ALUMINA LIMITED

ASX Announcement

24 May 2018

Chairman's and CEO's Speeches – 2018 AGM

Attached are the Chairman's and Chief Executive Officer's speeches delivered at the 2018 Annual General Meeting of the Company held today.

Stephen Foster
Company Secretary

24 May 2018

For investor enquiries:

Chris Thiris
Chief Financial Officer
Phone: +61 3 8699 2607
chris.thiris@aluminalimited.com

Charles Smitheram
Manager – Treasury & Investor Relations
Phone: +61 3 8699 2613
charles.smitheram@aluminalimited.com

For media enquiries:

Tim Duncan
Hinton and Associates
Phone: +61 3 9600 1979
Mobile: +61 408 441 122

PETER DAY

Good morning ladies and gentlemen.

As the new Chair of Alumina Limited, it is my pleasure to welcome you to the 48th Annual General Meeting of the Company.

I will briefly discuss some housekeeping matters before moving on to the business of the meeting.

In the unlikely event that evacuation of the Auditorium is required, Ms Lisa Walshe, who is in charge of security for the meeting, will give directions and the meeting will be adjourned. We would follow Ms Walshe’s directions for an orderly evacuation of the Auditorium to the pre-determined evacuation point which is the grassed area beside Orrs Dock in front of the Exhibition Centre, opposite Yarra doors 1 and 2.

Before formally beginning the meeting, I would like to introduce you to my fellow directors.

On my far right is John Bevan, a non-executive Director and Chair of the Nominations Committee.

John is standing for election today. Next to John is Deborah O’Toole, a non-executive Director and Chair of the Audit and Risk Management Committee.

Deb is also standing for election today. Next to Deb is Chen Zeng, a non-executive Director.

Next to Chen is Emma Stein, a non-executive Director and the Chair of the Compensation Committee. Emma is standing for re-election today.

I will ask each of John, Deb and Emma to address the meeting regarding their election.

Next to Emma is Mike Ferraro, our Chief Executive Officer. On my immediate right is Stephen Foster, Alumina's General Counsel and Company Secretary.

The Company’s Chief Financial Officer, Chris Thiris, and Group Executive of Strategy and Business Development, Andrew Wood, are seated to my right in the front row. The Company's auditor, Pricewaterhouse-Coopers, is represented by Mr John O’Donoghue. John took over from Nadia Carlin, in 2017 and he is also seated in the front row. Mr O’Donoghue is available to answer any questions regarding the conduct of the audit and the content and preparation of the Audit Report.

Copies of the Alumina Limited Annual Review 2017 and the Annual Report are available today at the Registration table and on the Company's website. These documents give more detail on the Company's strategy, operations and performance.

I am advised that a quorum of members is present and I declare the meeting open.

The Notice of Meeting has been circulated and I will take it as read.

The Minutes of the last Annual General Meeting of the Company have been signed and are available at the registration desk for any shareholder to view.

The proxies received for today's meeting are held by the Company Secretary. We have received proxies representing approximately 2.27 billion shares or 78.12 per cent of the Company's issued shares.

The first item on the agenda of the meeting is to receive and consider the financial statements.

No resolution or vote is required on the financial statements.

To deal with this item, I will make some introductory comments on Alumina Limited's financial performance. I will then ask Mike, our Chief Executive Officer, to address shareholders. He will review the performance of the AWAC business and market conditions.

After my comments and those of the CEO, I will come back to cover some broader strategic issues and Alumina's position in the global bauxite and alumina industry. Then I will open the meeting for general questions before dealing with the agenda items.

Let me start by reviewing some recent changes to the Board.

I would like to record the Board's appreciation of the outstanding contribution made by John Pizzey as Director and Chairman of the Company over 11 years. John retired from the Board in March this year and leaves the company in a very sound position. Following John's retirement and as part of our succession plan, John Bevan and Deb O'Toole have recently joined Alumina as non-executive directors. We have welcomed their contributions to the Board's deliberations in the past few months.

John Bevan was previously Chief Executive Officer of Alumina from 2008 to 2013. His deep understanding of the markets and the joint venture in which the Company operates will be of great value to Alumina Limited, especially in light of John Pizzey's retirement.

Deb O'Toole is a former Chief Financial Officer of MIM and Aurizon and brings extensive financial expertise and current experience as a Director of an ASX listed company operating within the United States.

