

NOVEMBER 20, 2014 / 1:15PM, AA - Alcoa Inc at Goldman Sachs Global Metals & Mining/Steel Conference

CORPORATE PARTICIPANTS

Bill Oplinger *Alcoa, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Sal Tharani *Goldman Sachs - Analyst*

PRESENTATION

QUESTIONS AND ANSWERS

Sal Tharani - *Goldman Sachs - Analyst*

We're going to start our first session. I'll invite Bill Oplinger from Alcoa, the CFO, and we'll kick start the session.

Bill Oplinger - *Alcoa, Inc. - CFO*

Good morning.

Sal Tharani - *Goldman Sachs - Analyst*

How are you?

Bill Oplinger - *Alcoa, Inc. - CFO*

You want me here?

Sal Tharani - *Goldman Sachs - Analyst*

Yes. Thanks for coming, Bill.

Bill Oplinger - *Alcoa, Inc. - CFO*

You didn't let producers vote on that.

Sal Tharani - *Goldman Sachs - Analyst*

No, you should have, everybody has that!

Bill Oplinger - *Alcoa, Inc. - CFO*

We're the ones that are --



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Sal Tharani - Goldman Sachs - Analyst

(laughter) What do you think, by the way, about the premium next year?

Bill Oplinger - Alcoa, Inc. - CFO

Oh, we're going to start there? (laughter) I guess our view of premiums is that they're fundamentally driven by supply and demand. Supply and demand has been strong. North America has been in a deficit position with the growth in the automotive business. We don't see that going away any time soon, so I guess our view is that the premiums really represent the clearing price for a customer. And given that the global market, the global metal market, has been in deficit, and this year we're projecting the deficit to be about 700,000 metric tons, we think the premiums are probably where they should be.

Sal Tharani - Goldman Sachs - Analyst

And do you think that this predominantly changed the way pricing works, that LME is not really the representative of supply-demand balance anymore?

Bill Oplinger - Alcoa, Inc. - CFO

Well, we have seen a decoupling of the LME from fundamentals, and I think you've seen it over the last few years. So much of the LME gets traded that amongst participants, that don't want to take any delivery of metal, that we're seeing it is much driven by macroeconomic sentiment. And if you just see it recently, it goes up and down wildly over the course of weeks. And that's not necessarily representative of the fundamentals of what's going on in the industry. So we see it as being very de-coupled from supply and demand, and that's where the premiums come in. The premiums are really – help set the clearing price for what a customer has to pay for metal, and that's why you've seen the strength in the premiums.

Sal Tharani - Goldman Sachs - Analyst

Is there a risk that if LME goes out and put a contract on premiums, that that becomes also an instrument like LME?

Bill Oplinger - Alcoa, Inc. - CFO

I think there may be a risk there, but ultimately, when a seller is selling to a customer, there has to be a price that represents the clearing price for supply and demand. So, that, to some extent, has to – over the long term there have to be economic rationale for where the price is at, and the combination of those two needs to represent them.

Sal Tharani - Goldman Sachs - Analyst

You made a big announcement today, you closed Firth Rixson acquisition.

Bill Oplinger - Alcoa, Inc. - CFO

Right.

Sal Tharani - Goldman Sachs - Analyst

And you have given some numbers on that in terms of earnings power of that company. By 2016 you'll be about \$1.6 billion?

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Bill Oplinger - Alcoa, Inc. - CFO

Yes, we'll be \$1.6 billion of revenue. That's in addition to the revenue targets that we have, the organic revenue targets. So, if we step back, that acquisition is going into our engineered products and solutions segment and junior products and solutions segments around \$5.7 billion of revenue currently. We've got a target by 2016 to grow that organically by another \$1.2 billion. On top of that, the Firth Rixson acquisition will add \$1.6 billion of revenue. In addition to that, the Firth Rixson acquisition will add \$350 million of EBITDA. And so, we're really, really pleased to have been able to have gotten the Firth Rixson deal done, very, very prepared for post-merger integration. We've had a team of roughly 40 people across the Company already working on the post-merger integration and today is day one, so as we speak we're doing town hall meetings and talking to our new employees and welcoming them into Alcoa.

