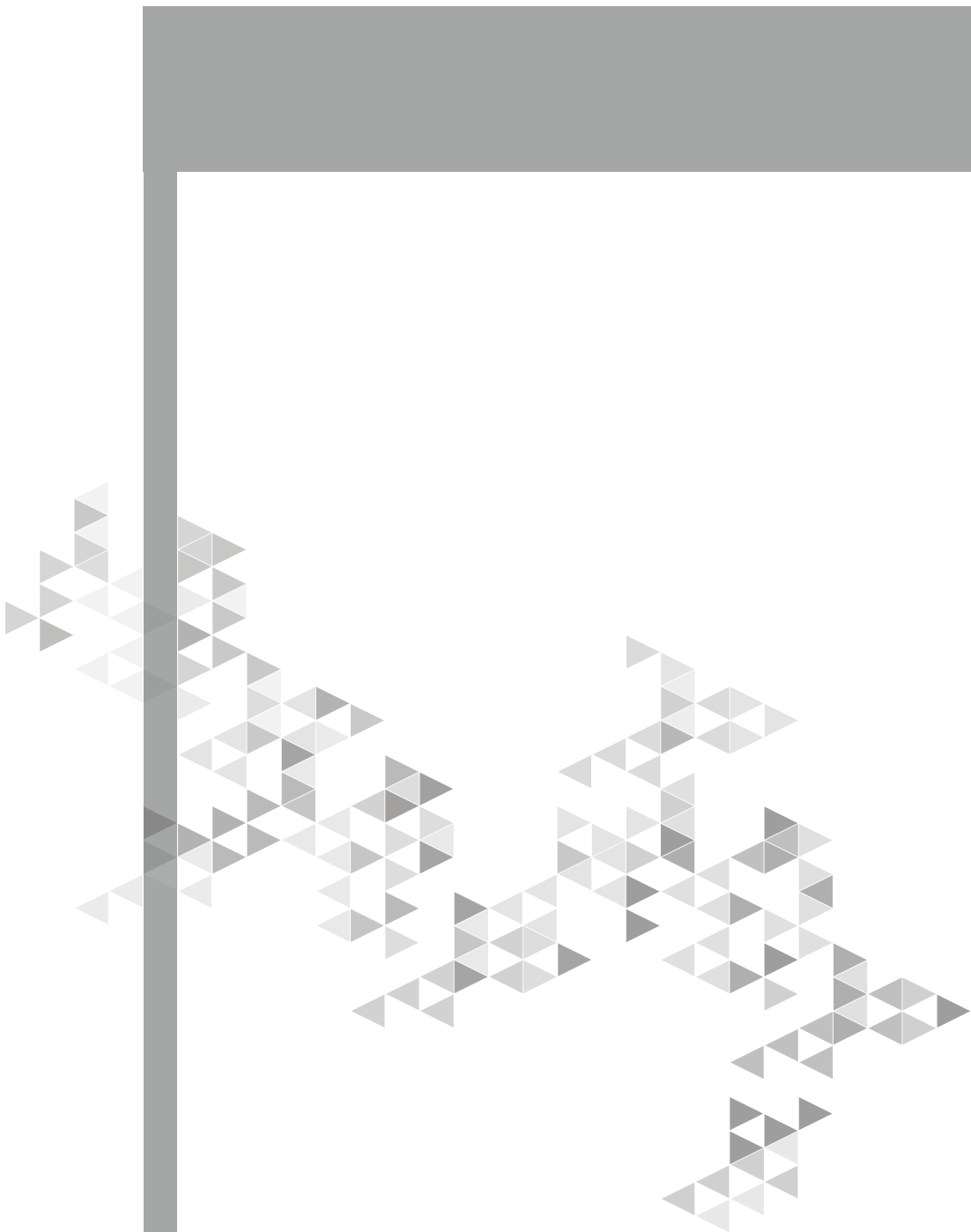


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LIMITED

FINANCIAL REPORT 2006



OUR DIRECTION IS CLEAR



ALUMINA LIMITED AND CONTROLLED ENTITIES  
FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

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

Alumina Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Alumina Limited, Level 12, IBM Centre, 60 City Road, Southbank Victoria 3006.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 10-17 and in the directors' report on page 48, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 9 March 2007. The Company has the power to amend and reissue the financial report.

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

## INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
Revenue from continuing operations	4	1.4	4.0	512.1	416.9
Other income	5	-	-	29.4	-
General and administrative expenses		(10.7)	(10.2)	(10.5)	(10.2)
Other expenses	6	-	-	-	(26.2)
Finance costs	6(a)	(25.1)	(15.3)	(25.3)	(15.5)
Share of net profits of associates accounted for using the equity method	12(h)	546.6	337.1	-	-
<b>Profit before income tax</b>		<b>512.2</b>	<b>315.6</b>	<b>505.7</b>	<b>365.0</b>
Income tax expense	7(a)	(1.1)	-	-	-
<b>Profit attributable to members of Alumina Limited</b>		<b>511.1</b>	<b>315.6</b>	<b>505.7</b>	<b>365.0</b>

**Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:**

<b>Basic earnings per share</b>	8	<b>43.8c</b>	27.1c
<b>Diluted earnings per share</b>	8	<b>43.8c</b>	27.1c

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

ALUMINA LIMITED AND CONTROLLED ENTITIES  
BALANCE SHEETS AS AT 31 DECEMBER 2006

		CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	NOTES	2006	2005	2006	2005
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	10	169.0	15.2	162.7	8.9
Receivables	11	0.1	0.5	67.1	0.2
Deferred tax assets		2.1	2.1	2.1	2.1
Other financial assets		-	0.5	-	0.5
<b>Total current assets</b>		<b>171.2</b>	<b>18.3</b>	<b>231.9</b>	<b>11.7</b>
<b>NON-CURRENT ASSETS</b>					
Investments accounted for using the equity method	12	2,186.2	1,994.9	1,037.7	1,037.7
Other financial assets	13	-	-	837.1	837.1
Property, plant and equipment	14	0.2	0.3	0.2	0.3
<b>Total non-current assets</b>		<b>2,186.4</b>	<b>1,995.2</b>	<b>1,875.0</b>	<b>1,875.1</b>
<b>TOTAL ASSETS</b>		<b>2,357.6</b>	<b>2,013.5</b>	<b>2,106.9</b>	<b>1,886.8</b>
<b>CURRENT LIABILITIES</b>					
Payables	15	12.7	3.1	12.7	184.7
Interest-bearing liabilities	16	380.2	478.7	380.2	478.7
Current tax liabilities		1.1	-	-	-
Provisions	17	0.1	0.1	0.1	0.1
Other		0.7	1.2	0.6	1.1
<b>Total current liabilities</b>		<b>394.8</b>	<b>483.1</b>	<b>393.6</b>	<b>664.6</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	16	207.9	-	207.9	-
Provisions	18	0.3	0.2	0.3	0.2
<b>Total non-current liabilities</b>		<b>208.2</b>	<b>0.2</b>	<b>208.2</b>	<b>0.2</b>
<b>TOTAL LIABILITIES</b>		<b>603.0</b>	<b>483.3</b>	<b>601.8</b>	<b>664.8</b>
<b>NET ASSETS</b>		<b>1,754.6</b>	<b>1,530.2</b>	<b>1,505.1</b>	<b>1,222.0</b>
<b>EQUITY</b>					
Parent entity interest:					
Contributed equity	19	425.8	415.7	425.8	415.7
Treasury shares	21(f)	(0.6)	(0.6)	-	-
Reserves:					
- Group		30.6	41.4	241.5	241.0
- Associates	12(d)	(15.3)	37.5	-	-
Retained profits:					
- Group	21(e)	861.1	608.7	837.8	565.3
- Associates	12(c)	453.0	427.5	-	-
<b>TOTAL EQUITY</b>		<b>1,754.6</b>	<b>1,530.2</b>	<b>1,505.1</b>	<b>1,222.0</b>

