

Presentation at CRU 24th Aluminium Conference 26 April 2019

Attached is a copy of a presentation prepared by Mr Andrew Wood, Group Executive Strategy and Development, Alumina Limited, and delivered at the CRU 24th Aluminium Conference held in London, U.K. on 26 April 2019.

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Stephen Foster
Company Secretary

For investor enquiries:

Charles Smitheram
Manager – Treasury & Investor
Relations
Phone: +61 3 8699 2613
charles.smitheram@aluminalimited.com

For media enquiries:

Tim Duncan
Hinton and Associates
Phone: +61 3 9600 1979
Mobile: +61 408 441 122

24th

CRU

**World Aluminium
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24-26 April 2019, London, UK

ALUMINA
LIMITED

CRU 24th World Aluminium Conference 26 April 2019, London U.K.

Alumina and raw materials

Andrew Wood, Group Executive Strategy & Development

Alumina Limited

andrew.wood@aluminalimited.com

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AWAC Joint Venture (Alumina Limited 40% interest)

BAUXITE PRODUCTION (million BDT#)

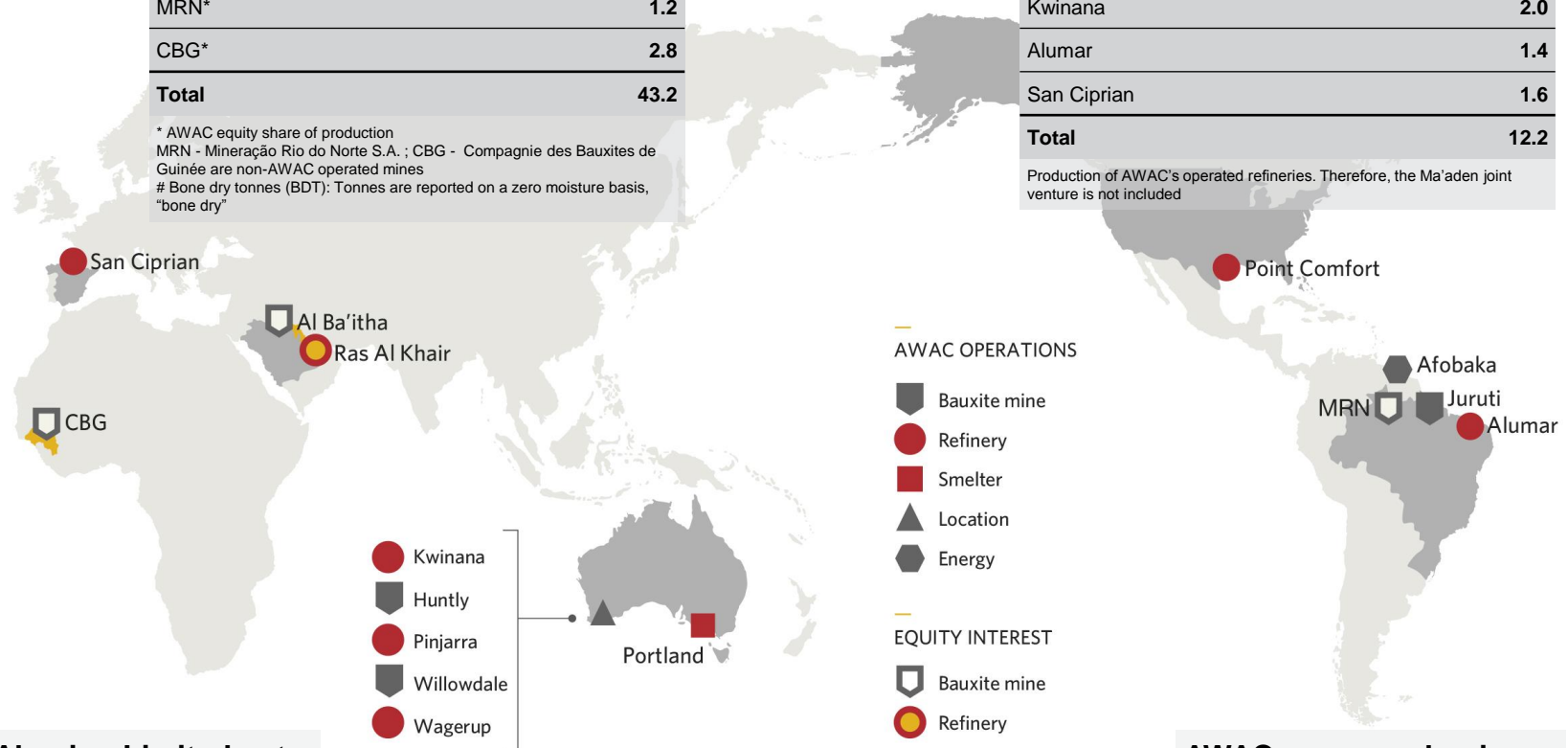
	2018
Huntly & Willowdale	33.5
Juruti	5.7
MRN*	1.2
CBG*	2.8
Total	43.2

* AWAC equity share of production
MRN - Mineração Rio do Norte S.A.; CBG - Compagnie des Bauxites de Guinée are non-AWAC operated mines
Bone dry tonnes (BDT): Tonnes are reported on a zero moisture basis, "bone dry"

ALUMINA PRODUCTION (million tonnes)

	2018
Pinjarra	4.5
Wagerup	2.7
Kwinana	2.0
Alumar	1.4
San Ciprian	1.6
Total	12.2

Production of AWAC's operated refineries. Therefore, the Ma'aden joint venture is not included