Sal Tharani - Goldman Sachs - Analyst

And the current leadership of the company stays with the company?

Bill Oplinger - Alcoa, Inc. - CFO

The current leadership largely stays with the company. We'll go through an evaluation process. What we have done is, in advance of closing, we have about 100 top leaders who we've set up a mentoring program for. One of the things that's critical for us in the Firth Rixson acquisition is that there is a lot of talent, a lot of technology, and so we wanted to make sure that the really top people in the organization stayed with Alcoa once the deal's done. And so, we set up a mentoring program where we have connections with the technology talent, with the finance talent, so that even months ago they were learning about Alcoa and could get a feel for Alcoa.

Sal Tharani - Goldman Sachs - Analyst

And you have indicated some synergies, what is the number you've given for synergies?

Bill Oplinger - Alcoa, Inc. - CFO

\$100 million of synergies by Year 5, 40% of that achieved in the second year, and it'll be everything from instantaneous procurement savings where we'll go through their procurement contracts and compare them with ours, and there might be savings on both sides in the case of procurement. Some overhead reductions, and then largely a lot of profit savings. Revert management is one of the areas that we'll be focused on.

Sal Tharani - Goldman Sachs - Analyst

And that \$350 million EBITDA includes that \$40 million?

Bill Oplinger - Alcoa, Inc. - CFO

It does. It does.

Sal Tharani - Goldman Sachs - Analyst

You have done an incredible job of cost cutting across the whole platform of your company and including EPS, which is already tight shop. I was wondering if there's an opportunity beyond that \$100 million once you go into that operation, and start looking at it, to implement similar strategy over there?



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Bill Oplinger - Alcoa, Inc. - CFO

You know, we have extremely good market intelligence of where the market's going platform by platform, and at this point we are confident of hitting the targets that we have out there. So, our aluminum-lithium plant we said would generate \$100 million of revenue, and we're still confident that we'll hit those revenue numbers. And so, we're excited about the aluminum-lithium opportunity. It adds tremendous capability around weight savings and so, we're pretty excited that we'll hit those targets.

Sal Tharani - Goldman Sachs - Analyst

It's a \$90 million investment.

Bill Oplinger - Alcoa, Inc. - CFO

\$90 million investment, \$100 million in revenue by 2017.

Sal Tharani - Goldman Sachs - Analyst

And you have not indicated margin, but we can assume that it's a good margin business. It's above your cost of capital [in B&C] and the other aerospace margins where we are, so we can generalize where it is. I was just wondering if that – if this \$100 million revenue locks in the whole facility, or will it be under-utilized? I mean, there's more to it in coming years.

Bill Oplinger - Alcoa, Inc. - CFO

Right. So, we actually have three aluminum-lithium facilities. We've got the new Lafayette facility, which is our biggest facility. We've got a pilot production plant in our technical center, and then we've got a facility in Kitts Green. We maximize the effectiveness across those three as a system, so as we're looking out, that \$100 million is related to the Lafayette plant but we essentially will balance between those three. So, we don't tend to give out utilization rates, but we'll balance between those three facilities as customer demands require it.

Sal Tharani - Goldman Sachs - Analyst

Do you see aluminum-lithium, because it's quite a bit of cost savings on the weight side, more investment in this over the coming years? Do you think that the aerospace industry is willing to pay a higher premium to get that quality or weight loss quality of this metal?

Bill Oplinger - Alcoa, Inc. - CFO

Very clear that the aerospace industry is willing to pay for weight savings. So, if we're able to take weight systematically out of the plane, they're willing to pay for it. And if the demand's there, we will, we'll further expand in aluminum-lithium if the opportunity presents itself, and it meets our criteria versus some of the other growth that we have in the system.

Sal Tharani - Goldman Sachs - Analyst

And this will be in the EPS business also?



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Bill Oplinger - Alcoa, Inc. - CFO

Yes, also, yes.

Sal Tharani - Goldman Sachs - Analyst

Although it is a rolling facility, is it? Or it is not a rolling?

