

To: The Manager  
Announcements  
Company Announcements Office  
Australian Stock Exchange



## **Public Announcement 2010 – 17AWC**

Attached is a copy of a paper by Alumina Limited CEO, Mr John Bevan, to be provided to the UBS Australian Resources Conference, held in Sydney on 3 June 2010.

A handwritten signature in black ink, appearing to read "Stephen Foster".

**Stephen Foster**  
**Company Secretary**

3 June 2010

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# UBS Australian Resources Conference

June 2010

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John Bevan  
Chief Executive Officer

Judith Downes  
Chief Financial Officer

# Disclaimer

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*This presentation is not a prospectus or an offer of securities for subscription or sale in any jurisdiction.*

*Some statements in this presentation 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; (e) constraints on the availability of bauxite; and (f) the risk factors and other factors summarised in Alumina's December 2009 Year End ASX Report filed on Form 6-K and Alumina's Form 20-F for the year ended 31 December 2009.*

*Forward-looking statements that reference past trends or activities should not be taken as a representation that such trends or activities will necessarily continue in the future. Alumina Limited does not undertake any obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on forward-looking statements which speak only as of the date of the relevant document.*

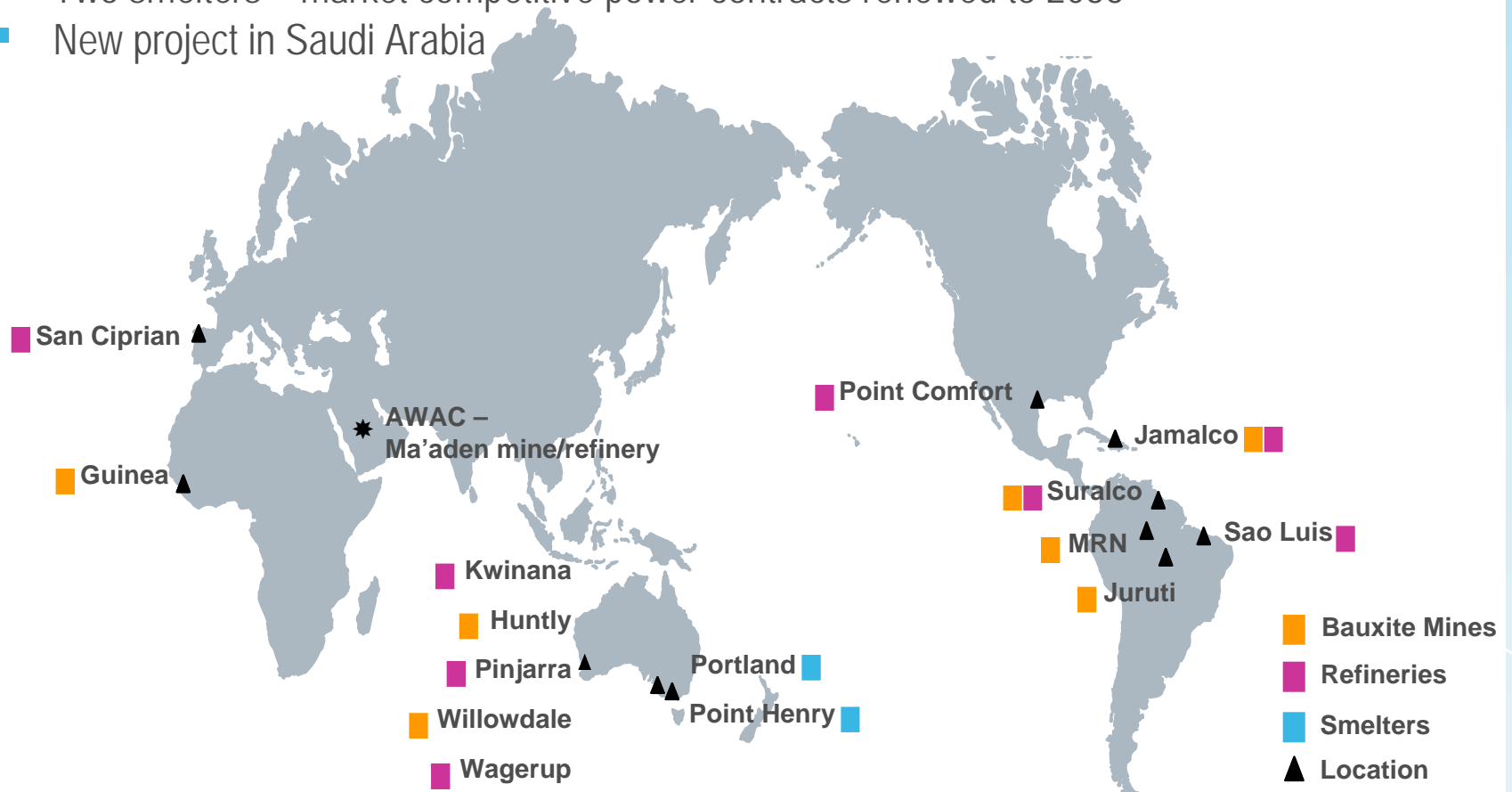
# Alumina Limited

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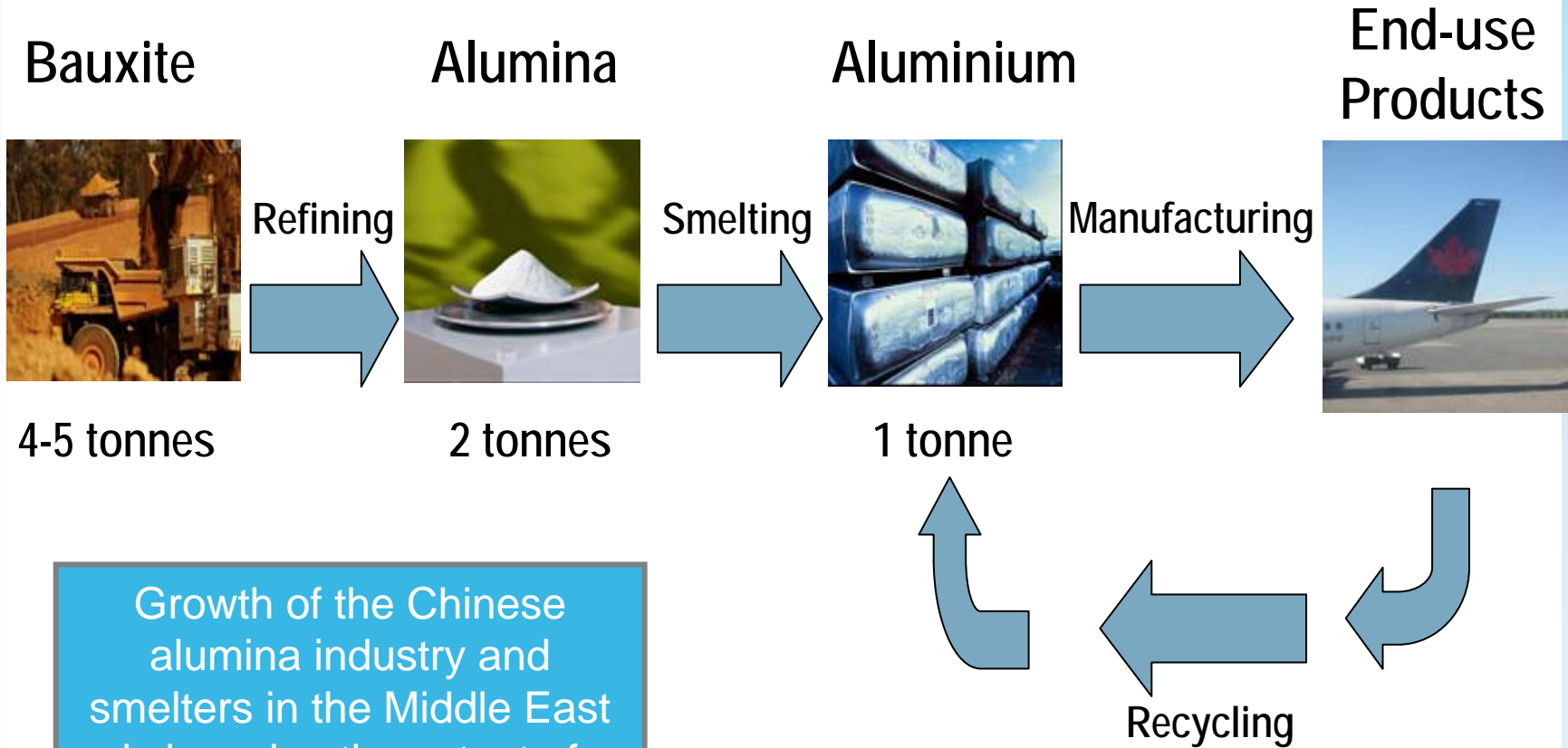
- Alumina (AWC) is listed on the Australian Stock Exchange and the New York Stock Exchange and is an ASX100 company
- Alumina Limited owns a 40% joint venture interest in Alcoa World Alumina & Chemicals (AWAC) – the world's largest bauxite miner and alumina producer
- AWAC is an exclusive joint venture for bauxite and alumina between Alumina Limited and Alcoa

# AWAC – Largest bauxite & alumina business

- Eight refineries – 17 million tonnes of capacity
- Seven bauxite mines – world's largest bauxite miner
- Two smelters – market competitive power contracts renewed to 2036
- New project in Saudi Arabia



