

Chairman's and CEO's Speeches – 2016 AGM

Attached are the Chairman's and Chief Executive Officer's speeches delivered at the 2016 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 2015.



Stephen Foster
Company Secretary

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CHAIRMAN – JOHN PIZZEY

Good morning ladies and gentlemen.

I am John Pizzezy and as Chairman of Alumina Limited, it is my pleasure to welcome you to the 46th 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 Tea House building on the corner of Clarendon and Normanby Street.

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 Chairman of the Nominations Committee.

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

Peter is Chairman of the Audit Committee.

Next to Peter is Chen Zeng, a non-executive Director. Chen is standing for re-election today. I will speak to Chen's re-election later in the meeting and I will invite Chen to address the meeting.

Next to Chen is Emma Stein, a non-executive Director and Chair of the Compensation 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 2015 and the Annual Report 2015 are available today at the Registration table and on the Company website.

Both of these documents will provide more detail on the 2015 financial year and the business in general than we intend to cover in the formal proceedings of the meeting.

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 2.2 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 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 other specific agenda items.

This morning I want to discuss Alumina Limited's financial performance for 2015 and touch again on the role of Alumina Limited.

Peter Wasow will then review the strategy and performance of the AWAC business and the outlook for 2016.

This year there will be four resolutions to be considered.

Now let us turn our attention to the 2015 year.

Have no doubt the resource sector with minor exceptions has faced several years of difficult trading conditions. Aluminium and alumina is no exception. After serious internal review AWAC continues to close down or moth ball plants.

These are not easy decisions because many plants have histories that go back many years. Personally I was involved with the Point Henry smelter from the 1970's, the Anglesea power station from its start up, and involved in Portland from its original studies in the late 1970's. As we review these early but difficult closure decisions around the global system of AWAC, we are glad that AWAC has positioned itself low on the cost curve. The cost curve is a comparison of all alumina refinery cash costs and hence an indication of their ability to compete. Nothing guarantees survival, but being low on the cost curve is an absolute necessity if this is to be achieved.

Results

The Company reported a profit of \$88 million. The profit includes restructuring charges of \$170 million for the sale or closure of AWAC operations. These restructuring charges relate to this year only and do not reflect the ongoing operating business of AWAC. If we exclude AWAC's restructuring charges, the Company would have reported a profit of \$258 million, a considerable improvement on the prior year.

The results reflected an improved AWAC operating performance and reduced corporate and finance costs for Alumina Limited.

The improved AWAC performance was mainly due to reductions in AWAC's production costs.

A thirteen per cent decline in operating costs reflected productivity initiatives, a stronger US dollar and lower energy costs.

As previously mentioned, AWAC's strategy has been to lower its position on the alumina industry cost curve to the first quartile.

In 2015 the Point Comfort and Suralco refineries were curtailed and the Anglesea power station was closed. These plants started operating over 40 years ago and over time became higher cost assets.

These actions resulted in restructuring charges, but ensure that AWAC is competitive and resilient throughout the commodity cycle.

Our corporate charges were \$12 million in 2015, a twelve per cent decline on the prior year. We will continue to work towards containing our corporate costs.

Dividends

The Company received cash flows from AWAC of \$106 million for 2015, \$13 million less than the previous year. \$56 million of those receipts related to fully franked dividends from Alcoa of Australia and \$43 million were capital returns. This was after AWAC made a \$300 million prepayment under a new twelve year gas supply agreement in Western Australia. After corporate and financing costs, the Company had free cash flow of \$85 million for 2015, \$35 million higher than the previous year.

The Company sought in 2015 to ensure shareholders benefited from accumulated franking credits. For the interim dividend of four and a half cents per share, the Dividend Reinvestment Plan was introduced. Total dividends to shareholders for the year were six point three cents per share. This was a substantial increase over the previous year. I would note for the shareholders that these numbers are US dollars and cents so at the exchange rate at the time of payment they were higher in Australian dollars, totalling 8.9 Australian cents per share. For shareholders who can utilise the franking credits, that can be up to 12.7 Australian cents per share.

The design of your Company means it is a vehicle that should pass back to the shareholders the cash flow from its AWAC shareholding after finance charges and operating costs. The Board's intention is to maximise cash distributions after debt servicing and corporate cost commitments have been met. Currently, our capital structure is conservative and this means that as future free cash flow is generated by AWAC, shareholders can readily benefit.

Capital Management

The Board and management have worked to strengthen the Company's balance sheet in recent years. The Company's net debt level at the end of April was \$110 million. During 2015 the Company was required to contribute only \$2 million of capital to AWAC's operating business, compared to \$42 million in the previous year. The Company is now financially stronger and has significantly reduced its finance costs. Finance costs declined to \$6 million for the year.

Alumina Limited Role

Now let us move to the role of Alumina Limited.

Alumina Limited is a major ASX listed company but with very unique characteristics. While it is not an operating company, the Company is steward for 40 per cent of the assets of AWAC.

In its role as steward for the assets in AWAC, Alumina Limited needs to act in a number of ways:

- Alumina Limited maintains a balance sheet for a cyclical business that satisfies shareholders but is able to meet AWAC's investment calls throughout the cycles. Otherwise it risks dilution.
- We must have a clear position on the bauxite, alumina and aluminium markets to allow detailed discussion with Alcoa and shareholders on portfolio management, investment opportunities and disruptive threats. The alumina industry is a capital intensive industry where investment and portfolio decisions have very long lasting impacts.
- We must continually monitor how Alumina Limited is placed to address the future. The industry has changed rapidly in the last decade. We must be alert to these changes which substantially affect investment value.
- A key part of our role is to enhance and protect Alumina's interest in this AWAC joint venture. Alcoa and Alumina's objectives and financial requirements can diverge. Alumina Limited's Board and management must protect the Company's interests where they diverge from Alcoa and also work to find mutually beneficial solutions in these situations.

