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## Higher Interim Profit and Dividend, Underpinned by Strong Global Demand and Higher Prices

### Highlights:

- Net profit after tax up 9% to \$284 million
- Underlying Earnings after tax down 10% to \$271 million
- Fully franked interim dividend – 12 cents per share
- Return on Equity on Underlying Earnings - 33% (2006: 37%)
- \$250 million share buy-back completed

Alumina Limited today announced Net Profit After Tax of \$284.3 million for the first half of 2007, 9% higher than the first half of 2006, reflecting continuing strong global demand and higher prices for aluminium and alumina, but impacted by a stronger Australian dollar and higher operating costs.

Underlying Earnings after tax declined 10% to \$271.0 million, which is calculated by deducting from Net Profit after Tax an amount of \$13.3 million, representing the net total of non-cash charges in the half year for the revaluation of embedded derivatives and retirement benefit obligations, which do not reflect operations in the current half year.

Directors have declared an increased interim dividend of 12 cents per share, fully franked, payable 5 September 2007. This 20% increase over the interim dividend for 2006 is consistent with the Directors' intention, subject to business conditions, to maintain annual dividends at least at 24 cents per share, fully franked.

During the period, Alumina conducted a successful \$250 million off-market share buy-back, resulting in the repurchase and retirement of approximately 3.3% of issued capital.

Alumina Limited CEO, John Marlay, commented, "This result again reflects the quality of AWAC's global business and builds on the substantial returns reported in 2006. However, cost pressures and a strong Australian dollar are likely to persist in the second half and impact earnings".

"The fundamentals of this business continue to be very strong, with Chinese aluminium consumption continuing to be a strong driver of global demand. We are increasing investment in AWAC production capacity, at present through the growth projects in Brazil, to meet this growth in demand. AWAC has further options to increase capacity in Australia and elsewhere."

AWAC operating cash flows continued to be strong at US\$596 million for the half year. Together with the new funding agreement with our partner Alcoa, these strong cash flows enabled a higher fully franked dividend to be declared, as well as Alumina continuing to invest in AWAC for long term growth.

Return on Equity was 34.7% (2006: 31.6%). Return on Equity based on Underlying Earnings was 33.0% (2006: 36.7%). The excellent return on equity reflects continuing strong AWAC operating margins and management of capital employed.

Earnings per share rose to 24.6 cents per share (2006: 22.3 cents per share). Earnings per share on underlying earnings were 23.5 cents per share (2006: 25.9 cents per share).

Alumina's debt at 30 June 2007, net of cash, was A\$768 million, A\$349 million higher than at the beginning of 2007. AWAC held net cash amounting to US\$98 million (2006: net debt of US\$172 million). Cash dividends received during the half year were A\$240 million, compared to A\$264 million in the corresponding 2006 period.

### **Prices and Exchange Rates**

Global demand for aluminium and alumina continues to grow strongly and is expected to increase by 10% year on year in 2007. LME aluminium prices averaged US\$1.26 per pound in the first half of 2007, a 9% increase on the corresponding period. The outlook for aluminium and alumina prices remains positive.

AWAC's sales revenue was 5% higher than in the comparable period of 2006, due principally to higher aluminium and alumina prices.

The Australian dollar strengthened in 2007 with an average exchange rate of 81 cents for the half (2006: 74 cents). This exchange rate change resulted in a significant reduction to Alumina Limited's profit after tax for the six months to 30 June 2007. Underlying Earnings for the first half included a charge of A\$12.2 million after tax from revaluing Alcoa of Australia's USD receivables in AUD at 30 June 2007 at 85 cents.

### **AWAC Operations**

AWAC's alumina production of 7.0 million tonnes in the first half of 2007 was in line with the prior corresponding half. The Pinjarra refinery upgrade contributed additional alumina production during the half. The Point Comfort refinery, having taken down one of six digesters in 2006, operated at 85% of capacity. Production was increased through capacity creep at other AWAC refineries.

AWAC refining costs in US dollars in the first half increased from 2006 due to the exchange rate impact of a lower US dollar in 2007 and:

- higher bauxite costs due to purchases required to meet shortfalls caused by strikes at Compagnie des Bauxites de Guinée bauxite operations;
- power outages at the Kwinana and Pinjarra alumina refineries; and
- higher freight, maintenance and contractor costs.

These cost pressures are expected to increase AWAC's 2007 alumina production costs by approximately US\$24 per tonne over 2006 levels.

Mr Marlay noted, "higher operating and capital costs are being experienced throughout the alumina and aluminium industries, which is likely to influence long term alumina and aluminium prices".