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
<b>Total equity at the beginning of the year</b>		<b>1,530.2</b>	<b>1,411.9</b>	<b>1,222.0</b>	<b>1,077.9</b>
Adjustment on adoption of AASB 2, net of tax, to Reserves	21(c)	-	(0.2)	-	0.3
Adjustment on adoption of AASB 139, net of tax, to Reserves	21(b)	-	35.6	-	-
Change in the fair value of cash flow hedges, net of tax <sup>1</sup>	21(b)	(52.8)	-	-	-
Exchange differences on translation of foreign operations	21(a)	(11.3)	(11.5)	-	-
<b>Net income recognised directly in equity</b>		<b>(64.1)</b>	<b>23.9</b>	<b>-</b>	<b>0.3</b>
<b>Profit for the year</b>		<b>511.1</b>	<b>315.6</b>	<b>505.7</b>	<b>365.0</b>
<b>Total income and expense recognised in equity and profit during the year</b>		<b>447.0</b>	<b>339.5</b>	<b>505.7</b>	<b>365.3</b>
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs		10.1	11.6	10.1	11.6
Movement in share based payments reserve	21(c)	0.5	-	0.5	-
Dividends paid		(233.2)	(232.8)	(233.2)	(232.8)
		(222.6)	(221.2)	(222.6)	(221.2)
<b>Total equity at the end of the financial year</b>		<b>1,754.6</b>	<b>1,530.2</b>	<b>1,505.1</b>	<b>1,222.0</b>

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

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

## CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

		CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	NOTES	2006	2005	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Payments to suppliers and employees (inclusive of goods and services tax)		(10.5)	(14.3)	(10.3)	(12.6)
GST refund received		0.6	0.5	0.6	0.5
Dividends received from associates		521.1	95.9	510.8	91.6
Interest received		1.4	4.5	1.3	4.5
Interest paid		(15.7)	(14.3)	(15.7)	(14.3)
Income taxes paid		-	0.1	-	-
Other		-	(0.4)	-	-
<b>Net cash inflow from operating activities</b>	22(a)	<b>496.9</b>	<b>72.0</b>	<b>486.7</b>	<b>69.7</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Loans to controlled entities		-	-	(248.7)	-
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>(248.7)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issues of shares		10.1	11.6	10.1	11.6
Proceeds from borrowings		391.3	52.8	391.3	52.8
Repayment of borrowings		(252.4)	-	(252.4)	-
Dividends paid		(233.2)	(232.8)	(233.2)	(232.8)
<b>Net cash outflow from financing activities</b>		<b>(84.2)</b>	<b>(168.4)</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>	<b>153.8</b>	<b>(98.7)</b>
Cash and cash equivalents at the beginning of the financial year		15.2	117.9	8.9	107.6
Effects of exchange rate changes on cash and cash equivalents		0.3	1.9	-	-
<b>Cash and cash equivalents at the end of the financial year</b>	10(a)	<b>169.0</b>	<b>15.2</b>	<b>162.7</b>	<b>8.9</b>

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A BASIS OF PREPARATION**

This general purpose financial report for the year ended 31 December 2006 has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the 'Corporations Act 2001'.

**Compliance with IFRS**

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Alumina Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 'Financial Instruments: Disclosure' and Presentation and AASB 124 'Related Party Disclosures'.

**Historical cost convention**

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

**Critical accounting estimates**

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

**B PRINCIPLES OF CONSOLIDATION****(i) Subsidiaries**

The consolidated financial report is prepared on a consolidated entity basis for Alumina Limited (parent entity) and the entities it controls (controlled entities). AIFRS defines controlled entities as existing where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The financial statements of the subsidiaries are included in the consolidated financial report, from the date that control commences until it ceases. All material controlled entities in the consolidated entity are companies. The economic entity consisting of Alumina Limited and its controlled entities is referred to in the financial report as 'the Group'. In preparing the consolidated financial statements, the effects of all transactions between entities within the Group are eliminated in full, including unrealised profits and losses on transactions with associates accounted for on an equity basis.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

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

**(ii) Associates**

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



## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

**C INCOME TAX**

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

Deferred tax assets and liabilities are recognised for temporary differences using the balance sheet liability method, at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction at reporting date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax assets or liabilities. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a

transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

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

**Tax consolidation legislation**

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

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

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

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

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D FOREIGN CURRENCY TRANSLATION****Functional and presentation currency**

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

**Transactions and balances**

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

**Controlled foreign entities**

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

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

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

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

**E PROPERTY, PLANT AND EQUIPMENT****Owned Assets**

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

**Leased Assets**

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

**F RECEIVABLES**

All trade debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

**G CASH AND CASH EQUIVALENTS**

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

**H IMPAIRMENT OF ASSETS**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**I ACQUISITION OF ASSETS**

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

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

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

**J INTANGIBLE ASSETS****Goodwill**

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

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

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

If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of identification and measurement of net assets acquired.

**K DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT**

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land and investment properties) over its expected useful life to the consolidated entity.

Office furniture	8 years
Computers and other office equipment	4 years

**L BORROWINGS**

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

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

**M BORROWING COSTS**

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

**N TRADE AND OTHER PAYABLES**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within thirty days of recognition.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**O REVENUE**

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

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

**P EMPLOYEE BENEFITS****(i) Salaries and annual leave**

Liabilities for salaries and annual leave are recognised in current provisions (i.e. expected to be settled in 12 months), and are measured as the amount unpaid at reporting date at expected pay rates in respect of employees' services up to that date, including related on-costs.

**(iii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

**(iii) Share-based payments**

Share-based compensation benefits are provided to employees via the Alumina Employee Share Plan.

**Shares options granted before or after 7 November 2002 and vested before 1 January 2005** – No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

**Shares options granted after 7 November 2002 and vested after 1 January 2005** – The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a methodology which employs the Monte Carlo simulation and a Black-Scholes option pricing model. This methodology

takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

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

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

**(iv) Superannuation**

Since 27 July 2001, all employer contributions and ongoing management of employees' superannuation entitlements have been managed by the WMC Superannuation Plan, an independently managed sub-plan of the Plum Superannuation Fund, except where the relevant employees elect for those contributions to be paid to an alternate fund. Alumina employees are members of a sub-plan of the WMC Superannuation Plan, created specifically for Alumina. The plan is an accumulation category plan which offers a minimum company contribution (subject to certain cashing out options and legislation) of 9 per cent of basic salary to each member's account. Members also have the option to make voluntary contributions to their account. Employer contributions to these funds are recognised as an operating cost.

**(v) Defined Benefit Plans**

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

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the associated entity's obligations.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

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

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

**Q DERIVATIVES**

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

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

**Net investment in a foreign operations hedge**

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

The gain or loss on hedging instruments relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**Embedded Derivatives**

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**R DIVIDENDS**

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

**S EARNINGS PER SHARE****(i) Basic earnings per share**

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

**(ii) Diluted earnings per share**

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

**T SEGMENT REPORTING**

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

**U PROVISIONS**

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

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

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

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

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

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

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

**V CONTRIBUTED EQUITY**

Ordinary shares are classified as equity.

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

**W NEW ACCOUNTING STANDARDS**

Certain new accounting standards have been published that are not mandatory for 31 December 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**i) AASB 7 Financial Instruments: Disclosures**

AASB 7 is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not early adopted this standard. Application of this standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

**ii) AASB Interpretation 10 Interim Financial Reporting and Impairment**

AASB Interpretation 10 applies to annual reporting periods beginning on or after 1 November 2006 prohibiting the reversal of an impairment loss recognised in an interim period in respect of goodwill, an investment in an equity instrument, or a financial asset measured at cost. The Group has not early adopted this standard. Application of this standard will not affect any of the amounts recognised in the financial statements.

**X ROUNDING OF AMOUNTS**

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

**2 FINANCIAL RISK MANAGEMENT**

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

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

**A MARKET RISK****(i) Foreign exchange risk**

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

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

**(ii) Price risk**

The Group is exposed to commodity price risk through its investment in the AWAC joint venture. AWAC manages commodity price risk through long-term purchase contracts for some input costs. Energy price risk is managed through short-term commodity hedges. During 2006, AWAC did not hedge its aluminium price risk.

