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D. Risk Factors

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

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

The aluminium industry generally is highly cyclical. AWAC is subject to cyclical fluctuations in global economic conditions and aluminium end-use markets. Demand for AWAC's products is sensitive to these fluctuations. For example, 2011 was a turbulent year in the world economy, characterized by an uneven recovery in many regions and prolonged volatility and crisis in others, namely Europe. Demand for aluminium started strong at the beginning of the year but weakened in the second half. While Alumina believes that the long-term prospects for aluminium and alumina remain bright, Alumina is unable to predict the future course of industry variables or the strength, pace or sustainability of the economic recovery and the effects of government intervention. Another major economic downturn, a prolonged recovery period, or disruptions in the financial markets could have a material, adverse effect on AWAC's and Alumina's business or financial condition or results of operations.

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

Alcoa Inc. ("Alcoa") and certain other aluminium producers have recently announced independent plans to cut aluminium production capacity due to pricing and other market-driven factors. However, the existence of non-market forces on global aluminium industry capacity, such as political pressures in certain countries to keep jobs or to maintain or further develop industry self-sufficiency, may prevent or delay the closure or curtailment of certain producers' smelters, irrespective of their position on the industry cost curve. Other production cuts may be impeded by long-term contracts to buy power or raw materials. Persistent industry overcapacity may result in a weak pricing environment and margin compression for aluminium producers, including AWAC. Any such cuts in aluminium production are likely to impact on demand for and production of alumina and this is likely to adversely affect AWAC, such as in reduced sales volumes or lower price received.

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

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

The price of aluminium is frequently volatile and changes in response to general economic conditions, expectations for supply and demand growth or contraction, and the level of global inventories. The influence of hedge funds and other financial institutions participating in commodity markets has also increased in recent years, contributing to higher levels of price volatility. In 2011, the LME price reached a high in excess of $2,700 per metric tonne and by the end of the year declined to below $2,000 per metric tonne. This affected the alumina price too. This decline had a negative impact on AWAC's results in the second half of the year. Continued high LME inventories could lead to a reduction in the price of aluminium. A sustained weak aluminium pricing environment or a deterioration in aluminium prices could have a material, adverse effect on AWAC's business, financial condition, results of operations or cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There can be no assurance that any rating assigned will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by a rating agency, if, in that rating agency's judgment, circumstances so warrant. Maintaining an investment-grade credit rating is an important element of Alumina's financial strategy. A downgrade of Alumina's credit ratings could adversely affect the market price of its securities, adversely affect existing financing, limit access to the capital or credit markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, result in more restrictive covenants in agreements governing the terms of any future indebtedness that Alumina incurs, increase the cost of borrowing, or impair its financial condition.

In addition, Alumina Limited's primary assets consist of its interests in the various companies that make up AWAC. Although Alumina does not hold itself out as, or carry out its operations as, an "investment company" as contemplated under the Investment Company Act of 1940, as amended (the "Investment Company Act"), uncertainty exists as to whether its interests in AWAC would be considered to be investment securities under the Investment Company Act. If the AWAC interests are determined to be investment securities, Alumina Limited may be determined to be an 'investment company" as defined in the Investment Company Act. As a non-U.S. operating company, it is not practical or feasible for Alumina Limited to register as an "investment company" under the Investment Company Act. While the uncertainty regarding its status continues, Alumina Limited is constrained in its ability to conduct capital raising activities in the U.S. capital markets as it is unable to register as an investment company under the Investment Company Act.

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

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

- a change of the scope of AWAC;

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

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

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

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

During 2006, the AWAC partners entered into the Enterprise Funding Agreement, under which capital expenditures are to be funded by the partners contributing directly to cash calls issued by the relevant AWAC entity. During 2010, the Enterprise Funding Agreement was extended on the basis that two years notice is required to terminate the Enterprise Funding Agreement. When such cash calls are issued, additional dividends equal to the amount of the cash call will, subject generally to availability of cash and earnings, be paid by AWAC entities to the partners. The Enterprise Funding Agreement is expected to substantially reduce the risk, during the term of the agreement, of only the minimum 30% dividend being paid during times of AWAC growth capital expenditure.

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

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

Capital costs for development of an alumina refinery and other mineral processing projects have increased substantially in recent years e.g. BHP Billiton's Worsley refinery expansion (capital cost above $2,600/t of annual capacity).

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

Energy is a significant input in a number of AWAC's operations. AWAC uses electricity in its operations and is an emitter of greenhouse gases.