I would also like to welcome Mike Ferraro to his first annual general meeting as CEO of the company. The appointment of Mike as CEO was made at the time of last year's meeting. Prior to his appointment as CEO, Mike had been a non-executive director of the Company for three years. The Board is very pleased that Mike accepted the position of CEO.

Now let's turn our attention to the 2017 year and the Company's financial performance. I should note, all references in mine and Mike's presentations to currency are in US dollars.

Results

The Company reported a net profit of three hundred and forty million dollars for 2017. The primary driver of profit was a thirty eight per cent increase in alumina prices. The AWAC joint venture continued to maintain its low operating cost position during 2017. Combined with the improved prices, this meant profits improved substantially in 2017. Mike Ferraro will review the operating performance in more detail.

Dividends

In terms of dividends, 2017 was a standout year for shareholders. The improved operating profit, free cash flow and the revised AWAC joint venture agreements, specifically the new AWAC cash distribution policy, enabled a doubling of dividends to shareholders.

The Company's total net cash receipts from AWAC during 2017 were 263 million dollars. This was 78 million dollars higher than the previous year. The company paid a total dividend of US thirteen and a half cents for the year. The Company continued to receive healthy cash distributions from AWAC in early 2018. Year to date net receipts from AWAC in 2018 have been 312 million dollars, some of which has already been paid out to shareholders.

Generally, the Board intends on an annual basis to distribute net cash from operations after capital contributions, after debt servicing and after corporate cost commitments have been met.

The Board will also consider the capital structure of Alumina Limited, the capital requirements for the AWAC business and market conditions.

I would now like to ask Mike to outline AWAC's performance and I will then come back to discuss how the industry has been changing and the effect of these changes.

Mike Ferraro

Good morning and thank you for attending our Annual General Meeting.

I would like to start by saying that it is a real honour and the highlight of my career to have been appointed as CEO of your Company.

I would like to acknowledge the leadership of John Pizzey, and Peter Wasow, my predecessor, who both led the Company through some difficult periods and the renegotiation with Alcoa in 2016 to place our interests on a stronger footing.

When I joined the Board as a non-executive Director in 2014 the share price was one dollar twenty cents. For the 2013 year the Company had made an underlying loss and did not pay a dividend.

When I was up for election at the 2014 AGM I was asked by a shareholder: “What attracts you to want to be on the Board of Alumina, as it seems to be going nowhere?” My response was along the lines that the Company was in a challenging industry but that commodities are cyclical, they go up and down and that the challenges faced by the Company would give me an opportunity to make a meaningful contribution.

Well, then, let’s look at your Company today.

The share price is now two dollars sixty cents. It has paid a dividend in each of the last 4 years and for the 2017 year has declared dividends totaling 13.5 cents per share representing a 7.5% yield on the day the final dividend was declared. The most recent full year profit was 340 million dollars, largely due to higher alumina prices.

For the same period, AWAC’s joint venture earnings before interest, tax, depreciation and amortisation increased by 1.2 billion dollars to 1.6 billion dollars.

Of course I would like to take all the credit! The reality is that we are primarily a pure investment in bauxite and alumina, and after a number of difficult years the cycle has turned favourably for your Company.

The industry and environmental reforms in China, together with a tight global alumina market supported growth in the alumina price in 2017. In the fourth quarter of last year the Australian alumina index price averaged 437 dollars per tonne. For the whole year it averaged 335 dollars per tonne which was an increase of 93 dollars per tonne over the prior year.

In 2017 our joint venture’s cash cost of production for alumina was well contained to 198 dollars per tonne, a 7 dollar increase from the prior year mainly driven by higher caustic and energy costs.

The difficult decisions involving asset closures, curtailments and restructurings have largely been made. We are now a low cost producer of alumina and remain one of the largest alumina producers in the world.

A number of our competitors will need to source their bauxite from further afield in the future. AWAC's key bauxite mines largely remain close to our refineries which gives us an advantage.

We are now selling an overwhelming proportion of our product on an alumina price index mechanism which better reflects alumina spot market fundamentals.

The work that has gone into restructuring our joint venture assets, the renegotiated joint venture arrangements with Alcoa in 2016 and the improvement in alumina prices has seen total shareholder returns over the last 4 years to December 2017 of approximately 158%.

Every day as I spend more time in the Company I continue to be impressed by the quality of our asset base in the AWAC joint venture and the position we hold in both alumina and bauxite production.

