Alcoa Corporation

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CORPORATE PARTICIPANTS

Roy Harvey - *Chief Executive Officer*

Dave Gagliano, BMO: We're going to switch gears a little bit, switch over to Alcoa. Alcoa ranks among the largest aluminum, or aluminium -- aluminum producers and alumina producers globally. Vertically integrated production base, bauxite, alumina, primary aluminum. Operations spread throughout Australia, Europe, Iceland, South America, North America. Joining us today from Alcoa is President and CEO Roy Harvey.

Roy Harvey: Thank you, Dave. Good. So I've decided not to be tied behind the lectern, so let me just make a quick sound check. Can everybody hear me? It's all okay. Good. Perfect.

Thank you so much for joining us. I do want to spend a few minutes today here in general comments. I'm targeting about 20 minutes so that we have lots of time for questions and answers.

I want to hit on a little bit about who Alcoa is, what are some key topics that we've been seeing over the course of this conference and then also dive into some -- what we think are special items of interest. And so with that, let me start off.

Cautionary statement, everybody is aware of that. You can read that at your leisure. And let's jump in.

Let me start by just giving you the three minute pitch about who Alcoa is, what is it that we do and why we do it. And so the idea here is to wrap into one slide some of those key things that I believe is in the DNA of each and every Alcoan and it certainly is the reason that I feel so excited to be part of Alcoa.

Let me start on the right-hand side of this slide. And let me start with our values. Now, values aren't necessarily the first thing we talk about with our stockholders, however it is the fundamental and most important aspect about what it means to be an Alcoan. As we emerged from separation with the, what is now Arconic, as we started to think through who we needed to be and how we protect our reputation, we started off very clear with values. And we have three simple things that we try to do. We act with integrity, which means we all do the right thing, given the information that we have. We operate with excellence, which means that we are always looking to improve each and every one of our operations. And we care for people.

Now caring for people doesn't mean that we avoid hard decisions. What it does mean is that we understand and react to the conditions in our plants and the conditions that the choices and decisions that we make have on people and our communities.

So that bedrock of values, particularly in a moment today where we're talking so much about tailings and the safety of communities around our tailings, I think is a differentiating factor inside of Alcoa.

Now on top of those values, what we've built is a set of assets that spans from bauxite to alumina and finally to cast and rolled aluminum products. And so it covers a broad swath of the aluminum industry. And so we'll talk more about each of these products. We'll also talk a little bit about the supply and demand fundamentals, but we are a vertically integrated chain, always stepping back and thinking about the value in each one of those businesses.

Now let me look over to the left. As part of what we've been doing in order to simplify our company, we've been very focused on having key and very simple messages for each and every Alcoan as they go through their day. And so we have three strategic objectives. The first one is to reduce complexity. And what that means is that we simplify everything. And in every decision that we make, we look for ways to make the company simpler, have a lower cost structure and operate through the cycle in the commodity environment.

The second thing we do is that we recognize that we are stewards of shareholders' capital. So it means with every dollar of sustaining capital, every dollar of return seeking capital with our maintenance expenditures, each one of those must drive a return. Each one of those investments needs to make our shareholders, our stockholders, needs to have a clear purpose.

And the third thing is that we are very focused on strengthening our balance sheet, or strengthening our company and preparing it for the cycle. So the final point on the right-hand side of this slide, very clearly shows the outcome of two years since separation of working very hard and living through what was a good cycle of earnings and cash flow that has allowed us to accelerate that strengthening of the balance sheet. It gives us a stronger financial position, it has allowed us to work through some long-term liabilities and legacy issues, and most importantly, it has prepared us and set us up for a brighter future.

That's important, because right now for all those who are looking and watching the aluminum price as we do, it is important that we are prepared for rougher times, so that we can make the best long-term decisions possible through the cycle. Tightening the belt when the cycle goes down and investing when the cycle goes up and preparing ourselves and ensuring that we have the right maintenance and reliability

systems, et cetera, but always being sure that we are operating smartly through the cycle.