# The aluminium cycle



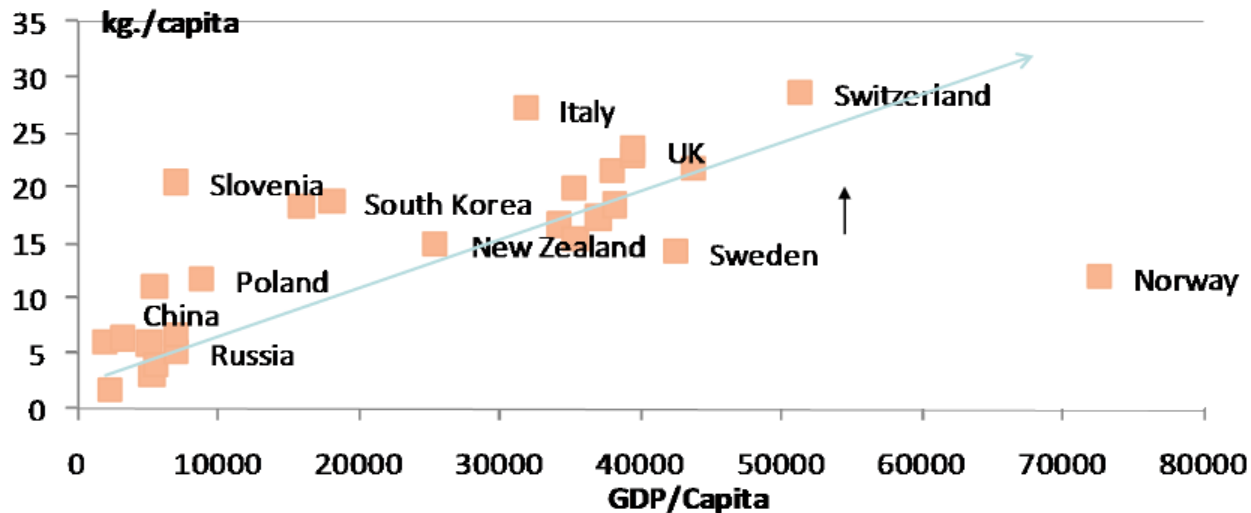
Growth of the Chinese alumina industry and smelters in the Middle East is lowering the extent of integration

# Critical issues

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- Strong underlying demand for aluminium will drive new investment in alumina
- Long life, low cost alumina assets are difficult to replicate and expensive to develop
- Alumina pricing structures are in transition – this will be beneficial for AWC

# Aluminium consumption has a long way to go



Source: Metal Bulletin Research, March 2010

- Per capita consumption in emerging economies still very low
- Urbanisation and light transport drivers of growth
- Primary aluminium demand grew by 36% 2000–2009\*
  - second only to steel



Long life, low cost alumina assets are difficult to replicate and expensive to develop

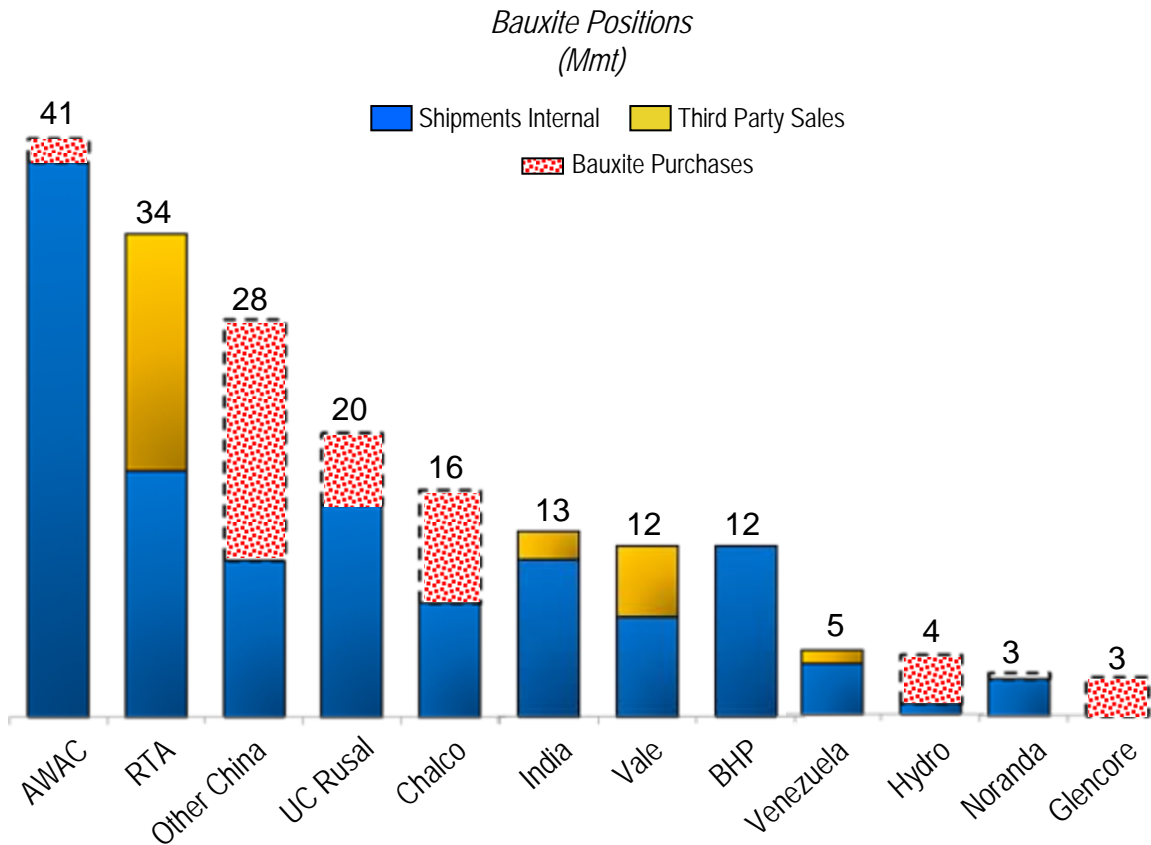
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# Long life, accessible bauxite is key

