuneration for taxation services:</b>		
Overseas tax services	71	101
<b>Total</b>	<b>651</b>	<b>810</b>

It is the consolidated entity's policy only to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important or where PricewaterhouseCoopers is awarded assignments on a competitive basis.



## DIRECTORS' REPORT

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision for the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- > All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- > None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 70 of this Concise Annual Report.

### S REMUNERATION REPORT

This Remuneration Report sets out the Company's remuneration strategy and practices and incorporates remuneration information for Directors and senior executives in accordance with the Corporations Act. Senior Executive Remuneration Policy and Non-executive Director Remuneration Policy are discussed separately in this report. This report forms part of the Directors' statutory report for the year ended 31 December 2006.

#### COMPENSATION COMMITTEE

##### Role of Compensation Committee

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

In brief, the authority and responsibilities of the Committee are to review and make decisions in relation to:

- > remuneration strategy and policy of the Company;
- > remuneration of senior executives and terms of the CEO's contract;

- > review of incentive plan design;
- > review of succession plans for senior executives;
- > approval of performance measures and incentive payments;
- > advising the Board on remuneration structure for non-executive Directors.

The Committee is thus responsible for overseeing and implementing the Company's compensation plans, policies and practices. The Committee reviews the remuneration strategy and plans of the Company, compares the strategy and plans with community and industry standards and verifies the appropriateness of the strategy and plans by reference to external information and advice. The Committee has the responsibility to ensure that shareholder and employee interests are aligned, that the Company is able to attract, develop and retain talented employees, and that senior executives are fairly and reasonably compensated.

The Committee reviews non-executive Director remuneration annually, taking into account the advice of remuneration consultants with regard to market practices, and the duties and accountabilities of Directors and provides a recommendation to the Board on non-executive Director remuneration. During the year the Committee took advice from the Hay Group and Mercer Human Resources (the Hay Group has no connection to Mr Peter Hay, a Director of the Company).

The Committee meets at least twice a year, and met six times in 2006. Senior executives do attend certain meetings by invitation.

#### SENIOR EXECUTIVE REMUNERATION POLICY (AUDITED)

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

1. is aligned with shareholder interests; and
2. is also designed to reward and recognise superior senior executive performance.

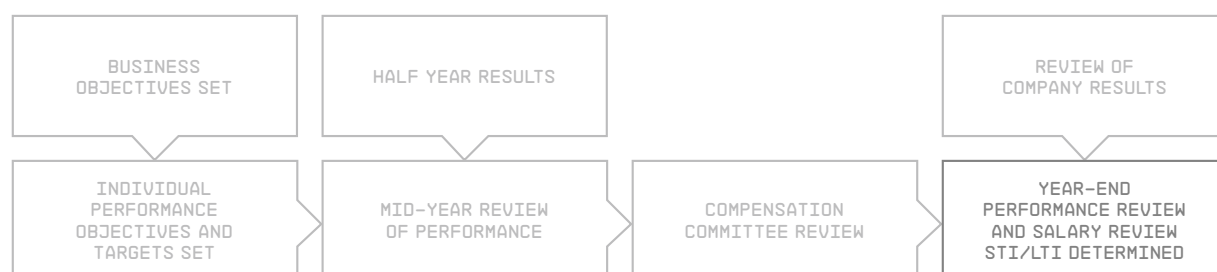
The process ensures that specific and measurable individual objectives and targets that are consistent with business objectives are set for executives and employees.

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

### Remuneration Process

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

After the Board, the CEO, Chief Financial Officer and General Counsel/Company Secretary exercise the greatest control over the management and strategic direction of the Group and are the most highly remunerated executives of the Company and the Alumina Group. These senior executives are the only employees of the Company who make, or participate in making, decisions that affect the whole, or a substantial part, of the business of the Company or have the capacity to significantly affect the Company's financial standing, and therefore less than five senior executives are listed in this Report.



### Individual Performance

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

### Company Performance

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

### Market Position

Alumina Limited is among the 50 largest companies listed on the Australian Securities Exchange. The skills and expertise required by the Company's employees equate to those of similar sized companies, notwithstanding that Alumina Limited has a small number of employees.

Accordingly, Alumina Limited's remuneration levels need to be competitive with comparable Australian organisations to ensure that the Company can attract and retain high-performing employees. External compensation advisers are appointed to provide annual salary and benefits reviews.

### REMUNERATION STRUCTURE/PERFORMANCE REWARD LINK (AUDITED)

#### Executive Remuneration

Senior executive remuneration comprises:

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

## DIRECTORS' REPORT

- > **variable (incentive) payments** – contracts for Senior Executives and professional employees include a component of remuneration linked to both STIs and LTIs. Policies defining STIs and LTIs are established by the Committee and reviewed annually.

### Fixed Remuneration

The Committee reviews and determines the FAR for the CEO. The CEO annually reviews and recommends to the Committee the FAR for the other senior executives.

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

### Variable Payments

During the year, the Company arranged for an independent consultant to review the structure of its STI and LTI plans. After considering the review, the structure of the LTI was modified, effective from 1 January 2007. Details of the arrangements applying during 2006 and the changes applying from 1 January 2007 are set out under paragraph (iii) below.

#### i) Short-Term Incentives

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

Short-term incentive opportunities are calculated as a percentage of the senior executive's fixed remuneration and are paid in the form of cash. The Committee reviews performance assessments and approves STI payments to all employees. In 2006, up to 40 per cent of FAR was the maximum payable to senior executives (50 per cent for the Chief Executive Officer) as STI, of which 25 per cent related to performance against individual objectives and 15 per cent related to the return on capital and earnings per share performance during the 2006 year. For the Chief Executive Officer's STI, 30 per cent relates to performance against individual objectives and 20 per cent relates to return on capital

and earnings per share performance. The STI is designed to encourage high performance and link senior executive remuneration to financial returns achieved by the Company.

Performance against individual objectives links achievement to reward for senior executives to meet or exceed measurable objectives in their work. Specific tasks and objectives relate to AWAC joint venture matters and strategy, including funding and dividend policy of AWAC, capital management and dividends which ultimately support Alumina Limited's objectives and shareholder interests.