The AWAC bauxite mines in Western Australia are long life and low cost assets. The two bauxite mines and three alumina refineries in Western Australia have been the driver of AWAC's profitability over a number of decades and should continue to have a long life ahead as leaders in the industry. Those assets have proven to be among the best resource asset systems in Australia.

In the last year we have seen significant environmental and supply side reforms in China which have impacted favourably on our business and are expected to continue to do so. The cut backs in unauthorised capacity and the environmental restrictions including winter cut backs to improve air quality in some of China's most populated cities have all had an impact on our business.

The recent changes in world alumina markets also allow us to focus on growth.

AWAC's Tier 1 assets are in a better price environment and thus allow us to think about options that have been on hold. Our focus is on organic opportunities with Tier 1 assets providing real optionality. For example, AWAC's bauxite division has been expanding its production levels and sales to third parties in recent years. This has been a positive change for the business. At the same time as cash flows are improving, we must not forget that closure costs and rehabilitation of legacy facilities must be dealt with responsibly.

China's demand for imported bauxite has continued to grow as its own quality and quantity of domestic bauxite diminishes and environmental restrictions are limiting production and new capacity.

In the last few years we have developed a significant business in third party bauxite exports and last year the bauxite business unit increased third party sales to 6.6 million tonnes.

Whilst bauxite at present is well supplied globally, we expect that to change as we near 2021 when China is expected to be significantly short in bauxite. Last year China imported almost 70 million tonnes.

Our strategy is to continue to grow our bauxite production to meet the growing demands of the third party market. We are expanding production of our bauxite interests in Guinea and Brazil, in addition to the expansion which is underway in Western Australia. We are able to increase capacity at our bauxite mines for relatively modest capital cost.

So what does this year hold for your Company? As Peter Day has mentioned to date this year we have received net receipts from AWAC of 312 million dollars, some of which has already been paid to shareholders. This has been driven by alumina index prices averaging 430 dollars per tonne for this year. The reduction in production by a large refinery in Brazil operated by Norsk Hydro and an ongoing tight market has underpinned alumina prices. The alumina price is currently 490 dollars per tonne. This provides an excellent margin for your Company given our position as a low cost producer.

The impact of US Sanctions on Rusal – a major aluminium and alumina producer has also affected supply dynamics and pricing. Due to the combination of those factors we expect the alumina market to remain tight this year which will underpin prices.

Demand for alumina is forecast to grow globally by around 4%, resulting from a positive outlook for aluminium global demand growth of four and one half percent. Aluminium is being used in more and more applications such as transmission cabling, rail infrastructure and transportation such as electric vehicles.

More smelting capacity is coming on stream in China, Asia and the Middle East which will increase demand for alumina. I expect that the Chinese winter cuts to production will once again be put into effect in late 2018 which should support the alumina price. I believe that China is intent on managing their industries resourcefully to minimise over capacity which will also have a beneficial impact on the market. New Chinese alumina capacity is likely to be built to a large extent in decentralised coastal provinces, with expected increased capital and operating costs including from imported bauxite.

The restructure of our asset base that has taken place in recent years has now positioned your Company in a very strong position to compete globally. Our Tier One long life assets are exceptional. Our future is positive.

I look forward to continuing to support and lead your Company in 2018.

Thank you

PETER DAY

Commodity Cycles

Let me turn to some broader themes.

Mike has taken us through AWAC's recent operating and financial performance and the current market environment. Whilst the Company's near term outlook is quite positive, the Company's success is heavily influenced by commodity cycles and factors driving them. The commodity cycle is currently at a positive point. However, the length and direction of the cycle is, as always, difficult to predict.

There will be outliers here and there but we see the fundamentals pointing towards favourable markets for some length of time, absent unforeseen variables – such as sudden impositions on free trade. To understand and appreciate our current position it is helpful to reflect on how the industry has been evolving so far.

China's closure of capacity changes the industry

Prior to 2017, the Western alumina and aluminium industry had experienced a decade of disappointment. Excess world production capacity dampened prices over that period. At the same time, China's sustained industrial development contributed to higher costs. This reduced returns for Western producers and in turn, required the restructuring of the Western World alumina and aluminium industry, in the process discouraging investment in new alumina production in the West. China's share of world alumina and aluminium production reached nearly 55 per cent over the last decade, a successful outcome of China's industrialization strategy. In particular that included the demand effect in China from building significant infrastructure and urbanization.

