

## Alumina Limited: a second year of earnings decline!

<b>Company/ASX Code</b>	AWC
<b>AGM time and date</b>	Tuesday, 28 May 2024 at 2:30 PM
<b>Location</b>	Roadshow Theatre, State Library of Victoria
<b>Registry</b>	Computershare Investor Services
<b>Type of meeting</b>	Physical meeting
<b>Monitor</b>	Henry Stephens, Bernie Gates
<b>Pre-AGM Meeting</b>	Yes, with the Chairman Mr Peter Day and Katherine Kloeden, Company Secretary and General Counsel

Monitor Shareholding: the individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

### 1. How we intend to vote

No.	Resolution description	
2	Adoption of the Remuneration Report	For
3a	Re-election of Director – Ms Deborah O’Toole	For
3b	Re-election of Director – Mr John Bevan	For
3c	Re-election of Director – Ms Shirley In’t Veld	For
3d	Re-election of Director – Mr Alistair Field	For
4	Re-insertion of proportional takeover approval provisions in Constitution	For
5	Grant of Performance Rights to Chief Executive Officer (LT Incentive)	For

### 2. Summary of Issues and Voting Intentions for AGM

No major issues. The company is well run and subject to a takeover offer from Alcoa Corporation (USA).

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

### 3. Matters Considered

#### Accounts and reports

##### Financial performance

For the second year in a row the company's net profit has declined as shown in the table below. The decrease in AWAC's 2023 net profit is due to reduced Alumina production, a 5% reduction in average realised alumina prices in 2023 and higher cash costs of production driven by lower bauxite grade and higher caustic prices. AWAC's alumina production declined 12.7% due to lower volumes at Kwinana resulting from a shortage in gas and San Ciprian operating at around 50% capacity due to high natural gas prices and a conveyor failure at the Port of Alumar. All this resulted in the company not declaring a dividend for 2023 and lower margins, which declined from \$67 per tonne in 2022 to \$44 in 2023.

(As at FYE)	2023	2022	2021	2020	2019
NPAT (US\$m)	(150.1)	104.0	187.6	146.6	214.0
UPAT (US\$m)	(150.1)	104.0	187.6	146.6	214.0
Share price (US\$)	0.905	1.52	1.86	1.83	2.30
Dividend (cents)	-	4.2	6.2	5.7	8.0
Simple TSR (%)	(40.5)	(13.5)	6.8	(16.0)	10.8
Statutory EPS (US cents)	(5.2)	3.6	6.5	5.1	7.4
CEO total remuneration, actual (\$m)	1.93	1.98	1.76	2.17	1.73

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

#### Governance and culture

Alumina is a well-run company with stable management and Board. The Board has 2 female directors out of a total of 6 directors, which meets ASA's guidelines. The Corporate Governance statement clearly identifies the issues and is easy to read and well structured.

#### Key events

In January 2024, Alcoa of Australia announced that the Kwinana Alumina Refinery in Western Australia would be closed due to a combination of age, scale, maintenance, and lower bauxite grades had increased the costs of production to an uneconomic and unsustainable level.

On 12 March 2024, the company announced that Alcoa Corporation would acquire 100% of the shares in Alumina by way of a Scheme of Arrangement to be put to shareholders in the September

quarter 2024. Alcoa Corporation is the joint venture partner (60%) and operator in AWAC, a joint venture that dates back to 1994 when Western Mining Corporation began to explore bauxite deposits and other resources in the Darling Ranges of Western Australia.

Under the terms of the agreement, Alumina shareholders will be entitled to receive 0.02854 shares of Alcoa common stock in the form of ASX listed CHESS depositary interests (CDI's) for each Alumina share held. On implementation of the transaction Alumina shareholders will own approximately 31.6% of the combined group and existing Alcoa shareholders will own 68.4%. It is expected that the company will release the Independent Experts Report in July 2024 for shareholders to review and make a decision.

### **Key board or senior management changes**

Mr Alistair Field was appointed as a new board director in January 2024. See discussion below.

### **Sustainability/ESG**

The Sustainability Report clearly sets out the environmental issues and where the company is positioned. Interestingly the company has already met their 2030 scope 1 and 2 carbon dioxide emissions targets. All the AWAC refineries are in the first quartile on the refinery global emissions intensity curve and the Portland smelter is in the second quartile on the global smelter emissions intensity curve.