Bill Oplinger - Alcoa, Inc. - CFO

The facility that we have is a casting facility that then ships product both to EPS and can ship product to our rolling business. We just recently announced in the rolling business that we're investing in what's called a very thick plate stretcher, and the rolling size of that allows us to make a thicker plate, and to go after further market gains in aerospace. That can both be used for aluminum and aluminum lithium, so – but the cast house itself sits in the EPS business and ships both to rolling and our forgings business.

Sal Tharani - Goldman Sachs - Analyst

Let's move on to your rolling, global [geography] business, and look at the automotive industry. You are at the forefront on that, and you built a facility, two of them – a second one is being built right now.

Bill Oplinger - Alcoa, Inc. - CFO

And don't forget the one in Saudi Arabia.

Sal Tharani - Goldman Sachs - Analyst

Yes.

Bill Oplinger - Alcoa, Inc. - CFO

So we've got three new, we've got three new automotive facilities coming online.

Sal Tharani - Goldman Sachs - Analyst

Are all of these pretty much spoken for?

Bill Oplinger - Alcoa, Inc. - CFO

The two in North America are completely spoken for, so the – in both Davenport and Tennessee, we sold out the capacity and we said that when we invested in those two facilities we would be very disciplined around not adding capacity unless we had customer contracts. At the time when we announced Tennessee because our customer had not announced it, we were not able to say whose contracts those were with. But that's a combination of the F150 and the Super Duty trucks, and so those two facilities are pretty much sold out at this point.

Sal Tharani - Goldman Sachs - Analyst

Have you ever mentioned how much market share you have on the F-150?



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Bill Oplinger - Alcoa, Inc. - CFO

I don't know that we've given out firm numbers, but the two suppliers for Ford are us and Novelis. And so, roughly similar market shares.

Sal Tharani - Goldman Sachs - Analyst

Would you — after the facilities you and Novelis are building, there a bunch of announcement happened and others are jumping in there, and even some other announcement from a couple of days ago for some secondary smelter, or trying to build a facility. How do you see this market? A lot of people are worried that automotive OEM have always tried to make any of the new innovations (come out all right) over time and how do you feel about that? Will Alcoa be further investing in this thing, or do you think that it's been —?

Bill Oplinger - Alcoa, Inc. - CFO

Well, I guess from our viewpoint, first of all, extremely excited about the growth of aluminum in automotive, and the fact that other players have jumped in just supports our thesis that the industry, the automotive industry will be going more aluminum-intensive over time. As I said, we're very disciplined about the fact that we will only invest in this industry if we have customer contracts that back it up. With that said, we have been working with Ford a long time to be able to provide them solutions that take weight out of the vehicle. We will continue to innovate both on the product and the process side, so that when this first set of contracts are up with Ford we will have both product and processes that allow them to continue to take weight out of the vehicle, and hopefully allow us to earn a return.

So, we're very, very focused on the product innovation that allows our customers better formability, better drawability, lower weight, and all of that should provide us an opportunity to earn a return.

Sal Tharani - Goldman Sachs - Analyst

Does it — have you had any concern? I mean, there's a lot of [press] news about repairs of these cars. Is the industry ready? Have you talked to — I'm sure you're involved in all the process with Ford including how they're going to handle the repair. Can you give us some idea how that industry is — the body shops are going to be able to —?

Bill Oplinger - Alcoa, Inc. - CFO

Yes, it's probably a better question posed to Ford, but from what we understand they're preparing their body shops to be able to repair aluminum-intensive vehicles. You have to remember that it's not the first time aluminum has been used on cars, right? So, aluminum has been used on cars since the beginning. And as far as body panels, closure panels have been aluminum for quite a while. So, hoods and doors, and things like that.

As far as the actual body in white, we know that Ford has spent money with their dealer network to make sure that their dealer network is absolutely prepared to be able to repair these trucks.

Sal Tharani - Goldman Sachs - Analyst

Before we go to the upstream, any questions from the audience?



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Unidentified Audience Member

One of your main competitors yesterday also mentioned that they're having some trouble at a facility, also with contract renewal it's at some less-favorable terms. At the analyst day, you guys I guess increased your sales group guidance for aerospace and flat-rolled a little bit. You know, how are your competitors' difficulties impacting you, and with some of the recent contract renewals in aerospace, you guys haven't come in on margins but it seems like you're on schedule to hit your 2016 targets. I assume that's fine?

