ASX Announcement

23 May 2019

Chairman's and CEO's Speeches – 2019 AGM

Attached are the Chairman's and Chief Executive Officer's speeches delivered at the 2019 Annual General Meeting of the Company held today.

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This presentation contains certain non-IFRS financial information. This information is presented to assist in making appropriate comparisons with prior year and to assess the operating performance of the business. Where non-IFRS measures are used, definition of the measure, calculation method and/or reconciliation to IFRS financial information is provided as appropriate or can be found in the Alumina Limited's ASX Full-Year Report for the period ended 31 December 2018.

Stephen Foster
Company Secretary

23 May 2019

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PETER DAY – CHAIRMAN

Good morning ladies and gentlemen.

As the Chair of Alumina Limited (“Alumina”), it is my pleasure to welcome you to the 49th 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 Pavilion is required, Joe D Angelo, who is in charge of security for the meeting, will give directions and the meeting will be adjourned. We would follow Joe D Angelo’s directions for an orderly evacuation of the Pavilion to the pre-determined evacuation point which is at the front of the National Gallery of Victoria building.

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.

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

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

I will ask Chen later to address the meeting regarding his election.

Next to Chen is Emma Stein, a non-executive Director and the Chair of the Compensation Committee.

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 Interim Chief Financial Officer, Galina Kraeva, 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. 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 2018 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 now 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 2.2 billion shares or 78 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 comments on the drivers for the strong 2018 performance.

I will then ask Mike Ferraro, our Chief Executive Officer, to address shareholders. He will review the performance of the AWAC business and market conditions.

Then I will open the meeting for general questions before dealing with the remaining agenda items.

Sir Arvi Parbo

I would like to recognize the passing this year of Sir Arvi Parbo, a previous managing director and Chairman of WMC Limited, the predecessor organisation of Alumina Limited. Sir Arvi was also a Chairman of Alcoa of Australia from 1978 to 1996. Sir Arvi made a tremendous contribution to WMC. Sir Arvi also demonstrated enormous foresight and influence in the establishment and operation of Alcoa of Australia, now a hugely successful business. He also had a key role in ensuring the joint venture relationship between Alcoa and Australian shareholders (including WMC), was long lasting and mutually beneficial.

Results

Now let's turn our attention to the 2018 year and the Company's financial performance. I should note, all references in my and Mike's presentations to currency are in US dollars.

The Company reported a net profit of 635 million dollars for 2018. This was a record profit for the Company and 87 percent higher than 2017. The primary driver of the profit increase was a 44 per cent increase in alumina prices.

Dividends

In terms of dividends, 2018 was also a record year for shareholders.

The outstanding operating result enabled dividends to increase by 68 percent.

The Company paid a total dividend of 22.7 cents per share for the year.

The Board's policy on dividends is that it intends on an annual basis to distribute net cash from operations, after capital contributions back into the AWAC joint venture, after debt servicing and after corporate cost commitments have been met.

The Board will also consider the capital structure of Alumina, the current and forward capital contribution requirements into the AWAC business and market conditions.

The dividend policy thus balances cash received against capital requirements, both current and future.

<u>50 Year Legacy and the Future</u>

I commented in this year's Annual Report that the Company had weathered some difficult and challenging years after the Global Financial Crisis, which occurred some ten years ago. We have now experienced two very positive years in 2017 and 2018.

The Company is currently well placed financially and the AWAC business is also well positioned.

So, today, I would like to provide a broader and longer-term perspective of how the Company has come to its current state. It should enable a clearer understanding of our future potential, based on what is effectively a 50-year legacy – with more to come.

<u>Alumina Limited: Then and Now</u>

How should we describe Alumina Limited today?

We describe ourselves as one of a kind – because, compared to our industry peers, we are unusually focused on the intermediate commodity in the aluminium production chain, that is alumina. This is presently the most profitable part of the chain and no other Western world company is so focused on it.

A salient feature of the Company is that it has a 40% interest in AWAC's five operated refineries. They produced 12.2 million tonnes of alumina in 2018. We had a low debt level of $121 million dollars after payment of the 2018 final dividend. And then there's the Company's remarkable ability to generate returns for shareholders with its average 9.5% dividend yield over the last 3 years. And that yield is before any benefit of franking.