Aluminium production in the first half was 192 thousand tonnes (2006: 183 thousand tonnes). This increase partly reflected production levels in 2006 being constrained by a power outage at the Portland smelter in November 2005, affecting potline capacity until the third quarter of 2006.

Aluminium margins increased as higher aluminium prices exceeded higher input costs for alumina and power.

AWAC capital expenditure increased to US\$476 million for the half year (2006: US\$330 million), including completion of the Jamalco refinery expansion and substantial investment in construction of the Brazil growth projects.

### **AWAC Growth**

At the Jamalco refinery, a 100% AWAC project to increase capacity by 146,000 tonnes per annum, was completed in the first quarter of 2007 and commissioned during the second quarter.

Construction is underway in Brazil on the Alumar refinery expansion (AWAC share 1.1 million tonnes per annum) and development of the new AWAC Juruti bauxite mine (initially to 2.6 million tonnes per annum). The estimated capital costs of AWAC's investment projects in Brazil have increased, principally due to the appreciation of the Brazilian currency and, for the Juruti project, increased construction costs, expanded scope of construction and additional energy supply and community infrastructure. AWAC's share of the Alumar refinery expansion and development of the Juruti mine, including the cost of rail, port and infrastructure investment to support future capacity expansion, is now estimated to be approximately US\$2.3 billion, an increase of approximately US\$600 million. The principal uncertainty on the cost of these projects continues to be the USD/Brazilian Real exchange rate.

### **Outlook**

Global demand for aluminium and alumina is forecast to continue to grow strongly at approximately 10% year on year in 2007, with Chinese domestic demand for aluminium projected to grow by at least 30% year on year. In 2007, aluminium markets are expected to be in a modest surplus of up to approximately 300,000 tonnes by year end. Alumina market demand is also strong. The alumina market is forecast to be essentially balanced, with any surplus not expected to be greater than 1 million tonnes, dependent on the pace of construction and ramp up of new brownfield capacity expansions.

Alumina Limited expects full year 2007 Underlying Earnings to be approximately A\$490 million. This estimate assumes an average 2007 LME aluminium price of US\$1.24 per pound, and an average 2007 USD/AUD exchange rate of 0.83.

Alumina Limited's 2007 underlying earnings sensitivities, based on 2006 underlying earnings and 2006 average LME aluminium price and A\$/US\$ exchange rates, are:

- a US one cent per pound movement in the average 3-month LME aluminium price is expected to impact underlying earnings by approximately A\$10 million. The sensitivity of underlying earnings to the LME aluminium price is not linear, as it reflects the mix of AWAC sales contracts on varying terms and may vary with significant changes to the LME aluminium price;
- each one cent movement in the average Australian dollar/US dollar exchange rate is expected to impact underlying earnings by approximately A\$7 million. This sensitivity excludes any effect of revaluing US dollar balance sheet items at period end;
- AWAC refining operating costs, including approximately US\$8/tonne of foreign exchange impact, are expected to be approximately US\$24/tonne higher in 2007 than in 2006.

	<b>H106</b>	<b>H206</b>	<b>H107</b>
Profit after tax (A\$m)	259.9	251.2	<b>284.3</b>
Underlying earnings after tax (A\$m) <sup>1</sup>	302.0	267.4	<b>271.0</b>
Dividends declared (cents/share)	10	12	<b>12</b>

<sup>1</sup> See page 1 of the 2007 Half Yearly ASX Report for a reconciliation of Net Profit After Tax to Underlying Earnings After Tax

Alumina Limited is a leading Australian company listed on the ASX and the NYSE. Our strategy is to profitably grow, solely through investing world-wide in bauxite mining, alumina refining and selected aluminium smelting operations through our 40% ownership of AWAC, the world's largest alumina business. Our partner, Alcoa, owns 60% of AWAC, and is the manager.

*Some statements in this release are forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements also include those containing such words as 'anticipate', 'estimates', 'should', 'will', 'expects', 'plans' or similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual outcomes to be different from the forward-looking statements. Important factors that could cause actual results to differ from the forward-looking statements include: (a) material adverse changes in global economic, alumina or aluminium industry conditions and the markets served by AWAC; (b) changes in production and development costs and production levels or to sales agreements; (c) changes in laws or regulations or policies; (d) changes in alumina and aluminium prices and currency exchange rates; and (e) the other risk factors summarised in Alumina's Form 20-F for the year ended 31 December 2006.*

Further information:

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