Now just let me give you a brief window of our global operations. So you can see here that we stretch across the globe from Brazil to Suriname, United States, Canada, Iceland, Norway, Spain, Saudi Arabia and Australia, and of course, Guinea. So we cover a good portion of the globe. We have really strong Alcoans in each of these locations. We have opportunities and challenges in each of these locations as well.

But the important thing is that as we step back and we think about how we can operate smartly in each of these locations, and how we can look to a future where we can improve our plants, where we can expand our plants, and where someday we can start thinking about growth projects, our reputation is based on how we operate, how we interact with each and every one of the communities where we operate.

Also, our interactions with stockholders, our interactions with the governments, our host governments, each one of these contributes to our reputation. Our global footprint is focused on openness, on transparency and on having an open door policy so our communities understand what we're doing it and why we're doing it. And that is particularly important, given the discussion that's going on around the world right now, in this conference, and in each of our host governments about what happens in response to this latest tragedy in Brazil.

Now most importantly, we need to recognize the fact that there was a serious loss of life and we feel for each one of those families. At the same time, it redoubles our focus and our effort inside of Alcoa, inside of our joint ventures to never let that happen at one of our facilities. And so as we step back and think about our footprint and Alcoa, while it was recently spun from Arconic, has 130 years of legacy and history, we need to be sure that we are managing those tailings, that we are managing those residues in the best and most efficient way possible to ensure that we have the right outcomes, which is a safe tailings facility, a safe residue facility.

So two important points here, and you can see it on the right and the left. We'll start with the right. This is an inventory of the tailings and residue disposal areas that we have around the world. And I'll tell you that some of those are located in Brazil, so our upstream facilities that you can see here, some of those are in Brazil. They happen to be residue disposal areas, rather than tailings facilities. The footprint is very different, the engineering is also very different.

So three important things I want you to remember about our residue facilities. Number one, they tend, and typically are done, as paddock styles, which means they're not a valley fill, but rather done on flat ground. They typically have a clay or geotextile liner, and they have a solutions collection system. And finally, the uplifts tend to be significantly smaller.

So we do have this portfolio of tailings and residue. We take our responsibility to manage these smartly and we ensure that we are driving the best practices in every part of the world, whether it is Brazil, whether it is Western Australia, in the Fjords of Iceland, et cetera.

And so, as we build what you can see here on the left side, which is a governance structure, first of all we have been doing this for 130 years. Second of all, over these last 25 years particularly, we have been very focused on ensuring that we are taking all best practices, that we understand what happens if there are failures in across the planet, understand what happens in a corporate setting to our management system.

And so when you think about daily inspections, you think about ongoing monitoring, you think about having independent review and analysis of each of these facilities on at least an annual basis. We are doing the right thing. That does not mean that we won't discover new opportunities to improve that management system. And so as we learn about the impacts and the reasons behind Brumadinho, and as we think about the engineering aspects and how we can safeguard these tailings facilities, it is vitally important that we continue to run forward and that we continue to make these facilities even stronger.

It also connects back to values. Now remember, I started talking about values and that's not typical in an investor conference. The reason we start with values because having those right values drives the right culture of transparency and a culture where people feel confident raising their hands to say that something might not be right, and whether it's through global compliance lines, whether it's through ongoing audit processes where we talk to our contractors and our employees, whatever the vector happens to be, we are very intent on building an operating structure where people feel comfortable to raise their hands, to bring problems forward and that we take and execute actions in order to remediate any risks that are discovered.

So I'm very proud of the process that we run. I believe we have a best in class system, but we continue to learn, we continue to adapt, and we welcome more discussion on this at the global level as we think about

how the mining and the metals industries respond to this most recent disaster.

Now let me touch briefly on our portfolio and we'll talk first about the businesses themselves. We'll then talk a little bit about supply and demand. So let me start with some key points about the businesses and this will help those who are not as familiar with Alcoa.

We span across three products. We start with bauxite. In bauxite, we are the second largest bauxite producer in the world. We are at the 20th percentile of the cost curve. Our mines span from Brazil to Guinea to Western Australia. We have expansion capabilities at each of those locations. The fact is, is as we think about being able to expand, as we look for customers, we will ensure that we have the right margin profile, not just for today, but for the long-term. It gets back to driving returns, making sure that when we put capital in the ground, we're comfortable that we'll have the return that we need for our stockholders. So great expansion capability, but we need the market to give us the right pricing structure to be successful there.