We have a valuable say in the direction of the AWAC joint venture, and we are roughly comparable in market capital terms to our joint venture partner, Alcoa.

Alumina has not always looked like this.

At the time of its demerger in 2002, the Company had a debt of 600 million Australian dollars and our joint venture partner in AWAC, Alcoa Inc, was valued 20 times higher than Alumina.

To be sure, as is the case now, Alumina in 2002 was recognised as having long life, large scale assets that were world class in Australia and Brazil. However, it was thought likely Alumina would be the subject of a takeover.

The World Changes

The world changed however.

Since 2002 a number of factors have emerged to shape Alumina's current form and trajectory.

With China's rapid industrialization the industry experienced a period of significant growth and consolidation.

During this period, China continued to increase its share of the world alumina and aluminium markets and built capacity quickly and at low capital cost.

The GFC also caused a 16% drop in primary aluminium consumption outside China, leading to overcapacity in aluminium and alumina.

The Response

So, what was the response?

After the global financial crisis, AWAC and others in the industry were forced to respond to the over-capacity. New projects disappeared, undermined by high capital costs and low margins. There was cost inflation but a variety of factors dampened prices. Higher cost capacity outside China was curtailed or closed.

AWAC absorbed the shocks and disruption to its markets triggered by China's rise and the GFC. This was due to the extraordinary resilience of its high-quality assets.

A major limitation on cost recovery and profit margins for alumina was pricing. Pricing reflected the integrated structure of the industry and alumina was still largely priced by reference to aluminium metal prices. The sale of alumina based on market price indices was introduced in 2011. Alumina prices could then reflect the supply and demand balance and higher operating costs for alumina producers.

A market driven alumina price index could reflect market fundamentals of the commodity in a way that metal price referencing never could.

For its part, Alumina's own contribution in this period was to support AWAC in its moves to rationalise its higher cost assets, to contribute to the price reporting agencies' development of indices and to seek alumina pricing that was not connected to aluminium. We also ensured the Company had low debt levels to enable it to navigate the challenging industry changes and maintained faith in the competitiveness of its long life, low cost assets.

AWAC and Alumina made their own future through the revolution in alumina pricing and rationalizing high cost assets. This in turn has delivered the outlook and benefits we see today.

Today

Let's now summarize the business environment for shareholders today;

The alumina price index is firmly established as a pricing mechanism in the industry. The recent introduction of alumina futures contracts should assist both refiners and smelters in managing price risk. This underpins the performance of AWAC as a low-cost producer in a world where market fundamentals appropriately reward quality, competitive assets. Alumina prices and operating margins have been strong in recent years.

We now have alumina assets being separately priced and valued from other parts of the industry chain. That is a good thing for Alumina's shareholders. This is why we saw the rewarding performances in 2017 and 2018 – these outcomes were just not possible in 2002.

We have also seen a series of environmental policy driven curtailments of production in China's industrial centres during the past 2 years. Supply side reforms have been introduced in China to reduce inefficient capacity in its domestic aluminium industry and reforms in domestic alumina supply have also recently been announced. This is expected to lead to Chinese self-sufficiency in alumina and aluminium production.

For Alumina the reality is this: AWAC has maintained its position as a low-cost producer over Alumina's life since its demerger. And it remains so now.

The Future

What about the future?

For Alumina, the future starts with the benefits of index pricing that correctly reflects the fundamentals of the global market for a commodity with specific characteristics coupled with our comparative low operating costs.

Your Company now has a very distinct and straightforward business model. AWAC and Alumina are concentrated on the alumina part of the supply chain – and that is quite different to the integrated players. This is why we see ourselves very much as one of a kind.

A positive outlook now permits us to consider growing AWAC. The logical growth opportunities for AWAC are brown field expansions at existing low-cost refineries. Any decisions we make about growth opportunities will be measured and prudent.

An investment in growth projects can be expected to impact the cash otherwise available for dividends in the short term but create value in the longer term. And clearly, AWAC's own strong cash flows should enable it to grow its refinery business and continue to pay healthy dividends to the joint venture shareholders.

