

Alcoa Corporation

First Quarter 2026 Earnings Presentation and Conference Call

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CORPORATE PARTICIPANTS

William Oplinger – *President and Chief Executive Officer*

Molly Beerman – *Executive Vice President and Chief Financial Officer*

Louis Langlois – *Senior Vice President, Treasury and Capital Markets*

OTHER PARTICIPANTS

Carlos de Alba – *Analyst, Morgan Stanley & Co. LLC*

Bill Peterson – *Analyst, JPMorgan Securities LLC*

Katja Jancic – *Analyst, BMO Capital Markets Corp*

Nick Giles – *Analyst, B. Riley Securities, Inc.*

Daniel Major – *Analyst, UBS Securities*

Alex Hacking – *Analyst, Citigroup Global Markets, Inc.*

Glyn Lawcock – *Analyst, Barrenjoey Markets Pty Ltd.*

Timna Tanners – *Analyst, Wells Fargo Securities LLC*

John Tumazos – *John Tumazos Very Independent Research LLC*

PRESENTATION

Operator

Good afternoon and welcome to the Alcoa Corporation First Quarter 2026 Earnings Presentation and Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Louis Langlois, Senior Vice President of Treasury and Capital Markets. Please go ahead.

Louis Langlois

Thank you, and good day everyone. I'm joined today by William Oplinger, Alcoa Corporation President and Chief Executive Officer, and Molly Beerman, Executive Vice President and Chief Financial Officer. We will take your questions after comments by Bill and Molly.

As a reminder, today's discussion will contain forward-looking statements relating to future events and expectations that are subject to various assumptions and caveats. Factors that may cause the company's actual results to differ materially from these statements are included in today's presentation and in our SEC filings.

In addition, we have included some non-GAAP financial measures in this presentation. For historical non-GAAP financial measures, reconciliations to the most directly comparable GAAP financial measures can be found in the appendix to today's presentation. We have not presented quantitative reconciliations of certain forward-looking non-GAAP financial measures for reasons noted on this slide. Any reference in our discussion today to EBITDA means Adjusted EBITDA.

Finally, as previously announced, the earnings press release and slide presentation are available on our website.

Now I'd like to turn over the call to Bill.

William Oplinger

Thank you, Louis, and welcome to our first quarter 2026 earnings conference call. Today, we'll review our strong first quarter performance, discuss our markets, and highlight the progress we're making on our strategic priorities. Let me start with the headline. We had a strong start to 2026 driven by execution and we are well-positioned to deliver a strong second quarter and full year 2026 performance.

Starting with safety, we continued making progress with improved total injury rates in the first quarter. While we're never satisfied, both our leading and lagging indicators are moving in the right direction. Our focus remains clear, fatality and critical risk management combined with leader time in field. Our leaders are expected to be on the production floor or mine site interacting, coaching, and reinforcing standards. Safety is not an initiative. It's the foundation of everything we do.

Operationally, we delivered. We maintained stable performance across the system and captured higher metal prices. Despite significant disruption in the Middle East, our teams ensured continuity of supply for our operations. Our flexible casthouse network continues to unlock value-add opportunities and the depth of our commercial, procurement, and logistics capabilities was evident this quarter.

Strategically, we kept moving forward. In Western Australia, we advanced our mine approvals, completing responses from the public comment period and continuing to work collaboratively with stakeholders. We continue to anticipate ministerial approvals by year-end 2026, consistent with the timeline we've previously shared.

We are in advanced discussions on the monetization of our former Massena East smelter site for a data center project. The potential developer has applied for public review. We are still finalizing terms and won't comment on value today, but we will provide additional details later in the process. Additionally, we are making progress on two other sites in parallel.

Our momentum continues into the second quarter. On April 7, we successfully and safely completed the restart of the San Ciprián smelter, and on April 14, we issued notice to redeem the remaining \$219 million outstanding of our 2028 notes, another clear example of disciplined capital allocation supported by our strong cash balance of \$1.4 billion at the end of the first quarter.

Looking ahead, we are focused on increasing profitability through higher shipments, continued operational performance, and realizing the benefit of strong market conditions in the aluminum segment. At the same time, we will maintain momentum on the company's strategic initiatives aimed at creating value.

Now, I'll turn it over to Molly to take us through the financial results.

Molly Beerman

Thank you, Bill. Revenue decreased 7% sequentially to \$3.2 billion. In the Alumina segment, third-party revenue decreased 33% due to typically lower first quarter shipments, lower purchased and resold alumina to satisfy third-party commitments as well as vessel constraints related to the Middle East conflict and vessel loading issues caused by Cyclone Narelle in Western Australia. Realized prices were also lower for both alumina and bauxite.