**B CREDIT RISK**

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

**C CASH FLOW AND FAIR VALUE INTEREST RATE RISK**

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

**D LIQUIDITY RISK**

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

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**3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

**Embedded derivatives**

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

**Retirement benefit obligations**

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

**Asset retirement obligations**

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

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



## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

	NOTES	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
		2006	2005	2006	2005
<b>4 REVENUE</b>					
<b>From continuing operations</b>					
<b>Other revenue</b>					
Dividends received from associates		-	-	510.8	411.6
Interest received/receivable		1.4	4.0	1.3	5.3
<b>Total revenue</b>		1.4	4.0	512.1	416.9
<b>5 OTHER INCOME</b>					
Foreign exchange gains (net)		-	-	29.4	-
<b>Total other income</b>		-	-	29.4	-
<b>6 EXPENSES</b>					
<b>Profit before tax includes the following specific expenses:</b>					
Depreciation on plant and equipment		0.1	-	0.1	-
Finance costs	6(a)	25.1	15.3	25.3	15.5
Contributions to the superannuation fund:					
- accumulation category		0.2	0.2	0.2	0.2
Operating lease rentals		0.1	0.1	0.1	0.1
Foreign exchange losses (net)		-	-	-	26.2
<b>(a) Finance costs</b>					
<b>Interest and finance charges paid/payable:</b>					
- unrelated corporations		25.1	15.3	25.1	15.3
- related corporations		-	-	0.2	0.2
		25.1	15.3	25.3	15.5
<b>Interest received/receivable:</b>					
- unrelated corporations		(1.4)	(4.0)	(1.3)	(4.0)
- related corporations		-	-	-	(1.3)
	4	(1.4)	(4.0)	(1.3)	(5.3)
<b>Net finance cost</b>		23.7	11.3	24.0	10.2

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

**7 INCOME TAX EXPENSE****(a) Income tax expense**

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
Current tax	(1.1)	-	-	-
Income tax expense is attributable to:				
Profit from continuing operations	(1.1)	-	-	-
Aggregate income tax expense for the year	(1.1)	-	-	-

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

Profit from ordinary activities before tax	512.2	315.6	505.7	365.0
(Shortfall)/surplus of dividends received/receivable over equity share of profits	(25.5)	78.8	-	-
Adjusted profit from ordinary activities before tax	486.7	394.4	505.7	365.0
<b>Prima facie tax expense at the rate of 30% (2005 – 30%)</b>	<b>(146.0)</b>	<b>(118.3)</b>	<b>(151.7)</b>	<b>(109.5)</b>

The following items caused the total charge for income tax to vary from the above:

Rebateable and exempt dividends	521.1	415.9	510.8	411.6
Non-deductible expenses	(13.5)	(14.5)	(13.5)	(14.5)
Expenses against which no income was earned to claim a deduction	(20.9)	(7.0)	(21.0)	(5.9)
Taxable income from foreign subsidiary	(4.0)	-	-	-
<b>Net movement</b>	<b>482.7</b>	<b>394.4</b>	<b>476.3</b>	<b>391.2</b>
Tax effect of the above adjustments at 30% (2005: 30%)	144.8	118.3	142.9	117.4
Other sundry	-	-	8.8	(7.9)
Over provision of tax in prior years	0.1	-	-	-
<b>Consequent reduction in charge for income tax</b>	<b>144.9</b>	<b>118.3</b>	<b>151.7</b>	<b>109.5</b>
<b>Aggregate income tax expense for the period</b>	<b>(1.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**(c) Tax losses and other timing differences**

As at 31 December the following after tax effect of deferred tax assets has not been brought to account, and are attributable to:

- income tax losses *	103.0	82.3	15.2	10.2
- capital losses *	321.3	321.3	321.2	321.2
	424.3	403.6	336.4	331.4

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 7. INCOME TAX EXPENSE (CONTINUED)

The benefits for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income within the prescribed time limit of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

**(d) Tax consolidation legislation**

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

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

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

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

The parent entity has not recognised tax balances relating to subsidiary losses in 2005 and 2006, as these losses did not meet the recognition criteria.

## 8 EARNINGS PER SHARE

		CONSOLIDATED ENTITY	
		2006	2005
(a) Basic earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company			
	cents	43.8	27.1
(b) Diluted earnings per share based on profit from continuing operations attributable to the ordinary equity holders of the Company			
	cents	43.8	27.1
		NUMBER OF SHARES	
		2006	2005
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share		1,166,285,838	1,164,075,671
Adjustments for calculation of diluted earnings per share:			
Options		-	637,553
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share		1,166,285,838	1,164,713,224

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## B. EARNINGS PER SHARE (CONTINUED)

**(c) Information concerning classification of securities**

Options granted to employees under the WMC Employee Share Plan, prior to the Company's demerger, are considered to be potential ordinary shares and included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 20. There were no options issued to employees in the current year, and no options are outstanding following expiry of the options on 30 November 2006.

**(d) Conversion, call, subscription or issue after 31 December 2006**

There have been no movements in share capital since 31 December 2006.

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

	\$ MILLION	
	2006	2005
Profit from ordinary activities attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	511.1	315.6

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

**(a) Dividends paid during the year**

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

**(b) Dividends not recognised at year end**

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 9. DIVIDENDS (CONTINUED)

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
<b>(c) Franked dividends</b>				
The fully franked dividends received from Alcoa of Australia Limited ("AofA") in the financial year were	510.8	411.6	510.8	411.6
Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in these financial statements:				
Class 'C' (30%) franking credits available for subsequent financial years, based on a tax rate of 30% (2005: 30%)	212.5	93.5	212.5	93.5

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005

## 10 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash at bank and on hand	169.0	15.2	162.7	8.9
	169.0	15.2	162.7	8.9

**(a) Reconciliation of cash at the end of the year**

For the purposes of the statements of cash flows, cash represents cash on hand, at the bank and on short-term deposit (maturity of three months or less) less bank overdrafts:

Balances as above	169.0	15.2	162.7	8.9
Balances as per cash flow statements	169.0	15.2	162.7	8.9

**(b) Cash at bank and on hand**

Average interest rate on cash holdings during 2006 was 5.1 % (2005: 4.9%)

**(c) Money market deposits**

There were no interest bearing deposits at 31 December 2006. (2005: nil).

## 11 CURRENT ASSETS – RECEIVABLES

Other debtors	0.1	0.5	0.1	0.2
Loans to controlled entities	-	-	67.0	-
	0.1	0.5	67.1	0.2

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

		CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	NOTES	2006	2005	2006	2005
<b>12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD</b>					
<b>(a) Securities not quoted on a prescribed stock exchange</b>					
<b>(i) Securities in entities forming Alcoa World Alumina and Chemicals (AWAC) with Alcoa Inc.</b>					
<b>Securities at cost:</b>					
Balance brought forward		1,529.9	1,187.8	1,037.7	717.7
Additional funding/capitalisation in AWAC entities		259.2	-	-	-
Alcoa of Australia reinvestment of dividend		-	320.0	-	320.0
Foreign currency revaluation		(40.6)	22.1	-	-
Equity accounted cost of AWAC		<b>1,748.5</b>	<b>1,529.9</b>	<b>1,037.7</b>	<b>1,037.7</b>
Equity in retained profits of AWAC	12(c)	453.0	427.5	-	-
Equity in reserves of AWAC	12(d)	(15.3)	37.5	-	-
<b>Equity accounted carrying value of AWAC</b>		<b>2,186.2</b>	<b>1,994.9</b>	<b>1,037.7</b>	<b>1,037.7</b>
<b>(b) Equity accounted share of profits and dividends</b>					
Equity share of profits before tax		813.4	501.1		
Equity share of tax		(266.8)	(164.0)		
Equity accounted share of profit after tax		546.6	337.1		
Dividends received/receivable by the Group		(521.1)	(415.9)		
<b>Shortfall/(surplus) of dividends received/receivable over equity share of profits</b>	12(c)	<b>25.5</b>	<b>(78.8)</b>		
<b>(c) Share of retained profits</b>					
Shortfall/(surplus) of dividends received/receivable over equity share of profits		25.5	(78.8)		
Transition to A-IFRS adjustments		-	(5.6)		
Balance brought forward		427.5	511.9		
<b>Total equity share in retained profits carried forward</b>		<b>453.0</b>	<b>427.5</b>		
<b>(d) Equity accounted share of reserves of associated entities</b>					
Opening balance		37.5	2.4		
Share based payments reserve		-	(0.5)		
Unrealised gains on derivatives, net of tax		(52.8)	35.6		
<b>Total equity share of reserves</b>		<b>(15.3)</b>	<b>37.5</b>		