In alumina, you can see here in the middle, in alumina we are the largest producer and we have the longest alumina position outside of China. So this means that we have an exposure to our customers. And the fact is that the quality of our alumina, consistency of our deliveries, and the scope and size that we have in this business gives us a real advantage. I would argue that we're also technologically and technically speaking the best operator of refineries in the world. Again, we have the ability, because our plants tend to be located next to bauxite reserves and resources, we have the opportunity to expand those when the time is right. But it is a unique portfolio sitting at the 15th percentile of the cost curve. So very low cost and certainly future proofed.

Aluminum. In aluminum we are a top 10 producer. We have made significant changes to this portfolio through time. We have been very focused on analyzing on a location-by-location basis, not just today but looking into the future. Changes in energy contracts, changes in the fundamental pricing of alumina, all these things come into the analyses that we run in order to understand our portfolio.

You can see here that the last time we reported we were at the third quartile. The fact is in today's environment we're about the middle of the cost curve. That means there's more work that must be done in order to make this business future proof. And we are actively undertaking that work. You'll see the announcement that we just made shortly ago about Spain. We are in the midst of closing down two smelters in Spain. Those

were tough discussions with our workforce, tough discussions with the government. The pot lines are now shuttered, the cast houses continue to operate. But I want you to look at that as emblematic of the work that's being done in order to make this portfolio future safe.

So now let's talk about supply/demand. And again, I'm going to break it into the three products, and I'm not going to dive into a lot of details, but would welcome questions when we get to the end.

Let's start with bauxite. So 2018 was a year of extra supply. Now that extra supply has real demand in China because China is working to build its stockpiles because of the length and the complexity of their supply chain. That supply position, that extra production will continue into 2019. And what we see is a changing market with more production coming from Guinea, more production coming from Australia. We operate in both of those places. We have been in Guinea for more than 40 years at this point as part of a joint venture. We see real opportunities here, but we also see that the cost of freight, albeit it's dropped some, means that we need to be very careful to make sure that we are producing in the right places and selling to the right customers.

In alumina, alumina was a series of unprecedented events over the course of 2018. And I think those that follow this industry saw a number of surprises, some of which are now resolved. Rusal sanctions is a good example of that, and some of which have not yet been resolved. What this supply/demand balance represents is the status quo. Not taking a position on whether some of those disturbances are resolved or not. And what you can see here is that in 2018 we were in a small deficit. In 2019 we are in a small surplus. Look at that as refilling the pipeline. Alumina is not easily inventory-able, which means that your supply/demand balance oscillates around zero.

So we see a good year, we continue to see strength in pricing. The other really great thing that I love about alumina is that you watch that price setting mechanism occur on a cargo-by-cargo basis. And now that Alcoa is so exposed to the alumina price index, which connects back to spot, it is very important on how that price setting mechanism takes place.

Finally, in aluminum, the key story here is that we were in a global deficit in 2018. We will again be in a global deficit in 2019. The big change is that in 2018 China was a surplus producer. In 2019, China is now balanced. And so that deficit is continuing. So the natural question that my question is, is why is aluminum pricing where it is today?

And so I only want to hit on one story about pricing and then we can talk

about this in Q&A if you'd like. But I want to talk a little bit about China and as everybody knows, China has grown incredibly over this last two decades from a million tons to now more than 50% of the market.

One of the lesser known stories and something that connects back to the pricing environment in which we're living is the fact that China is now focusing more and more not of exports of primary aluminum, but on export of that next set of semi-fabricated products. And so there are two things here I want you to see on this chart. And this looks at the consumption of primary aluminum inside of China.

So when you look at the left, which is hopefully the right one, we see primary aluminum consumption for domestic purposes growing about 6% per year. You can see that there was a fall off from 2017 to 2018. It slowed. On the right, however, is a different story. This is the consumption of primary aluminum for export purposes. Essentially the creation of extrusions of rolled products like can sheet that is destined not for consumption inside of China, but for export.