In the Aluminum segment, third-party revenue increased 3% primarily due to an increase in average realized third-party price and increased shipments from the San Ciprián smelter. These impacts were partially

offset by seasonally lower shipping volumes from other sites as well as the timing impacts from proactively repositioning inventory within North America. The repositioning creates a timing difference, deferring revenue recognition until the second quarter while providing casthouse flexibility for additional value-add product production and shipments, which yield higher margins.

Related to my comments on typically or seasonally lower first quarter shipments in both segments, it is important to note that our first quarter shipments are historically only 23% to 24% of the annual outlook, and our fourth quarter shipments are typically 26% to 27%, depending on portfolio changes. Coming off the strong fourth quarter 2025 shipment levels, the first quarter of 2026 was mostly in line with our expectations even if consensus analysts projected higher.

First quarter net income attributable to Alcoa was \$425 million versus the prior quarter of \$213 million, with earnings per common share increasing to \$1.60 per share. The sequential improvement reflects realized aluminum prices and a favorable mark-to-market change on the Ma'aden shares. These impacts are partially offset by the net unfavorable sequential impact from non-recurring items in the fourth quarter of 2025, including CO2 compensation recognition in Spain and Norway, the reversal of a valuation allowance on deferred tax assets in Brazil, and a goodwill impairment charge.

On an adjusted basis, net income attributable to Alcoa was \$373 million, or \$1.40 per share excluding net special items of \$52 million. Notable special items include a mark-to-market gain of \$88 million on the Ma'aden shares due to an increase in share price during the period. Adjusted EBITDA was \$595 million. Let's look at the key drivers of EBITDA.

The sequential increase in adjusted EBITDA of \$68 million is primarily due to higher metal prices, mainly driven by increases in LME and the Midwest premium, partially offset by lower sequential shipping volumes in both segments. The Alumina segment adjusted EBITDA decreased \$52 million, primarily due to lower alumina prices and lower bauxite offtake margins, partially offset by the non-recurrence of a fourth quarter charge related to the announced agreements with the Australian federal government to further modernize the mining approval framework.

The Aluminum segment adjusted EBITDA increased \$174 million primarily due to higher metal prices and lower alumina costs. These impacts were partially offset by the non-recurrence of CO2 compensation in Spain and Norway recognized in the fourth quarter and lower shipping volumes, including the impact of inventory repositioning, which deferred EBITDA recognition on 30,000 metric tons to the second quarter, and

higher costs associated with the San Ciprián restart. Other costs outside the segment were unfavorable \$54 million sequentially primarily due to unfavorable intersegment eliminations.

Moving on to cash flow activities for the first quarter of 2026. We ended March with a strong cash balance of \$1.4 billion, despite consuming cash as we typically do in the first quarter. The \$595 million of adjusted EBITDA generated in the first quarter was mostly offset by an increase in working capital. The seasonal working capital build resulted from lower accounts payable, inventory replenishment, and higher alumina inventory due to shipping delays at the end of the quarter and an increase in accounts receivable primarily on higher metal prices.

On a days basis, the working capital increase is consistent with prior years and is likewise expected to decrease as we move through the year. Capital expenditures were \$119 million, which reflect our typical trend of lower spending in the first quarter. We maintain our 2026 outlook for capital expenditures. Environmental and ARO payments were \$85 million, which include progress on the Kwinana site remediation. Net additions to debt reflect short-term borrowings related to inventory repositioning, which will be repaid when the sale of the inventory is recognized in the second quarter.

Now, let's take a look at the key financial metrics for the first quarter. Return on equity through the first quarter was 21.9%, reflecting a strong start to the year. During the quarter, we returned \$27 million in cash to stockholders through our regular quarterly dividend. Free cash flow was negative \$298 million for the quarter, primarily reflecting seasonal working capital build, capital expenditures, and environmental and ARO payments offsetting the quarter's strong EBITDA. We finished the quarter with a cash balance of \$1.4 billion and adjusted net debt of \$1.8 billion.

As announced on April 14, the company issued notice to redeem on May 15 the remaining \$219 million outstanding on our 2028 notes. The notes will be redeemed at par value. This announcement is aligned with our goal to delever and further strengthen our balance sheet. We will continue with disciplined execution of our capital allocation framework where excess cash will be evaluated in competition between value-creating growth opportunities and additional returns to stockholders.

Now, let's turn to the outlook. We have two updates to our 2026 full year outlook. Interest expense will decrease slightly to \$135 million with the redemption of our 2028 notes in May. Additionally, our estimate for environmental and ARO payments has increased to approximately \$360 million, up from \$325 million to reflect the cash requirements from the

announced agreements to modernize mining approvals framework in Australia.

For the second quarter of 2026, at the segment level, Alumina segment performance is expected to be unfavorable by approximately \$15 million due to low price and volumes from bauxite offtake agreements and higher energy prices, primarily diesel, associated with the Middle East conflict. Aluminum segment performance is expected to be favorable by \$55 million due to inventory repositioning actions taken in the first quarter, higher shipments and product premiums, and lower production costs due to the completion of the San Ciprián smelter restart, partially offset by seasonally lower third-party energy sales.