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

**(e) Accounting policies**

i. The audited consolidated financial statements of the entities forming AWAC are prepared in accordance with US Generally Accepted Accounting Principles (US GAAP). Except for Alcoa of Australia Limited ("AofA"), the reported profit after tax of AWAC is based on these US GAAP financial statements. Financial statements in US dollars have been translated to Australian dollars using average exchange rates for the period for profit and loss items, and closing rates for balance sheet items. Adjustments are made for accounting policies not allowed under Australian equivalents to International Financial Reporting Standards. The principal adjustments are to the valuation of inventories from last-in-first-out basis to a basis equivalent to weighted average cost, create an additional asset retirement obligation for dismantling, removal and restoration of each refinery, and to reverse any excesses or shortfalls of the superannuation fund assets over accrued membership benefits taken to the Income Statement.

ii. Included in the equity accounted carrying amount at which the equity investment in AWAC is recorded, are amounts for goodwill, including profits realised in forming AWAC. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired, and is carried at cost less accumulated impairment losses. Refer Note 1(j).

**(f) Additional information on associated entities**

Name	Principal activities	Country of incorporation	Percentage equity	
			2006	2005
<b>(i) Entities forming AWAC</b>				
Alcoa of Australia Ltd	Bauxite, alumina & aluminium production	Australia	40	40
Alcoa Alumina & Chemicals LLC	Production of alumina & alumina based chemicals	America	40	40
Abalco S.A.	Production of bauxite and alumina	Brazil	40	40
Alcoa Caribbean Alumina Holdings LLC	Holding company	America	40	40
Alumina Espanola S.A.	Production of alumina & alumina based chemicals	Spain	40	40
Matapu Sociedade de Mineracao Ltda.	Hold bauxite exploration rights	Brazil	40	40
Mineracao Sao Jorge Ltda.	Hold bauxite exploration rights	Brazil	40	40
Naruoka Participações Ltda.	Holding company	Brazil	40	-
Omnia Minerios Ltda.	Hold bauxite exploration rights	Brazil	40	40
<b>(ii) Other associates</b>				
Agnew Pastoral Company Pty. Ltd.	Manage pastoral leases	Australia	40	40
Weebo Pastoral Company Pty. Ltd.	Manage pastoral leases	Australia	40	40

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	\$ MILLION	
	2006	2005
<b>(g) Expenditure commitments and contingent liabilities</b>		
- other expenditure commitments contracted for, including long term commitments for gas and electricity		
Alcoa of Australia Ltd ("AofA") is party to a number of natural gas and electricity contracts that expire between 2006 and 2025. Under these take or pay contracts, AofA is obligated to pay for a minimum of natural gas or electricity even if these commodities are not required for operations.	3,465.8	2,854.4

**Unascertainable unsecured contingent liabilities**

Various lawsuits and claims and proceedings have been, or may be, instituted or asserted against entities within AWAC, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot be determined now because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on currently available facts, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position or liquidity of AWAC.

Pursuant to the terms of the AWAC Formation Agreement, Alcoa and Alumina Limited have agreed to remain liable for Extraordinary Liabilities (as defined in the agreement) as well as for certain other pre-formation liabilities, such as existing environmental conditions, to the extent of their pre-formation ownership of the company or asset with which the liability is associated.

		\$ MILLION	
	NOTES	2006	2005
<b>(h) Alumina's share of aggregate associates:</b>			
Current assets		927.3	834.7
Non-current assets		2,242.1	1,942.9
Current liabilities		(839.1)	(661.3)
Non-current liabilities		(483.0)	(419.7)
<b>Net assets</b>		<b>1,847.3</b>	<b>1,696.6</b>
Mineral rights and bauxite assets		142.0	145.6
Goodwill		196.9	152.7
<b>Carrying value</b>	12(a)	<b>2,186.2</b>	<b>1,994.9</b>
Revenues		3,148.4	2,451.0
Expenses		(2,335.0)	(1,949.9)
<b>Profit before income tax</b>		<b>813.4</b>	<b>501.1</b>
Income tax charge		(266.8)	(164.0)
<b>Profit after income tax</b>		<b>546.6</b>	<b>337.1</b>



## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

		CONSOLIDATED ENTITY		PARENT ENTITY	
		\$ MILLION		\$ MILLION	
	NOTES	2006	2005	2006	2005
<b>13 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS</b>					
Investments in controlled entities <sup>1</sup>	25	-	-	837.1	837.1
<sup>1</sup> Note 25 discloses the entities comprising the Alumina Consolidated Group					
<b>14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT</b>					
Plant and equipment	14(a)	0.2	0.3	0.2	0.3
<b>(a) Plant and equipment</b>					
Cost		0.5	0.5	0.5	0.5
Accumulated depreciation		(0.3)	(0.2)	(0.3)	(0.2)
		0.2	0.3	0.2	0.3
<b>(b) Reconciliations</b>					
Reconciliation of the carrying amount at the beginning and end of the current financial year is set out below:					
Carrying amount at 1 January 2006		0.3	0.3	0.3	0.3
Depreciation expense		(0.1)	-	(0.1)	-
Carrying amount at 31 December 2006		0.2	0.3	0.2	0.3
<b>15 CURRENT LIABILITIES – PAYABLES</b>					
Trade payables		1.3	1.1	1.3	1.1
Interest payable		11.4	2.0	11.4	2.0
Loans from controlled entities		-	-	-	181.6
		12.7	3.1	12.7	184.7

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
<b>16 INTEREST-BEARING LIABILITIES</b>				
<b>Current</b>				
<b>Unsecured</b>				
Bank loans	380.2	478.7	380.2	478.7
<b>Non current</b>				
<b>Unsecured</b>				
Bank loans	207.9	-	207.9	-
<b>Total</b>	<b>588.1</b>	<b>478.7</b>	<b>588.1</b>	<b>478.7</b>
<b>(a) Currencies</b>				
The above borrowings are due in the following currency:				
US dollars	464.0	351.0	464.0	351.0
A\$ equivalent of above currency	588.1	478.7	588.1	478.7
<b>(b) Exchange rates</b>				
Exchange rates at balance date used in translations:				
A\$1 = US\$	0.7890	0.7333	0.7890	0.7333
<b>(c) Fair values</b>				
The Directors consider the carrying amounts of bank loans to approximate their fair values where 'fair value', by definition, is the US\$ principal amount translated into A\$ at the exchange rate on balance date.				
<b>(d) Financing arrangements</b>				
The Company entered into a new US\$700 million multi-currency 1, 3 and 5 year loan facility to replace its A\$700 million of short term loan facilities in July 2006. The 1 year facility will be refinanced during the course of 2007.				
<b>Bank loans (US\$)</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>Total</b>
Total facilities	300.0	250.0	150.0	700.0
Used at balance date	300.0	164.0	-	464.0
Unused at balance date	-	86.0	150.0	236.0
<b>17 CURRENT LIABILITIES – PROVISIONS</b>				
Employee benefits-provision for annual leave	0.1	0.1	0.1	0.1
<b>18 NON-CURRENT LIABILITIES – PROVISIONS</b>				
Employee benefits-provision for long service leave	0.3	0.2	0.3	0.2
The aggregate of provisions for employee benefits as shown in Notes 17 and 18 are \$0.4 million (2005: \$0.3 million).				