- Best refinery projects co-located with bauxite reserves
- Bauxite quality is diminishing, is not accessible and is becoming harder to gain approvals for expansions or new mines
- Some traded bauxite no longer available
- Chinese looking for bauxite projects outside China to accommodate future growth



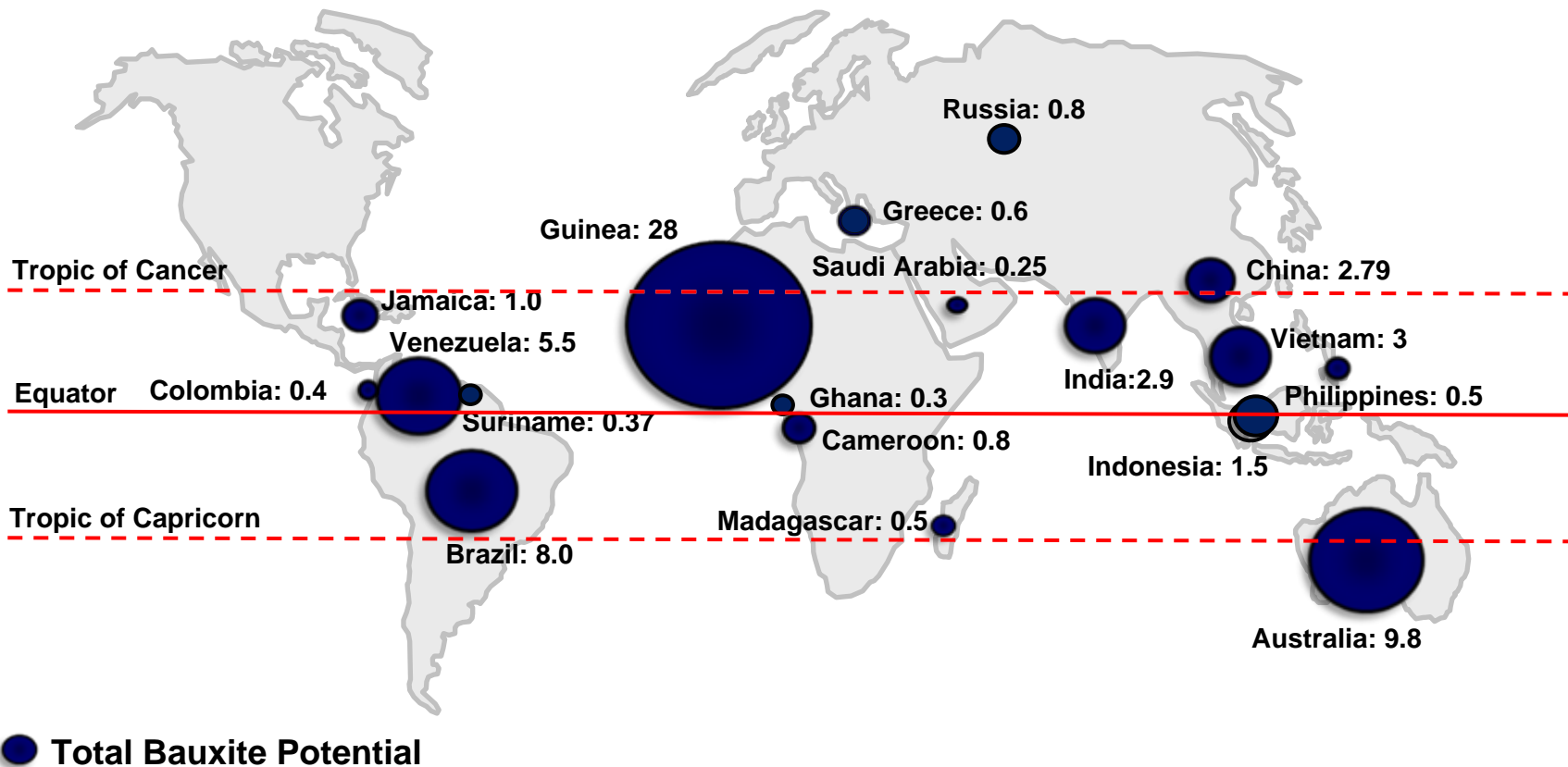
# Not all industry participants are long on bauxite



- Considerable existing need for third-party purchases and sales
- Non-integrated refiners exposed to third-party sea borne purchases of bauxite will set the marginal price for alumina
- Chinese refineries import more than a third of their bauxite