Based on recent pricing, we expect second quarter benefits from high LME and Midwest premium pricing as well as higher shipments, but this results in higher Section 232 tariff costs on our Canadian metal imported to the US. We expect tariff costs to increase by approximately \$35 million.

Alumina costs in the Aluminum segment are expected to be favorable by \$20 million. Regarding intersegment profit elimination, any further decrease in API prices is estimated to result in no intersegment profit elimination. If API increases, our prior guidance applies.

Below EBITDA, within other expenses, the first quarter of 2026 included favorable currency impacts of approximately \$30 million, which may not recur. Based on last week's pricing, we expect the second quarter of 2026 operational tax expense to approximate \$110 million to \$120 million.

Now, I'll turn it back to Bill.

William Oplinger

Thanks, Molly. Let's begin with the Alumina segment dynamics.

The current environment remains challenging, with the Middle East conflict exacerbating margin pressure across global refineries. FOB Western Australia alumina prices stayed relatively weak through the quarter.

At the same time, disruptions tied to the Middle East conflict, including the closure of the Strait of Hormuz, have pushed energy and freight costs higher, while related demand losses are weighing on refinery margins outside of China. Our alumina cost position provides resilience in a low price environment, and we have insulated ourselves from spot energy volatility through long-term contracts and financial hedges.

In China, pressure on margins has been more muted. Higher domestic alumina prices, lower bauxite costs, and stable coal pricing, largely unaffected by the conflict, have supported refinery margins. That said, we

do expect costs to rise as the caustic market tightens and higher freight costs begin to flow through seaborne bauxite supply.

To date, in 2026, roughly 4 million metric tons of annual refining capacity has been curtailed in China, with cargoes originally intended for Middle East smelters rerouting into China. We expect pressure on China prices in the near-term. Forthcoming supply from new refinery projects in coastal China and Indonesia along with the weaker demand from the Middle East smelters will continue to weigh on the global alumina market through the first half of the year.

Finally, on bauxite, prices remained weak through the first quarter on ample Guinea supply. Elevated freight rates related to the Middle East conflict have lent some support to CIF China pricing despite soft FOB levels, and the market is now closely watching Guinea's export policy for the next directional signal.

Now, let's look at the conflict in the Middle East and why it matters to the Alumina segment. The Middle East is the largest alumina importing region in the world, with supply routes from its raw materials heavily dependent on the Strait of Hormuz. Each year, roughly 8.8 million tons of alumina and 6 million tons of bauxite transit through the strait. That changed on February 27.

As a result of the conflict, more than 2.5 million tons of annual smelting capacity and nearly 2 million tons of refining capacity are offline year-to-date. That's a meaningful disruption to the global system. Alumina refineries in the region are integrated with aluminum smelters. However, approximately half the region's bauxite requirements are imported from outside the Middle East. This structure leaves the regional aluminum system particularly exposed to shipping disruptions and logistical constraints, and it doesn't stop at bauxite and Alumina.

Several smelters in the region also rely on imported anodes, calcined coke, and coal tar pitch. With transit through the Strait restricted, those materials are harder to move, raising costs and increasing uncertainty. Given the Middle East's important role in global green petroleum coke exports, these disruptions are already rippling through the global calcined coke market. The takeaway is clear, structural dependencies in the Middle East mean that disruption there doesn't stay local. It moves quickly through the aluminum value chain, tightening supply, increasing cost volatility, and elevating risk well beyond the region itself.

Let's now move on to aluminum. LME prices rose approximately 10% sequentially and have continued to increase, recently exceeding \$3,600 per metric ton, driven by tight inventories and supply disruptions.

Announced curtailments have already tightened the 2026 balance, and any further disruption in the Middle East has the potential to constrain supply even more. And that matters because the Middle East is the largest primary aluminum exporting region in the world. Disruptions to metal flows from the region are not only lifting LME prices. They're also driving higher regional premiums across Europe, North America, and Asia.

Higher oil prices and the resulting impact on raw materials are increasing production costs globally, but importantly these cost pressures have been more than offset by higher aluminum prices. For Alcoa, our exposure to spot electricity prices is less than 1% of our electricity consumption, thanks to our long-term power contracts and financial hedges. That gives us real margin advantage in this environment.

These disruptions are occurring when the market was already tight following the announced smelter curtailment in Mozambique and disruptions in Iceland. Aluminum inventories were already at historically low levels, and have been further exacerbated by the disruptions in the Middle East. We expect global demand to grow sequentially this year driven by ex-China markets albeit at a slower pace than previously anticipated as the conflict poses downside risks.

However, given the scale of supply disruptions, softer demand will be outweighed by supply impacts in the market. Underlying market conditions remain largely consistent with packaging and electrical markets leading demand growth while automotive and construction remain soft. Most importantly, our core regions, North America and Europe, remain in substantial deficit and are particularly exposed to potential supply disruptions due to their strong reliance on imports from the Middle East.

