



# 2010 HALF YEAR UPDATE

## DEAR SHAREHOLDER,

We are pleased to report to you on Alumina's improving earnings, the resumption of the interim dividend, as well as to update you on the positive outlook for your company.

Alumina recorded a significant improvement in earnings in the half year to June 2010 as cash flow and market conditions began to recover. Earnings after tax of US\$44 million were substantially above the US\$4 million achieved in the previous corresponding period, while underlying earnings of US\$22 million was a significant turnaround on the loss recorded in the prior comparative period.

The Company has a sound balance sheet and a conservative gearing level of 9.5 per cent.

The improvement in earnings was driven by an increase in realised alumina prices, increased volumes and good cost control in the AWAC joint venture. These factors more than offset the impact of higher energy costs, the higher Australian dollar and additional costs incurred at the operations in Brazil which experienced issues in ramping up production to full capacity. The financial performance of the Brazil refinery and mine are forecast to improve progressively but significantly over the coming periods.

## RESUMPTION OF DIVIDEND

The improved result has enabled the reinstatement of the interim dividend, with your directors pleased to declare a US 2 cents (2.2324 Australian cents) per share interim payment that is fully franked. This represents a 11 per cent increase over the final dividend for 2009.

We are pleased to inform you that your directors intend, on an annual basis, to distribute cash from operations to shareholders via dividends once the company's debt has been serviced and corporate costs have been met. In addition we expect those dividends to be fully franked for the foreseeable future.

Historically, Alumina Limited has paid out nearly all of its cash under this formula since 2003.

After much consideration your directors determined that it was more appropriate to declare any dividends in US currency. As you may be aware, Alumina's accounts have recently changed over to reporting in US dollars. The company's revenue is received in US currency and its operations now are more global, particularly with the start-up of operations in Brazil.

SEPTEMBER 6, 2010

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While the dividend has been declared in US currency it has been paid in Australian dollars except for British residents who continue to receive their payment in pounds sterling. The dividend was converted to an amount of Australian 2.2324 cents per share and British 1.2876 pence per share using the US dollar exchange rate on the record date for the dividend, 19 August 2010. The dividend reinvestment plan remains suspended.

### POSITIVE INDUSTRY OUTLOOK

As the half-year result shows, the outlook for both alumina and aluminium markets is improving. Chinese industrialization is driving increased demand, with global alumina demand forecast to grow at 12 per cent for 2010 with improved pricing, although some volatility is to be expected.

The industry trend towards shorter and spot contract pricing for alumina is also positive. A shift away from the traditional pricing link between alumina and aluminium is more likely to reflect the cost and investment fundamentals of the bauxite and alumina markets.

Your directors are positive about the outlook for Alumina's US\$1.4 billion investment in production in Brazil. The newly commissioned Brazilian operations will increase AWAC's alumina production capacity by 1.1 million tonnes per annum.

With cash generation from the AWAC joint venture improving and the period of major growth capital investment in Brazil drawing to its conclusion, the Directors are confident about the outlook for free cash flow available for distribution to shareholders.

### SUMMARY

Overall, the six month period to June 2010 has benefited from higher sales volumes and prices and good cost control. Looking forward your directors believe the combination of strengthening global demand, better pricing mechanisms and improving performance from Brazil, augur well for the future of your company.

Yours sincerely,



JOHN BEVAN CHIEF EXECUTIVE OFFICER



DONALD M MORLEY CHAIRMAN

**Disclaimer:** 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 2009.

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