The objective of completing the commercial, dividend distribution and funding arrangements relating to the AWAC joint venture was achieved during 2006. This ensured Alumina's participation in AWAC's growth projects, and the distribution of franking credits from Alcoa of Australia, and provided the flexibility to increase returns to shareholders.

Performance of senior executives is measured against a scorecard of agreed objectives and targets. Individual performance against the measures was assessed for each senior executive for 2006 and an average of 22 per cent of FAR was awarded for this component of STI to Messrs Dean and Foster and 28 per cent of FAR awarded to Mr Marlay.

The STI reward attributed to the Company performance for 2006 was 11 per cent of FAR for Messrs Dean and Foster (15 per cent for Mr Marlay). This reflected Company performance in relation to the AWAC Operating Plan return on capital and Company earnings per share.

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

From January 2007, the Company will operate a short term incentive equity conversion plan ("STI Equity Plan") for senior executives and other eligible employees. Under the STI Equity Plan, participants may elect to apply all or a portion of their short-term incentive to the

acquisition of Company shares (which are purchased on market), with all costs of acquisition being borne by the participant. In addition, to the extent an eligible employee elects to acquire Company shares under the STI Equity Plan, they will, upon continuing to be employed by the Company for three years from the date of acquiring shares under the STI Equity Plan, receive additional Company shares equal to i) 50 per cent of their Company shares acquired ("Matching Shares") and ii) shares equal to the amount of dividends that would have been paid on the Matching Shares if they had been acquired at the same time as the initial shares ('Dividend Equivalent Shares'). The STI Equity Plan will apply to the STI payment made in December 2006.

#### ii) Long-term Incentives

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

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

An initial grant of three tranches of performance rights, approved by the Board in March 2003, covered a three-year period, from 2003 to 2005. The first tranche was tested in December 2003, the second tranche in December 2004 and the third tranche in December 2005. The LTI grant value for senior executives was set at 30 per cent of FAR for the initial grant of three tranches of Performance Rights in March 2003. The LTI grant value was set at 55 per cent for the subsequent grants in January 2004 and January 2005 at the same time as the maximum STI grant was reduced accordingly. The LTI grant was set at 60 per cent for the subsequent grant in January 2006, when the STI percentage for Messrs Dean and Foster was reduced to 40 per cent. The LTI grant value is divided by the prevailing Company share price at the time of the offer to determine the number of Performance Rights offered to senior executives under the ESP.

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

#### Testing period for TSR

If less than 100 per cent of the Performance Rights in a tranche vest when tested initially, a second test is conducted six months after the initial test. No further testing is undertaken after this second test. The second test is considered appropriate in view of the volatility of global commodity prices and exchange rates and the resulting volatility in the Company's share price. The second test applies only to 50 per cent of the Performance Rights that did not initially vest (for example, if 60 per cent of the Performance Rights initially vest, the second test will apply only to half of the 40 per cent of Performance Rights that did not initially vest). The remaining 50 per cent of the Performance Rights that did not vest will lapse and not be subject to future retesting.

The number of Performance Rights of the retested portion that vest will be determined according to Alumina Limited's relative TSR performance over the period from the commencement of the performance period to the retest date, according to the same scale used at the initial test (refer to Table [2.0]).

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

Entitlements will generally lapse on cessation of employment.

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

#### Overview of LTI Performance Condition

##### TSR

Two comparator group tests are applied to determine the number of Performance Rights which may vest under the ESP, with each accounting for 50 per cent of

## DIRECTORS' REPORT

the maximum possible grant of Performance Rights under the ESP. The performance tests compare Alumina Limited's TSR performance with the TSR performance of each of the entities in two comparator groups over the performance period. Results of the performance tests are calculated by a consultant engaged for this purpose.

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

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

Test 1 relates to performance of Alumina Limited against a comparator group of 50 Australian-listed entities (i.e. 50 entities/securities excluding Alumina Limited and Property Trusts) (Test 1 – ASX Comparator Group). The composition of the ASX Comparator Group for 2006 is shown in Table 2.1.

Test 2 relates to performance against a comparator group of 30 international metals and mining entities listed on stock exchanges inside and outside Australia (i.e. 30 entities excluding Alumina Limited) (Test 2 – International Comparator Group). The composition of the International Comparator Group for 2006 is shown in table 2.2.

Under the performance tests, the TSR for each entity in the comparator groups and for Alumina Limited is calculated according to a standard methodology determined by remuneration consultants Mercer Human Resource Consulting, engaged for this purpose. The entities (or securities, as appropriate) in the comparator group are then ranked by TSR performance. The number of Performance Rights for which senior executives receive an Alumina Limited Performance Right (i.e. that 'vest') is then determined according to the scale in Table 1.0:

**TABLE 1.0 LTI VESTING TREATMENT – TSR (UNAUDITED)**

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

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

For Performance Rights granted under the ESP from 2007 onwards, 50 per cent of the Performance Rights granted will be subject to an earnings per share ('EPS') performance hurdle, which involves a comparison between the EPS of Alumina Limited for the financial (calendar) year at the end of the relevant testing period and the average of actual Alumina EPS figures over the four financial years which preceded the financial year during which the Performance Rights were granted ('Baseline EPS'). For the grant in January 2007, the Baseline EPS, calculated on this basis, is 31.4 cents per share. The Baseline EPS is reset by the Board each year. The remaining 50 per cent of the Performance Rights granted from 2007 are tested against the Company's TSR performance.

EPS growth is measured by comparing the actual EPS for the financial reporting year during the end of the relevant testing period and the baseline EPS, expressed as a percentage growth.

**TABLE 1.1 LTI VESTING TREATMENT – EPS (UNAUDITED)**

<b>Alumina Limited earnings per share growth</b>	<b>Vesting</b>
If Alumina Limited's EPS growth in the year of testing is less than 6 per cent per annum compared with the Baseline EPS	0 per cent
If Alumina Limited's EPS growth in the year of testing is equal to or greater than 6 per cent per annum compared with the Baseline EPS	50 per cent
If Alumina Limited's EPS is equal to or greater than 10 per cent per annum compared with the Baseline EPS	100 per cent

If Alumina Limited's EPS performance is between 6 per cent and 10 per cent, the number of Performance Rights in a tranche that vest will increase by 12.5 per cent for each 1 per cent by which Alumina Limited's EPS growth is greater than 6 per cent.