Turning to our quarterly highlights, value-add product volumes increased sequentially alongside a rise in customers reaching out to us across both North America and Europe as they look to domestic supply in the face of ongoing disruptions and heightened supply uncertainty. North America and Europe regions are meaningfully exposed to Middle East supply, particularly for billet, slab, and foundry products.

In North America, roughly half of imports come from the Middle East. In Europe, reliance is even more pronounced in certain value-add products. Since the escalation of the conflict, regional premiums have moved materially higher. In North America, foundry and billet markets are experiencing an uptick in spot demand as customers look to backfill Middle East supply. Similarly, in Europe, demand for billet, slab, and foundry is increasing, supported by the same driver.

The full impact of the supply reduction has not yet been felt by North America customers since most of the aluminum manufactured before the Middle East conflict is just reaching North America now. Overall, the current environment reinforces the value of secure, diversified supply and highlights the strategic advantage of Alcoa's regional footprint and ability to serve customers in our key regions with both primary metal and value-add products.

Let me step back and connect the dots. In volatile markets, it's easy to focus on the headlines. At Alcoa, value creation starts with disciplined execution anchored in safety and operational strength, and that discipline is paying off. First, safety. We're driving a step change in our safety culture across the company.

By reinforcing critical risk management and increasing leaders' presence in the field, we are focusing on learnings and ultimately getting ahead of incidents. This is more than doing the right thing. It's also about operational excellence and reliability resulting in long-term value.

Second, license to operate. In Australia, we've advanced our mine approvals with confidence. We've completed responses from the public comment period, and we're working constructively with the WA EPA, and the timeline remains unchanged. Longer term, the strategic assessment will provide a clear pathway for operations through 2045. And in Brazil, our partnership with government continues to support communities through social services and healthcare programs. This is how we build trust and keep it.

And finally, execution. ABS is delivering value every day. Disciplined execution, clear leadership, and accountability are embedded in how we operate. That integrated performance framework is driving productivity supporting full year financial targets and helping us adapt quickly even in times of disruption. Here's the bottom line, a safer workplace, a stronger license to operate, and disciplined execution. That's how we create long-term value.

Let me close with a simple summary. Execution matters and we're delivering. In the first quarter, we got important things done. We strengthened safety, delivered strong operational performance, and stayed agile in the face of disruption in the Middle East all while continuing to support our customers. We safely completed the San Ciprián smelter restart, and we proactively managed the balance sheet by issuing notice to redeem our 2028 notes. This is disciplined execution in action.

As we look ahead, our direction is clear. We remain relentlessly focused on safety, stability, and operational excellence. We will continue to be a trusted supplier of choice, supporting our customers even in times of disruption. The message is straightforward, consistent execution and steady progress on our strategic priorities. This is how we create long-term value at Alcoa.

With that, let's open the floor for questions. Operator, please begin the Q&A session.

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Carlos de Alba with Morgan Stanley. Please go ahead.

Carlos De Alba

Yeah. Hello, Molly and Bill. Thank you for taking the question. The first one is maybe can you comment on what is the impact of the Middle East smelters reducing operating rate for Alcoa's alumina shipments? I think around 30% of your annual shipments go to that region. So, that'll be great to get some color on how are you – you kept your volumes unchanged for the year, but presumably you are redirecting shipments to Asia or other regions. Any impact on profitability or margins as you do that?

William Oplinger

Carlos, thanks for the question. We are working with our customers to redirect those shipments. As you said, we held our full year guidance consistent with where we were in January, and we're working with those Middle East customers who continue to take the product to redirect it. That's being redirected, as you mentioned, mostly into Asia, largely into China.

Carlos De Alba

Any comments on the potential impact on profitability given that...

William Oplinger

I mentioned that. So, no direct impacts from profitability. Obviously, our profitability in the alumina market is impacted by API pricing, and API pricing has declined. And so we – our profitability in that segment follows the impact of API pricing, which you have sensitivity to in the back of the deck, but no impact other than that.

Carlos De Alba

All right. Sorry. And just to confirm, as you redirect these shipments to China, the API pricing remains or would you be changing to a different pricing mechanism?

William Oplinger

No, we still price based on API.

Carlos De Alba

All right. Good. And my second question, it would be on any progress – what's the progress that you have done on the gallium project in Western Australia?

William Oplinger

We're making progress on the gallium project in Western Australia. We're continuing to work with the major stakeholders, which are the Japanese government, the Australian government, and the US government to finalize

the documents, but I'm confident that we'll progress the gallium project successfully.

Carlos De Alba

Great. Thank you very much, Bill.

William Oplinger

Thanks, Carlos.

Operator

The next question will come from Bill Peterson with JPMorgan. Please go ahead.

