ASX Announcement 9 May 2014

Chairman's and CEO speeches – 2014 AGM

Attached are the Chairman's and Chief Executive Officer's speeches delivered at the 2014 Annual General Meeting of the Company held today.

Stephen Foster
Company Secretary

9 May 2014

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CHAIRMAN – JOHN PIZZEY

Good morning ladies and gentlemen.

My name is John Pizzey and as Chairman of Alumina Limited, it is my pleasure to welcome you to the 44th 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 Jarrod Christmas, who is in charge of security for the meeting, will give directions and the meeting will be adjourned.

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

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

Mike is Chairman of the Nominations Committee.

Mike is standing for election today.

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

Peter is Chairman of the Audit Committee and Peter is also standing for election today.

I will speak to those resolutions later in the meeting and I will invite Peter and Mike to address the meeting.

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 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 2013 and the Annual Report are available today at the Registration table and on the Company website.

Both of these documents will provide more detail on the 2013 financial year and the business 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 propose that it be taken 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 billion shares or 70% 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 2013, the Alcoa World Alumina & Chemicals strategy, and our capital structure.

Peter Wasow will then review the performance of the AWAC business, the bauxite and alumina markets, and the outlook for 2014.

This year there will be seven resolutions to be considered.

Now let's turn our attention to the 2013 year.

The Company's results improved to a profit of $1 million compared to a $55 million loss for the previous year.

This reflected a substantial improvement in AWAC's underlying business performance for the year and lower Alumina Limited costs.

Realised alumina prices remained low in 2013. A weaker Australian dollar in 2013 assisted AWAC's cost position.

The Board believes that the company's current profitability does not reflect the underlying value of its assets.

The current difficult market conditions and foreign exchange environment continue to affect profitability.

These market conditions were the key determinants for the financial result for the 2013 year.

However we do expect over time that those market conditions will change with positive implications for the Company's profitability.

AWAC was successful in efforts to reduce operating costs in 2013.

The cash cost of alumina production declined by 5%.

The focus and progress by AWAC on cost management will hold shareholders in good stead upon market conditions improving.

The Company received fully franked dividends of $100 million for 2013, consistent with the previous year.

After corporate and financing costs, the Company had cash from operations of $67 million.

The 2013 profit result and challenging market conditions meant the Board did not declare a dividend for the year.

It was pleasing to see our corporate costs fall to US$17 million in 2013.

We are aiming to achieve a further 10% reduction in 2014.

In February this year the Company decided to withdraw its listing on the NYSE.

We believe this will save administrative costs.

The listing on the New York Stock Exchange was a legacy inherited from WMC Limited at the time of the demerger in 2002.

Management has worked through the process of delisting and the Board took this decision this year when there was minimal impact on shareholder value.

Capital Management

We welcomed CITIC as a shareholder in 2013.

The placement of 15 percent of the Company's then capital base with the CITIC Group strengthened the Company's balance sheet.

CITIC Group brings to the Company an intimate knowledge of China, the world's largest market for alumina.

With the placement the Company’s net debt at the end of 2013 was $135 million.

This compared with US$664 million at the start of 2013. At the end of April 2014, the net debt was $122 million.

This will enable the Company to significantly reduce its finance costs in 2014.

Alumina Limited entered a new $300 million syndicated debt facility during the year.

This was a significant achievement with the facility recognising the unique character of Alumina Limited, as a non-operating Company.

We have significant liquidity in terms of undrawn facilities beyond 2014.

Strategy

Now let’s move to AWAC and where it is heading with its strategy.

The critical areas the Board is focusing on in AWAC strategy is pricing, and cost position.

Firstly, the market pricing mechanism used by AWAC to sell its alumina is changing from pricing aligned to the LME aluminium price to an alumina price index or spot price.

Spot or index pricing more fairly reflects alumina’s fundamentals.

Long term returns will be influenced by whether refineries have competitively priced energy and a long term low cost bauxite supply.

Peter Wasow will discuss these aspects further in his address.

Smelters

Moving to aluminium smelting, Alumina Limited through AWAC has an interest in the Point Henry and Portland aluminium smelters.

Low metal prices, rising input costs and the persistently high Australian dollar saw the Point Henry smelter in Geelong become unprofitable.

AWAC decided the Point Henry smelter would be closed in August this year.

Total AWAC restructuring charges associated with the closure of the Point Henry smelter are expected to be approximately $250 million after tax.

The AWAC Anglesea coal mine and power station has the potential to operate as a standalone facility after the smelter closes.

AWAC will seek a buyer for the mine and power station.