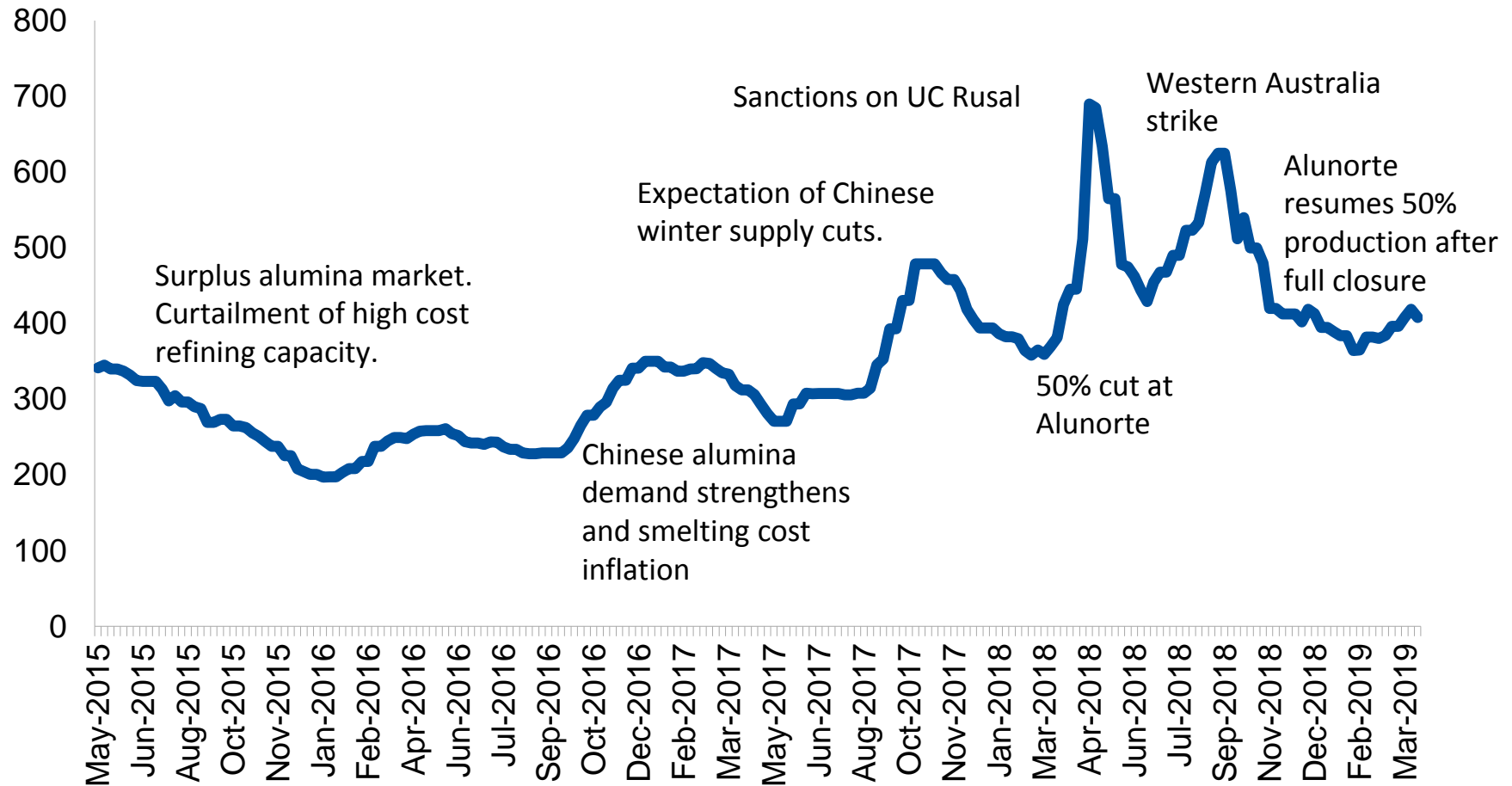


Alumina Limited net profit after tax of \$635.4 million (2018)

AWAC average alumina cash cost of production is \$226/t (2018): lowest quartile global cash cost curve

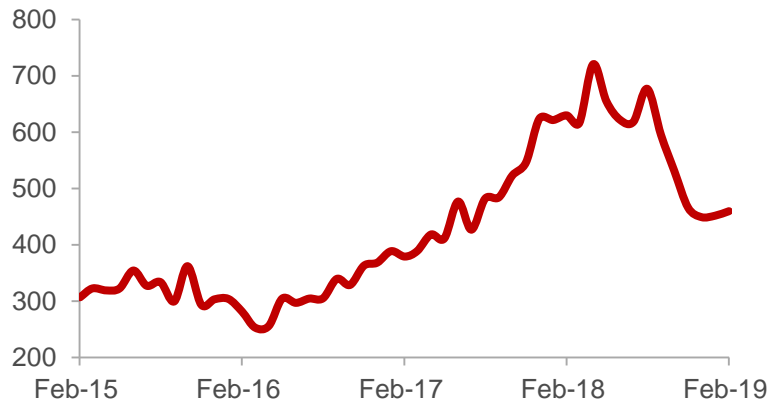
Alumina Price Index responds to alumina market fundamentals

CRU Alumina Price Index, \$/t Western Australia FOB

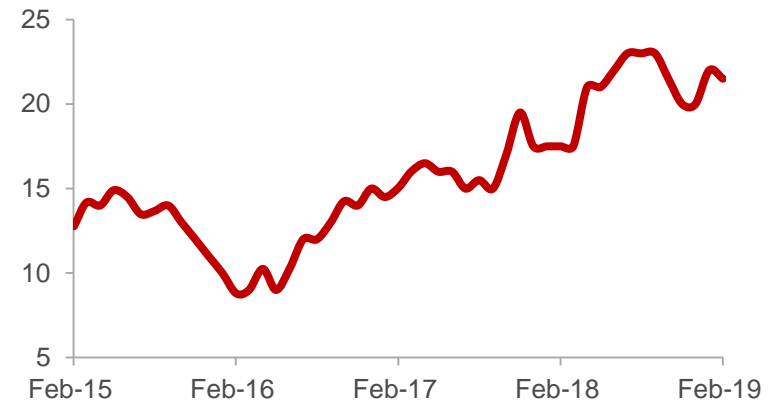


Key refining cost changes also would normally impact alumina index pricing

US caustic soda export price, \$/t US Gulf FOB



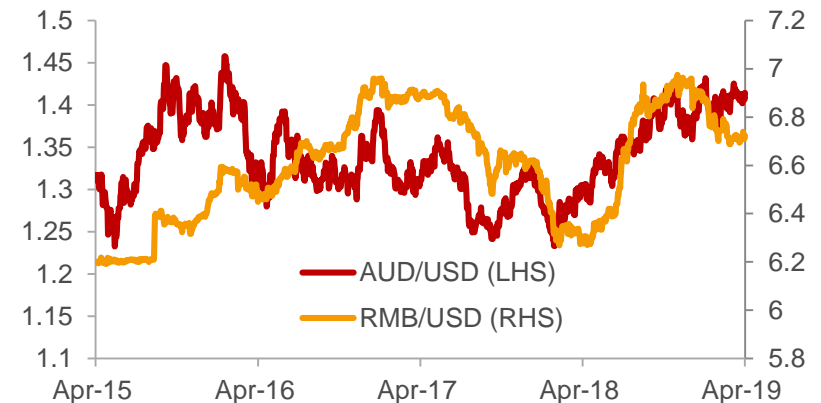
Australia to China alumina ocean freight cost, \$/t (30kt vessel)