# Bauxite is plentiful, but needs refinery integration

**Global Bauxite Availability (BMT)**



# What makes a Tier 1 asset in alumina

- Close to long life bauxite reserves
- Long term energy supply
- Stable workforce
- Close to deep water port
- Port giving direct access to main customers



*Pinjarra - 4.2m mtpy*

# Why Western Australia is a Tier 1 asset



1. Long life bauxite reserves



2. Low reactive silica → caustic usage lower than most



3. Close to skilled workforce



4. Long term energy supply – part owner of Dampier to Bunbury pipeline



5. Close to deep water port



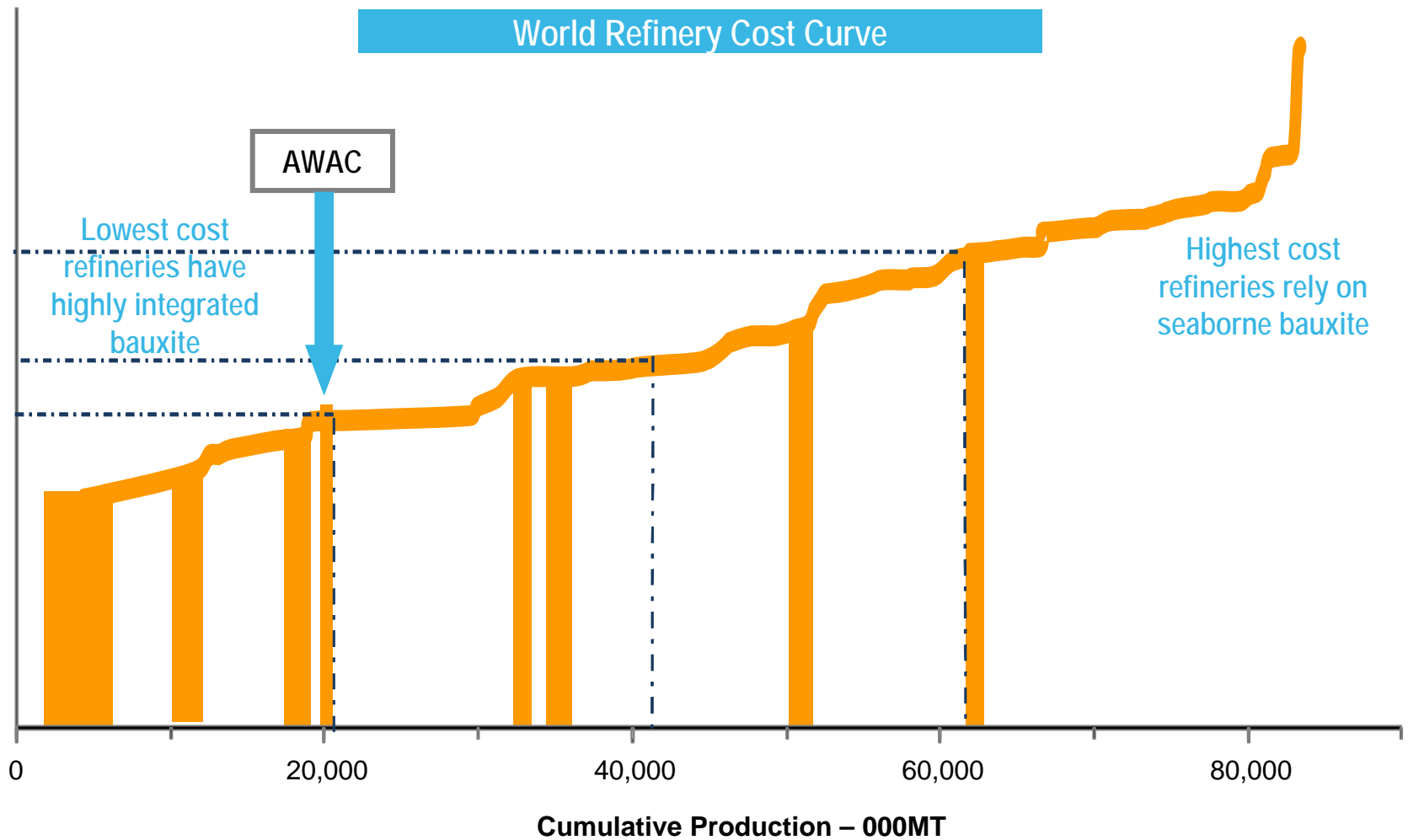
6. Close to customers

# AWAC's Brazil investment: further investment in Tier 1 bauxite and refinery capacity

- Juruti is now commissioned
  - 100+ years of mine life
  - infrastructure developed for major mine
- Sao Luis in commissioning
  - 1.1 million tonnes extra capacity
- AWAC has spent \$3.7bn on these projects – includes \$200m to complete in 2010
- Investment return not yet reflected in earnings