Remuneration

Concerns were expressed by shareholders in relation to the 2012 Remuneration Report.

We met with many of the Company's shareholders, as well as corporate governance advisory bodies to discuss those concerns.

We have addressed the issues in a number of ways:

firstly, by revising and expanding the disclosure of remuneration objectives;

secondly by implementing changes to the remuneration arrangements for 2014.

For the CEO, the short term incentive has been reduced from a maximum of 100% of Fixed Annual Remuneration to a maximum of 35%.

The long term incentive has also been reduced from up to 50% of Fixed Annual Remuneration to a maximum of 30% of Fixed Annual Remuneration.

The outcome of these changes is that total CEO remuneration was changed to generally reflect the 25th percentile against two different but relevant peer groups.

Also, performance rights issued from 2014 onwards will not be subject to re-testing.

We believe the amendments made to the Company's remuneration practices in 2013 are a positive response to concerns expressed over the 2012 Remuneration Report.

For Non-Executive Directors, I note that there is no increase in fees, for the 2014 year.

Fees have been unchanged since 1 January 2011.

Board

Let me now turn to changes to the composition of your Board.

This annual meeting is the first such meeting where none of the founding Alumina Limited directors from 2002 are present.

The Company has, over recent years, undertaken a complete renewal of the Board .

I am pleased that Peter Day and Mike Ferraro joined the Board.

They are standing for election at this meeting.

Mr Day is currently a non-executive Director of Ansell Limited, SAI Global Limited and Boart Longyear Limited.

Mr Day previously held senior positions with Amcor Limited, Bonlac Foods, Rio Tinto and the Australian Securities and Investment Commission.

Mr Day brings extensive experience in the resource, finance and manufacturing sectors.

Mr Ferraro is currently joint head of the Corporate Group at Herbert Smith Freehills, a global law firm.

Between 2008 and 2010, Mr Ferraro was Chief Legal Counsel at BHP Billiton.

Mr Ferraro brings considerable experience in the resources sector and experience in joint ventures, mergers and acquisitions, fundraising and regulatory issues.

Mr Peter Hay retired this year, after eleven years as a Non-Executive Director of Alumina Limited.

On behalf of all the directors, I would like to thank Peter for the experience, stability and integrity he brought to the Board.

I personally wish Peter all the best in his future career.

Chief Executive Officer

As previously announced late last year, John Bevan retired as Alumina's Chief Executive Officer.

John joined Alumina Limited in 2008 and steered the Company through a difficult and volatile period for aluminium and alumina markets.

In the five and a half years he was in the role, John worked constructively with Alcoa Inc, representing the interests of Alumina Limited shareholders.

Peter Wasow was appointed Chief Executive Officer of Alumina, effective 1 January this year.

Peter has had a long career in the resources and energy sectors.

This includes eight years as Chief Financial Officer and Executive Vice President of Santos, and more than 20 years with BHP, including as Vice President, Finance.

Directors are confident his strong commercial and financial experience will benefit our shareholders.

Alumina Limited has started 2014 in a strong financial position with lower debt levels.

The transition to spot or index alumina pricing will continue and alumina production costs have been falling in 2014.

Finally, I would like to recognise the contribution of Alumina's management and staff for their work during the past year.

I will now invite Peter Wasow to outline highlights of AWAC's operational performance and to comment further on the outlook for 2014.

CHIEF EXECUTIVE OFFICER – PETER WASOW

Good morning.

This is the first time I stand before you as CEO, having served as a director for two years.

I wanted to say that I am honoured to be in the role and my hope is that I can serve you well.

As a result of my time on the board, I came to know both the company and the industry and I was keen to take a more active role in management.

I'm very grateful that my experience in the resources industry was recognised by my fellow directors and that I now have the opportunity to apply that experience for the benefit of shareholders.

With that, I'd like to now turn to the industry context and outlook for 2014, share with you some insights into our strategy and conclude with AWAC's operating performance for last year.

Industry Outlook/Market

During 2013, global consumption of aluminium is estimated to have increased by more than 5% and it is expected to increase by around 6% this year.

Demand for aluminium and hence alumina is robust compared to many other commodities and its growth rate continues to exceed global GDP growth.

To meet this demand, China has been capitalising on its ability to build new smelting capacity cheaply and to utilise low cost energy from its extensive coal resources.

New smelters in the Middle East also compete on the basis of their low energy cost.

The aluminium industry in the rest of the world is only gradually adjusting its production levels to reflect these competitive forces and there remains an overhang of aluminium stock, although most of it is tied up in financing deals.

As a result of these factors and despite the strong demand growth, the price of aluminium on the London Metals Exchange is at historic lows in real terms.