Bill Peterson

Yeah. Hi. Good afternoon. Thanks for taking the questions and strong execution, navigating everything that's going on right now. Within the second quarter guidance of Alumina segment, you mentioned that there are some unfavorable impacts of \$15 million due to price as well as higher energy prices. I was hoping, can you unpack this further, how much is pricing, how much is energy?

And maybe stepping back on the cost side, carbon products, freight and diesel were flagged as driving cost pressure. Can you speak to where Alcoa is most exposed on these fronts, and how you're looking to mitigate?

Molly Beerman

Hi, Bill. I'll take your question. First, on the Alumina segment guidance, we are going down \$15 million. Lower price in volumes from bauxite offtake agreements represent \$10 million of that \$15 million and then on the energy prices, that's primarily diesel within our mining operations.

On the raw materials, in general, we do not have concerns at this point on supply. Our procurement and logistics teams have done a great job navigating the challenges of the conflict. We only have a small portion of caustic soda that we were sourcing from the Middle East, and that's already been redirected to alternate supply.

On the price side, in addition to that diesel price that we talked about, we do expect to have price increases in the second quarter, but because of the inventory lags, those purchase prices won't flow through to the P&L until beyond the second quarter. If you look at caustic, we do expect rising prices with a lower petrochemicals processing. That impacts chlorine production, which you know caustic is a byproduct there. Caustic is on a five- to six-month lag.

Carbon prices are also rising due to higher green petroleum coke availability and therefore price. So, we'll have some exposure there, but not within the second quarter. We also have elevated oil prices that are impacting our freight. There's a portion of that that will flow through, but it'll be fairly small. A lot of the freight cost goes into inventory, again, the lag. So, that'll be experienced a bit later.

And then we also have energy exposure within our São Luís refinery. We have some indexed fuel oil there, but that we have about under \$5 million incorporated in the outlook even though we didn't call it out because it was too small.

- William Oplinger** Thanks, Molly. I would also – and I'll reiterate a comment that Molly made. We have had tremendous teamwork with our procurement, logistics, and commercial team. When you consider the fact that we've had a conflict in the Middle East, it has massive impacts on shipping schedules. And in addition to that, we had a cyclone that was nearly a direct hit in Western Australia. The teams have done a fantastic job of making sure that we don't stock out of anything across our entirety of our portfolio, have ships available for the shipping, which is a non-trivial task these days, and getting product to our customers.
- And in addition to that, as I alluded to on the CNBC call earlier, we are seeing a lot of spot order requests coming to us based on the fact that there is disruption in the Middle Eastern supply chain. And so both in Europe and North America, our commercial teams have been extremely busy trying to see whether we can match up our excess capacity with what our customers are needing currently.
- Bill Peterson** Yeah. Thanks for that, Bill, and in fact, that last point leads into my second question. You're keeping your production and shipment guidance for Aluminum fixed. Do you see any opportunities within your footprint to increase production in light of the shortfalls from the Middle East? Yeah, Alumar, San Ciprián, I mean, any other sites that you can maybe get some more production to meet the demand?
- William Oplinger** So, I'll address it from two directions. We're increasing smelting production at Portland. We're adding pots in Australia. We're steadily increasing production in São Luís in Brazil. We've completed the restart at San Ciprián, which will have a full second quarter benefit versus the first quarter and feels like I'm missing one more.
- Molly Beerman** Small bit at Lista.
- William Oplinger** Lista, Lista. Thank you. A similar situation as in Portland. We've been quietly restarting pots at Lista and getting that back to full production capacity. That's on the smelting side. But probably more importantly, what we're seeing today is on the value-add side. We are matching up some excess capacity that we have in places like Québec and to some extent in Europe with the needs of customers that have struggled given the supply chain disruptions.
- Bill Peterson** Thanks for the color and again, best of luck. You're navigating everything that's going on.
- William Oplinger** Thanks, Bill.
- Operator** The next question will come from Katja Jancic with BMO Capital Markets. Please go ahead.
- Katja Jancic** Hi. Thank you for taking my question. Maybe just as a follow-up to the commentary about increasing production, I assume that is already embedded in the guide. Or how should we think about it?