An invitation is not transferable. An employee may only apply for performance rights in his or her name and not in the name of, or on behalf of, another person or entity. On vesting, each performance right is an unconditional entitlement to one fully paid ordinary share. On termination of employment of any individual, their participation in the Plan is finalised and any performance rights not vested lapse unless the Director's decide otherwise.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 20. SHARE-BASED PAYMENTS (CONTINUED)

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

**2006**

Grant date	Expiry date	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Balance at end of the year Number
26/3/2003	3/12/2005	35,800	-	-	(35,800)	-
19/1/2004	21/12/2006	103,250	-	-	(51,625)	51,625
25/1/2005	16/12/2007	102,850	-	-	-	102,850
25/1/2006	7/12/2008	-	192,150	-	(300)	191,850
<b>Total</b>		<b>241,900</b>	<b>192,150</b>	<b>-</b>	<b>(87,725)</b>	<b>346,325</b>

**2005**

Grant date	Expiry date	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Balance at end of the year Number
26/3/2003	3/12/2004	46,500	-	(11,626)	(34,874)	-
26/3/2003	3/12/2005	97,200	-	-	(61,400)	35,800
19/1/2004	21/12/2006	141,050	-	-	(37,800)	103,250
25/1/2005	16/12/2007	-	139,850	-	(37,000)	102,850
<b>Total</b>		<b>284,750</b>	<b>139,850</b>	<b>(11,626)</b>	<b>(171,074)</b>	<b>241,900</b>

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

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

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
Performance rights granted under the Alumina Employee Share Plan	0.5	0.3	0.5	0.3

**(b) Employee Share Scheme**

The establishment of the WMC Employee Share Scheme was approved by shareholders at the Annual General Meeting held on 12 December 1987. Under the Scheme a number of share plans have operated. Fully paid shares, partly paid shares and share options have been granted to employees since establishment of the Scheme. This Scheme expired on 30 November 2006.

**Employee option plan (Expired 30 November 2006)**

All permanent employees (including executive directors) of Alumina Limited and its subsidiaries who were employed, prior to demerger, by the company or a subsidiary were eligible to participate in the WMC Employee Share Scheme and be offered options for fully paid shares. Options allotted, prior to the demerger, to Alumina employees were exercisable until expiry of the scheme on 30 November 2006.

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 20. SHARE-BASED PAYMENTS (CONTINUED)

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

Year of issue	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
<b>Consolidated and parent entity – 2006</b>								
2001	30 Nov 2006	\$5.02	1,971,100	-	(1,971,100)	-	-	-
Total			1,971,100	-	(1,971,100)	-	-	-
Weighted average exercise price:			\$5.02		\$5.02			
<b>Consolidated and parent entity – 2005</b>								
2000	18 Dec 2005	\$4.04	1,209,300	-	(1,209,300)	-	-	-
2001	30 Nov 2006	\$5.02	3,296,400	-	(1,325,300)	-	1,971,100	1,971,100
Total			4,505,700	-	(2,534,600)	-	1,971,100	1,971,100
Weighted average exercise price:			\$4.76		\$4.55		\$5.02	\$5.02

**Stock appreciation plan (Expired 30 November 2006)**

In various years since approval of the WMC Employee Share Scheme in 1987, until the demerger of the company, the company established stock appreciation plans (SAP's) for the benefit of employees mainly in countries outside Australia. The purpose of the SAPs was to provide such employees, who due to securities law constraints were not eligible to participate under the Options Plans, with benefits similar to those conferred by the Option Plans. This plan expired on 30 November 2006.

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

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

Year of issue	Expiry date	SAP Allotment price	Balance at start of the year Number	Allotted during the year Number	Redeemed during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
<b>Consolidated and parent entity-2006</b>								
2001	30 Nov 2006	\$5.02	57,100	-	(57,100)	-	-	-
Total			57,100	-	(57,100)	-	-	-
Weighted average exercise price:			\$5.02		\$5.02			
<b>Consolidated and parent entity-2005</b>								
2000	18 Dec 2005	\$4.04	15,400	-	(15,400)	-	-	-
2001	30 Nov 2006	\$5.02	113,900	-	(56,800)	-	57,100	57,100
2002	30 Nov 2006	\$5.02	400,000	-	(400,000)	-	-	-
Total			529,300	-	(472,200)	-	57,100	57,100
Weighted average exercise price:			\$4.99		\$4.99		\$5.02	\$5.02

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

		CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	NOTES	2006	2005	2006	2005
21 RESERVES, RETAINED PROFITS AND TREASURY SHARES					
Reserves					
Asset revaluation reserve		34.3	34.3	141.4	141.4
Asset realisation reserve		-	-	84.9	84.9
Capital reserve		16.5	16.5	13.9	13.9
Foreign currency translation reserve	21(a)	(21.5)	(10.2)	-	-
Cash-flow hedge reserve	21(b)	(17.2)	35.6	-	-
Share-based payments reserve	21(c)	3.2	2.7	1.3	0.8
		15.3	78.9	241.5	241.0
(a) Foreign currency translation reserve					
Balance brought forward		(10.2)	1.3		
Currency translation differences arising during the year		(11.3)	(11.5)		
Balance carried forward		(21.5)	(10.2)		
(b) Cash flow hedge reserve					
Balance brought forward		35.6	-		
(Losses)/gains for the period	12(d)	(52.8)	35.6		
Balance carried forward		(17.2)	35.6		
(c) Share-based payments reserve					
Balance brought forward		2.7	2.9	0.8	0.5
Option expense					
- Group		0.5	0.3	0.5	0.3
- Associates	12(d)	-	(0.5)	-	-
Balance carried forward		3.2	2.7	1.3	0.8
(d) Nature and purpose of reserves					
(i) Asset revaluation reserve					
The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares and is only available for the payment of cash dividends in limited circumstances as permitted by law.					
(ii) Foreign currency translation reserve					
Exchange differences arising on translation of self sustaining controlled foreign entities are taken to the foreign currency translation reserve as described in accounting policy Note 1(d).					
(iii) Cash flow hedge reserve					
Gains on instruments used to hedge a net investment in a foreign operation determined to be an effective hedge as described in accounting policy Note 1(q).					
(iv) Share-based payments reserve					
The share-based payments reserve is used to recognise the fair value of options issued but not exercised.					

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

21. RESERVES, RETAINED PROFITS AND TREASURY SHARES (CONTINUED)		CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	NOTES	2006	2005	2006	2005
<b>(e) Retained profits</b>					
Retained profits at the beginning of the financial year:					
- Group		608.7	441.5	565.3	433.1
- Associates		427.5	511.9	-	-
		1,036.2	953.4	565.3	433.1
Profit attributable to the members of Alumina Limited		511.1	315.6	505.7	365.0
Dividend provided for or paid		(233.2)	(232.8)	(233.2)	(232.8)
Retained profits at the end of the financial year		1,314.1	1,036.2	837.8	565.3
Retained profits at the end of the financial year:					
- Group		861.1	608.7		
- Associates	12(c)	453.0	427.5		
		1,314.1	1,036.2		
<b>(f) Treasury shares <sup>1</sup></b>					
Balance brought forward		(0.6)	(0.6)	-	-
Balance carried forward		(0.6)	(0.6)	-	-

<sup>1</sup> Under AASB 132, if an entity reacquires its own equity instruments, those instruments shall be deducted from equity. Alumina Limited purchased shares for its long term incentive plan. There were no purchases during 2005 or 2006.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

		CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	NOTES	2006	2005	2006	2005
<b>22 NOTES TO THE STATEMENTS OF CASH FLOWS</b>					
<b>(a) Reconciliation of operating profit after income tax to net cash inflow from operating activities</b>					
Operating profit from continuing operations after income tax		511.1	315.6	505.7	365.0
(Shortfall)/surplus of dividends received/receivable over equity share of profits		(25.5)	78.8	-	-
Depreciation and amortisation	6	0.1	-	0.1	-
Non-cash employee benefits expense-share based payments		0.5	0.3	0.5	0.3
Non-cash dividends received		-	(320.0)	-	(320.0)
Net exchange differences	5,6	-	-	(29.4)	26.2
<b>Sub total</b>		<b>486.2</b>	<b>74.7</b>	<b>476.9</b>	<b>71.5</b>
<b>Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:</b>					
(Increase)/decrease in:					
- receivables		0.4	0.3	0.1	0.4
- deferred tax assets		-	-	-	-
- other assets		0.5	(0.5)	0.5	(0.5)
(Decrease)/increase in:					
- payables		9.6	0.7	9.6	0.8
- current tax liabilities		1.1	-	-	-
- other liabilities		(0.9)	(3.2)	(0.4)	(2.5)
<b>Net cash inflow from operating activities</b>		<b>496.9</b>	<b>72.0</b>	<b>486.7</b>	<b>69.7</b>
<b>(b) Acquisition/disposal of controlled entities</b>					
During the year the Company did not acquire or dispose of any material controlled entities.					
<b>(c) Financing facilities</b>					
Refer to Note 23.					
<b>(d) Non-cash financing and investing activities</b>					
Dividend received from associate *		-	320.0	-	320.0
Investment in associate *		-	(320.0)	-	(320.0)