For previous grants of Performance Rights which remain current, the relevant comparator group is set out in Tables 2.1 and 2.2.

**TABLE 2.1 ASX COMPARATOR GROUP (AUDITED)**

<b>Company<sup>1</sup></b>	<b>Relevant testing years</b>			
	<b>June 2006<sup>2</sup></b>	<b>December 2006</b>	<b>2007</b>	<b>2008</b>
Amcor	X	X	X	X
AMP	X	X	X	X
Aristocrat Leisure	X		X	X
ANZ Banking Group	X	X	X	X
Aust. Gas Light	X	X	X	X
AXA Asia Pacific Holdings	X	X	X	X
BHP Billiton	X	X	X	X
BlueScope Steel	X	X	X	X
Boral	X	X	X	X
Brambles Industries	X	X	X	X
Centro Props Group		X	X	X
Caltex Australia				X
CFS Gandel Retail Trust	X			
Coca-Cola Amatil	X	X	X	X
Cochlear	X		X	
Coles Myer	X	X	X	X
Commonwealth Bank	X	X	X	X
CSL	X	X	X	X
CSR	X			
Foster's Group	X	X	X	X
Harvey Norman Holdings	X	X	X	
Insurance Aust. Group	X	X	X	X
Investa Property		X		



# DIRECTORS' REPORT

TABLE 2.1 ASX COMPARATOR GROUP (CONTINUED)

Company <sup>1</sup>	Relevant testing years			
	June 2006 <sup>2</sup>	December 2006	2007	2008
James Hardie Inds.	X	X		X
John Fairfax	X	X	X	
Leighton Holdings	X	X		X
Lend Lease	X	X	X	X
Lion Nathan	X	X	X	
Macquarie Airports			X	X
Macquarie Bank	X	X	X	X
Macquarie Infra Group		X	X	X
Mirvac Group	X	X	X	
National Aust. Bank	X	X	X	X
Newcrest Mining	X	X	X	X
Orica	X	X	X	X
Origin Energy	X	X	X	X
Patrick	X			
Promina Group		X	X	X
Publishing and Broadcasting	X	X	X	X
Qantas Airways	X	X	X	X
QBE Insurance Group	X	X	X	X
Resmed CDI	X			
Rinker		X	X	X
Rio Tinto	X	X	X	X
St George Bank	X	X	X	X
Santos	X	X	X	X
Sonic Healthcare				X
Stockland	X	X	X	X
Suncorp-Metway	X	X	X	X
Symbion Health		X		
Tabcorp Holdings	X	X	X	X
Telecom Corp NZ	X	X	X	X
Telstra	X	X	X	X
Toll Holdings		X	X	X
Transurban Group	X		X	X
Wesfarmers	X	X	X	X
Westfield Group	X		X	X
Westfield Holdings		X		
Westpac Banking	X	X	X	X
Woodside Petroleum	X	X	X	X
Woolworths	X	X	X	X

<sup>1</sup> The companies included in the comparator group change from year to year as companies enter or exit the ASX 50 or are delisted.

<sup>2</sup> This relates to performance rights initially tested in December 2005 and for which 50 per cent was subject to a retest in June 2006.

**TABLE 2.2 INTERNATIONAL COMPARATOR GROUP FOR 2006 TEST 2 (AUDITED)**

Company <sup>1</sup>	Relevant testing years			
	June 2006 <sup>2</sup>	December 2006	2007	2008
Acerinox	X	X		
Alcan	X	X	X	X
Alcoa	X	X	X	X
Anglo American	X	X	X	X
Arcelor (Par)	X	X	X	X
Barrick Gold	X	X	X	X
BHP Billiton Ltd	X	X	X	X
BHP Billiton Plc	X	X	X	X
BlueScope Steel		X	X	X
Cameco		X	X	X
China Steel	X	X	X	X
Corus Group	X		X	X
Dofasco	X			
Freeport McMoran	X	X	X	X
Inco	X	X		
JFE Holdings	X	X	X	X
Johnson Matthey		X	X	X
Kinross Gold Corp		X		
Kobe Steel			X	X
Lonmin	X	X		
Mitsui Mining & Smelting	X			
Newmont Mining	X	X	X	X
Newcrest Mining				X
Nippon Steel	X	X	X	X
Nucor	X	X	X	X
Phelps Dodge	X	X	X	X
Placer Dome	X	X	X	X
Posco	X	X	X	X
Rio Tinto (Ltd)	X	X	X	X
Rio Tinto (Plc)	X	X	X	X
Sumitomo Metal Mining	X	X	X	X
Sumitomo Metals Inds			X	
Teck Cominco	X	X	X	X
ThyssenKrupp		X	X	X
Toyo Seikan	X			
US Steel	X	X	X	X

## DIRECTORS' REPORT

**TABLE 2.2 INTERNATIONAL COMPARATOR GROUP FOR 2006 TEST 2 (CONTINUED)**

CVRD PNA	X	X	X	X
Worthington Inds	X			
Xstrata			X	X

<sup>1</sup> The companies included in the comparator group change from year to year as companies enter or exit the 30 largest companies in the Metals and Mining group or are delisted.

<sup>2</sup> This relates to performance rights initially tested in December 2005 and for which 50 per cent was subject to a retest in June 2006.

### LTI Results for the 2003 and 2004 ESP grant

The relative performance criteria for the March 2004 ESP grant of performance rights (i.e. for the three years to 21 December 2006) did not equal or exceed the 50th percentile for either comparator group at the first test date of 21 December 2006, and accordingly none of those performance rights vested at that time. For the third tranche of the March 2003 ESP grant, on retesting in June 2006, Alumina's TSR did not equal or exceed the 50th percentile for either comparator group and none of the performance rights in that tranche vested.

### RELATING REWARDS TO PERFORMANCE

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

Alumina Limited's share price from 2003 to 2006 moved through the following ranges:



Table 3.0 indicates various measures of Alumina Limited's performance, and their relationship to executive remuneration since 2003.