- William Oplinger** It is embedded in the guide that we've provided.
- Katja Jancic** Okay. And then as – yes.
- Molly Beerman** So, that the upside there will be probably less prime P1020 production and higher value-add production. So, higher premiums will be expected.
- William Oplinger** Which just to tag on to that, it makes – the fact that we repositioned metal in the first quarter is looking smarter today than it did even when we did it because of the demand from – for value-add products. What that does is it allows us to free up our casthouses a little bit to create incremental capacity for VAP for our customers.
- Katja Jancic** And maybe my follow-up question or second question. On San Ciprián, given that it's now restarted and in the current environment, do the operations, so both refinery and smelter, are they profitable in this environment?
- Molly Beerman** The smelter is doing very well now that it has completed the full restart. Unfortunately, though, we're continuing to have significant losses at the refinery and within 2026, the smelter will not generate enough cash flow to cover the refinery's free cash flow losses. Now, we remain on our plan. We are meeting our commitments under the viability agreement, and we're working toward our objective of achieving neutralization of our cash flows there by the end of 2027, but at current pricing, the refinery remains very challenged.
- Katja Jancic** Okay. Thank you.
- Operator** The next question is from Nick Giles with B. Riley Securities. Please go ahead.
- Nick Giles** Thanks, operator. Good evening. Obviously, a lot of volatility, but Alcoa has the opportunity to generate a lot of cash in price environments like this and your net debt reversed a bit in 1Q, but you're ultimately nearing your target. So, how has the impact of the conflict changed the way you're weighing M&A versus shareholder returns? Could buybacks appear less attractive and M&A across refining appear more compelling? Just as one example. Thanks.
- William Oplinger** So, the conflict hasn't changed our capital allocation framework and just to reiterate, I know many of you have heard us say this over time. First and foremost, of our capital allocation framework is to sustain the operations that we have. It's even more important today than it's ever been given the margins in the smelting business. Secondly, it's to maintain a strong balance sheet and we have a strong balance sheet, but we've put out a range of \$1 billion to \$1.5 billion of target net debt. So, we still have room to get into that and then beyond that, we will balance between shareholder returns and growth opportunities. So, short answer no, the conflict hasn't changed that and we'll balance those items.

- Nick Giles** Understood, Bill. My second question was just an update on the monetization of idled sites. If I heard you correctly, I think Massena East is furthest along, two other sites in the works. Are terms being – still being worked through on Massena East? And then should we assume that the highest value opportunities would be monetized first just when we kind of use your \$500 million to \$1 billion range, spreading that across multiple sites? Thanks.
- William Oplinger** I'll address the second one first and that is no, you should not assume that the highest value will be monetized first. This is as we've discussed in the investor conference that we had back in October, each one of these sites has a set of parameters that you have to work with buyers on. And so in the case of Massena East, it is a buyer who we've worked with in the past at the site, and that has accelerated the opportunity to sell Massena East.
- Nick Giles** Got it. Appreciate all the color, Bill. Best of luck.
- Operator** The next question will come from Daniel Major with UBS. Please go ahead.
- Daniel Major** Hi. Thanks. Can you hear me okay?
- William Oplinger** Yes.
- Molly Beerman** Yes.
- Daniel Major** Great. Thanks. Yeah first question, just to follow-up on how well you're covered with respect to fuel and other energy input costs, you mentioned financial hedges and supply contracts. What's the duration of your – of those financial hedges is the first question. And secondly, how much inventory do you hold in Western Australia in particular in the scenario that supply out of Asian refineries is constrained?
- William Oplinger** Before Molly gives you a more quantitative answer, I wanted to step back and make sure that everyone listening understands our major exposures to energy around the world. You all know that smelting is electricity-intensive, and if you start with electricity, we have less than 1% of our total electricity needs that are subject to spot purchases. So, that is the first and foremost largest energy use and we have a very small exposure to spot.
- If you then go to natural gas, as you know, we have rolling natural gas contracts in Australia. In Spain, we have hedged our natural gas exposure for the production that's running in San Ciprián and we've hedged that out through 2027, which in hindsight again looks really, really bright given some of the volatility that we're seeing in energy in Europe.
- Thirdly, you get to fuel oil and we have some exposure to fuel oil in Brazil, but it's not significant and Molly can give you the numbers. And then lastly, I would say we have diesel exposure. And we've baked in our best knowledge around diesel into the second quarter. Right now, we've got commitments from our suppliers that we will have diesel through the end of May. I don't know that they just – whether they have the foresight to be

able to commit past that, but at this point, we're feeling pretty good about our supply of diesel.

Molly Beerman On our energy contracts, 99% of them are on long-term commitments or financial hedges, and they do differ by date as disclosed in the 10-K. Just give you a couple of the near-term ones. We will have an upcoming price negotiation in Iceland. That's for 2027 and then we have our Canadian contracts coming up for renewal in 2029. So, the others are beyond those dates and of course, we just renewed Massena recently. So, we're set there for 10 years plus another two 5-year increments.

Daniel Major Okay. Thanks. Yeah, just follow-up specifically on the diesel in Western Australia, you've got certainty on supply through to the end of May. Is that just what you said?

William Oplinger Yeah. And that's – just to put that in perspective, we're very focused on diesel in Australia. We would typically have that type of line of sight. I guess what I'm suggesting to you is that we feel pretty confident about our diesel position in Australia.

Molly Beerman We're a preferred customer there so we have a long relationship with the supplier. They know we will be first in the queue.