This is causing a significant part of the aluminium smelting industry to operate at a loss.

These forces, along with the high Australian dollar are the prime reasons behind the closure of the Point Henry smelter.

This closure will leave Alumina shareholders invested in only one remaining smelter, which is in Portland.

Now let's take a look at the alumina market where most of our business lies.

Alumina demand is growing strongly in line with demand for the metal.

In the recent past and in the short term, we see an excess of alumina production particularly in the Atlantic basin.

This means that alumina pricing has been weak as the surplus ensures strong competition between producers.

There are however, some signs that the industry fundamentals are changing.

For some time, the basis of competition in the refining of alumina has been around the low cost of Chinese capacity, which has grown more rapidly than demand.

Increasingly, as the cost, availability and quality of Chinese domestic bauxite worsen the basis of competition is shifting towards the resource.

More and more China depends on imported bauxite and its primary supplier has been Indonesia.

In January, an export ban by Indonesia of unprocessed ores came into effect.

Since that time,
no new shipments of bauxite have been despatched to China, where merchant refiners are relying on stockpiles built in 2013 and supplies from more distant bauxite sources.

The effect of the ban is to significantly impact the supply and cost of bauxite to Chinese refiners.

Unless the Indonesian ban is lifted with no extra cost or taxes, it isn't clear from where China will source its growing imported bauxite needs, nor at what cost.

These factors are likely to push the cost of making alumina in China up and make importing alumina at higher prices more attractive.

Integrated refiners with large scale bauxite reserves like AWAC are not affected by the price or availability of seaborne bauxite and our competitiveness is improving as a result.

AWAC Strategy

With this background, let's consider AWAC's strategy, which is in two parts.

From the points I made around the industry and market we can see that quite different competitive forces and outcomes apply in the smelting and refining segments of the aluminium value chain.

The first part of our strategy has been to reset how alumina is priced to avoid profitability in this segment from being affected by the intense competition in the smelting segment.

Last year more than half of AWAC's sales were at spot prices which are not linked to the price of aluminium.

By 2016 more than 80% of sales will be on this basis.

This strategy has allowed us to enjoy more stable and better growth, in prices for alumina than for aluminium.

The second part of our strategy recognises that in all commodity businesses, the ability to make superior returns rests almost exclusively on your relative cost.

Fortunately, AWAC's portfolio of assets occupies a significant portion of the industry cost curve around the lowest quartile.

And our strategy is simply to further improve our relative position.

Today, AWAC owns and operates the largest alumina business in the world, at around 16% of global production.

Our average cash cost is around the twenty seventh percentile and we are aiming to reach the twenty third percentile by next year.

AWAC's strategy to improve its cost position includes improving productivity, improving the portfolio of AWAC assets, and reducing input costs.

In 2013, AWAC's implementation of that strategy contributed to a 5% reduction in the average cash cost of production.

A second plank of the strategy to improve the cost position is to invest in new low cost capacity, which is what we are doing at the Ma'aden project in Saudi Arabia.

The Ma'aden mine and refinery is a large scale project with an estimated cost of just over $3 billion. AWAC's share is 25%.

The refinery is more than three quarters complete and is expected to start up in the fourth quarter of 2014, on time and on budget.

When the refinery is fully ramped up, it should be one of AWAC's, and the world's lowest, cost refineries.

AWAC is continuing to execute its plan of reducing input costs by converting its higher cost refineries in the Atlantic from expensive oil-based energy solutions to gas.

By the first quarter of next year the San Ciprian refinery will make this conversion, bringing significant savings in its energy costs.

Together these strategies are working to improve the price for our product and to reduce the cost of production, as the industry context in which we operate improves for integrated refiners.

Operating Performance

When you look at the underlying performance of AWAC in 2013, you can see considerable improvement over the previous year.

The refining system performed well on the cost front.

The weakening Australian dollar has also contributed to the improved cost performance.

AWAC increased alumina production by 200,000 tonnes to 15.8 million tonnes in 2013.

This exceeded production expectations for the year.

The refinery at Point Comfort contributed much of that production growth, while the Australian refineries operated close to, or above nameplate capacity.

Capital expenditure was tightly managed at $322 million for the year, down by more than 14%.

AWAC's cash flow from operations increased by $414 million, to $656 million due to the improved operating performance and working capital management.

We clearly have some way to go in improving our profitability and shareholder returns, but I hope you will agree that a great deal of value lies just below the surface.

In conclusion, I would like to thank the staff for their commitment and contributions throughout the year, and you, the shareholders for your continued support.