Further change to the industry and our circumstances will continue. There is increasing focus on sustainability issues such as the impacts of climate change and management of residue disposal areas. We cannot be complacent and need to be conscious of emerging business challenges and risks.

The tragedy at Vale’s Brazilian tailings facility is a stark reminder to industry of the importance of residue and tailing impoundments stability. An external review has been commissioned during 2018 of AWAC’s impoundment management practices against external benchmarks.

<u>Conclusion</u>

In conclusion, when Alumina demerged in 2002 it held 40% of some world-class long-life assets in Australia and Brazil. Alumina continues to hold those assets and they have delivered excellent returns in recent years. The Western Australian assets have benefitted shareholders for over 50 years. Our responsibility and challenge is to continue to realize the value of those assets for shareholders for the decades to come.

In conclusion, there have been a number of very pleasing outcomes for your Company in 2018 and the outlook in 2019 is promising.

Thank you.

That concludes my remarks.

I would now like to ask Mike to review the performance of the AWAC business and market conditions.

MIKE FERRARO – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Ladies and gentlemen,

Let me start by saying we are part of a complex global business which is exposed to both short and long-term elements. It is critical that we also assess the long-term prognosis for the global aluminium supply chain. Therefore, my presentation today not only reviews the past year but will also touch on factors which may impact our industry and market developments in the longer term.

I am pleased to be able to stand before you and say that the Company has once again delivered an outstanding result.

As the Chairman highlighted before, our net profit for 2018 was up 87%, to six hundred and thirty-five million dollars.

Strong cash flow from AWAC distributions allowed us to pay total dividends of 22.7 US cents per share.

This represents a dividend yield of 11.5% for last year, which is not only higher than our industry peers, but the highest in the ASX 200 for 2018.

There are clear structural factors that make Alumina one of a kind, and have led the Company to a record high performance. They are:

- the Company has a 40% interest in AWAC's globally leading tier one assets, which is in the lowest refining cash cost quartile and so is likely to generate positive returns throughout the commodity cycle.

- AWAC's assets are almost entirely focussed on the profitable upstream sector of the aluminium supply chain, namely bauxite mining and alumina refining.

- within the upstream sector, Alumina Limited has the greatest economic exposure to third party alumina pricing, of any company outside of China.

- and finally, AWAC last year sold 92% of its smelter-grade alumina on an alumina index or spot basis, compared to an average of around 70% for alumina producers outside of China. This is important because the alumina index or spot basis reflects the fundamentals of alumina, and not aluminium.

As a result of these unique characteristics, the Company was able to capitalise on the very favourable market conditions for alumina last year.

High alumina prices during 2018 were mainly a result of two major supply disruptions.

Firstly, the world's largest alumina refinery, Alunorte in Brazil, was required to halve its output owing to regulatory concerns about its environmental impacts. This removed around two point seven million tonnes of alumina from the global market (or 5% of smelter-grade supply outside of China) over 2018.

Alunorte was curtailed until this week when the final embargo on production was lifted. Hydro, the owner, announced that it expects to ramp up to 75-85% of production within two months of the restart of curtailed capacity. Full capacity cannot be reached until a new residue deposit area is approved and a press filter is installed.

The other major supply disruption involved the United States imposing sanctions on Rusal. These sanctions restricted third party dealings with Rusal, and as Rusal is involved in many parts of the aluminium supply chain, smelters were quickly forced to find alternate sources of alumina, driving the alumina price higher.

These two disruptions caused spikes in the alumina price as high as seven hundred and ten dollars per tonne, and AWAC's realised price increased 33% to an average of four hundred and forty-seven dollars per tonne over the year.

However, AWAC did face some headwinds during 2018. Our alumina production of 12.2 million tonnes was 4% lower than our initial guidance. Operational and equipment issues lowered production, and required additional maintenance expenditure. Combined with higher caustic prices and other factors, our cost of production increased by 14%.

We are confident that these operational and equipment issues are largely addressed, and the stability of our plants is much improved. AWAC is now experiencing a higher production rate, in-line with our 2019 production guidance of 12.6 million tonnes. Furthermore, a decline in global caustic prices is having a favourable impact on our cash cost of production.