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

The Australian Government has released legislation to introduce its carbon pricing scheme, details of which were released on July 10, 2011. The scheme is proposed to operate in two phases: a fixed (but increasing) carbon permit price commencing July 1, 2012 to be followed by a floating price phase from July 1, 2015. This scheme is the result of negotiations within the Multi-Party Climate Change Committee and resulted in the Clean Energy Legislative Package which was passed by the Senate on November 8, 2011. The scheme will cover emissions from the stationary energy, industrial processing, mining and waste sectors. Entities that have operational control of a facility that emits more than 25,000t CO_2-e per annum in greenhouse gas emissions from activities covered by the scheme will be required to surrender carbon permits to cover those emissions. Emissions-intensive trade-exposed industries and coal-fired power generators will be eligible to receive assistance, primarily in the form of free carbon permits, under arrangements that are broadly similar to those that would have applied under the former Carbon Pollution Reduction Scheme. Contractual arrangements will govern the electricity and domestic gas pass-through of carbon costs for indirect emissions. Under the details of the scheme announced aluminium smelting and alumina refining will receive a free allocation of permits for 94.5% of average industry emissions, per tonne of production. These allocations are based on the tonnes produced at an average emissions intensity. Allocation will reduce at a rate of 1.3% per annum with a floor at 90% if a sector can demonstrate that less than 70% of its competitors have introduced comparable carbon constraints. The fixed price phase starts at A$23.00 per tonne CO_2-e and increases to $24.15 in year 2 and $25.40 in year 3 (based on a 2.5% rise with 2.5% inflation). From July 1, 2015 there will be an emissions trading scheme based on a national emissions cap for the first five years to be announced in 2014. Banking of surplus permits will be allowed and 50% of an entity's obligation may be met through international credits/permits.

In the 2010/2011 year, AWAC in Australia produced 7.36 million tonnes of emissions from smelting (0.7 million tonnes from direct and 6.66 million tonnes from indirect sources) and 5.0 million tonnes of emissions from mining and refining (4.3 million tonnes from direct and 0.7 million tonnes from indirect sources). Further details are available on Alumina Limited's website. Due to the considerable uncertainty as to the details of the Carbon Pricing Scheme (such as surrounding the electricity allocation factor and pass through of costs from electricity providers), the assistance to be provided and its implementation, it is difficult to accurately forecast the financial impact on AofA or Alumina.

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

Inconsistency of regulations may also change the attractiveness of the locations of some of AWAC's assets. It is difficult to assess the potential impact of future climate change regulation given the wide scope of potential regulatory change in countries in which Alumina and AWAC operate. It is difficult to estimate the financial impact on AWAC of the carbon reduction schemes operating in Europe. The free allocation of allowances, the extent of the mitigation measures for which AWAC's San Ciprián refinery in Spain might qualify and the treatment of indirect emissions are uncertain.

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

Impact of global economic downturn.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unavailability of bauxite may reduce AWAC's profitability.

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

With respect to the Paranam refinery in Suriname, at current rates of production it is likely that all Suriname current bauxite deposits will be exhausted within the next several years. AWAC is actively exploring and evaluating alternate sources of bauxite, including deposits from Suralco's concession in eastern Suriname such as the Nassau plateau and imported bauxite.

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

AWAC operates in a number of countries, some of which have a relatively high level of political and economic risk. Political activities in these countries may be destabilising and disruptive to AWAC's operations. Risks include those associated with political instability, civil unrest, expropriation, nationalisation, renegotiation or nullification of existing agreements, mining lease and permits and changes in local laws, regulations or policies. The impact of any such disruption could range from a minor increase in operating costs or taxes to a material adverse impact, such as the closure of an operation.

The future trading price of shares is subject to uncertainty

Investors should be aware that there are risks associated with any share or ADR investment. The value of shares or ADRs may rise above or fall depending on the financial condition and operating performance of Alumina or AWAC. Further, the price at which shares or ADRs trade may be affected by a number of factors unrelated to the financial and operating performance of Alumina or AWAC and over which Alumina and its Directors have no control. These external factors include:

- economic conditions in Australia and overseas;
- relative changes in foreign exchange rates;
- the impact of significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Alumina, AWAC or their competitors;
- local and international stock market conditions;

- changes in government regulations or in fiscal, monetary and regulatory policies (such as environmental and land management, regulation, taxation and interest rates);
- industrial disputes;
- geo-political conditions such as acts or threats of terrorism or military conflicts; and
- volatility of comparable companies’ share prices, including Alcoa Inc.

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

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

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

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

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

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

The AWAC Agreements are silent on the action that Alumina or Alcoa (as relevant) and the acquirer must take to avoid any contravention. It is possible that the relevant business could be offered to AWAC for purchase, with the value to be agreed. Alternatively, the acquirer might divest itself of the relevant business or undertake some other action consistent with the exclusive vehicle provisions of the AWAC agreements.

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

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

Alumina Limited faces significant competition in the aluminium market.

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

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

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