Brent Crude, \$/bbl

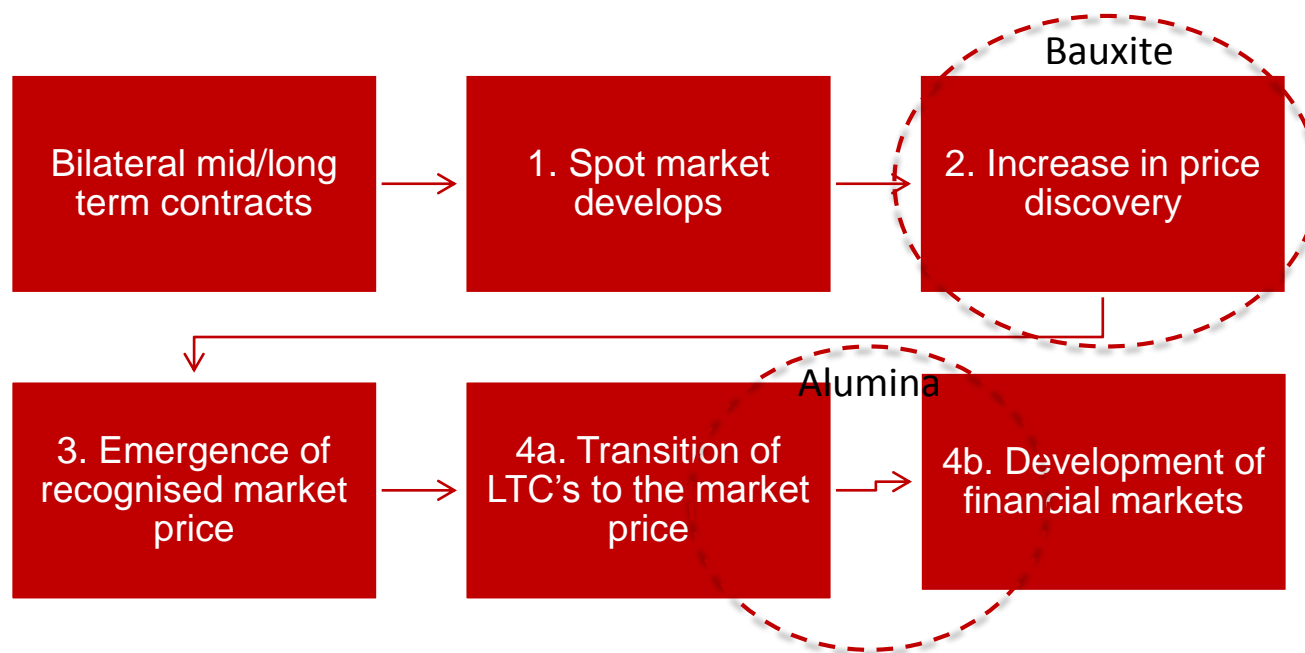


AUD/USD exchange rate (LHS), RMB/USD exchange rate (RHS)



Alumina on standard evolution path for mid-long term contract pricing for commodities

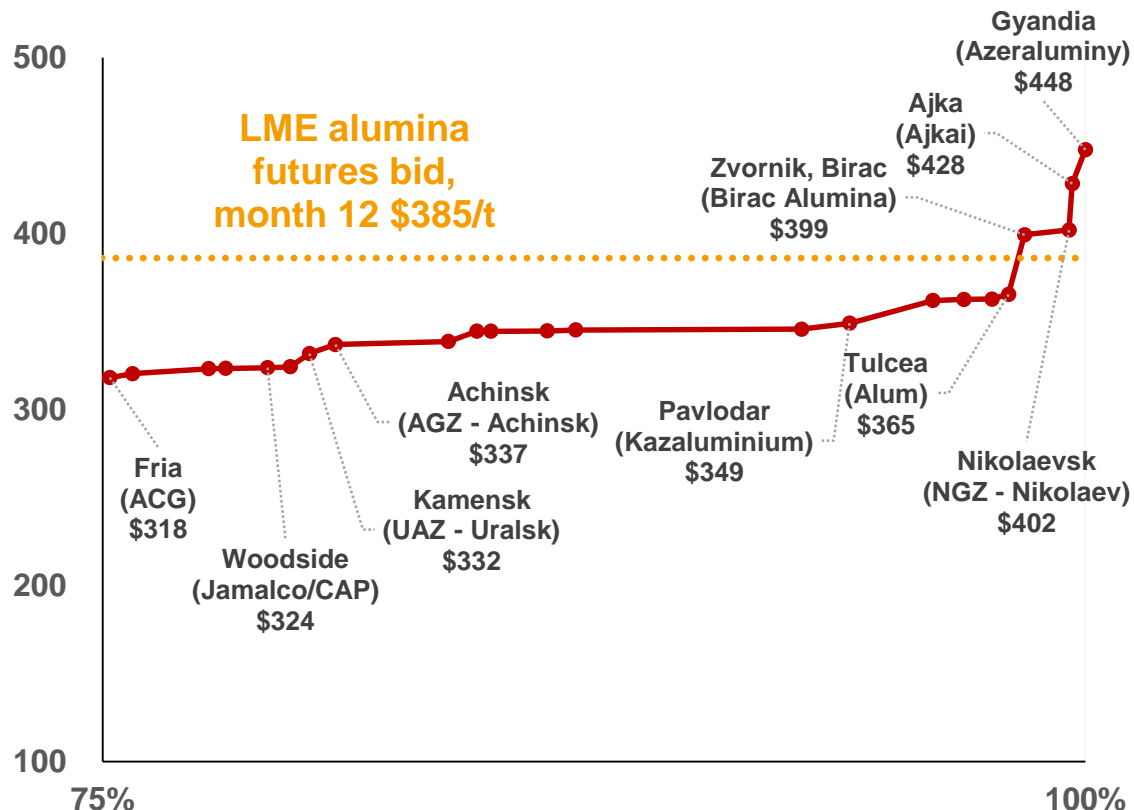
- Usual path followed on market pricing (e.g. iron ore)



- Alumina near the end of the path – LME and CME alumina futures contracts recently introduced to enable alumina price risk management
- Bauxite further behind: moving along path with regular price reports:
 - CRU BPI-G and CM Group value-in-use normalised, delivered to China prices
 - Fastmarkets MB bauxite FOB Kamsar Guinea and Trombetas Brazil, 2 key standards
 - Challenge to normalise different bauxite types/quality to an index for price setting-use
 - Lower level of bauxite spot sales currently

API price risks for smelters and refiners without alumina hedging

Global refining cash cost curve 4th quartile – 4Q2018 (\$/t)



API price risks above \$385 to smelters

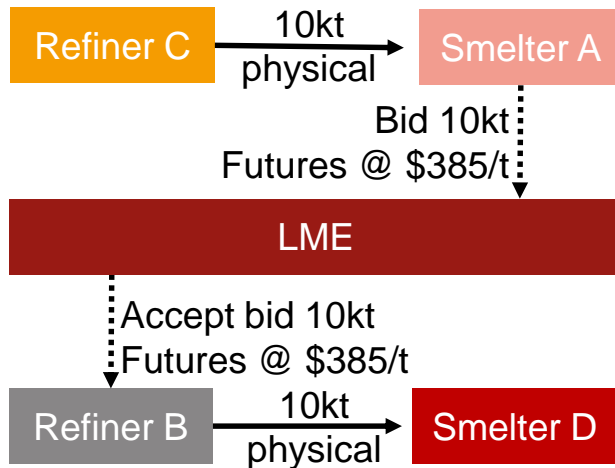
- Ongoing Alunorte curtailment
- Brazilian bauxite shortages reducing alumina output
- Chinese alumina supply-side reforms