Daniel Major Okay. That's clear. Thank you and then, yeah, second follow-up. I know there's already been a couple of questions on the value-added products, et cetera. Can you give us a breakdown on the \$55 million positive benefit in the Aluminum segment, firstly? Yeah and then just on the comments on shipments versus premiums, what proportion of sales are exposed to the billet premium and what assumptions have you embedded in the \$55 million for premiums during 2Q?

Molly Beerman I have some of those details, but not all of them. So, in the \$55 million that we guided favorable for the Aluminum segment, we have about \$30 million of benefit coming from the inventory repositioning, those actions that we took in the first quarter, but will result in sales in the second.

Generally, higher shipments and product premiums together are \$35 million. We'll have a better production cost after completing the San Ciprián restart. That will be about \$10 million of the improvement, and then that's partially offset by seasonally lower third-party energy sales of about \$20 million. And that's split between our Warrick power plant resale and our Brazil hydro resales.

Daniel Major Very clear. Thanks. Maybe just one follow-up. So, that \$30 million reposition of inventory, that's simply moving. That was the lower sales reflected in 1Q slipping into Q2, that's the right way to think about it?

Molly Beerman Correct. Yeah, correct.

Daniel Major Yeah. Great. Thanks a lot.

Operator The next question will come from Alex Hacking with Citi. Please go ahead.

- Alex Hacking** Hi. Thanks for the call. I apologize if I missed this, but did you quantify the cadence of aluminum shipments as we head into 2Q given the deferrals from 1Q? Like what should the delta be there? Thank you.
- Molly Beerman** So, Alex, if we look – of course, we have lower seasonal sales in the first quarter, but if we look at what was actually missed related to the Middle East shuffling as well as Cyclone Narelle, it was only about 60,000 metric tons. So, a revenue basis of about \$20 million.
- Alex Hacking** Okay. Thank you and then second question. Any update on the Canada Section 232? Seemed like we were making some progress last year, but kind of radio silence and any comments around that? Thank you.
- William Oplinger** Alex, no comments on specific Section 232 progress as we go into USMCA negotiations during the course of the summer. We'll have to keep an eye on that. Clearly, when the administrations, both the Canadian and the U.S. administrations talk to us, our position is we would like to see an integrated market across all of North America. That's our position, and that's because of the dedicated supply lines that goes from Canada straight to our customers in the U.S. So, no real updates on any Section 232 changes at this point.
- Alex Hacking** Thank you.
- Operator** The next question will come from Glyn Lawcock with Barrenjoey. Please go ahead.
- Glyn Lawcock** Good morning, Bill and Molly. Bill, I just wanted to go back to the mine approvals. Obviously, in your comments, you said there's no change to timeline and you've been in discussions with the EPA. Just any red flags coming up at all? And maybe just remind us of the timeline. Is it still end of this year for approval? Thanks.
- William Oplinger** The timeline is still end of – targeting ministerial approval at the end of this year. We have done significant work to ensure that the comments from the public comment period have been replied to. We continue to provide information to the EPA and DWER in support of their decision-making process and at this point, we are continuing to hold to an expectation of end of year by – ministerial approval by end of year.
- Glyn Lawcock** Okay. Thanks, Bill. And just as a follow-up, I believe there is another mine move beyond Holyoake and Myara North for the other refinery. Is that true and sort of what timeline does that come through, if I'm correct? Thanks.
- William Oplinger** My recollection is that there's a Larego mine move in the early 2030s that will occur, but just don't have it off the top of my head.
- Molly Beerman** Yeah. That'll commence in late 2031, the Larego move.
- William Oplinger** Yeah.

- Glyn Lawcock** That's the move. So, when would you start to apply for that? Is that like two or three years in advance as well?
- William Oplinger** We'd have to get back to you on that one, Glyn.
- Glyn Lawcock** No worries. Thanks very much.
- Operator** The next question will come from Timna Tanners with Wells Fargo. Please go ahead.
- Timna Tanners** Yeah. Hey. Good afternoon, Bill and Molly. Wanted to circle back on some comments that Bill made last quarter about substitution of aluminum for copper and just curious if you have any observations on that dynamic given the change in prices and anything you're seeing on substitution away from aluminum given the rise in prices as well.
- William Oplinger** Timna, thanks for the question. I'll give you a very high-level answer, and that is with copper pricing where it's at, there are still real good reasons to substitute into aluminum. Obviously, in this conflict, aluminum prices have gone up sharply, but we believe there's still good reasons to substitute into aluminum.
- On the other side on the margin, we have seen some small substitution out of aluminum into steel for applications that can do that. But the larger automotive applications, because of their multi-year platforms, we've not seen that substitution yet. And then when you consider things like packaging, the alternative is PET. And with oil prices at the level that they're at, PET would not look attractive to substitute out from aluminum.
- Timna Tanners** Okay. Helpful color. Thanks. And then I thought I'd try again on the capital allocation question. Obviously, in the last couple months, dynamic has changed and potentially a bigger amount of free cash flow. So, just any updated thoughts or any timeframe when you might have any updated thoughts on allocation of that additional cash or key uses going forward? Thanks again.
- William Oplinger** So, I'm excited. I'll let Molly comment. I get very excited about getting into our target debt leverage, our leverage ratios, our target debt level, and I get excited about that. And many of you have heard me say this before because I believe it ends up translating to the lowest WACC. And once you have the lowest WACC, you've got the highest firm value.
- So, I'm excited by the fact that we're paying down debt as of yesterday. In cash in the first quarter, we did see a large working capital build. We typically see that large working capital build and over time, the working capital should come back out of working capital and into cash. So, we will continue to delever and we'll get into that range. And to me, that maximizes firm value.
- Molly Beerman** You took everything I was going to say, but I will add that as we look at our outlook for the second quarter and the second half of the year, we do see

