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(2) These conversions were made using exchange rates applicable at the dates of the dividend payments.
(3) Basic earnings per share were determined on the basis of the weighted average number of outstanding Alumina Limited shares for the periods indicated. Refer also to Notes 1(s) and 8 to the Consolidated Financial Statements.
(4) Diluted earnings per share was determined on the basis of the weighted average number of outstanding Alumina Limited shares for the periods indicated including potential shares from the conversion of partly paid shares and options into shares of Alumina Limited. Refer also to Notes 1(s) and 8 to the Consolidated Financial Statements.

Exchange Rates

Alumina publishes its consolidated financial statements in Australian dollars ("A$" or "$"). In this Annual Report, references to "US$" are to United States dollars.

The following table sets forth, for the periods and dates indicated, certain information concerning the rates of exchange of A$1.00 into US$ based on the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate").

Period	At Period End	Average Rate (1)	High	Low
	(all figures in US$ per A$1.00)			
November 2007			0.9369	0.8698
December 2007			0.8867	0.8557
January 2008			0.8981	0.8654
February 2008			0.9463	0.8934
March 2008			0.9411	0.8958
Year Ended December 31, 2003	0.7520	0.6524	0.7520	0.5629
Year Ended December 31, 2004	0.7805	0.7365	0.7979	0.6840
Year Ended December 31, 2005	0.7342	0.7627	0.7974	0.7261
Year Ended December 31, 2006	0.7884	0.7535	0.7914	0.7056
Year Ended December 31, 2007	0.8776	0.8395	0.9543	0.7724

(1) The average of the noon buying rates on the last day of each month during the financial period.

On March 31, 2008, the Noon Buying Rate was A$1.00 = US$0.9132.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

AWAC's revenue is primarily derived from sales of alumina, alumina-based chemicals and aluminium. The price that can be obtained for these commodities is influenced by the price of aluminium in the world market, and in particular, the LME price of primary aluminium. World aluminium prices are affected by numerous factors outside Alumina Limited's control, including the overall performance of world economies and the related cyclicality in particular industries that are significant consumers of aluminium.

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

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

AWAC earnings are also influenced by the accounting for embedded derivatives in Alcoa of Australia Limited's contracts for the supply of natural gas and electricity. If the aluminium price as quoted on the LME at a period end, and the estimate of long term aluminium prices in any relevant period beyond the period covered by LME prices, is higher than at the commencement of that period, a charge against income would result. Conversely, a fall in those aluminium prices would result in a credit to income for the period. Those effects on AWAC income would have a corresponding proportional negative or positive impact on the Company's income for the period.

Alumina does not separately hedge its exposure to aluminium prices. The Company expects that volatility in prices and demand for AWAC's products will continue for the foreseeable future. For a statement of current hedging, and movements in the selling price of aluminium over the last five years, see Item 11 "Quantitative and Qualitative Disclosure about Market Risk".

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

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

In the past, AWAC entered foreign exchange hedging contracts to manage its exposure to the US$/A$ exchange rate. Those hedging contracts were closed-out in 2003. Throughout the financial year ending December 31, 2007 and as at May 21, 2008, AWAC had no foreign exchange hedging contracts.

In addition, a great deal of the Company's borrowings and some equity accounted assets are denominated in US$ to protect it against foreign currency movements. The accounts of certain foreign subsidiaries are also maintained in US$. Thus a change in the A$/US$ exchange rate would have an adverse effect on the net asset value of the Company.

Fluctuations in the A$/US$ exchange rate will affect the US$ equivalent of the A$ price of the Company's ordinary shares on the Australian Stock Exchange ("ASX") and, as a result, are likely to affect the market price of the Company's American Depositary Receipts ("ADRs") in the United States. Such fluctuations would also affect the US$ amounts received by holders of ADRs on conversion of cash dividends paid in A$ on the Ordinary Shares underlying the ADRs. Alumina is not currently hedging its currency exposures. See Item 11 "Quantitative and Qualitative Disclosure about Market Risk".