API price risks below \$385 to refiners

- Alunorte at 100%
- Al Taweelah fast ramp up
- Chinese large surplus alumina exported
- Slowing aluminium production, if global manufacturing downturn

Source: Harbor, January 2019, LME 10 April 2019

Sample alumina hedge



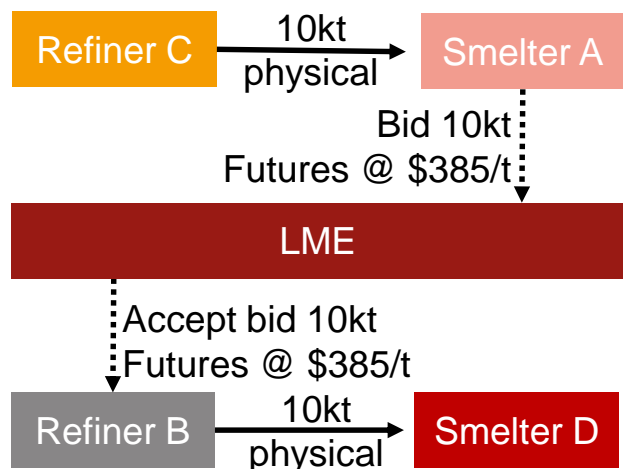
Smelter A

- Assume has 10,000 tonnes (pcm) physical alumina supply secured under 2 year purchase contract based on monthly API price with Refiner C
- Is worried about price spikes in future (see previous slide)
- Is concerned the LME aluminium price may not fully respond to an alumina spike
- Bids \$385/t month 12 (April 2020) 10,000 tonnes

Refiner B

- Assume has 10,000 tonnes (pcm) physical alumina supply secured under 2 year sale contract based on monthly API price with Smelter D
- Is worried about price falls in future (see previous slide)
- Is worried as a fourth quartile refiner (say \$360/t cost) that may not receive an adequate margin
- Accepts bid, enters 200 LME Alumina April 2020 future contracts (50 t each) with A

Sample hedged result in April 2020



Scenario 1: API = \$430/t, settlement in April 2020

- Smelter A pays Refiner C \$4.3 million ($\$430/\text{t} \times 10,000\text{t}$) for physical supply of alumina
- Smelter gains \$0.45 million under LME contract with Refiner B $[(\$430 - \$385) \times 10,000\text{t}]$
- Net position: Smelter A pays \$3.85m, Refiner B receives \$3.85m

Scenario 2: API = \$350/t, settlement in April 2020

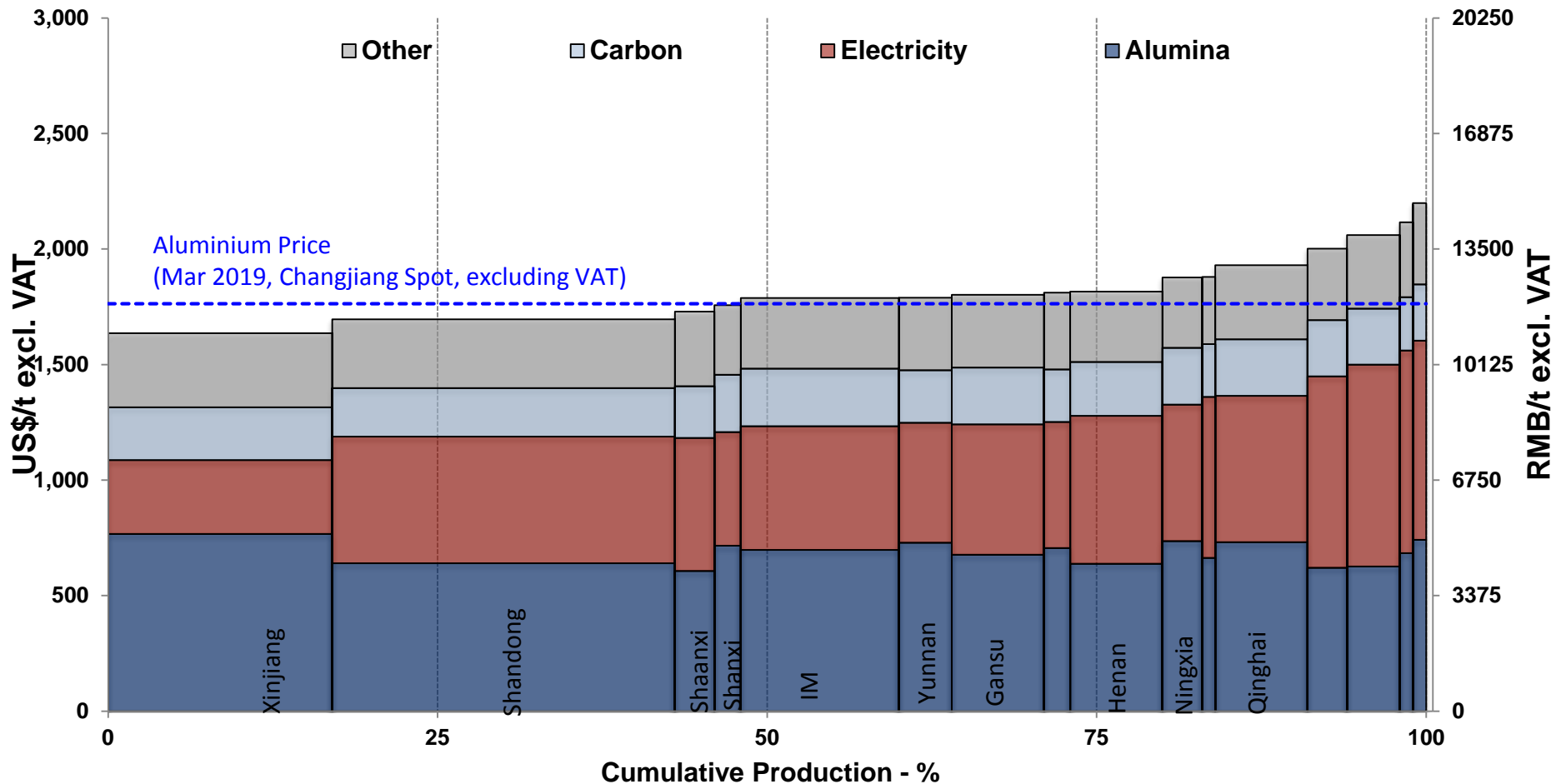
- Smelter A pays Refiner C \$3.5 million ($\$350/\text{t} \times 10,000\text{t}$) for physical supply of alumina
- Smelter loses \$0.35 million under LME contract with Refiner B $[(\$350 - \$385) \times 10,000\text{t}]$
- Net position: Smelter A pays \$3.85m, Refiner B receives \$3.85m