On the other hand, heavy industry – that is coal fired power generation, steel making, aluminium production, base metals production and so on, then became a significant contributor to air pollution in China. Accordingly, mitigating environmental and other policies have been implemented in China over the last year to improve air quality. We have seen a series of policy driven curtailments of production in China's industrial centres during the past Chinese winter. This included significant reductions in China's alumina and aluminium production.

There have also been supply side reforms introduced in China to reduce inefficient capacity in the alumina and aluminium industry by incentivizing closures and limiting new capacity.

Alumina spot prices rose to over 480 dollars per tonne at their highest in late 2017, partly due to these changes and also due to a tight alumina market outside China.

We now believe that China's excess capacity of previous years has been reduced and that the Chinese environmental and supply side reforms we saw last year, are likely to continue to limit capacity in China and provide global price support.

AWAC's Tier 1 assets are the best leveraged to benefit

So what are the implications for AWAC and Alumina?

AWAC responded to the past challenging market conditions by exiting or curtailing higher cost assets and aggressively managing costs. AWAC's asset portfolio historically comprised a core of Tier One assets but some Tier Two and Tier Three assets as well. The Suralco and Point Comfort refineries were closed or curtailed. That lifted the overall competitiveness of the AWAC portfolio. These actions, together with the underlying quality of AWAC's core assets meant AWAC weathered the worst of the ten year downturn, while remaining cash flow positive. AWAC is now better placed to operate throughout future low points in the cycle.

The changes in industrial and environmental policy within China, suggests the tide has turned. These policy changes appear to be causing a structural upturn in the alumina and aluminium markets. There has also been curtailment or closure of high cost capacity by the industry outside China.

With AWAC now having substantially low cost Tier One assets, Alumina Limited is very well placed to benefit from more favourable markets.

Alcoa Corporation

The timing of these changes is very positive for your Company.

Alumina Limited is entering a more promising commodity cycle with AWAC placed firmly in the lowest cost quartile of the industry. Our partner, Alcoa Corporation is now more acutely focused on AWAC, as we are. We share some outstanding assets and both of us are now more aligned under our improved joint venture. The revised joint venture agreement is now well structured to efficiently deliver the benefits of AWAC's success to its partners. The new cash distribution policy agreed with Alcoa in late 2016 has improved the certainty and timing of distributions to your Company which underpin the dividends we can pay to you.

It is important to us that we support Alcoa in its role as operator whilst having input into the strategy and direction of AWAC. Mutual understanding and cooperation can only lead to better outcomes in our joint venture.

I'm not here to provide commentary on Alcoa, but we are pleased to have a partner now even more focused on the same goal of driving the returns and growth from the AWAC business.

Trade and Tariffs

The introduction of tariffs on primary aluminium flows could potentially damage global trade.

It creates some uncertainty on the basis and rationale for closure of higher cost, inefficient capacity.

The recent moves by the US and Chinese governments to impose a range of tariffs is a development to watch but is only one of many factors that could affect commodity markets. Given our competitive position in AWAC we naturally favour free trade decisions based on fundamentals rather than one impacted by interventions

Energy Policy

Finally, I would like to make a comment on energy policy in Australia.

There have been many years of energy policy making that have effectively reduced energy security and reliability, and substantially increased energy costs for industry. The energy market in Eastern Australia has been changing, moving away from coal based power. The existing power supply arrangements for the Portland Smelter expire in 2021. As aluminium is globally priced, Australian smelters require secure and reliable energy at prices which are competitive with prices applying to global competitors. Within that context, AWAC will explore the opportunities for long term energy solutions for the Portland smelter.

These opportunities will take some time to unfold.

There have been calls from some groups to see Portland move directly to sourcing its power from renewables, that is, wind and sun. I want to make it clear that AWAC is not wedded to any single source of power. Alumina Limited's desire is that renewables be integrated into Portland's power sources provided the smelter's power sources are cost competitive by international standards and absolutely secure and reliable.

This is a business imperative for Portland. The smelter makes a considerable contribution to Victoria and the Western District. Portland Aluminium is the largest employer in the region and annually contributes approximately 69 million Australian dollars in salaries and around 55 million Australian dollars in local supply contracts.

Conclusion

In conclusion, there have been a number of very pleasing outcomes for the Company in 2017 and the outlook in 2018 and potentially beyond is promising.

The Company nevertheless faces a changed future and the next challenge is to realise those opportunities for the benefit of our shareholders.

Thank you.

That concludes my remarks.