ASX Announcement

25 May 2017

Chairman’s and CEO’s Speeches – 2017 AGM

Attached are the Chairman’s and Chief Executive Officer’s speeches delivered at the 2017 Annual General Meeting of the Company held today.

Stephen Foster
Company Secretary

25 May 2017

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JOHN PIZZEY

Good morning ladies and gentlemen.

I am John Pizzey and as Chairman of Alumina Limited, it is my pleasure to welcome you to the 47th 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, Mr Jason Bulner, who is in charge of security for the meeting, will give directions and the meeting will be adjourned.

We would follow Mr Bulner'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 to you my fellow directors.

On my far right is Mike Ferraro, a non-executive Director.

Mike is standing for re-election today.

Next to Mike Ferraro is Peter Day, a non-executive Director.

Peter is Chairman of the Audit Committee. Peter is also standing for re-election today. I will ask each of Peter and Mike to address the meeting regarding their re-election.

Next to Peter is Chen Zeng, a non-executive Director.

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

Next to Emma is Peter Wasow, our Chief Executive Officer.

On my immediate right is Stephen Foster, Alumina Limited's General Counsel and Company Secretary.

And finally, the Company's Chief Financial Officer, Chris Thiris, is seated to my right in the front row.

The Company's auditor, PricewaterhouseCoopers, is represented by Ms Nadia Carlin, who is also seated in the front row.

Ms Carlin is available to answer any questions regarding the conduct of the audit and the content and preparation of the Audit Report.

Copies of both my address and that of the Chief Executive Officer will be available at the conclusion of the meeting.

Copies of the Alumina Limited Annual Review 2016 and the Annual Report are available today at the Registration table and on the Company website. These documents give more detail than we will cover detail.

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 2.4 billion shares or 82.5 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 and then ask Peter Wasow, our Chief Executive Officer, to address shareholders.

After my comments and those of the CEO, I will open the meeting for general questions before dealing with the agenda items.

This morning I want to discuss Alumina Limited's financial performance for 2016 and how Alumina Limited changed in 2016.

Peter Wasow will then review the strategy and performance of the AWAC business.

This year there will be five resolutions to be considered.

Before I go any further let me touch on the announcement we made on Monday this week concerning the retirement of Peter Wasow as CEO and the appointment of Mike Ferraro.

Peter became CEO on the first of January 2014 and has led the Company through some difficult times. He leaves the Company in a much stronger position than when he joined. The negotiations in 2016 with Alcoa were long, involved and very stressful. The outcome has been a stronger company better placed to face the future challenges and opportunities. The Company has also built a new relationship with Alcoa Corporation which has had a very positive beginning. The Board thanks Peter for his great contribution to the Company.

Once Peter indicated his desire to retire the Board initiated a search using outside consultants. That search covered a broad range of opportunities and was led in the first instance by Emma Stein and Peter Day. The Board's final decision was to ask Mike Ferraro to take the position. Mike has been a senior Melbourne based lawyer with experience in the commercial and resource sector. Mike was also Chief Legal Counsel at BHP Billiton from January 2008 to mid-2010 where he was responsible for the global legal needs of the company. He has been a director for three years and understands the challenges in general facing a Joint Venture company and appreciates the specific challenges facing our company. I am very pleased that Mike accepted the position.

Because of the challenges of timing and notice periods, Mike stands for election as a Non-executive director at this meeting. Mike will continue as a non-executive director until his appointment as CEO on the first of June 2017.

Now let's turn our attention to the 2016 year.

<u>Results</u>

The Company reported a net loss of thirty million dollars. The loss includes restructuring and impairment charges of one hundred and fifteen million dollars. If we exclude AWAC's restructuring and impairment charges, the Company would have reported a profit of eighty five million dollars.

The lower operating profit for Alumina Limited was mainly due to an eighteen per cent decline in alumina prices. This was partly offset by a twenty-five dollar per tonne reduction in AWAC's alumina operating costs. This was achieved through productivity initiatives, a stronger US dollar, and lower energy costs.

AWAC's strategy has been to achieve an asset portfolio of essentially tier one assets. As part of this strategy, the Point Comfort refinery was fully curtailed and the Suralco refinery was closed.

These actions have been part of a comprehensive three year restructure of the AWAC asset portfolio, which is now largely completed. Peter Wasow, our CEO, will speak in more detail on that restructuring.

Our corporate charges were higher in 2016, due to the work undertaken in responding to Alcoa's separation into two companies comprising its upstream and downstream businesses respectively. I will discuss that subject further in a moment.

Dividends

The Company received net cash flows from AWAC of one hundred and eighty five million dollars for 2016, eighty one million dollars higher than the previous year. This was after AWAC made a two hundred million dollar prepayment under a new twelve year gas supply agreement. After corporate and financing costs, the Company had free cash flow of one hundred and fifty two million dollars for 2016.