**TABLE 3.0 HISTORICAL PERFORMANCE OF ALUMINA LIMITED (AUDITED)**

	2006	2005	2004	2003
Dividends declared per share (cents)	22	20	20	23
Percentage change in share price	(15)	25	(10)	30
Net profit after tax	\$511m	\$316m	\$316m	\$237m
Earnings per share	43.8	27.1	27.7	20.9
Percentile ranking of TSR against ASX 50	4	48	8	90
Per cent increase in fixed remuneration <sup>2</sup>	5	27	Nil	n/a
Per cent short-term incentive – % of FAR <sup>2</sup>	36	26 <sup>1</sup>	16	52
Per cent long-term incentive <sup>2</sup>	Nil	2	Nil	30

Note Years prior to the Company's demerger in December 2002 are not included.

<sup>1</sup> Percentage is calculated by reference to FAR as at 31 December 2005.

<sup>2</sup> Represents the average applicable to senior executives.

Alumina Limited's profit has increased by 115 per cent from 2003 to 2006. Total shareholder returns for the four years consists of dividends declared of 82 cents per share and the share price increase of 30 per cent.

The LTI component and part of the STI component of senior executive remuneration are tied to Company performance. Over the period from 2003 to 2006, Alumina Limited has created significant value for shareholders by adding to its interest in AWAC, ensuring Alumina Limited participates in AWAC expansion projects, implementing new AWAC funding and dividend arrangements, contributing to the strategic direction of AWAC and implementing effective capital management for Alumina Limited shareholders. The performance of the Company is measured by TSR and growth in the Company's profit. Over the period from 2003 to 2006, STI and LTI outcomes for senior executives have been aligned to TSR performance and STI outcomes have also been linked to personal objectives and return on capital and earnings per share, which contribute to increased shareholder value. In future, LTI outcomes will be aligned to TSR performance and will also be related to earnings per share, which directly reflects changes in shareholder wealth.

For the STI, Company performance has been measured using AWAC Operating Plan return on capital for the 12-month performance period and an earnings per share target for Alumina Limited based on the AWAC Operating Plan and Alumina Limited's corporate budget

for the period in 2006. In 2006, performance against these measures reached threshold levels, which meant for senior executives the STI award for this component was 11 per cent (15% for the CEO).

#### **SUPERANNUATION (UNAUDITED)**

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

#### **OPTION PLANS (UNAUDITED)**

Alumina Limited does not have any ongoing option plans available to non-executive Directors, executives and senior managers (including executive Directors) or employees.

#### **NON-EXECUTIVE DIRECTOR REMUNERATION POLICY (AUDITED)**

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

## DIRECTORS' REPORT

9.3 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, Non-executive Directors do not receive any performance-related remuneration and do not participate in the ESP. Directors are also required to direct at least 10 per cent of their fees to purchase Company shares.

Total remuneration for non-executive Directors is determined by resolution of shareholders. The maximum aggregate remuneration approved for Directors is \$950,000 per annum. A total of \$675,962 was paid in non-executive Director fees in 2006.

In 2006, the Committee approved an increase in non-executive Directors' fees of 5.5 per cent, effective from 1 January 2007. This review considered non-executive Director fee levels of comparable companies and targeted fee levels at the third quartile.

The Directors agreed to continue the practice of not paying additional fees for committee membership or chairmanship of committees. Non-executive Directors' remuneration details are set out in Table 6.1.

### Non-executive Director Retirement Benefits

Non-executive Directors receive, in addition to their fees, a superannuation guarantee contribution, which for 2006 is 9 per cent of their fees to a maximum of \$12,413 for the Chairman and \$9,900 for other non-executive Directors, but do not receive any other retirement benefits.

### Non-executive Director Share Acquisitions

Alumina Limited's non-executive Directors participate in a share plan that requires the Directors to allocate a minimum of 10 per cent of their annual fees to acquiring shares in the Company. Those shares are purchased on-market on behalf of the Directors. Shares are not allocated on performance but in lieu of receiving cash remuneration. The non-executive Directors have the option to increase, above the minimum, the proportion of their remuneration they receive as shares. There are no discounts provided to Directors for the acquisition of shares under the plan. All costs associated with acquiring shares are borne by the Director. It is Company policy that Directors hold shares in the Company having a value approximately equal to their annual fees by the expiry of their first term as a Director. Participation in the plan further aligns the Directors' interests with those of shareholders.

## CHIEF EXECUTIVE OFFICER REMUNERATION (AUDITED)

### Terms

In December 2005, Mr Marlay entered into a new employment contract with a FAR of \$850,000 per annum, an STI of up to 50 per cent of FAR (with 'at target' performance likely to achieve 30-42 per cent), and a grant of Performance Rights at the Board's discretion with a value up to 75 per cent of FAR per annum (which will vest according to the extent to which the ESP plan performance tests are satisfied). This contract reflected changes in CEO remuneration practices in the market, where there is both a higher proportion of at risk remuneration and greater weighting to long-term incentives.

In 2006, Mr Marlay was awarded an STI of \$365,500, equivalent to 43 per cent of his FAR. The payment comprised 28 per cent relating to performance against individual objectives and 15 per cent for Company performance for 2006.

Under the ESP Plan, the Company's TSR did not exceed the 50th percentile for the 72,500 Performance Rights that were tested in December 2006 therefore, none of those Performance Rights vested to Mr Marlay. Fifty per cent of those rights will be subject to a retest in June 2007. In June 2006, none of Mr Marlay's 24,450 Performance Rights vested upon a retest of those rights, previously tested in December 2005, and accordingly they lapsed.

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

### Retirement and Termination Benefits

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

If Mr Marlay's employment is terminated on the basis of redundancy of the position or by Mr Marlay giving written notice to Alumina Limited in the event of a Significant Change (which is defined to be if Alumina Limited ceases to be listed on the Australian Securities Exchange, or if there is a significant change to his status and/or responsibilities which is detrimental to Mr Marlay, or if Alumina Limited decides the position is no longer required and suitable alternative employment is not offered or Mr Marlay does not accept other employment within Alumina or another employer), then Mr Marlay is entitled to:

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

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

#### **AMOUNTS OF REMUNERATION (AUDITED)**

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

The key management personnel of Alumina Limited includes the Directors as per pages 47–48, and the following senior executive officers:

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

The key management personnel of the Group are the same people as above.