**ASA focus issues (not discussed above or under remuneration report or re-election of directors)**

## **4. Rationale for Voting Intentions**

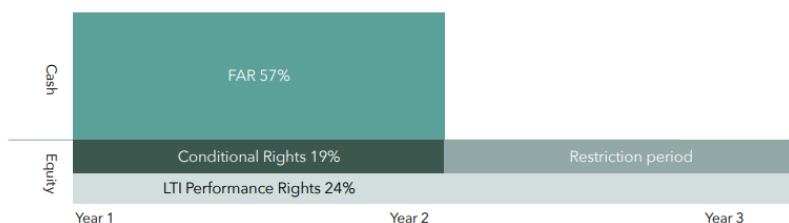
### **Resolution 2 Adoption of the Remuneration Report (for)**

The remuneration report for Alumina is clear and straightforward to follow, with good uses of graphs and tables to provide summaries for ease of reading. The structure of the CEO remuneration is reasonable given it is in the bottom quartile of the ASX 76-125 based on benchmarking data<sup>1</sup>, although it would be ideal if the at-risk component aligned more closely to the ASA recommended 50%, currently sitting at 43% at target. As the company is a holding company with no responsibility for operations of the underlying assets, the Board considers that the CEO's remuneration should be in the bottom quartile of the benchmarking data.

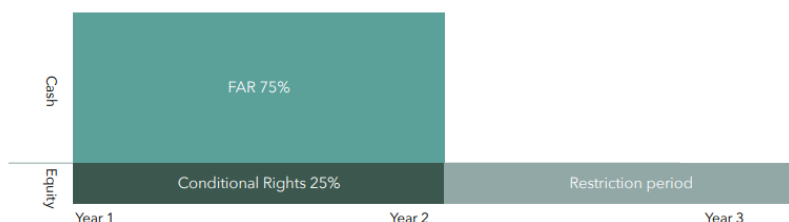
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<sup>1</sup> Alumina 2023 Annual Report, pp48

**% of potential total remuneration**



**% of 2023 total actual remuneration**



*(Source: Alumina 2023 Annual report pp 47)*

The Conditional Rights are not a short-term incentive (STI) award. They are equity-based remuneration with a trading restriction of 3 years from the grant date. There is no hurdle and no exercise price. However, the CEO is exposed to share price movements over the three-year period.

The Company's Long-Term Incentive (LTI) performance measurement period is 3 years. The ASA's preferred position is four years, which would comply with ASA guidelines.

Whilst Alumina utilises Total Shareholder Return (TSR) as the sole LTI metric, it does compare it against two comparator groups (see below), with no awards vesting unless performance is above the 50<sup>th</sup> percentile, and no awards if TSR is negative. Following testing, any performance rights that have not vested will lapse.

## 2.4 Executive KMP performance under the LTI plan

2023	Key features of the LTI Plan	
<b>Description</b>	The LTI is delivered in the form of Performance Rights that are tested over a three-year performance period. Each Performance Right that vests delivers to the holder an ordinary share in Alumina Limited upon exercise of the Right.	
<b>Performance period</b>	Three years	
<b>Performance hurdles</b>	<p>Alumina Limited's performance is tested using relative TSR compared against two comparator groups. Relative TSR was chosen as an appropriate means of measuring Company performance as it incorporates both capital growth and dividends.</p> <p>The two comparator groups against which Alumina Limited's performance were tested are:</p> <ul style="list-style-type: none"> <li>• ASX Comparator Group (Test 1 - 50% weighting): Australian listed entities in S&amp;P/ASX 100 Index, excluding property trusts, the top 20 companies by market capitalisation and Alumina Limited.</li> <li>• International Comparator Group (Test 2 - 50% weighting): reflecting the Company's direct competitors in the market comprising nine selected companies in the alumina and/or aluminium industries that are listed in Australia or overseas, excluding the Company. The following companies were included in the group: Alcoa Corporation, Aluminium Corporation of China, Century Aluminium Company, Hualco Industries, Norsk Hydro ASA, Shandong Nanshan Aluminium Co., South32, United Company Rusal (HKG) and Yunnan Aluminium Co.</li> </ul>	
<b>Performance assessment</b>	Performance hurdles are independently measured by Deloitte Financial Advisory at the conclusion of the relevant performance period. Alumina Limited's TSR is ranked against the TSR of companies in each of the comparator groups.	
	<b>Alumina Limited's TSR percentile rank</b>	<b>Percentage of vesting in (applies individually to each comparator group)</b>
	Below 50 <sup>th</sup>	0%
	Equal to 50 <sup>th</sup>	50%
	Between 50 <sup>th</sup> and 75 <sup>th</sup> (ASX Comparator Group) <sup>1</sup>	An additional 2% of award for each percentile increase
	Equal to or greater than 75 <sup>th</sup>	100%
	Following testing, any Performance Rights that have not vested will lapse.	

(Source: Alumina 2023 Annual report pp 54)

Overall, the report is transparent and understandable, with a logical relationship between rewards, financial performance, and good corporate governance. Adjustments to at-risk pay and LTI measurement period could further enhance shareholder confidence and transparency.