The character of AWAC's two joint venturers, Alcoa and Alumina Limited, are very different. These differences have become more obvious over the last few years as Alcoa becomes a company that has a growing focus on its successful downstream and diversified manufacturing portfolio.

Our AWAC partner, Alcoa, announced in September 2015 a plan to separate into two independent, publicly traded companies. One of the separated companies would comprise Alcoa's upstream business, including its sixty per cent interest in AWAC. The separation of Alcoa Inc would enable greater recognition of the value and attractiveness of the AWAC business.

Alumina Limited is a minority investor with closely defined rights and obligations within the AWAC Formation Agreements. Nevertheless, your Board and management have and will continue to work towards maximising the value of its 40 per cent interest in AWAC. We will continue to look for opportunities where the Company's interest in AWAC can enable corporate change that increases shareholder value.

Conclusion

The Company and AWAC's debt levels remain low, and capital requirements have been reduced.

The AWAC asset portfolio has improved and the Company is well prepared to meet the challenges currently posed by the commodity markets.

I will now invite Peter Wasow to outline AWAC's strategy and operational performance and to comment further on the outlook for 2016.

CHIEF EXECUTIVE OFFICER – PETER WASOW

Good morning. I'd like to echo John's welcome and offer my personal thanks for your attendance on this chilly Melbourne morning.

There are three things I'd like to cover today. First I'll outline the industry context; second I'll describe how our strategy is delivering improved performance, and; finally, I'll conclude with the outlook for 2016.

I want to start by saying that the growth in demand for aluminium remains strong, and that it's expected to continue.

Unfortunately, in 2015, a pullback in the rate of growth, due mainly to lower building construction in China, meant that the supply of both the metal and alumina exceeded demand. We also saw a strengthening US dollar, lower oil prices and a generally more benign cost environment. Together these factors resulted in a significant decline in the industry cost curve, and we saw prices fall sharply.

While supply growth overshot demand growth in 2015, the prices that we saw as a result were simply unsustainable. About ten percent of the world's production was curtailed, and prices have since recovered by more than thirty percent.

Let's now turn to our strategy, which is in three parts: the first is to seek higher prices through our marketing strategy, the second is to further improve our cost advantage and the third is to expand into bauxite sales as a new product line and avenue of growth.

Our marketing strategy is to have alumina priced on its own fundamentals. This means that the price we receive for our product should reflect the fundamentals of the alumina market and not be driven by the price of the metal.

Last year approximately seventy-five per cent of our product was priced off an alumina index rather than as a percentage of the price of aluminium. This shift in the basis of pricing has improved returns for the AWAC business significantly.

Our cost-out strategy has seen AWAC continue to improve its relative cost advantage. In 2014, our Jamaican refinery and mine were sold and the Point Henry smelter in Geelong was closed. In 2015 AWAC moved further down the cost curve, following the curtailments recently implemented or underway in Suriname and Texas. In addition, AWAC is adding production at the low end of the cost curve as the refinery in Saudi Arabia nears full production.

Unfortunately these closures and curtailments forced us to record significant charges in 2015, but the restructuring leaves the Company stronger and more profitable.

AWAC is expected to be at the twenty first percentile of cost in 2016, down from the thirtieth percentile in 2010. This positions us well for the future, even if the low price environment persists.

When you look at the underlying performance of AWAC in 2015, you can see considerable improvement over the previous year. AWAC's cash margin or EBITDA before significant items, increased by more than half to \$1.4 billion. Put another way, AWAC's average cash margin per tonne increased from \$54 in 2014 to \$91 last year.

The refineries performed well in 2015 and production costs decreased by thirteen per cent to \$216 per tonne.

The third element of our strategy is to expand into the growing bauxite market. While AWAC will continue to produce low cost bauxite, primarily for internal consumption, we have made a number of third party bauxite sales in 2015. In addition, the mining unit has been able to make a number of sales for delivery in 2016, totaling five million tonnes.

AWAC continues to explore its options for expansion in Brazil and in Western Australia to meet the expected growth in demand for traded bauxite. Importantly, these options are low cost brownfield expansions, which give us the optionality of responding to the market quickly, economically and with limited risk.

As for Alumina itself, we have focused on reducing the cost of operating the company to enable a more efficient pass through of profits made in the AWAC joint venture. Finance and corporate costs have been reduced by 56 percent over the past two years.

Let me turn to the outlook for 2016.

We started the year with alumina prices at record lows, and much lower than last year's average of \$301 per tonne. Since the beginning of the year, the price has recovered by around 30 percent to currently trade at around \$260 per tonne.

Against that background, AWAC will roll off more lower-margin metal linked contracts and onto higher priced index based sales: up from 75 to around 85 per cent of total sales.

The portfolio restructuring I spoke about earlier has had the effect of lowering our average production costs. We also expect AWAC to deliver further benefits from productivity improvements and close attention to cost management.

So in summary, AWAC remains well positioned as the world's largest bauxite and alumina concern, and with a stronger portfolio of assets than ever.

There is no external debt in the joint venture and there is very little debt in Alumina Limited.

A recovery in alumina prices has begun this year, but uncertainties remain. We can't control the macro environment in which we operate, but our stronger asset portfolio and healthy balance sheet leaves us well prepared for whatever volatile commodity markets have in store.

Thanks for your attention and I look forward to meeting you at the conclusion of today's formalities. In the meantime I'll hand back to John.