# DIRECTORS' REPORT

**TABLE 4.0 CEO'S REMUNERATION (AUDITED)**

	John Marlay* Chief Executive Officer	
	2006 \$	2005 \$
<b>Short-term benefits</b>		
Fixed remuneration – cash <sup>1</sup>	831,244	727,638
Short-term incentive <sup>2</sup>	365,500	217,500
Non-monetary benefits	n/a	n/a
<b>Post-employment</b>		
Superannuation – Company contributions <sup>3</sup>	18,756	11,862
Retirement benefits	n/a	n/a
<b>Equity</b>		
Performance Rights <sup>4</sup>	311,452	200,821
<b>Total remuneration</b>	<b>1,526,952</b>	<b>1,157,821</b>

\* Mr Marlay is an executive Director of Alumina Limited.

<sup>1</sup> Fixed remuneration is the total cost of salary, exclusive of superannuation.

<sup>2</sup> Short-term incentive reflects the cash value paid for the years ended 31 December 2006 and 31 December 2005.

<sup>3</sup> Superannuation contributions reflect the Superannuation Guarantee payment.

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

## Service Agreements – Messrs Dean, Foster

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

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

- > the greater of six months Base Remuneration (being FAR and the at target STI) or the aggregate of; a notice payment of 12 weeks, a severance payment of 2.5 weeks per completed years of service and an additional severance payment of 13 weeks.

Mr Dean and Mr Foster are not entitled to the payment outlined above where the reason for a significant change is poor performance or inability to fulfil agreed responsibilities. Mr Dean and Mr Foster are not entitled to retirement benefits other than superannuation entitlements.

5. A requirement that the Company provides six months notice to terminate the contract and the senior executive provide three months written notice of termination.

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

TABLE 4.1 MOST HIGHLY REMUNERATED EXECUTIVES (AUDITED)

	Ken Dean* Chief Financial Officer		Robert Davies* Chief Financial Officer 1 January 2005 to 31 October 2005		Stephen Foster General Counsel/ Company Secretary	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
<b>Short-term benefits</b>						
Fixed remuneration – cash <sup>1</sup>	527,588	102,515	–	354,411	337,588	293,221
Short-term incentive <sup>2</sup>	172,800	n/a	–	120,000	119,000	91,000
Other short-term employee benefits	–	–	–	–	9,835	–
<b>Post employment</b>						
Superannuation – Company contributions <sup>3</sup>	12,412	2,023	–	9,839	12,412	11,862
Retirement benefits	n/a	n/a	–	n/a	n/a	n/a
<b>Equity</b>						
Performance Rights <sup>4</sup>	74,945	n/a	–	(77,486)	109,794	74,788
<b>Total remuneration</b>	<b>787,745</b>	<b>104,538</b>	<b>–</b>	<b>406,764</b>	<b>588,629</b>	<b>470,871</b>
<b>Total for most highly remunerated executives</b>			<b>2006 \$</b>	<b>2005 \$</b>		
Total short-term benefits			1,166,811	961,147		
Total post employment			24,824	23,724		
Total share-based payment			184,739	[2,698]		
<b>Total remuneration</b>			<b>1,376,374</b>	<b>982,173</b>		

\* Mr Davies was an alternate Director for Mr Rayner until 31 October 2005. Mr Dean was an alternate Director for Mr Rayner from 1 January 2006 and remained so for the entire year. Mr Dean commenced employment with Alumina Limited as Chief Financial Officer on 24 October 2005.

<sup>1</sup> Fixed remuneration is the total cost of salary exclusive of superannuation.

<sup>2</sup> Short-term incentive (STI) reflects the cash value paid for the years ended 31 December 2006 and 31 December 2005.

<sup>3</sup> Superannuation benefits reflect the Superannuation Guarantee payment.

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

# DIRECTORS' REPORT

**TABLE 4.2 INCENTIVES – MOST HIGHLY REMUNERATED EXECUTIVES (AUDITED)**

	John Marlay Chief Executive Officer	Ken Dean Chief Financial Officer	Stephen Foster General Counsel/ Company Secretary
	%	%	%
<b>Short-term incentive</b>			
Percentage paid	86.00	80.00	85.00
Percentage forfeited	14.00	20.00	15.00
<b>Long-term incentive</b>			
Percentage vested			
June 2006	–	n/a	–
December 2006	–	n/a	–
Percentage forfeited			
June 2006	50	n/a	50
December 2006	50	n/a	50
<b>Percentage of remuneration</b>			
Comprising variable remuneration	44.33	31.44	39.53

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

	Rights				Performance Rights yet to vest	Financial year in which grants may vest	Value of rights outstanding 31/12/06	
	Number	Date of grant	% vested in 2006	% forfeited in 2006			\$ Min <sup>2</sup>	\$ Max <sup>3</sup>
John Marlay	48,900 <sup>1</sup>	Mar 03	–	50	–		–	–
	72,500	Jan 04	–	50	36,250	2006	–	109,113
	70,600	Jan 05	–	–	70,600	2007	–	259,808
	99,300	Jan 06	–	–	99,300	2008	–	453,801
Ken Dean	50,500	Jan 06	–	–	50,500	2008	–	230,785
Stephen Foster	18,200 <sup>1</sup>	Mar 03	–	50	–	2006	–	–
	27,000	Jan 04	–	50	13,500	2006	–	40,635
	26,300	Jan 05	–	–	26,300	2007	–	96,784
	32,800	Jan 06	–	–	32,800	2008	–	149,896

<sup>1</sup> These rights were initially tested in December 2005.

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

<sup>3</sup> Maximum value has been calculated by reference to valuations determined on the basis as outlined in Note (A) to table 5.1.  
The terms of Performance Rights granted to John Marlay, Ken Dean and Stephen Foster were not altered during the 2006 year.

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

**(AUDITED)**

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

<sup>1</sup> End of performance period is the date the performance of the Company is measured against the performance criteria. If the Company fails to meet the minimum performance criteria then 50 per cent of the Performance Rights are forfeited and 50 per cent are subject to a retest in six months time.