Ninety four per cent of net cash flows were distributed to shareholders through a six US cents per share dividend for 2016.

Changes to Alumina Limited

Now let's move to how Alumina Limited changed in 2016.

While it is not an operating company, the Company is a very significant forty per cent joint venture partner in AWAC with responsibilities to see shareholders' interests promoted and, where necessary, defended.

I would like to recap what late 2015 and 2016 looked like for your board and management as a result of the changes Alcoa announced those many months ago.

On a Sunday in September 2015 the Chair of Alcoa advised me and Peter Wasow that there was an imminent announcement concerning Alcoa's separation into two companies. We understood that Alcoa would spin off the downstream businesses and we knew that sounded like what WMC did in 2002 when they formed Alumina Limited and WMC Resources Limited. The Board knew there may be impacts for the Company but in that scenario the various agreements may not have triggered obvious rights for Alumina. Work was initiated to clarify our rights and obligations.

A short time later it seemed that Alcoa might not proceed as we understood but might spin off the upstream businesses. This was a very different situation. Much more work was needed to understand and protect our Company's rights.

Over the next six months, and with a lot of input from Australian and US advisors, our negotiating team pursued our claims. Negotiations were always respectful but never easy.

In May 2016, Alcoa brought the negotiations to a halt and issued proceedings in the Supreme Court of Chancery of Delaware, USA.

In August 2016 a mutual breakthrough on possible terms of an agreement was reached which would avoid the companies going to court. The teams from both sides then worked to complete the dozens of agreements required.

In November 2016, Alcoa completed its separation into two independent, publicly traded companies. One of the separated companies, Alcoa Corporation, comprises Alcoa's upstream business, including its sixty per cent interest in AWAC. The name Alcoa goes with the upstream company even though the upstream company was the spun-off company.

At the root of Alumina Limited's concerns was that the Alcoa Inc Separation would result in an adverse change in the nature of Alumina's partner in AWAC. We would only accept that change if the agreement between the joint venture partners was changed to give Alumina greater influence on AWAC and a greater control over its own destiny.

The Alcoa separation has been a defining moment in the history of the Company. It was the catalyst for fundamental changes to the JV agreements.

So how does this change Alumina Limited?

The changes provided Alumina with enhanced supermajority rights and greater certainty over cash flows. The changes also provided for the removal of the poison pill effect that is created by the joint venture exclusivity provisions. That creates new opportunities for your Board and management to work towards maximising the value of its forty per cent interest in AWAC. A fuller explanation can be found in our annual shareholder review on page four.

Alcoa Corporation now is focussed mainly on upstream assets with its sixty per cent interest in AWAC now a key asset. This means Alumina Limited's interests are more aligned with Alcoa Corporation. As I stated earlier, I am very pleased at how the relationship has developed since the new company was formed. The two companies are working well together and I believe this has been a very positive development for AWAC.

Energy Policy

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

There have been many years of energy policy making in Australia that have reduced energy security and substantially increased energy costs for industry. The economy's traditional competitive energy strengths have been allowed to dissipate. In the last ten years, the average price of energy in Australia has increased by around forty-two per cent as compared to the US, which have been relatively stable over that period.

The position for energy intensive industries is even starker. Power prices paid by the Portland smelter are approximately fifty to one hundred per cent higher than prices paid by similar operations in the Western World. This situation should never have occurred, given the energy endowment of Eastern Australia.

Australia has not had an effective energy policy over the last decade. This is more than an economic or business debate. These energy issues have inevitably impacted communities and people and unless we can resolve them the social impacts will widen and become more severe.

It is important to understand in this debate the very real impacts of the closure of a manufacturing business.

Before I leave this topic let me state that I understand that in representing your bauxite, alumina and aluminium business I have a vested interest.

However, it can be shown that aluminium, with its recycling and lightweight properties, is a solution to some of the world's energy problems and moving to a decarbonised globe. I said this in a speech to the USA Aluminum Association in the 1990's, so I am no newcomer to the debate. I am told that my early views on the need to address climate change were recorded on the Pew Institute website for some time.

Let's look at aluminium growth over the last fifteen years. World production was twenty-six million tonnes and is now fifty-seven million tonnes.

China's aluminium Production has grown from four million tonnes to thirty-one million tonnes per annum over that period. Australian aluminium production has remained relatively unchanged at two million tonnes.

The gross change in world production in the period was thirty-one million tonnes and the gross change in Chinese production was twenty-seven million tonnes or almost ninety-per cent of all the change.

The six per cent per annum growth of aluminium production and by correlation consumption has grown much faster than global GDP. Why is this so? I assert it is because the total energy balance of aluminium in a complete life cycle analysis meets the needs of a world that is decarbonising. And let me also assert that the growth in the world production, which includes China, is not based on wind and solar; it is highly dependent on modern technology including gas and coal.

China, which gets credit by many activists in this country for understanding and acting on climate change, has built almost all new smelters over the last fifteen years. This is a fact and, maybe for some, an unfortunate fact, but it is not "false news". I think the Chinese have got the model right.