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



## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005

**23 FINANCING FACILITIES**

The facilities available at balance date were as follows:

Total loan facilities	887.2 <sup>1</sup>	700.0	887.2 <sup>1</sup>	700.0
Used at balance date	588.1 <sup>1</sup>	478.7	588.1 <sup>1</sup>	478.7
Available at balance date	299.1 <sup>1</sup>	221.3	299.1 <sup>1</sup>	221.3

<sup>1</sup> US dollar loan balances converted to A\$ equivalent at the year end exchange rate.

**a) The 2006 loan facilities are denominated in US\$ as follows:**

	1 Year	3 Year	5 Year	Total
Total facilities	300.0	250.0	150.0	700.0
Used at balance date	300.0	164.0	-	464.0
Unused at balance date	-	86.0	150.0	236.0

**24. FINANCIAL INSTRUMENTS****(a) Interest rate risk**

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

**Interest rate risk exposure**

The consolidated entity's exposure to interest rate risk and the effective weighted interest rate for classes of financial assets and liabilities is set out below:

**AS AT 31 DECEMBER 2006**

AS AT 31 DECEMBER 2006			Fixed interest maturing in:				
\$ Million	Notes	Floating Interest	1 Year Or less	Over 1 to 5 Years	More than 5 Years	Non-interest Bearing	Total
Financial Assets							
Cash and cash equivalents	10	169.0	-	-	-	-	169.0
Receivables	11	-	-	-	-	0.1	0.1
		169.0	-	-	-	0.1	169.1
Weighted average interest rate		5.1%					
Financial Liabilities							
Payables	15	-	-	-	-	12.7	12.7
Interest-bearing liabilities	16	588.1	-	-	-	-	588.1
		588.1	-	-	-	12.7	600.8
Weighted average interest rate		5.7%					
Net financial (liabilities)		(419.1)	-	-	-	(12.6)	(431.7)

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

## AS AT 31 DECEMBER 2005

AS AT 31 DECEMBER 2005			Fixed interest maturing in:				
\$ Million	Notes	Floating Interest	1 Year Or less	Over 1 to 5 Years	More than 5 Years	Non-interest Bearing	Total
Financial Assets							
Cash and cash equivalents	10	15.2	-	-	-	-	15.2
Receivables	11	-	-	-	-	0.5	0.5
		15.2	-	-	-	0.5	15.7
Weighted average interest rate		4.9%					
Financial Liabilities							
Payables	15	-	-	-	-	3.1	3.1
Bank loans	16	478.7	-	-	-	-	478.7
		478.7	-	-	-	3.1	481.8
Weighted average interest rate		3.5%					
Net financial (liabilities)		(463.5)	-	-	-	(2.6)	(466.1)

**(b) Carrying amounts and estimated fair values of financial instruments**

The carrying amounts and estimated fair values of the company's financial instruments, referred to in Note 24(a) above were as follows:

\$ Million	Notes	Consolidated entity			
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		2006	2006	2005	2005
<b>Recognised in the Balance Sheet</b>					
<b>Financial assets</b>					
Cash and cash equivalents	10	169.0	169.0	15.2	15.2
Current receivables	11	0.1	0.1	0.5	0.5
<b>Financial liabilities</b>					
Current payables	15	12.7	12.7	3.1	3.1
Interest-bearing liabilities	16	588.1	588.1	478.7	478.7

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate a value:

**Cash and cash equivalents**

The carrying amount approximates fair value because of the short maturity of these instruments.

**Debtors and creditors**

Other current debtors and creditors mainly represent financial obligations incurred in exchange for goods and services provided and received by the Group in the normal course of its operations, net of provisions for doubtful debts. Due to the short term nature of these financial obligations, their carrying values are estimated to equal their fair values.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 25 INVESTMENTS IN CONTROLLED ENTITIES

Entities consolidated	Notes	Place of Incorporation
<b>NAME</b>		
Alumina Limited		VIC, Australia
<b>All controlled entities are wholly-owned, unless otherwise indicated</b>		
<b>Controlled entities</b>		
Albion Downs Pty. Ltd.	C,F	WA, Australia
Alumina Holdings (USA) Inc.	A,D	Delaware, USA
Alumina International Holdings Pty. Ltd.	B,E	VIC, Australia
Alumina Brazil Holdings Pty Ltd	C,H	VIC, Australia
Alumina (U.S.A.) Inc.	A,D	Delaware, USA
Westminer (Investments) B.V.	A,D	Netherlands
Westminer Acquisition (U.K.) Limited	D	UK
Butia Participações SA	A,D,G	Brazil
Westminer International (U.K.) Limited	D	UK

These controlled entities:

- A) have not prepared audited accounts as they are non-operating or audited accounts are not required in their country of incorporation. Appropriate books and records are maintained for these entities;
- B) have been granted relief from the necessity to prepare accounts pursuant to Australian Securities and Investment Commission ("ASIC") Class Order 98/1418. This company, which is also referred to in the Directors' Declaration is, with Alumina Limited, a member of a "Closed Group" as defined in the Class Order and are parties to a deed of cross guarantee which has been lodged with and approved by ASIC. Under the deed of cross guarantee, each of these companies guarantees the debts of the other companies party to the deed of cross guarantee. The consolidated assets and liabilities of these companies, and their consolidated net profits after tax for the year then ended (after eliminating inter-company investments and other inter-company transactions) are set out in the table below;
- C) this is a small proprietary company, and is not required to prepare a financial report;
- D) has been translated as a self-sustaining entity;
- E) this company, while a small proprietary company, is included on the deed of cross guarantee;
- F) this company is deemed to be a controlled entity because of an option held by Alumina Limited to purchase all of the shares in the Company;
- G) On 30 December 2004, Alumina Limited, through a controlled subsidiary (Westminer (Investments) B.V.), acquired 100% interest in Butia Participações SA, a Brazilian entity for a nominal amount. Ownership of Butia Participações SA was transferred from Westminer (Investments) B.V. to Alumina Limited on 16 September 2005.
- H) This company was incorporated on 22 September 2006 and is 100% owned by Westminer (Investments) B.V.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

CLOSED GROUP  
\$ MILLION

2006 2005

**Deed of cross guarantee**

Entities which are party to a Deed of Cross Guarantee, entered into in accordance with ASIC Class Order 98/1418 are indicated above in this note. A consolidated balance sheet is set out below:

**Balance sheets of closed Group****Current assets**

Cash and cash equivalents	162.8	9.0
Receivables	87.0	8.2
Deferred tax assets	2.1	2.1
Other assets	-	0.5
Total current assets	251.9	19.8

**Non-current assets**

Investments in associates/subsidiaries	1,644.6	1,474.3
Property, plant and equipment	0.2	0.3
Total non-current assets	1,644.8	1,474.6
<b>Total assets</b>	<b>1,896.7</b>	<b>1,494.4</b>

**Current liabilities**

Payables	141.9	123.2
Interest-bearing liabilities	380.2	478.7
Provisions	0.1	0.1
Other	0.6	1.2
Total current liabilities	522.8	603.2

**Non-current liabilities**

Interest-bearing liabilities	207.9	-
Provisions	0.3	0.2
Total non-current liabilities	208.2	0.2
<b>Total liabilities</b>	<b>731.0</b>	<b>603.4</b>
<b>Net assets</b>	<b>1,165.7</b>	<b>891.0</b>