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

# DIRECTORS' REPORT

**TABLE 5.1 VALUE OF PERFORMANCE RIGHTS (UNAUDITED)**

Director/senior executives	(A) Value – Granted in 2006 Performance Rights \$	(B) Value – Vested in 2006 Performance Rights \$	(C) Value – Lapsed in 2006 Performance Rights \$	(D) Total of Columns Performance Rights A+B-C \$	(E) Value as proportion of remuneration %
John Marlay	453,801	–	(169,992)	283,809	19
Ken Dean	230,785	–	–	230,785	29
Stephen Foster	149,896	–	(63,294)	86,602	15

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

(A) The value of Performance Rights granted in the year reflects the value of a Performance Right, times the number of Performance Rights granted during 2006. Performance Rights were valued independently by Mercer Finance and Risk Consulting using the assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model that accommodates features associated with Alumina Limited's ESP such as exercise, forfeiture and performance hurdles. The rights are those granted in January 2006.

(B) The value of Performance Rights vesting is determined by the number of vested rights multiplied by the market price at the vesting date.

(C) The value applicable to Performance Rights at lapse date has been determined by using the fair value as calculated by Mercer Finance and Risk Consulting multiplied by the number of rights lapsed.

(D) The total value is the sum of the value of Performance Rights granted during 2006, plus the value of Performance Rights vested during 2006, less the value of Performance Rights that lapsed during 2006.

**TABLE 6.0 NON-EXECUTIVE DIRECTORS' REMUNERATION (AUDITED)**

	Don Morley		Peter Hay		Ron McNeill		Mark Rayner	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
<b>Short-term benefits</b>								
Fees – cash <sup>1</sup>	258,750	191,250	94,875	–	86,250	82,500	98,710	99,000
Value of shares acquired in lieu of fees <sup>2</sup>	28,750	21,250	20,125	110,000	28,750	27,500	16,290	11,000
<b>Post employment</b>								
Superannuation Guarantee	12,412	19,125	10,350	9,900	10,350	9,900	10,350	9,900
Retirement benefit accrued	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total Remuneration</b>	<b>299,912</b>	<b>231,625</b>	<b>125,350</b>	<b>119,900</b>	<b>125,350</b>	<b>119,900</b>	<b>125,350</b>	<b>119,900</b>

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

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

**TABLE 7.0 NON-EXECUTIVE DIRECTOR SHAREHOLDINGS 2006 (AUDITED)**

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

**NON-EXECUTIVE DIRECTOR SHAREHOLDINGS 2005 (AUDITED)**

	Balance of shares as at 1 January 2005 <sup>3</sup>	Shares acquired during the year in lieu of salary <sup>2</sup>	Other shares acquired during the year	Balance of shares held at 31 December 2005 <sup>3</sup>
Don Morley	413,796	3,548	–	417,344
Peter Hay	15,430	16,270	–	31,700
Ron McNeilly	23,304	4,066	–	27,370
Mark Rayner	26,467	1,627	–	28,094

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

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

<sup>3</sup> Balance of shares held at 1 January 2005 and 31 December 2005 includes directly held, and nominally held shares and shares held by personally related entities.



# DIRECTORS' REPORT

**TABLE 8.0 SENIOR EXECUTIVES – HOLDINGS OF PERFORMANCE RIGHTS 2006 (AUDITED)**

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

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

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

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

**TABLE 8.1 SENIOR EXECUTIVES – HOLDINGS OF PERFORMANCE RIGHTS AND OPTIONS 2005 (AUDITED)**

Specified Executives	John Marlay		Robert Davies		Stephen Foster		Ken Dean	
Type of equity-based instrument	Share Option	Performance Rights	Share Option	Performance Rights	Share Option	Performance Rights	Share Option	Performance Rights
Number held at 1 January 2005 <sup>1</sup>	–	144,750	50,000	74,300	–	53,900	–	–
Number granted during the year as remuneration <sup>2</sup>	–	70,600	–	36,500	–	26,300	–	–
Number vested during the year	–	(5,838)	–	(3,000)	–	(2,175)	–	–
Number lapsed during the year <sup>3</sup>	–	(41,962)	–	(107,800)	–	(15,625)	–	–
Number exercised during the year	–	–	(50,000)	–	–	–	–	–
Number held at 31 December 2005	–	167,550	–	–	–	62,400	–	–

<sup>1</sup> Includes the number of Performance Rights granted that were subject to testing in June 2005, December 2005 and December 2006 but not yet vested.

<sup>2</sup> Performance Rights granted in January 2005 for the three-year performance test period concluding in December 2007.

<sup>3</sup> Performance Rights conditions were not met for Tranche 3 of the March 2003 grant and under the ESP Rules, 50 per cent of the entitlement lapsed with the remaining 50 per cent to be retested in June 2006. In addition, a portion of Tranche 2 of the March 2003 grant tested in June 2005 lapsed. Mr Davies' remaining Performance Rights lapsed on his resignation on 31 October 2005.

<sup>4</sup> Mr Davies exercised his options and sold the shares he obtained from exercising his options.

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

Name	Number of Performance Rights granted during year		Number of Performance Rights vested during year	
	2006	2005	2006	2005 <sup>1</sup>
<b>Directors</b>				
John Marlay	99,300	70,600	–	5,838
<b>Other key management personnel</b>				
Robert Davies	–	36,500	–	3,000
Stephen Foster	32,800	26,300	–	2,175
Ken Dean	50,500	–	–	–

<sup>1</sup> Performance Rights that vest result in the applicable shares being held on trust for the employee by the Alumina Employee Share Plan Pty Ltd. When exercisable, each right is convertible to one ordinary share in Alumina Limited.

# DIRECTORS' REPORT

**TABLE 9.0 SENIOR EXECUTIVES SHAREHOLDINGS FOR THE YEAR ENDED 31 DECEMBER 2006 (AUDITED)**

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

**SENIOR EXECUTIVES SHAREHOLDINGS FOR THE YEAR ENDED 31 DECEMBER 2005 (AUDITED)**

	Balance of shares as at 1 January 2005 <sup>5</sup>	Shares acquired during the year	Shares acquired during the year through the exercise of options	Shares acquired during the year under Employee Share Plan <sup>3</sup>	Shares sold during the year	Balance of shares held at 31 December 2005 <sup>5</sup>
John Marlay	84,500	–	–	5,838	–	90,338
Robert Davies	90,762	–	50,000 <sup>4</sup>	3,000	(143,762)	–
Stephen Foster	26,500	–	–	2,175	–	28,675
Ken Dean	–	–	–	–	–	–

<sup>1</sup> Mr Dean acquired 9,741 ordinary shares in the Company in February 2007 pursuant to the STI equity plan.