This in itself isn't a problem. There's a number of countries around the world that have export economies. The difference is the levelness of the playing field. The fact that Chinese companies or producers of aluminum inside of China are subsidized at a rate that is in order of magnitude larger than any support that's received anyplace else in the world. The OECD just published a report, it looked across countries, across companies. Alcoa was in that report, but it is clear that the amount of subsidization being received by Chinese companies makes it impossible for other companies to compete in China or for other companies to compete globally.

So as you start to see this primary consumption move to China, on a global basis, it doesn't change the supply/demand because what in fact is happening is that China is raising its demand and pulling demand from the rest of the world. So why is this important? It's important because it's throwing off the dynamics of the aluminum system, it's creating an oversupply condition inside of China. It is having a knock on impact on prices. And where do we find ourselves today. By our analysis, 45% of Chinese smelters are now losing money and losing cash. And thus we expect to see in the future some kind of response because so many companies are losing cash in this pricing environment with this alumina price, which is relatively elevated.

So if history serves as a guide, over the course of 2015, over a period of 12 months in the last downturn -- significant downturn of aluminum pricing, China curtailed about 4 million tons of capacity. At this point we're

about four to six months in and we've seen curtailment of about a million tons. So how that develops will be an important story that we'll certainly be following, but I know that many in the conference will also be following.

One last point and then we'll move over to questions and answers. And this is just to describe a little bit the Alcoa story. The Alcoa Corporation story since separation. Let me start back in 2016. Like I just said, that was the downturn in aluminum pricing and at the end of 2015 the downturn of alumina pricing. It was in that context that we were preparing ourselves for separation. And I would argue that we worked really hard to earn that separation through cost cutting, through portfolio rationalization. We pulled every lever to become a standalone entity and we would never turn back.

During the subsequent two years, 2017 and 2018, we have been incessantly working on trying to make this company stronger. Get back to the three strategic priorities. We are focused every day on operating better, on making sure that we have the simplest processes possible and on investing for returns. And so that means we have a stronger company. We are better prepared for that downturn. As we look towards 2019, there are great opportunities that sit in front of us, the ability to expand in bauxite, an alumina price that still drives a really good margin inside of our 15th percentile cost curve position. And we have challenges because of an unsustainable aluminum price. But we are very excited about today and about the future because of the hard work that Alcoans around the world have done to strengthen this company at a time where the market was helping us. Where we were generating a significant amount of cash, where we were reinvesting in our underfunded pension. Where we were eliminating liabilities. It gives us the right springboard for a very, very, very, very bright future.

So that, Dave, that's the show. Happy to answer questions or take comments, complaints. Anything you'd like.

Dave Gagliano: Great. Well thank you, first of all, for covering both company and commodity. I'm sure there's going to be some questions from the floor. I'm just going to start it out on the company specific side. You showed a slide first quartile position alumina, third quartile in metal. When we look at that slide two or three years from now, where should we expect the aluminum piece to be? And how are you going to get there?

Roy Harvey: Critical, critical question. And certainly don't have a Magic 8-Ball that tells me exactly the answer that we're going to have. But we are determined to work our way down the cost curve from a smelting standpoint. And that means every opportunity we have at repowering, every opportunity we

have to change our cost structures, we take those opportunities. A great example is in Massena, New York. We're in the midst of repowering with the New York Power Authority.

Other great example is in Portland in Eastern Australia. It's a place where we now have about two years before our agreement with the Australia and Victoria government expires. And so we will be able to fundamentally make decisions as they come.

We'll also have Bécancour, which right now is in a lockout situation because of a labor strike, which is a very competitive smelter that will be back and operating. And we have a number of creep projects that will help us to, with relatively minimal capital, be able to improve the fundamental characteristics and cost curve positions of our strongest assets.

Dave Gagliano: Questions from the floor?

Speaker: You mentioned your RSA portfolio. What percentage of it is dry stacking and what is wet? And what are your plans, if any, for transitioning the dry stacking, and the CapEx implication?