**Equity**

Contributed equity	425.8	415.7
Reserves	241.5	241.0
Retained profits	498.4	234.3
<b>Total equity</b>	<b>1,165.7</b>	<b>891.0</b>

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

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

	CLOSED GROUP \$ MILLION	
	2006	2005
<b>Income statements of closed Group</b>		
<b>Revenue from continuing operation</b>	<b>513.4</b>	<b>416.8</b>
Other income	29.5	10.4
General and administrative expenses	(10.6)	(10.2)
Other expenses	(5.8)	(28.0)
Borrowing costs	(29.2)	(18.3)
<b>Profit from ordinary activities before income tax</b>	<b>497.3</b>	<b>370.7</b>
Income tax expense	-	-
<b>Net profit</b>	<b>497.3</b>	<b>370.7</b>

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

<b>Retained profits at the beginning of the financial year</b>	<b>234.3</b>	<b>96.4</b>
Net profit	497.3	370.7
Dividend provided for or paid	(233.2)	(232.8)
<b>Retained profits at the end of the financial year</b>	<b>498.4</b>	<b>234.3</b>

## 26 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December, 2006.

Cross guarantees given by Alumina Limited and Alumina International Holdings Pty. Ltd are described in Note 25. There are no deficiencies of assets in any of these companies.

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

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

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005

## 27 COMMITMENTS FOR EXPENDITURE

**Lease commitments**

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	0.1	0.1	0.1	0.1
Later than one year but not later than 5 years	0.2	0.2	0.2	0.2
	0.3	0.3	0.3	0.3

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

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

**28 RELATED PARTY TRANSACTIONS**

Related parties of the Group fall under the following categories:

**Wholly-owned Group**

The wholly-owned Group consists of Alumina Limited and its wholly-owned controlled entities as disclosed in Note 25. Transactions between Alumina Limited and other entities in the wholly-owned Group during the years ended 31 December 2006 and 2005 consisted of:

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

The above transactions were made on normal commercial terms and conditions and at market rates.

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

	PARENT ENTITY \$ MILLION	
	2006	2005
Interest expense	0.2	0.2
Interest income	-	(1.3)
Aggregate amounts receivable/(payable) to entities in the wholly-owned Group at balance date:		
Current receivables	67.0	-
Current payables	-	(181.6)

**Directors and Other Key Management Personnel**

Disclosures relating to directors and other key management personnel are set out in Note 29.

**Other Related Parties**

There are no other related party transactions.

**Ownership Interests in Related Parties**

Interests held in the following classes of related parties are set out in the following notes:

- (a) controlled entities – Note 25; and
- (b) associates – Note 12.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 29 KEY MANAGEMENT PERSONNEL DISCLOSURES

**(a) Directors**

The following persons were directors of Alumina Limited during the financial year:

**Chairman – non-executive**

D M Morley

**Executive directors**

J Marlay, Chief Executive Officer

K A Dean, Chief Financial Officer (Alternate director)

**Non-executive directors**

P A F Hay

R J McNeilly

M R Rayner

**(b) Other key management personnel**

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

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

All of the persons above were also key management persons during the year ended 31 December 2005.

**(c) Remuneration of key management personnel**

	CONSOLIDATED ENTITY \$ MILLION		PARENT ENTITY \$ MILLION	
	2006	2005	2006	2005
Short-term employee benefits	2,996,055	2,448,785	2,996,055	2,448,785
Post-employment benefits	87,042	84,411	87,042	84,411
Share based payments	496,191	198,123	496,191	198,123
	<u>3,579,288</u>	<u>2,731,319</u>	<u>3,579,288</u>	<u>2,731,319</u>

The Company has taken advantage of the relief provided by Schedule 5B of the Corporations Act 2001 and has transferred the detailed remuneration disclosures to the Director's Report. The relevant information can be found in the Remuneration report on pages 50 to 70.

**(d) Equity instrument disclosures relating to key management personnel****(i) Share-based compensation****Options**

Alumina Limited does not have any ongoing option plans available to non-executive directors, directors, executives and senior managers or staff. Some former WMC Limited employees who are continuing employment in or are otherwise engaged by Alumina Limited, including the Chairman Mr Morley and former CFO, Mr Davies held options in Alumina Limited that were granted under the WMC Employee Share Scheme prior to the demerger of WMC Limited in December 2002. During the course of 2004, Mr Morley exercised all of his remaining options. During the course of 2005, Mr Davies exercised all of his remaining options.

**(ii) Alumina Employee Performance Rights Plan**

Details of performance rights over ordinary shares in the company provided as remuneration together with terms and conditions of the performance rights can be found in the Remuneration Report on pages 53-59.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## (iii) Options and performance share rights holdings

The number of options and performance rights over ordinary shares in the Company held during the financial year by each director of Alumina Limited and the key management personnel of the company and the consolidated entity, including their personally related entities, is set out below:

2006							
Name	Type of equity-based instrument	Number of performance rights or options held at 1 January 2006 <sup>1</sup>	Number granted during the year as remuneration <sup>2</sup>	Number vested/ exercised during the year	Number lapsed during the year <sup>3</sup>	Number held at 31 December 2006	Vested and exercisable at the end of the year
J Marlay	Performance rights	167,550	99,300	-	(60,700)	206,150	-
S C Foster	Performance rights	62,400	32,800	-	(22,600)	72,600	-
K A Dean	Performance rights	-	50,500	-	-	50,500	-

<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 3 year performance test period concluding in December 2008.

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

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

<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 3 year performance test period concluding in December 2007.

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

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



## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

**(iv) Shareholdings**

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

2006				
Name	Balance at the start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year
<b>Directors of Alumina Limited</b>				
<b>Ordinary shares</b>				
D M Morley	417,344	-	3,650	420,994
P A F Hay	31,700	-	9,512	41,212
R J McNeilly	27,370	-	4,063	31,433
M R Rayner	28,094	-	1,626	29,720
J Marlay	90,338	-	-	90,338
K A Dean	-	-	-	-

**Other key management personnel of the company and consolidated entity****Ordinary shares**

S C Foster	28,675	-	-	28,675
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2005				
Name	Balance at the start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year
<b>Directors of Alumina Limited</b>				
<b>Ordinary shares</b>				
D M Morley	413,796	-	3,548	417,344
P A F Hay	15,430	-	16,270	31,700
R J McNeilly	23,304	-	4,066	27,370
M R Rayner	26,467	-	1,627	28,094
J Marlay	84,500	5,838	-	90,338
R D J Davies <sup>1</sup>	90,762	53,000	(143,762)	-

**Other key management personnel of the company and consolidated entity****Ordinary shares**

S C Foster	26,500	2,175	-	28,675
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<sup>1</sup> Mr Davies resigned from the company on 31 October 2005.

**(e) Loans to directors and executives**

No loans were made to directors or specified executives of Alumina Limited and other key management personnel of the Group, including their personally-related entities in 2006 and 2005.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

**30 REMUNERATION OF AUDITORS**

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

	CONSOLIDATED ENTITY \$ THOUSAND		PARENT ENTITY \$ THOUSAND	
	2006	2005	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	306	252
Audit of Annual Report on US Form 20-F – fees for annual audit	105	105	105	105
Advice on accounting standards (including transition to A-IFRS)	11	321	11	321
	<b>483</b>	<b>709</b>	<b>422</b>	<b>678</b>
<b>(b) Remuneration for other assurance services:</b>				
Other	97	-	97	-
<b>(c) Remuneration for taxation services:</b>				
Overseas tax services	71	101	-	-
<b>Total</b>	<b>651</b>	<b>810</b>	<b>519</b>	<b>678</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.

**31 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

There have been no significant events since 31 December 2006.

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## 32. FINANCIAL REPORTING BY SEGMENT

## (a) Business segments

## Years ended 31 December 2006 and 31 December 2005

Alumina Limited's primary assets are its 40% interest in the series of operating entities forming AWAC.

The company operates in the alumina/aluminium business through its equity interests in AWAC.