# Key to low cost is bauxite/refinery integration

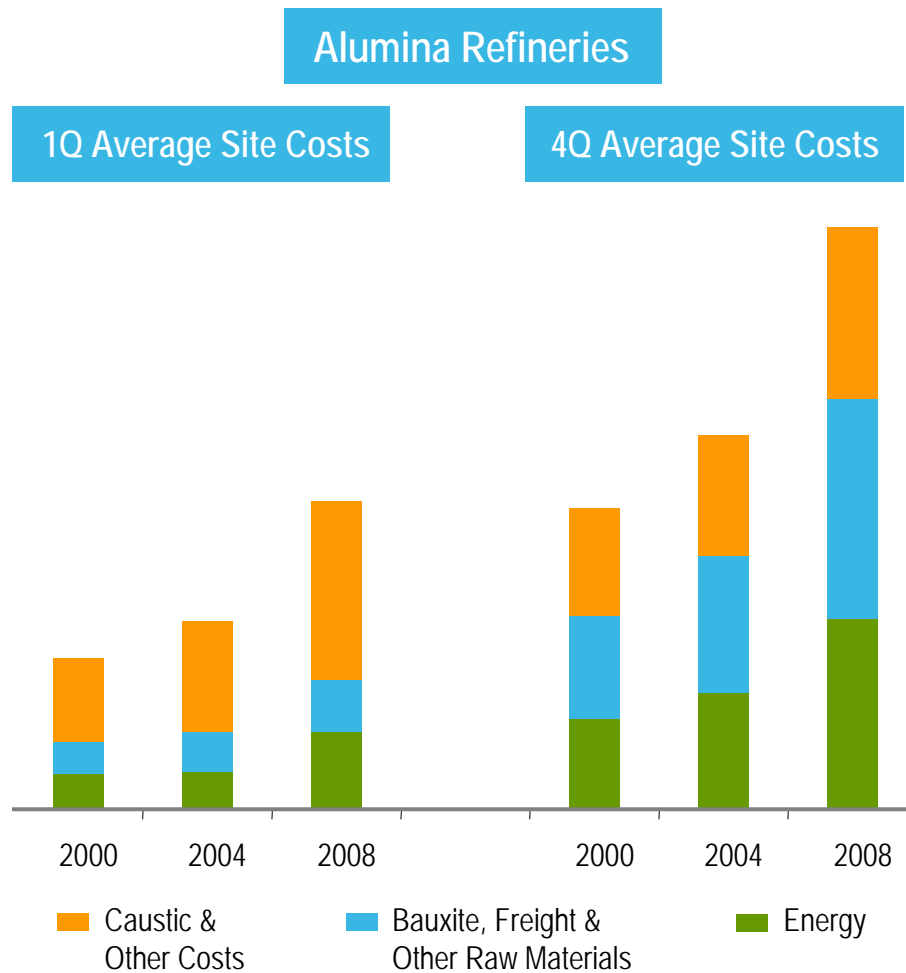


Source: CRU, Alcoa Analysis

Key: ■ AWAC Refineries



# Cost curve profiles steepening, mainly as a result of bauxite and energy costs



- The gap is widening as a result of increasing bauxite and energy costs
- Cost differential over quartiles increased \$79/t from 2000 to 2008
- AWAC on average at 25<sup>th</sup> percentile of cost curve

Source: CRU

# Capital costs continue to rise

	Capital Cost US\$/tonne
China	\$1,074
North Australia	1,534
Western Australia	1,419
India	1,227
Guinea	1,887

Implied range \$1,000 - \$1,900 per tonne

- Infrastructure costs rising quickly – ports, railways
- Long life mines difficult to develop
- ROI requires certainty of pricing based on fundamentals for long life investments to continue
- AWAC has 17.1m tonnes of installed capacity
- AWAC has 10 million tonnes of lowest quartile cost capacity in Australia and Brazil