Our 2018 third-party bauxite shipments were also below our initial guidance, partially due to an expansion project at CBG. AWAC has a 22.5% interest in CBG's bauxite mine in Guinea. The CBG expansion project is now in the completion phase, and will increase AWAC's equity share of production by approximately 1.1 million tonnes per annum, which will be available for the third-party market.

CBG is an important asset in AWAC's portfolio. Guinean bauxite is widely considered to be the gold standard of bauxite quality with high alumina content, and low reactive silica. The quality of Guinean bauxite is favoured by many Chinese refineries. CBG's expansion project means that AWAC can be a beneficiary of China's increasing bauxite shortage.

In terms of the outlook for 2019, whilst I remain confident that we will have a successful year, we will not surpass 2018. We are, after all, exposed to commodity price fluctuations. However, our alumina cash margins remain healthy, at one hundred and fifty-eight dollars per tonne for the first quarter.

During the first quarter of a given year, the alumina price index typically experiences a seasonal slowdown due to China's winter. 2019 has followed this trend, and we have seen that the alumina price has been range-locked between mid-three hundred, and low four hundred dollars per tonne.

Earlier this month, red mud leak problems at several refineries in Shanxi have reportedly led to reduced alumina production of two point four to two point eight million tonnes on an annualised basis, and could lead to curtailments at other Chinese refineries. There are also serious bauxite supply issues in Shanxi and Henan that may reduce production.

We expect that the alumina market will be broadly balanced in 2019. It is however a fluid equation and is contingent on:

- How quickly the residue and production issues in Shanxi are addressed
- The time it will take for Alunorte to ramp up to full capacity and
- The relative timing of other refining and smelting expansions forecast for this year.

We expect that China will be focussed on being self-sufficient in alumina production, in-line with recently announced reforms. Furthermore, increased focus on environmental and safety aspects as well as declining quality of bauxite has driven an increase in China's refining costs.

It is estimated that China will import ninety-four million tonnes of bauxite in 2019, placing pressure on China's alumina cash cost of production. The average alumina cost of production for Chinese refineries was three hundred and twenty-seven US dollars per tonne in 2018 excluding VAT, 45% higher than AWAC's cost of production.

The high cost of production, VAT, and logistics costs creates challenges for China's alumina producers. However, if the alumina price is high enough outside of China, Chinese producers will opportunistically take advantage of the price arbitrage and export.

The key to AWAC's low cost of production is its Alcoa of Australia refineries, which are located in the Darling Ranges in close proximity to bauxite deposits. This close proximity reduces logistics costs significantly, and together with a low mining cost, provides AWAC with a competitive advantage. It is therefore vital to maximise the value of AWAC's resource base in WA.

As Peter Day mentioned, our Joint Venture evolution commenced with the restructuring of our asset portfolio, resulting in closure, sale and curtailment of high cost assets over the past five years. We are now in a position to look forward to an exciting next phase – the growth phase. We have commenced a closer examination of brownfield growth opportunities within our global portfolio of refineries. However, given the advantages of our WA refineries, it would seem preferable to leverage that resource base. Once we have evaluated the economics of the growth projects, we hope to be able to provide you with more information.

What I would like to conclude on, is a reminder of what Alumina Limited contributes to the AWAC joint venture.

We run a tight ship. We have a small office with eleven multi-disciplined employees, who are responsible for providing strategic input and advice into the joint venture, and protecting and advancing our shareholders' interests in the management of the AWAC joint venture.

We also evaluate and propose new projects, understand market developments, and are willing to provide you with our view on the market.

Finally, we remain focussed on the upstream sector of the aluminium supply chain. We continue to be optimistic that our strategy of investing in low cost alumina refineries and bauxite mines, and having a low level of debt and corporate overhead, will allow the Company to continue to flourish in the future.

Your Company is uniquely placed in the aluminium supply chain. AWAC's low cost operations, significant bauxite resources, existing infrastructure, and operating expertise, places us in a strong position in the industry to invest and capitalise on the long-term prognosis for growth in alumina and aluminium demand. Our objective is to develop our resources sustainably and to continue to add to long term shareholder value.

Thank you.

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