## (b) Geographical segments

## YEAR ENDED 31 DECEMBER 2006

Consolidated \$ Million	Australia	North America	Europe	Caribbean, South America & Africa*	Total
Segment revenue by location of customer**	-	-	-	-	-
Unallocated revenue	1.4	-	-	-	1.4
<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

Consolidated \$ Million	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.

DIRECTORS' DECLARATION  
FOR THE YEAR ENDED 31 DECEMBER 2006

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**DIRECTORS' DECLARATION**

**In the directors' opinion:**

a) the financial statements and notes set out on pages 1 to 41 are in accordance with the 'Corporations Act 2001', including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date;

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

c) the audited remuneration disclosures set out on pages 50 to 70 of the directors' report comply with Accounting Standards AASB 124 'Related Party Disclosures' and the 'Corporations Regulations 2001'; and

d) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 25.

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

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



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DON M MORLEY >CHAIRMAN

9 MARCH 2007

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALUMINA LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2006

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

This audit report relates to the financial report of Alumina Limited (the Company) and the Alumina Limited Group (defined below) 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 web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the 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 financial report to confirm the information included in the audited financial report presented on this web site.

## AUDIT OPINION

### In our opinion:

1. The financial report of Alumina Limited:
  - > gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Alumina Limited and the Alumina Limited Group (defined below) as at 31 December 2006, and of their performance for the year ended on that date
  - > is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001; and
2. The remuneration disclosures that are contained on pages 50 to 70 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures (AASB 124) and the Corporations Regulations 2001.

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

## SCOPE

### The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Alumina Limited (the company) and the Alumina Limited Group (the consolidated entity), for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on page 50 to 70, as permitted by the Corporations Regulation 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the Corporation Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALUMINA LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2006

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We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the Corporations Regulations 2001.

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

- > examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- > assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

#### INDEPENDENCE

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



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PRICEWATERHOUSECOOPERS



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TIM GOLDSMITH >PARTNER  
MELBOURNE 9 MARCH 2007

## SHAREHOLDER INFORMATION

## FOR THE YEAR ENDED 31 DECEMBER 2006

## GEOGRAPHIC LOCATION OF REGISTERED SHAREHOLDERS AS AT 22 FEBRUARY 2007

Area or Country	Shareholders	% of Total	Shares held	% of Total
Victoria	26,992		555,682,324	47.59%
New South Wales	21,747		491,591,112	42.10%
Queensland	12,756		52,313,347	4.48%
Western Australia	8,256		22,121,339	1.89%
South Australia	8,026		25,919,444	2.22%
Australian Capital Territory	1,780		4,711,845	0.40%
Tasmania	1,276		3,527,501	0.30%
Northern Territory	241		381,188	0.03%
<b>Total Australia</b>	<b>81,074</b>		<b>1,156,248,100</b>	<b>99.02%</b>
United Kingdom	1,812		3,529,179	0.30%
New Zealand	1,341		4,157,690	0.36%
United States of America	241		600,499	0.05%
Singapore	150		761,008	0.07%
Hong Kong	145		489,299	0.04%
Other	614		1,830,973	0.16%
<b>Total International</b>	<b>4,303</b>		<b>11,368,648</b>	<b>0.98%</b>
<b>Total</b>	<b>85,377</b>		<b>1,167,616,748</b>	<b>100.00%</b>

Holders of less than a marketable parcel (market value less than \$500) 22 February 2007

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## Size of Shareholdings as at 22 February 2007

Range of shares held	Shareholders	%	Shares held	% of Total
1 - 1,000	35,029	41.03%	18,539,640	1.59%
1,001 - 5,000	39,361	46.10%	93,188,965	7.98%
5,001 - 10,000	6,897	8.08%	50,570,048	4.33%
10,001 - 100,000	3,864	4.53%	86,090,866	7.37%
100,000 - over	226	0.26%	919,227,229	78.73%
	85,377	100.00%	1,167,616,748	100.00%

## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

Shareholder	Shares held	% of Total issued
National Nominees	197,735,692	16.93
JP Morgan	170,936,754	14.64
ANZ Nominees Group	130,114,945	11.14
Westpac Custodians	129,304,712	11.07
Citicorp Nominees Pty Ltd	94,835,391	8.12
Cogent Nominees Pty Limited	23,062,204	1.98
RBC Global Services Australia	21,898,893	1.88
HSBC Custody Nominees (Aust)	16,920,653	1.45
Queensland Investment Group	15,015,987	1.29
Australian Reward Investment Alliance	13,524,673	1.16
Australian Foundation Investment Company Limited	13,126,512	1.12
AMP Life	7,507,863	0.64
UBS Nominees Pty Ltd	7,320,000	0.63
Australian United Investment Company	4,350,000	0.37
Perpetual Trustee Company	3,608,903	0.31
Argo Investments Limited	3,287,023	0.28
Djerriwarrh Investments Limited	3,268,000	0.28
Diversified United Investment Limited	3,250,000	0.28
Bond Street Custodians Limited	2,811,990	0.24
Washington H Soul Pattinson and Company Limited	2,617,393	0.22
Total held by 20 largest shareholders	864,497,588	74.03

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

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

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

**Substantial shareholding as at 22 February 2007**

NWQ Investment Management Company LLC and its affiliates	102,017,042	8.7%
Merrill Lynch & Co., Inc.	70,015,379	6.0%
Schroder Investment Management Group	61,103,826	5.2%



## ALUMINA LIMITED AND CONTROLLED ENTITIES

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

## FINANCIAL HISTORY

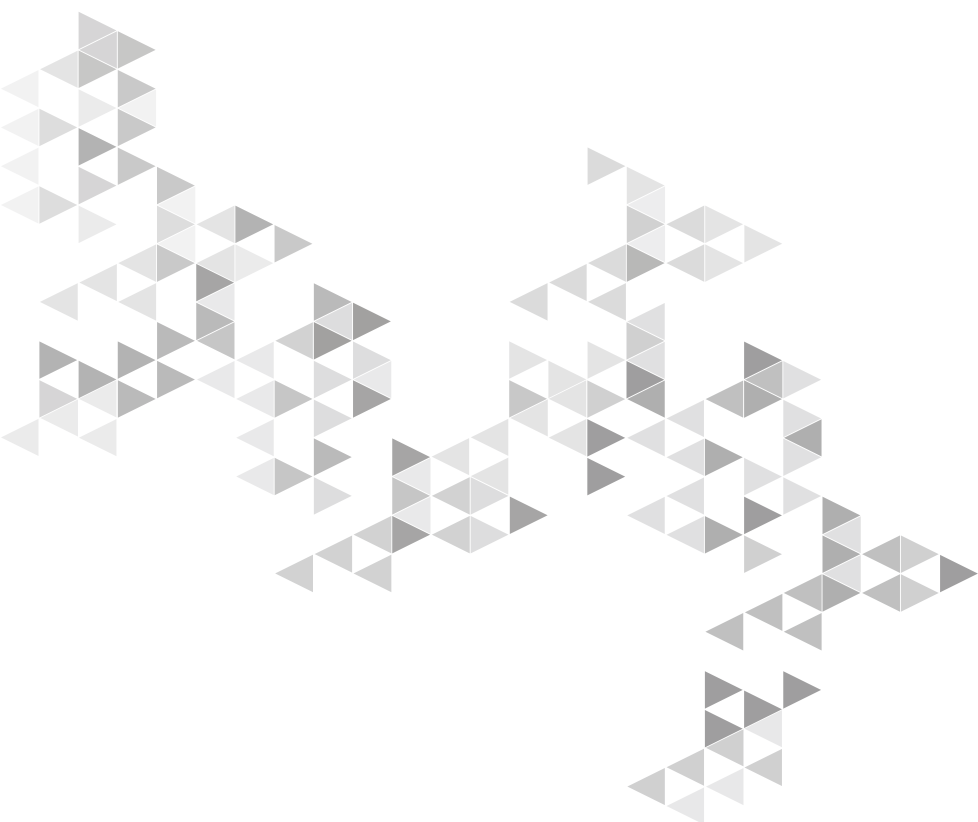
## ALUMINA LIMITED AND CONTROLLED ENTITIES

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	23c	18c
Dividend payout ratio	46%	74%	74%	109%	96%
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.

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