# Why alumina pricing is in transition

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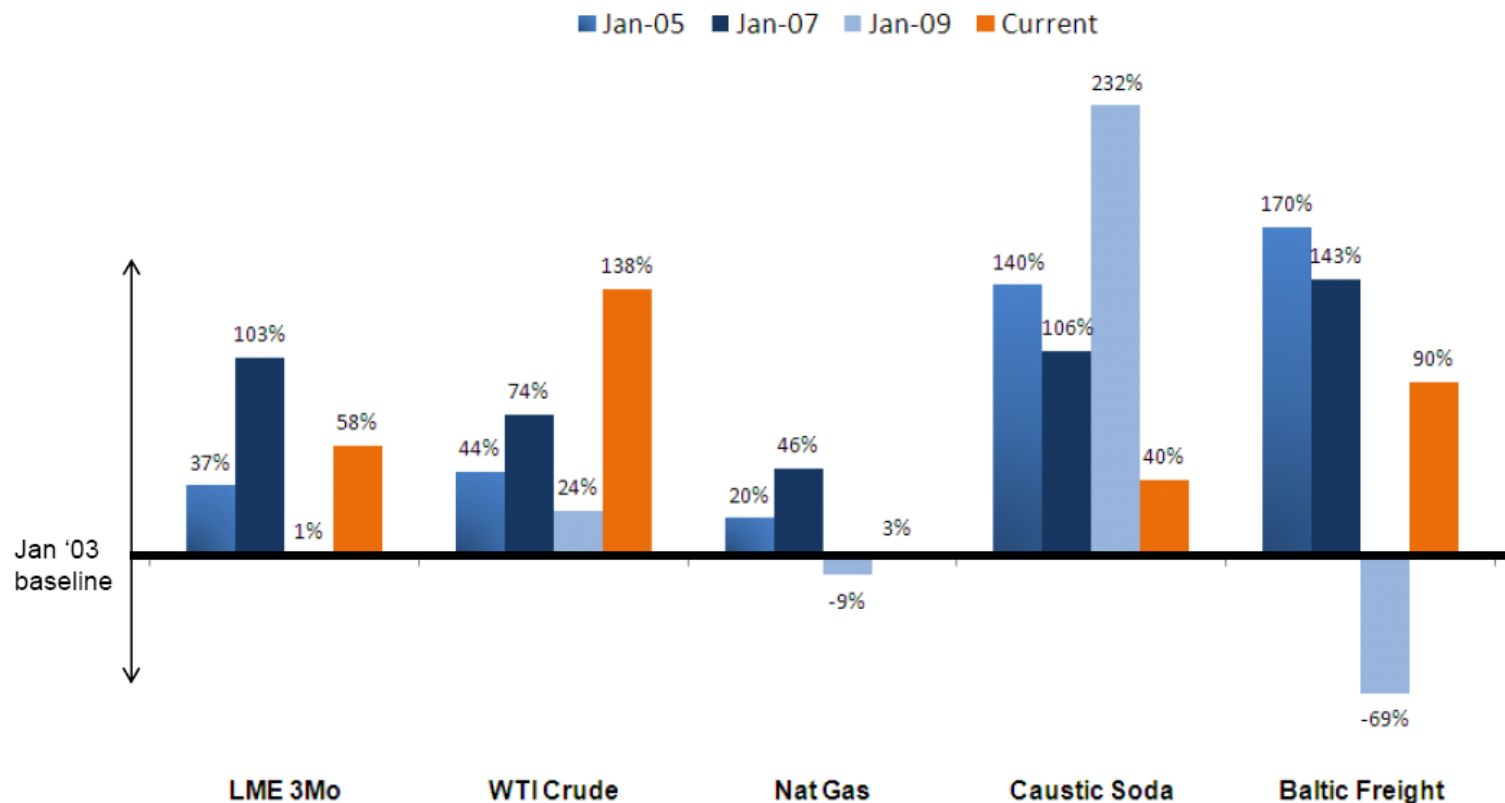
# Key pricing dynamics

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- Growing bauxite and alumina capacity is required
- Capex required to build Tier 1 alumina capacity is growing
- The pricing model linking alumina to LME aluminium does not reflect alumina production costs and will not provide the incentive for new capacity
- Refining growth in China is less integrated, and Chinese alumina prices reflect the marginal, non-integrated producer's costs

# Linked alumina prices are disconnected from input costs

- Low correlation between LME aluminium prices and alumina input costs
- Margins have become volatile
- Current pricing system does not reflect alumina industry fundamentals



Source: LME, NYMEX, CMAI, Baltic

# Chinese alumina sector – driving structural change

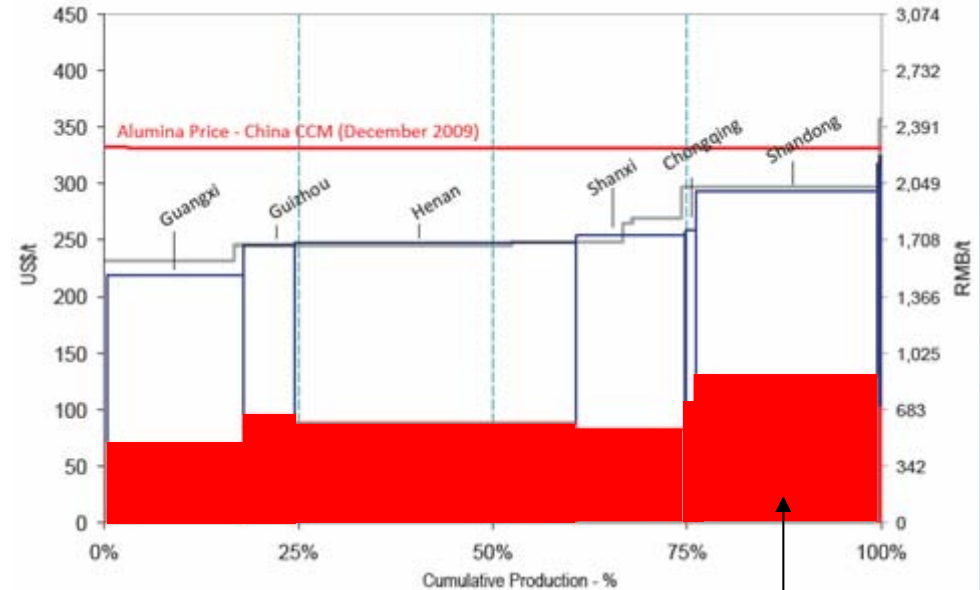
- China's share of world metallurgical alumina market growing – 3% (1985), 34% (2008)
- Chinese industry is relatively less integrated
  - China very influential in third party markets for bauxite and alumina
  - this increases non-integration
- Third-party transactions globally in alumina growing as a percentage of the total market\*:
  - approximately 30% late 1980's
  - 41.1% 2006
  - 45.0% 2009
- Non integration means the alumina pricing should increasingly reflect industry supply/demand conditions and marginal producers' costs