April 2020 Settlement	Scenario 1 – API of \$430/t in April 2020				Scenario 2 – API \$350/t in April 2020			
\$million	Smelter A	Refiner B	Refiner C	Smelter D	Smelter A	Refiner B	Refiner C	Smelter D
Payment / (receipt) for physical of 10kt	(4.3)	4.3	4.3	(4.3)	(3.5)	3.5	3.5	(3.5)
Net LME settlement	0.45	(0.45)			(0.35)	0.35		
Net receipt/(payment)*	(3.85)	3.85	4.3	(4.3)	(3.85)	3.85	3.5	(3.5)

*Subject to LME Trading and clearing fees (client contract of \$2.70 per 50t lot. \$540 = 200 lots x \$2.70/lot.) and others' execution, brokerage and clearing fees

China's break-even smelters: more curtailments and slower growth likely

Current Chinese smelting cash cost curve



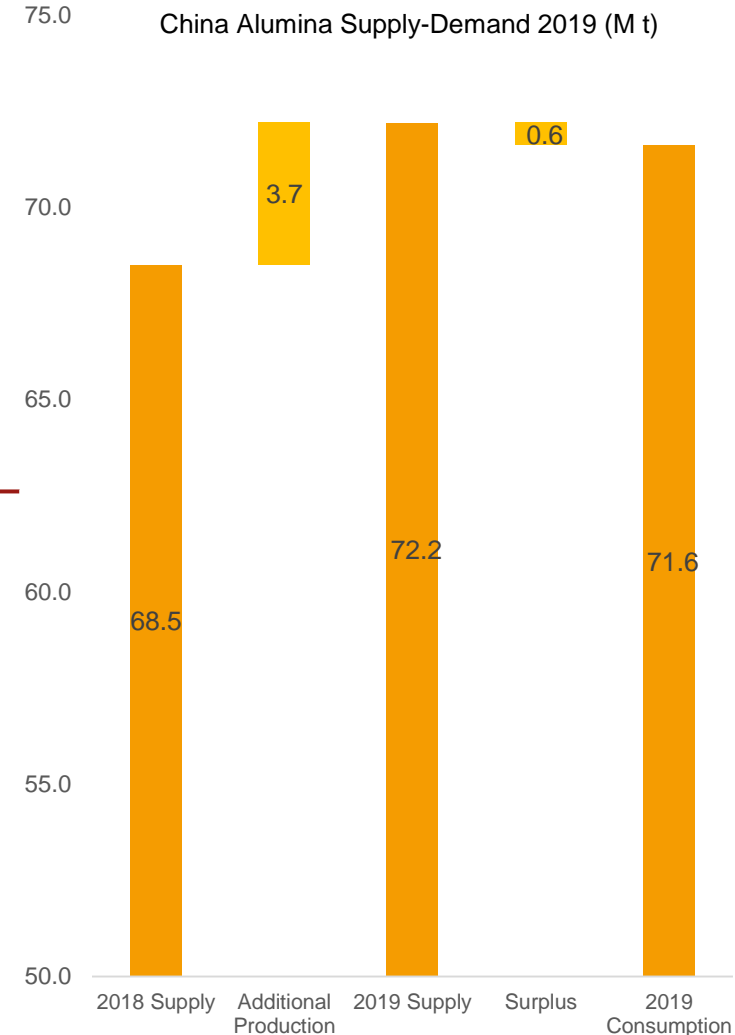
... however Chinese reforms likely to ensure broad alumina self-sufficiency

- China is likely to have small alumina surplus in 2019, due to a slower consumption growth, delaying new smelting production
- However in medium term, it is expected that the Chinese Government will promote alumina supply-side reform:

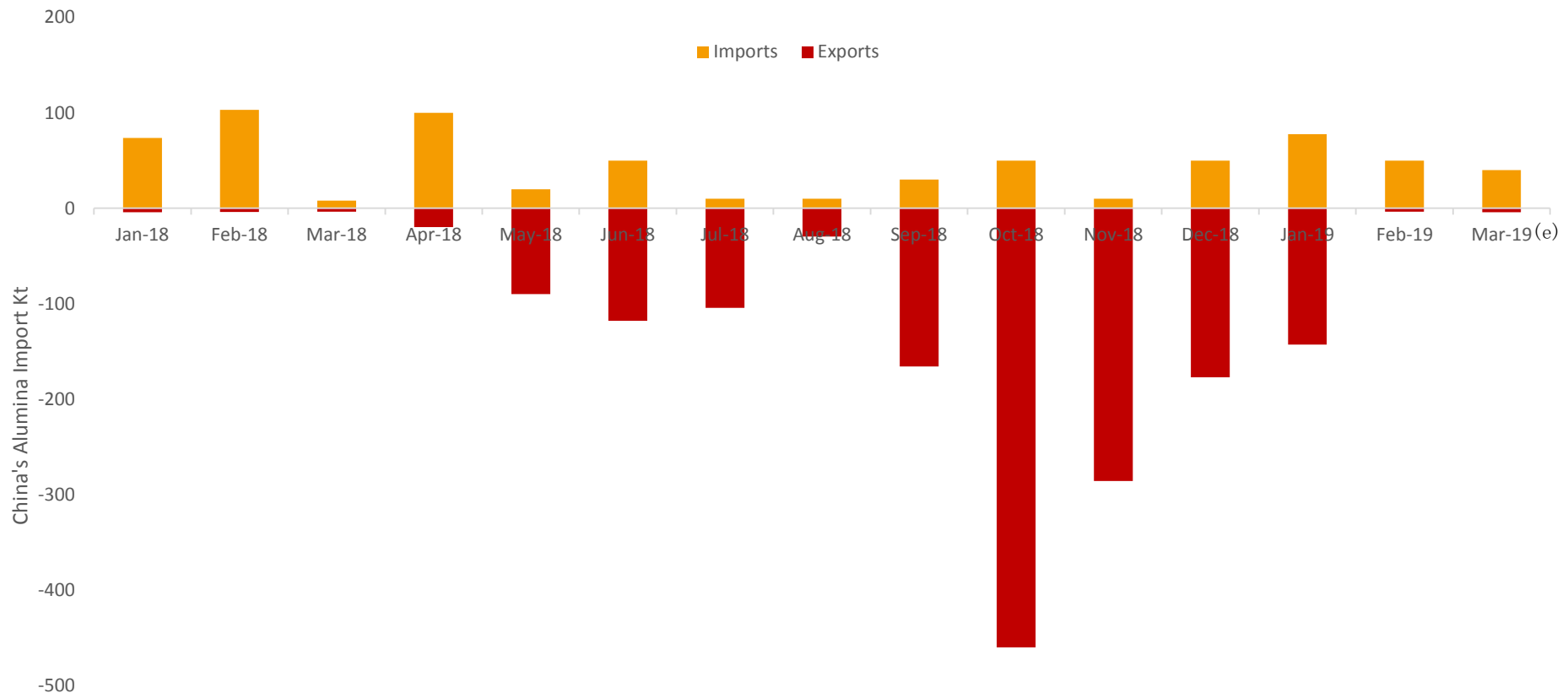
NDRC, MIIT Notice/Policy, November 2018

“Notice on Promoting the Orderly Development of Alumina Industry”:

- *emphasizes overall guideline for domestic alumina industry development to remain as supply-side structural reform, better government administration, proper resource allocation, strict implementation of safety, environmental protection and energy consumption etc.*
- *encourages alumina producers to upgrade production lines to meet energy and water consumption requirements*
- *ultimate goals to regulate market order, promoting transformation and upgrade, achieving a balance of alumina supply/demand, meeting domestic needs*



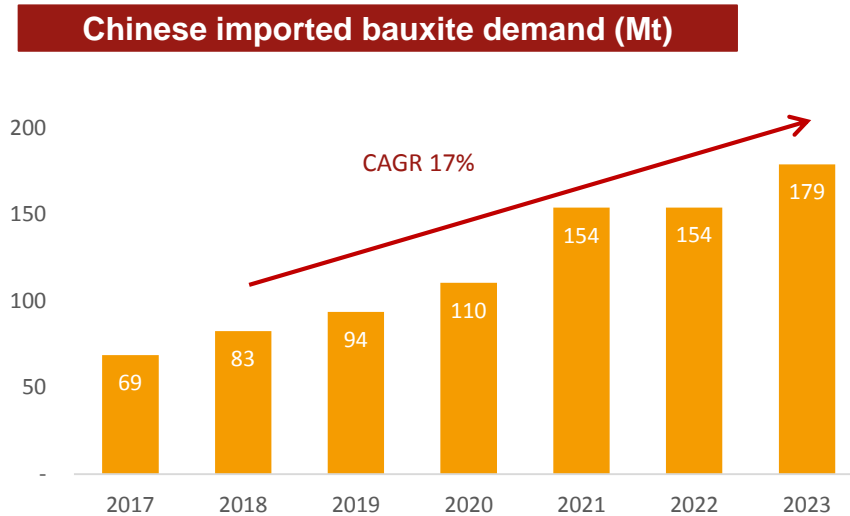
China's recent alumina imports and export fluctuations abnormal



Alumina price gap between China and RoW narrowed in late 2018, closing the export arbitrage window, and exports subsequently stopped in Q1 2019

Higher imports and lower exports expected in 2019

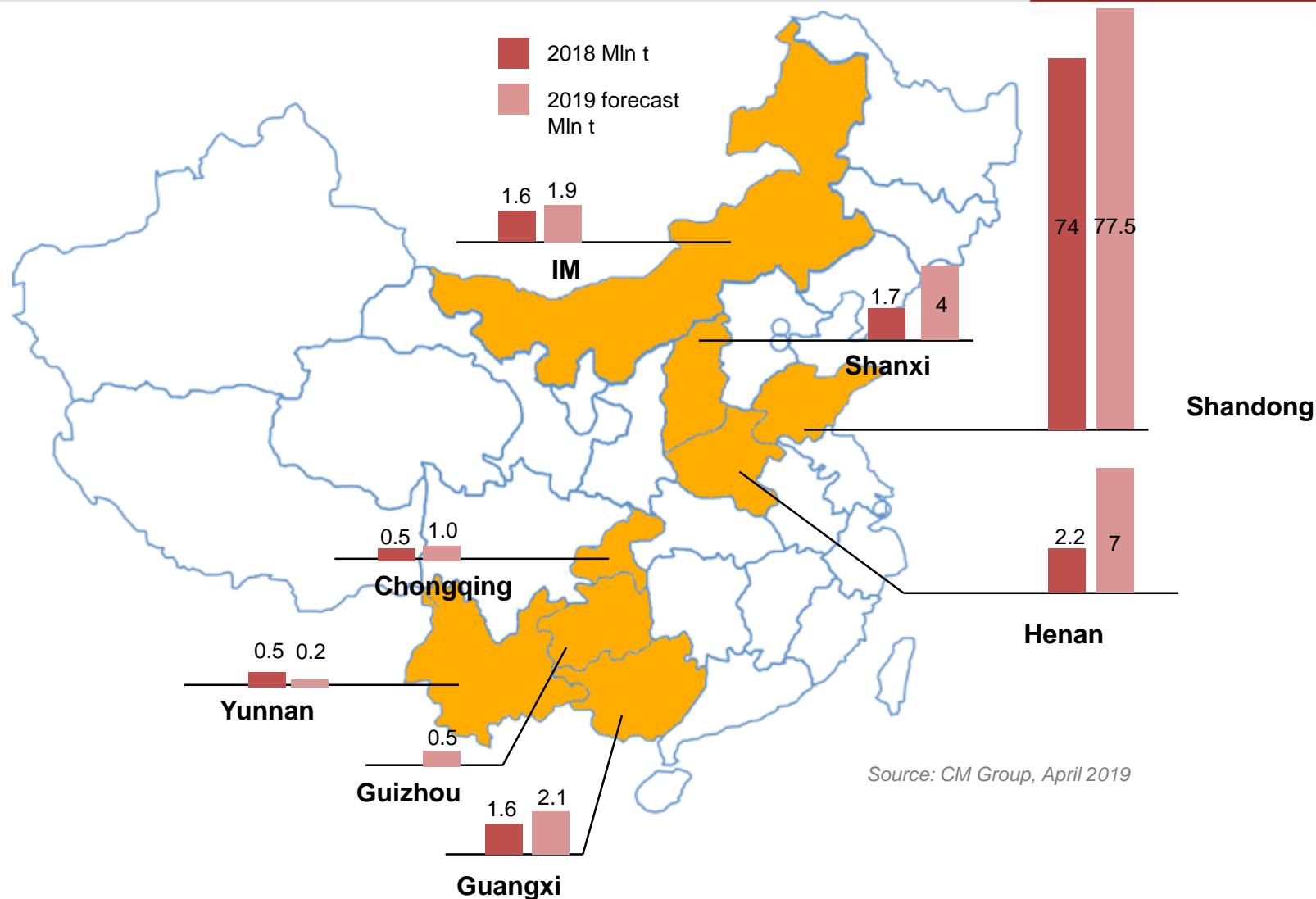
China continues to import more bauxite



China is forecast to import much more bauxite as:

- ***the quality of China's bauxite deposits declines***
- ***Chinese environmental and safety audits continue***
- ***the market value of the reduced available domestic bauxite rises as a result and***
- ***China's alumina production increases.***