### Resolution 3 (a) Re-election of Director – Ms Deborah O’Toole (for)

Ms O’Toole was appointed to the board on 1 December 2017 and has served as the Chair of the Audit and Risk Committee and she is also a member of the Compensation, Nomination and Sustainability Committees. Ms O’Toole has 20 years of experience in the mining, logistics and transport industries and has been CEO of three listed companies: MIM Holdings, Queensland Cotton and Aurizon Holdings Ltd. Ms O’Toole is a director of Sims Ltd (appointed 2014), Credit Union of Australia, Sydney Airport, Pacific National Rail Group and she also serves as Chair of Transurban Queensland. ASA supports the election of Ms O’Toole as an independent director. We note that we would like her not to accept anymore board positions as six board positions in our

opinion is enough of a workload for any one director to assume given the size and complexity of her current range of directorships.

### **Resolution 3 (b) Re-election of Director – Mr John Bevan (for)**

The Bevan joined the Board in 2018 and has served as the Chair of the Nomination Committee and he is also on the Compensation, Sustainability and Audit and Risk Committees. Mr Bevan has spent 29 years in various senior management positions at BOC Group Plc including a Board position and roles in the UK, Australia, Thailand and Singapore. From June 2008 to December 2013, he was CEO of Alumina Ltd, and he is currently a non-executive Director of Balmoral Iron (appointed 2022). He is regarded by the company as an independent Director and the ASA supports his election.

### **Resolution 3 (c) Re-election of Director – Ms Shirley In't Veld (for)**

Ms Veld joined the Board in 2020 and is the Chair of the Compensation Committee, and she is also a member the Nomination, Sustainability and Audit and Risk Committees. Ms Veld has extensive experience in the aluminium industry, energy markets as well as experience in renewables, research, and innovation. She was Managing Director of Verve Energy (2007-2012) and before that she worked for ten years in senior roles at Alcoa Australia, WMC Resources, Bond Corporation and Bankwest. In 2014 Ms Veld was Chair of the Queensland Government Expert Electricity Panel and a member of the Renewable Energy Target Review Panel for the Department of Prime Minister and Cabinet. She is currently a Director of APA Group, Develop Global Ltd and a Canadian listed company, Karora Resources Inc. ASA supports her election as an independent Director.

### **Resolution 3 (d) Re-election of Director – Mr Alistair Field (for)**

Mr Field is new to the Board and brings with him 25 years of experience in the mining, metals, and manufacturing sectors. Mr Field was CEO and Managing Director of Sims Ltd and previously he held several senior roles, including Chief Operating Officer of Rio Tinto's Bauxite and Alumina Division. He joined the Board of Bluescope Steel as an independent director in January 2024. ASA supports his election to the Board of Alumina as an independent director.

### **Resolution 4 - Re-insertion of the proportional takeover approval provisions in Constitution (for)**

The Corporations Act permits a company to include in its constitution provisions prohibiting the registration of a proportional takeover bid unless shareholders in a general meeting approve the bid. The Corporations Act requires that such provisions in a company's constitution apply for a maximum period of three years, and in the case of Alumina, these provisions will have expired by the time of the AGM and this motion seeks to re-insert them back into the constitution. The effect of this rule will be to require Directors to convene a meeting of shareholders to approve a proportional takeover bid. ASA supports this motion and is opposed to partial bids for listed companies.

## **Resolution 5 Grant of Performance rights to the CEO (Long Term Incentive) (for)**

This resolution relates to a grant of performance rights to the CEO Mr Mike Ferraro as part of his 2024 “at risk” remuneration by the company. Performance rights are issued at no cost and are rights to acquire ordinary shares in the company at zero cost. Mr Ferraro will be issued with 872,700 rights equivalent in value to a maximum of \$645,800.

The performance rights may vest at the expiry of a three-year period ending in December 2026, and are subject to meeting a relative total shareholder return (TSR) hurdle. The performance rights are divided into two tranches and two comparator group tests, as explained above, are applied to determine the number of performance rights that may vest under the Long-Term Incentive plan. The Notice of Meeting shows a scale which determines how many performance rights Mr Ferraro is entitled to based on the Company’s TSR performance versus the performance of the two comparator groups. For a more detailed explanation of this motion see the Notice of Meeting.

ASA supports the motion as the granting of performance rights to the CEO as structured is inline with ASA guidelines. The LTI hurdles are based on TSR, with no payment if absolute TSR is negative and no payment if the Company’s TSR is less than the 50% percentile of the comparator group ranked by TSR performance.

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## Appendix 1

### Remuneration framework detail

CEO rem. Framework for 2024	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1,547,900	57%	1,547,900	%
Equity - Conditional Rights	508,900	19%	508,900	%
LTI-Performance rights	645,800	24%	645,800	%
Total	2,702,600	100.0%	2,702,600	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.