In Australia we close smelters; in China they build aluminium smelters to help them meet their energy and carbon goals via the life cycle benefits of aluminium.

To illustrate the life cycle benefits of aluminium, when used in place of steel in new vehicles, twenty kilograms of greenhouse gas are saved for each kilogram of aluminium used.

Before I leave energy I want to emphasise this is not just a smelter issue. I am aware of manufacturing plants that have energy cost increases from the 13/14 year to the forecast for the 18/19 year of seventy-four per cent and one-hundred and sixty-two per cent. If these forecasts come to pass, how do plants remain competitive? How do new plants get built?

Conclusion

In conclusion, there are a number of pleasing outcomes for the Company in 2016.

The Company has a different future and the next challenge is to realise the opportunities to benefit shareholders.

I will now invite Peter Wasow to outline AWAC's strategy and performance.

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Peter Wasow

Good morning and thank you for attending today's meeting in person.

I would like to start by saying that it has been a real honour and the highlight of my career to be trusted by you to manage your investment in this Company. Together with the Board and all of the team at Alumina I believe we really have moved the ball forward, making the Company a better investment than ever.

In particular, 2016 was a watershed year.

It marked the remaking of the Company through its new participation rights in the AWAC joint venture and it capped a multi-year remaking of the AWAC business and the Alumina cost structure and balance sheet.

We had been trying for a number of years to improve our position in the joint venture. The decision by Alcoa to separate its upstream and downstream businesses proved to be the defining moment in that quest. It was the catalyst which enabled us to negotiate fundamental and far reaching changes to the joint venture agreements which were the first substantive changes since the inception of AWAC in 1995. The changes we were able to achieve delivered greater control over our investment, increased our strategic flexibility and autonomy, improved our capital efficiency and gave greater surety and clarity over cash distributions.

In addition, Alcoa Corporation, as it is now known, is a focussed upstream player, in which AWAC represents the largest single piece of business: a big change from the very much more vertically integrated partner of the past. And I am happy to be able to report that despite our battles last year, the relationship with new Alcoa is working very well.

But 2016 was not only about a renegotiated joint venture agreement: it also saw the culmination of several years of restructuring of the asset base, our market offer, our business lines and Alumina's own cost structure and balance sheet.

The restructuring of the AWAC asset portfolio was largely completed with the virtually full ramp up of the modern and low cost Ma'aden refinery and mine in Saudi Arabia, the closure of the refinery and mines in Suriname, the full curtailment of the Point Comfort refinery in Texas and the Portland smelter restart being assured early this year.

In the years leading up to 2016, we sold our Jamaican refinery and mines, closed the Point Henry smelter and Anglesea coal mine and the associated power station while at the same time investing in a lower cost and greener fuel source for our Spanish refinery and delivering productivity gains at our tier one refineries.

This three year program of sales, closures, curtailments and new investment has delivered a refinery portfolio which is now in the bottom quintile of cost. Being a low cost producer is fundamental to success in the commodity business: we can't affect the price of our product, so the only way to ensure we are profitable in the long run, is to be able to make our product at a lower cost than our competitors can.

The restructuring of our market offering has also now largely been completed. Last year the vast majority of alumina sales were no longer linked to the more difficult dynamics of aluminium pricing, but rather were priced off their own fundamentals. This has meant that our revenue share has improved markedly. Put another way, for every dollar of revenue in a tonne of aluminium sold, a greater share accrues to the refining and mining segments in which we are heavily invested and relatively less to the smelting segment where we have a very small exposure.

This restructuring has delivered the strongest portfolio that AWAC has yet enjoyed. While it was difficult, costly and painful particularly for the communities of which we were so long a part and for the many people who lost jobs as a result, it was necessary to provide a strong base for long run success and from which to contemplate growth.

And in 2016 we saw the first really significant inroads into the third party bauxite market, which now sees our position as the world's largest bauxite miner being augmented by our position as the second largest third party marketer. This new business line is expected to grow strongly as Chinese refineries rely more and more on imported bauxite and we develop and expand our extensive and low cost resource base.

Meanwhile, at Alumina we were attending to our own issues. We have continued to cut our costs, which means there is less leakage between AWAC's cash flows and you, our shareholders. The balance sheet has also been restructured and as a result we have been able to restart and maintain dividends even through the darkest moments of early 2016.

The concerted restructuring of the asset portfolio and our market offer, the entry into new business lines and the renegotiation of our partnership together with the changes at Alumina itself has seen total shareholder returns over the three years to the end of 2016 approach 100%, a very strong comparative performance against our ASX100 and international aluminium peers.

For anyone who thought they knew this Company, I say it is time to look again at what we have become, and to put aside what we once were seen as.

Thank you again for placing your trust in me and I look forward to catching up with you after today's formalities. I'll now hand the podium back to John.