great benefits in cash generation, and we do expect to have growth options that will compete with shareholder returns in the rest of the year.

Timna Tanners

Okay. Thanks again. That's it.

Operator

The next question will come from John Tumazos with John Tumazos Very Independent Research. Please go ahead.

John Tumazos

Thank you for taking my question. It's great that the Mid Eastern customers honor the contracts in this period of war and [indiscernible] of force majeure. Are you able to help them resell the alumina or redirect the cargoes? Or do they do that on their own and how do they do it? Where the war disrupts about 400,000 tons a month, and the shutdown of Mozal disrupts about 100,000 tons a month of alumina. So, it feels like it requires great skill.

William Oplinger

John, up until now, our customers are all honoring their commitments and we assist them with timing of loading and shipping. So, if they need flexibility around when ships can be loaded, we provide that flexibility.

We also provide flexibility around size of shipments. So, if they need larger or smaller shipments to the best of our ability, we will do that. So, it's a pretty dynamic, pretty fluid situation. Molly and I just reviewed today all of the forward bauxite and all of the forward alumina shipments out of Western Australia. And looking at the lay days and making sure that the ships are coming in correctly. And so up until now, we've been able to do that smoothly. And we're doing that with – by supporting our customers.

John Tumazos

Super. So, Kwinana was idled brilliantly a year or so ago, and everything you've got now runs full in alumina.

William Oplinger

Everything we've got now is ramping back up to full and the reason I say back up to full is remember we had cyclone. I know the people in Australia haven't forgotten it, but the rest of the world seems to forget that we had Cyclone Narelle. That was nearly a direct hit in Western Australia, shut down the gas system to a large extent in Western Australia. We curtailed our sites in Western Australia to conserve natural gas to be used in other parts of the community there and we are now in the process of ramping both Wagerup and Pinjarra back up to full volume.

Spain, as we all know, runs at half volume. Spain is there to just support, largely support the smelter restart and Alumar has had a fantastic first quarter, had a fantastic fourth quarter on the refinery and, knock on wood, the smelters got very good stability.

John Tumazos

Thank you.

Operator

The next question is a follow-up from Nick Giles with B. Riley Securities. Please go ahead.

Nick Giles

Thanks for taking my follow-up. Sorry if I missed this, but can you clarify just how you're thinking about Warrick in terms of a restart? What would it

take from here for you to move forward and do you have any rough estimate for the CapEx requirements? Thanks.

William Oplinger

Yes. In Warrick – and I'm glad you asked the question because we talked about restarting capacity in Australia. We talked about the ramp-up in Brazil. We're ramping up capacity in Lista, and we just completed the ramp-up at San Ciprián. So, you should be asking the question what about those 50,000 tons at Warrick.

First of all, the condition of the line in Warrick is pretty poor and so the line that's been curtailed. So, it will require about \$100 million of capital and we think it will be one to two years for that restart. And the reason is there's some long lead time items specifically around the electrical equipment that would be required to restart Warrick.

Now, on paper, the restart of Warrick looks pretty positive at this point. However, what we're trying to really weigh is availability of short-term electricity, availability of long-term electricity, and our ability to successfully run that plant at a four-unit operation. And when I say successfully, do it safely. If you followed us long enough, you know that we were running five lines. We went down to three lines. Ultimately, we went down to two lines. We've restarted back to three lines. We have good stability, good safety there today and so we'll factor all that into an analysis of a potential restart of that fourth line.

Nick Giles

Very helpful, Bill. I really appreciate that and if I could sneak one more. And just on Section 232, I know there's really no updates on the metal tariff side, but there were some significant revisions the other week on the downstream. So, I was curious kind of what you're hearing from your customers. Has there been any sensitivity to those changes? Appreciate it.

William Oplinger

My understanding of the changes on Section 232 associated with the downstream allow the downstream customers in the US to have a level playing field with imports. So, my understanding is that that's been favorably received.

Nick Giles

Understood. Okay. Thanks again.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Oplinger for closing remarks.

William Oplinger

Thank you for joining our call. Molly and I look forward to sharing further progress when we speak again in July and that concludes the call. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.