<sup>2</sup> Balance of shares held at 1 January 2006 and 31 December 2006 include directly held, and nominally held shares, and shares held by personally related entities. Mr Davies was not an employee of the Company as at 31 December 2005.

<sup>3</sup> Does not include Performance Rights granted under the ESP but not vested.

<sup>4</sup> Mr Davies exercised 50,000 options issued prior to the Company's demerger and sold the shares acquired on exercise.

<sup>5</sup> Balance of shares held at 1 January 2005 and 31 December 2005 include directly held, and nominally held shares, and shares held by personally related entities.

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



**DON M MORLEY**  
**>CHAIRMAN**



**JOHN MARLAY**  
**>CHIEF EXECUTIVE OFFICER**

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Alumina Limited for the year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

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

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



**PRICEWATERHOUSECOOPERS**  
**9 MARCH 2007**



**TIM GOLDSMITH PARTNER MELBOURNE**

# >CONCISE FINANCIAL REPORT

ALUMINA LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	\$ MILLION	
	2006	2005
Revenue from continuing operations	1.4	4.0
General and administrative expenses	(10.7)	(10.2)
Finance costs	(25.1)	(15.3)
Share of net profits of associates accounted for using the equity method	546.6	337.1
<b>Profit before income tax</b>	<b>512.2</b>	<b>315.6</b>
Income tax expense	(1.1)	–
<b>Profit attributable to members of Alumina Limited</b>	<b>511.1</b>	<b>315.6</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:</b>		
Basic earnings per share	<b>43.8c</b>	27.1c
Diluted earnings per share	<b>43.8c</b>	27.1c

# CONCISE

## FINANCIAL REPORT

### ALUMINA LIMITED AND CONTROLLED ENTITIES

#### CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	\$ MILLION	
	2006	2005
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	169.0	15.2
Receivables	0.1	0.5
Deferred tax assets	2.1	2.1
Other financial assets	–	0.5
<b>Total current assets</b>	<b>171.2</b>	<b>18.3</b>
<b>NON-CURRENT ASSETS</b>		
Investments accounted for using the equity method	2,186.2	1,994.9
Property, plant and equipment	0.2	0.3
<b>Total non-current assets</b>	<b>2,186.4</b>	<b>1,995.2</b>
<b>TOTAL ASSETS</b>	<b>2,357.6</b>	<b>2,013.5</b>
<b>CURRENT LIABILITIES</b>		
Payables	12.7	3.1
Interest-bearing liabilities	380.2	478.7
Current tax liabilities	1.1	–
Provisions	0.1	0.1
Other	0.7	1.2
<b>Total current liabilities</b>	<b>394.8</b>	<b>483.1</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing liabilities	207.9	–
Provisions	0.3	0.2
<b>Total non-current liabilities</b>	<b>208.2</b>	<b>0.2</b>
<b>TOTAL LIABILITIES</b>	<b>603.0</b>	<b>483.3</b>
<b>NET ASSETS</b>	<b>1,754.6</b>	<b>1,530.2</b>
<b>EQUITY</b>		
Parent entity interest:		
Contributed equity	425.8	415.7
Treasury shares	(0.6)	(0.6)
Reserves:		
- Group	30.6	41.4
- Associates	(15.3)	37.5
Retained profits:		
- Group	861.1	608.7
- Associates	453.0	427.5
<b>TOTAL EQUITY</b>	<b>1,754.6</b>	<b>1,530.2</b>

## ALUMINA LIMITED AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	\$ MILLION	
	2006	2005
<b>Total equity at the beginning of the year</b>	<b>1,530.2</b>	<b>1,411.9</b>
Adjustment on adoption of AASB 2, net of tax, to Reserves	–	(0.2)
Adjustment on adoption of AASB 139, net of tax, to Reserves	–	35.6
Changes in the fair value of cash flow hedges, net of tax <sup>1</sup>	(52.8)	–
Exchange differences on translation of foreign operations	(11.3)	(11.5)
<b>Net income recognised directly in equity</b>	<b>(64.1)</b>	<b>23.9</b>
<b>Profit for the year</b>	<b>511.1</b>	<b>315.6</b>
<b>Total income and expense recognised in equity and profit during the year</b>	<b>447.0</b>	<b>339.5</b>
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	10.1	11.6
Movement in share-based payments reserve	0.5	–
Dividends paid	(233.2)	(232.8)
	(222.6)	(221.2)
<b>Total equity at the end of the financial year</b>	<b>1,754.6</b>	<b>1,530.2</b>

<sup>1</sup> Short-term AWAC energy price hedging, principally natural gas and fuel oil

# CONCISE

## FINANCIAL REPORT

### ALUMINA LIMITED AND CONTROLLED ENTITIES

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	\$ MILLION	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees (inclusive of goods and service tax)	(10.5)	(14.3)
GST refund received	0.6	0.5
Dividends received from associates	521.1	95.9
Interest received	1.4	4.5
Interest paid	(15.7)	(14.3)
Income taxes paid	–	0.1
Other	–	(0.4)
<b>Net cash inflow from operating activities</b>	<b>496.9</b>	<b>72.0</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for investment in associates	(259.2)	(8.2)
<b>Net cash outflow from investing activities</b>	<b>(259.2)</b>	<b>(8.2)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issues of shares	10.1	11.6
Proceeds from borrowings	391.3	52.8
Repayment of borrowings	(252.4)	–
Dividends paid	(233.2)	(232.8)
<b>Net cash outflow from financing activities</b>	<b>(84.2)</b>	<b>(168.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>153.5</b>	<b>(104.6)</b>
Cash and cash equivalents at the beginning of the financial year	15.2	117.9
Effects of exchange rate changes on cash and cash equivalents	0.3	1.9
<b>Cash and cash equivalents at the end of the financial year</b>	<b>169.0</b>	<b>15.2</b>



ALUMINA LIMITED AND CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONCISE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

---

This Concise Financial Report relates to the consolidated entity consisting of Alumina Limited and the entities it controlled at the end of, or during the year ended 31 December 2006. The accounting policies adopted have been consistently applied to all years presented.