An increase in AWAC's production costs could reduce Alumina's profitability.

Changes in AWAC's costs have a major impact on the Company's profitability. The operating costs of AWAC's mining, refining and smelting operations are subject to conditions beyond its or Alumina Limited's control that can delay deliveries or increase costs for varying lengths of time. These conditions include weather and natural disasters, unexpected maintenance or technical problems, key equipment failures, disruptions to or other problems with infrastructure, variations in geological conditions and increases in the cost of key inputs or the non-availability of key inputs. In addition, industrial disruptions, work stoppages, refurbishments and accidents at operations can result in production losses and delays in the delivery of product, which may adversely affect profitability. A key risk in the cost of production of alumina and aluminium is the cost of energy. Increases in world oil and gas prices will increase the cost of production of alumina. Further key risks associated in the cost of production of alumina are the costs of bauxite, freight and caustic soda. Approximately 1 tonne of caustic soda is used for every 13 tonnes of alumina produced. Accordingly, an increase in caustic soda prices has the potential to reduce profitability. The alumina industry is continuing to experience significant increases in energy prices, shipping freight rates and caustic soda prices during 2008, as well as continued strong currency pressures.

AWAC’s alumina sales are made under medium to long term contracts largely linked to aluminium prices. AWAC’s alumina sales contracts generally do not permit input cost increases to be passed through to customers during the life of the contract. Certain costs are also affected by government imposts and regulations in the countries in which AWAC operates. AWAC’s costs depend upon the efficient design and construction of mining, refining and smelting facilities and competent operation of those facilities.

The electricity supply contracts to AWAC’s two smelters expire in 2014 and 2106. The cost of electricity is a substantial individual cost in the production of aluminium. The level of electricity tariffs available after the expiry of these contracts is material to the level of smelter production costs and profitability.

Changes to sales agreements could adversely affect Alumina’s results.

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

Constraints on the availability of bauxite could adversely affect Alumina’s results.

AWAC’s production of alumina is dependant upon continuing availability of bauxite supply. AWAC obtains bauxite from bauxite resources to which it has access under mining leases and under short term and long term contracts. Any interruption in the supply of bauxite to AWAC’s refineries, caused by such factors as natural disasters, political events, deterioration in the quality of available bauxite resources each could have a material impact on our profitability.

AWAC is exposed to regulatory and court action, each of which could adversely affect Alumina’s results.

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

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

In Australia, the Federal Government has announced its intention to establish a national emissions trading scheme to reduce greenhouse gas emissions from 2010. The Government has acknowledged that the design of any scheme must address the competitive challenges facing emission-intensive trade-exposed industries in Australia. At present, it is not possible to assess the impact that a future national emissions trading scheme may have on AWAC and Alumina Limited, however, it may materially increase AWAC's capital expenditure and/or production costs.

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

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

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

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

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

Native title in Australia poses risks to the status of some of AWAC's properties

'Native title' describes the rights and interests of Aboriginal and Torres Strait Islander people in land and waters according to their traditional laws and customs that are recognised under Australian law. There are current claimant applications for native title determinations in the Federal Court of Australia over areas that include Alcoa of Australia's operations. Court decisions and various pieces of legislation make it evident that there are complex legal and factual issues affecting existing and future Alcoa of Australia interests. At this stage, we cannot make any assessment of the impact of the recent and pending court cases on AWAC's operations or the current claimant applications for native title over AWAC's operations. See Item 8A "Legal Proceedings—Native Title in Australia.

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

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

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

AWAC’s decisions are otherwise by majority vote. Alcoa has a 60 per cent interest in AWAC and has a majority vote. Subject to the application of fiduciary duties, it could occur that AWAC decisions by majority vote are not in the best interests of Alumina Limited.

Alumina Limited cash flows depend on the availability of dividends from AWAC

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

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

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

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

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

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