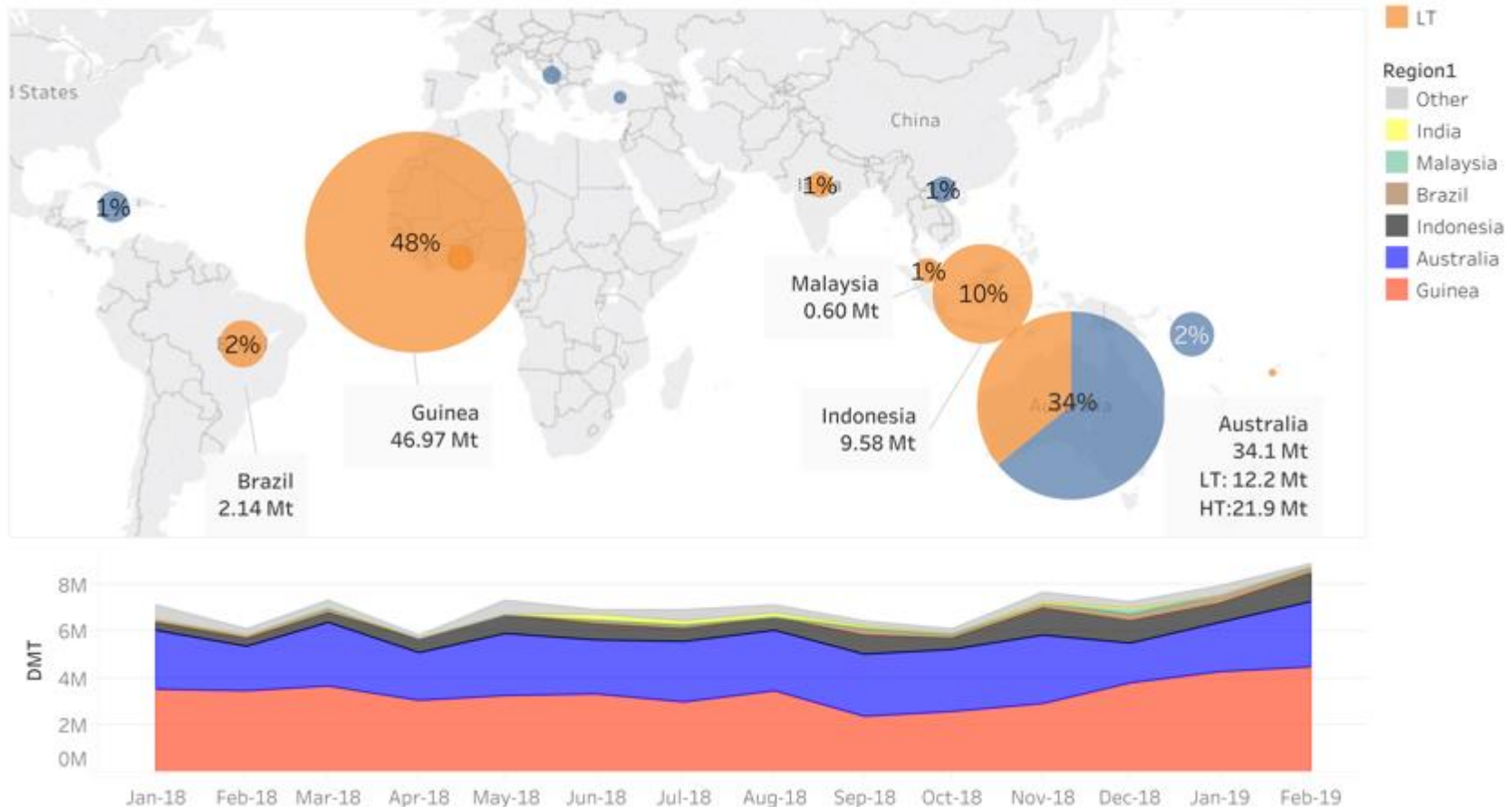
China's bauxite imports by province – inland higher import growth rate



Some inland refiners are either planning, or have started, to convert HT alumina lines to LT lines, which will likely lift the demand for imported bauxite

China's bauxite imports mainly from Guinea, Australia - likely to continue

China Bauxite Import 2018 - 2019(Jan-Feb)