Roy Harvey: I don't have clearly in mind a percentage. Right now, the majority is in dry stacking and in fact, we're going beyond dry stacking into this, what we call press or residue filtration, which is essentially using large presses to squeeze out the excess solution. And for us we recover caustic solution and it makes for stronger tailings.

That press filtration now is only in two locations. We have it fully operational in Kwinana and we're in the midst of installing it in Pinjarra. We will continue to install that.

Like I said, the vast majority is dry stacking. It provides a better footprint, so there is an economic reason, there's an engineering reason and I think in the end there is also a sustainability reason for us to want to continue to do that.

So more work coming. It depends a little bit on the conditions in which we find ourselves, but certainly making good progress. Thank you for the question.

Dave Gagliano: One question. Shifting over to the commodity side. One of the issues that's come up, the alumina price, and in a weird way the "overhang" associated with the price being too high in a surplus. What's Alcoa's view on a floor price in alumina and why?

Roy Harvey: There's no such thing as a price that's too low, to be quite honest. The great thing about alumina pricing is that you can see it happen transaction by transaction. And yes, there is uncertainty in the market, although I believe the market has adapted. The market has adapted with the swing capacity that right now sits in China. And I would argue that that swing capacity is relatively high cost. It sits at the high part of that cost curve, so we have a pretty economically efficient solution.

So the world has adapted to the fact that Alunorte is only operating at 50% capacity. And what the world is telling us right now on this transaction by transaction basis that the fair price is sitting around $384. And I think I could sit here and argue why there are potential upswings, potential events that could drive a quick upspring, and I'm sure you could argue on the other side of it as well. But I would say that the pricing right now is efficient and effective.

The surplus that we're seeing is relatively small, or in fact is very small on the size of the market. And I really don't see that surplus playing into any kind of price changes right now. It says the market is well supplied, but that is the pricing point we're seeing right now.

Dave Gagliano: Fair enough. Questions from the floor? I'm going to switch back to the company then for a second. Opportunities for organic growth within the company. Where are the best opportunities over the next three to five years? You mentioned a little bit about bauxite and alumina. Is that more the focus, obviously?

Roy Harvey: Yes, so I mean without going into it by an asset-by-asset basis, we have lots of opportunities in bauxite, but we need to have that right customer and that right pricing point. And they're pretty minimal capital.

We also have a series of brownfields that we could bring to bear, particularly in our Western Australia portfolio in Pinjarra and Wagerup. We also have opportunities in Brazil. Those will depend on both the capital costs involved, and we're in the midst of understanding that better. It's also going to depend on the world in which we live. And so in a world where there is sufficient alumina, there's no need to drive new capacity coming online. However, if someone can build and can operate a refinery outside of China, and recognizing the fact China has a capital cost advantage because of the subsidization, it should be Alcoa. And so we have good projects we can bring them to bear at the right time.

Dave Gagliano: And then switching gears over to the tailings issue, obviously it's a significant issue for a lot of companies and you flag -- you've got fairly substantial exposure there. I was wondering if you could just talk a little

bit about what's changed day-to-day at your operations since the Vale disaster. And what do you think the longer-term implications are for your operations? And also for perhaps some other operations. You mentioned Alunorte, for example.

Roy Harvey: Yes, so I would argue that we were already operating at a, from an engineering standpoint, from a monitoring standpoint that was best in class. So we didn't need to go in and change those basic blocking and tackling operating type of areas.

What has changed has been transparency. It's been the fact that we're trying to give more visibility to investors, more visibility to communities. And we've also been doing more invitations of communities to come in and see what the actual size and scope of these facilities look like. And now with such a fresh viewpoint in mind of Brumadinho with the videos and with the discussions available, it gives them a better feeling for why our facilities are well constructed and are safer.

I believe certainly in Brazil, which already had a complex regulatory environment, we will see more complexity built in and it is in the midst of discussions right now with Brazilian regulators and I think globally there will be a push to ensure that everybody is using best practices and no doubt will learn things along that process. However, I do truly believe that we will be at the forefront of that curve already.

Dave Gagliano: Okay. It says please wrap up. So with that, we're going to wrap it up.

Roy Harvey: Thank you very much. I appreciate it.