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in financial reports. Amounts in the Concise Financial Report have been rounded off in accordance with the Class Order to the nearest hundred thousand dollars, or as otherwise indicated.

**NOTE 1**

**FINANCIAL REPORTING BY SEGMENT**

**A Business segments**

**Years ended 31 December 2006 and 31 December 2005**

Alumina Limited's primary assets are its 40 per cent interest in the series of operating entities forming AWAC. The Company operates in the alumina/aluminium business through its equity interests in AWAC.

# CONCISE FINANCIAL REPORT

ALUMINA LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONCISE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

**NOTE 1****FINANCIAL REPORTING BY SEGMENT (CONTINUED)****B Geographical segments**

Year ended 31 December 2006

\$ Million

Consolidated	Australia	North America	Europe	Caribbean, South America, Africa*	Total
Segment revenue by location of customer**	–	–	–	–	–
Unallocated revenue	1.4	–	–	–	1.4
<b>Consolidated revenue</b>					<b>1.4</b>
Investments in associates	1,020.7	406.6	49.6	709.3	2,186.2
Segment assets	165.2	1.2	5.0	–	171.4
Segment liabilities	601.9	–	1.1	–	603.0
<b>Consolidated net assets</b>					<b>1,754.6</b>
Acquisitions of non-current assets	–	–	–	259.2	259.2
<b>Total acquisitions of non-current assets</b>					<b>259.2</b>

Year ended 31 December 2005

\$ Million

Consolidated	Australia	North America	Europe	Caribbean, South America, Africa*	Total
Segment revenue by location of customer**	–	–	–	–	–
Unallocated revenue	4.0	–	–	–	4.0
<b>Consolidated revenue</b>					<b>4.0</b>
Investments in associates	1,030.2	356.0	54.8	553.9	1,994.9
Segment assets	12.6	1.3	4.7	–	18.6
Segment liabilities	483.2	0.1	–	–	483.3
<b>Consolidated net assets</b>					<b>1,530.2</b>
Acquisitions of non-current assets	–	–	–	–	–
<b>Total acquisitions of non-current assets</b>					<b>–</b>

\* Predominantly includes assets in Jamaica, Brazil, Suriname and Guinea.

\*\* The Group had no sale of goods and services for the year; therefore no segment revenue is disclosed.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

## NOTES TO AND FORMING PART OF THE CONCISE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

**NOTE 2  
DIVIDENDS**

	\$ MILLION	
	2006	2005
Interim dividend No. 54 of 10 cents fully franked at 30% per fully paid share declared 3 August 2006 and paid 4 September 2006 (2005: 10 cents fully franked at 30% per fully paid share, paid on 31 October 2005).	116.6	116.5
Final dividend No. 53 of 10 cents fully franked at 30% per fully paid share, paid on 31 March 2006 (2005: 10 cents franked to 7.5 cents at 30% per fully paid share paid on 31 March 2005).	116.6	116.3
	233.2	232.8
Dividends paid per share	20.0c	20.0c

**A Dividends paid during the year**

Dividend No. 54, paid on 4 September 2006, was the interim dividend for 2006.  
Dividend No. 53, paid on 31 March 2006, was the final dividend for 2005.

**B Dividends not recognised at year end**

In addition to the above dividends, since year end the Directors have declared a final dividend No. 55 of 12 cents a share fully franked, declared 1 February 2007 and payable on 9 March 2007. The aggregate amount of the proposed dividend expected to be paid out of retained profits at 31 December 2006, but not recognised as a liability at year end is \$140.1 million.

**C Franked Dividends**

The fully franked dividends received from Alcoa of Australia Limited in the financial year were:

510.8	411.6
-------	-------

Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in these financial statements:

Class 'C' (30%) franking credits available for subsequent financial years, based on a tax rate of 30%

212.5	93.5
-------	------

**NOTE 3  
EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

There have been no significant transactions or events since 31 December 2006.

## CONCISE FINANCIAL REPORT

### ALUMINA LIMITED AND CONTROLLED ENTITIES

#### DIRECTORS' DECLARATION

---

The Directors declare that in their opinion, the Concise Financial Report of the consolidated entity for the year ended 31 December 2006 as set out on pages 71-77 complies with Accounting Standard AASB 1039: Concise Financial Reports.

The Concise Financial Report is an extract from the full Financial Report for the year ended 31 December 2006. The financial statements and specific disclosures included in the Concise Financial Report have been derived from the full Financial Report.

The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full Financial report, which is available on request.

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

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295 of the *Corporations Act 2001*.



---

DON MORLEY  
>CHAIRMAN  
9 MARCH 2007



---

JOHN MARLAY  
>CHIEF EXECUTIVE OFFICER

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALUMINA LIMITED

---

### MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

This audit report relates to the concise financial report of Alumina Limited (the company) for the financial year ended 31 December 2006 included on Alumina Limited's web site. The company's directors are responsible for the integrity of the Alumina Limited's web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the concise financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the concise financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited concise financial report to confirm the information included in the audited concise financial report presented on this web site.

### AUDIT OPINION

In our opinion, the concise financial report of Alumina Limited for the year ended 31 December 2006 complies with Australian Accounting Standard AASB 1039: Concise Financial Reports.

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

### SCOPE

#### The concise financial report and directors' responsibility

The concise financial report comprises the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, notes to the financial statements, and the directors' declaration for Alumina Limited for the year ended 31 December 2006.

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standard AASB 1039: Concise Financial Reports.

#### Audit approach

We conducted an independent audit of the concise financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the

inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence.

Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We also performed an independent audit of the full financial report of the company for the financial year ended 31 December 2006. Our audit report on the full financial report was signed on x March 2007, and was not subject to any qualification.

In conducting our audit of the concise financial report, we performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039: Concise Financial Reports.

We formed our audit opinion on the basis of these procedures, which included:

- > testing that the information included in the concise financial report is consistent with the information in the full financial report, and
- > examining, on a test basis, information to provide evidence supporting the amounts, and other disclosures in the concise financial report which were not directly derived from the full financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

### Independence

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




---

PRICEWATERHOUSECOOPERS




---

TIM GOLDSMITH  
PARTNER

---

MELBOURNE  
9 MARCH 2007