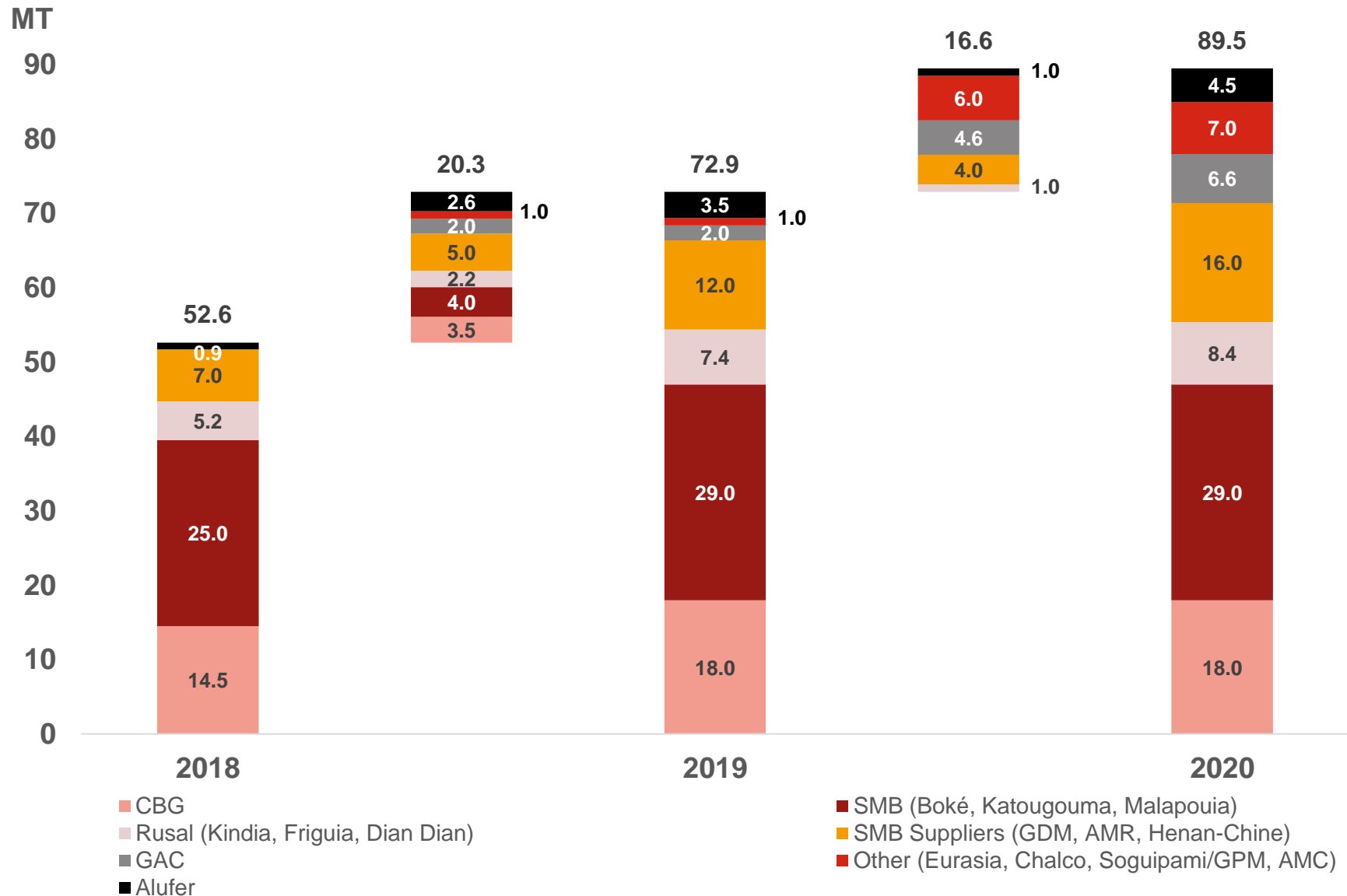


China's bauxite imports totaled 82.3 million tonnes in 2018.

Import volumes reached an all-time high of 8.89 million tonnes in February 2019 on increased demand

Source: China Customs, CM Group, April 2019

Guinean bauxite: marginal suppliers and likely to grow over next two years



Large infrastructure installed in Guinea: any risks to on-going growth?

- If Government requires refining:
 - energy source?
 - limitations on bauxite exports?
- Higher freight costs and slower delivery would impede Guinea if Asian bauxite could expand sustainably
- Community sustainability issues important



Bauxite barge, River Nunez



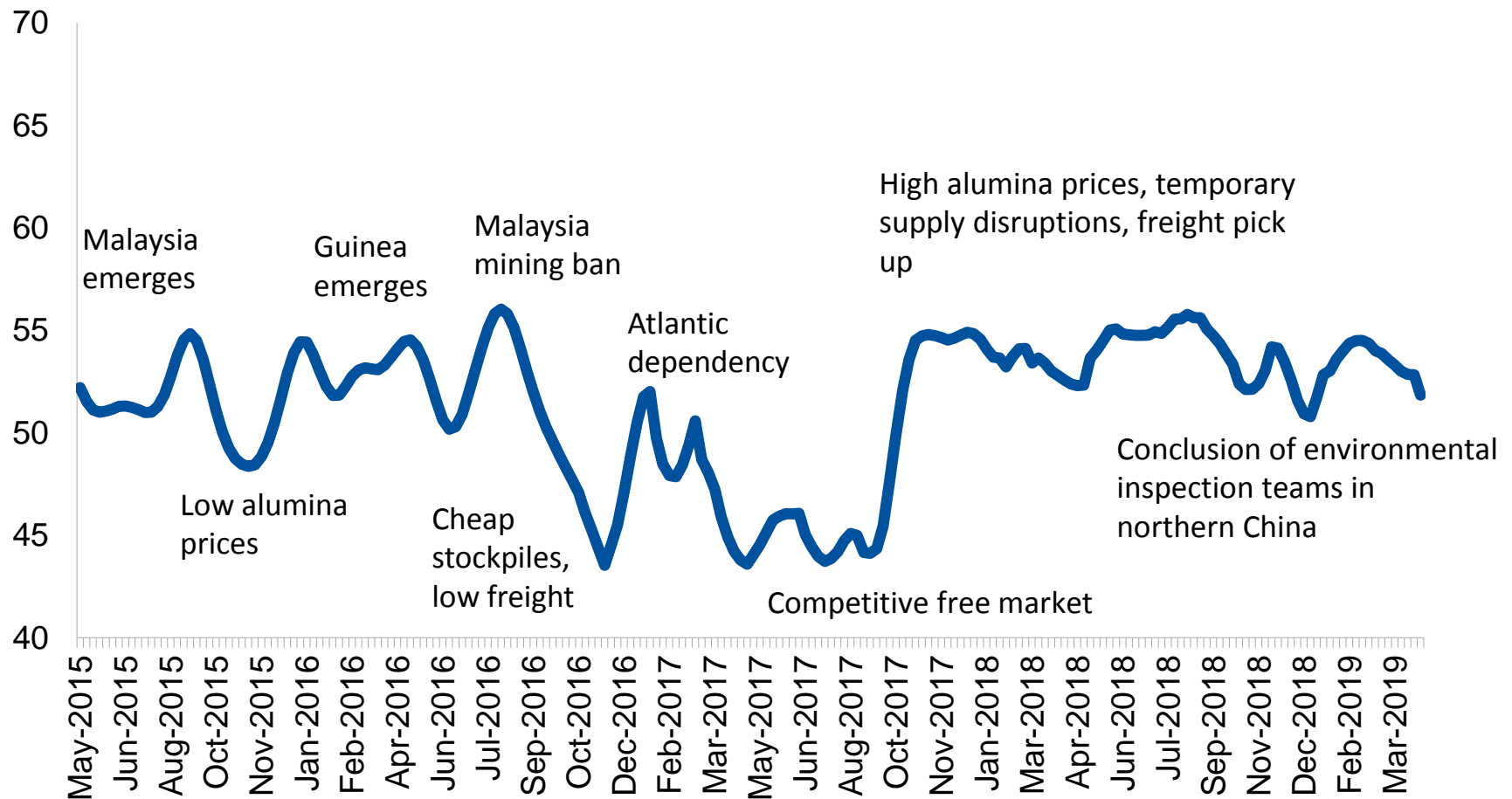
SMB Dapilon port, River Nunez, 22 million tpa capacity



SMB Katougouma port, River Nunez, Boké: 19 million tpa capacity

Bauxite prices also responded to supply demand impacts and freight costs

CRU Bauxite Price Index, \$/dmt China CFR



2019 expect more settled alumina supply and narrower price ranges

Item	Comments
Alumina pricing	<p>Alumina index pricing reflects alumina market fundamentals, being alumina supply and demand and refining costs, spot and near term</p> <p>Alumina futures part of standard evolution of commodity pricing</p> <p>Expect 2019 alumina supply/demand broadly balanced, with a number of moving parts (depends on ramp speed of new output):</p> <ul style="list-style-type: none">- timing of Court approval for Alunorte restart still uncertain- higher Alunorte production expected to displace China's exports- opportunistic Chinese exports tempered by costs and logistics
Chinese industry	<p>Chinese alumina supply-side and environmental reforms and domestic bauxite depletions likely to lead to flatter, higher Chinese alumina cost curve and self-sufficiency</p>
Third party bauxite market	<p>Forecast continuing growth in bauxite exports from Guinea and Australia to China, supplying majority of China's growing needs</p> <p>Reasonable volumes expected from South-east Asia, partly contingent on Government action</p> <p>Other supply sources likely to fluctuate with freight cost movements and Government policies</p>