\* Source: James King

# Chinese producers set global spot prices

- Chinese alumina contracts are predominantly short term or spot
- One-third of China's bauxite needs are imported
- Most marginal producers are bauxite importers
- Chinese alumina prices are now ~US\$320/t

China's Alumina Cash Cost Curve (4Q 2009)

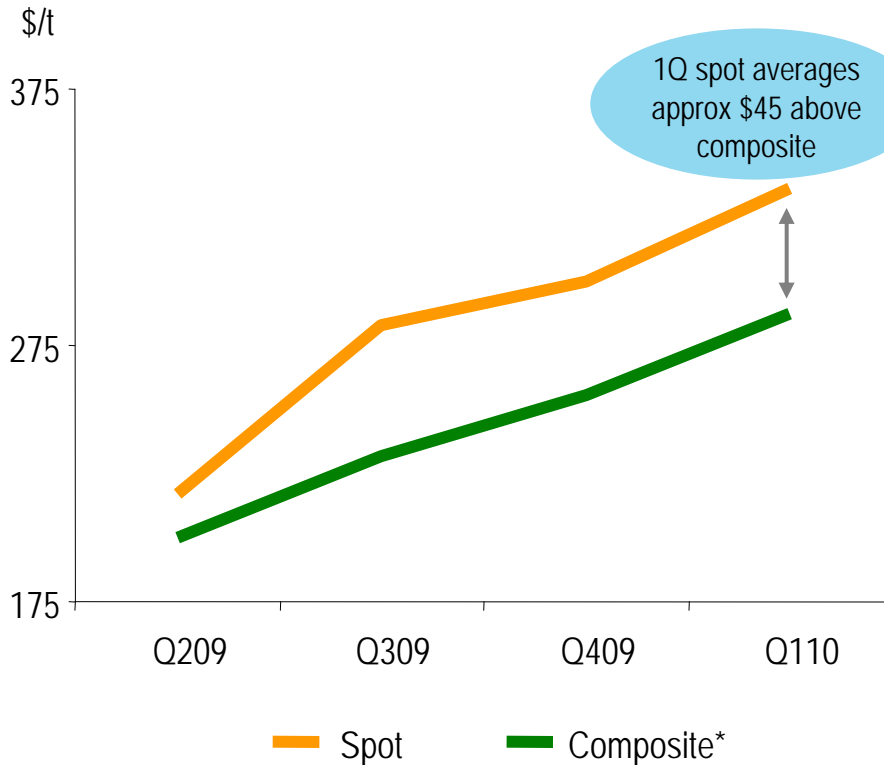


Source: Clark & Marron January 2010

\* Bauxite costs

Refineries that rely on seaborne bauxite remain at the top of the cost curve and are influencing spot and contract pricing

# Spot prices usually at a significant premium to contract prices



- Over the last 12 months, spot has been on average 17% above composite
- Contract pricing will move towards spot over a period of several years as current linkage based contracts roll off
- Structural change in the alumina market driven by developments in the Chinese industry will increase the volume and importance of the spot market

\* CRU composite price is a weighted average price for a number of key importing and exporting countries

Source: CRU May 2010



# The alumina pricing model must change

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- Linkage increases are likely to converge with an increasing spot or fundamentals-based market
- A new pricing mechanism should evolve with more spot sales outside China, possibly leading to a fundamentals-based alumina price index
- The impact will increase as current linked contracts roll off

Why is Alumina Limited in a good position to benefit from industry changes?

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# AWAC is well placed!

- Market prices well up since lows (realised third party alumina prices up 13% 1Q 2010)
- Capital investment completed to take advantage of market improvement
- AWAC capacity of 17.1 million tonnes of alumina – 3.7 million tonnes of growth in excess of 2009 production
- AWAC has majority of Tier 1 alumina assets in market
- AWAC has options to expand Tier 1 assets
- Industry economics likely to cause pricing mechanism to change
- AWAC smelters repowered with new electricity contracts



# Alumina Limited

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- Strong balance sheet
  - current gearing 9%, net debt A\$342 million\*
  - minimal further capital investment in AWAC 2010, 2011
- Improving flow of dividends expected from AWAC in improving market
  - dividend of US\$133 million received from AWAC in 2009
  - dividend of US\$58 million received from AWAC Jan-March 2010
- Final 2009 dividend of 2 cents per share fully franked

\* As at 31 December 2009

# Questions

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