Bill Oplinger - Alcoa, Inc. - CFO

Yes, we're committed to hitting the 2016 targets both on the revenue side and on the margin. Just as a reminder on the rolled products business, we have about \$1 billion revenue growth. Now if you noticed in the investor day, we talked about the fact that we're curtailing our Australian can sheet plant. That's largely due to the fact that can sheet's over-capacitized in Australia, so we then backed that amount off and we're still committing to hitting that \$1 billion growth target, and feel confident that we'll do so.

We're further investing, as I already mentioned, in the very thick plate stretcher, to gain more market share. It makes us more competitive, gives us a better product suite on the aluminum lithium side.

So at this point, we're confident. We're confident that we'll hit the \$1 billion target and the \$344 a ton margin. And on top of that, we're now seeing, just now seeing that Davenport's ramped up so we're hitting the automotive marketplace, growing automotive market share, and then Tennessee comes online about the middle part of next year on the automotive side.

So, the other rolling business is executing on all the things they need to execute on. It's critical that we hit some of the margin targets, and I'm confident that we will.

Sal Tharani - Goldman Sachs - Analyst

Anybody else?

Bill Oplinger - Alcoa, Inc. - CFO

One there?

Unidentified Audience Member

Just a quick one. You guys have over time impressively moved downstream into more of the engineering, and away from the primary aluminum smelting operations. So, you know, so when aluminum prices go up your smelters love it, but your downstream is buying metal. And I'm just wondering how – the sensitivities to aluminum prices to the overall consolidated new Alcoa?

Bill Oplinger - Alcoa, Inc. - CFO

Excellent question. And there's – you touched on a bunch of things there that I want to touch on. First of all, the overall strategy of the Company is two-fold strategy of the Company. It is not necessarily going from upstream to downstream. The strategy of the Company is to have a much more competitive commodities business than the upstream. That may mean that we get smaller, and we have gotten smaller on the smelting side, but we want to go – if you go back in time, we've always been about the average of the cost curve in smelting. We've gone from the 51st percentile to the 43rd percentile of the smelting cost curve. We're looking to take it down to the 38th percentile. We have a very good position in alumina as most of you know, we are at the 30th percentile of the cost curve in alumina. We're looking to take that to the 21st percentile.



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So, the – the first prong of that strategy is a highly-competitive commodities business. The second prong of that strategy is building out the value add business, right, so that's both the rolled products and the EPS business. Growing in those businesses that we know we can earn a good return and generate good margins. To come back to your question, the upstream profitability, both alumina and aluminum, will fluctuate with metal prices, obviously. As a company we have a sensitivity to metal, so if metal goes up by \$100 we generate around \$240 million of profit impact, up or down, \$100 plus or minus \$240 million plus or minus. But one thing that's critically important for you to understand is, the majority of that impact comes in the upstream. The midstream and the downstream are largely isolated from metal price movements. They buy at market, and they pass that on to their customers.

All of the sales internally are done at arm's length. We do that on purpose, because we want to make sure that value creation is recognized in the right segment of the business. That way, you don't get into cross-subsidization across businesses, and it tends to cloud your decision making. So, we went to that a long time ago, and are very rigorous about making sure that internal transactions are done at arm's-length pricing.

Sal Tharani - Goldman Sachs - Analyst

Anybody else? Okay, I want to just touch up on again the Davenport facility. How long will it take, you think, to ramp it up?

Bill Oplinger - Alcoa, Inc. - CFO

We are producing product now for the – for Ford, and we'll continue ramping up during the course of the next 2015 as volumes increase. So, that's all going to depend on how successful the truck is. But we have the ability to meet Ford's demands, and will ramp it up during the course of this year.

Sal Tharani - Goldman Sachs - Analyst

You think you'll be profitable by the end of next year?

Bill Oplinger - Alcoa, Inc. - CFO

That facility on the automotive side is already profitable.

Sal Tharani - Goldman Sachs - Analyst

Okay, even the current utilization rate? Okay. The other thing which I will ask before I go to the upstream was – and this question was touched upon, the sensitivity across the company – but your competitor yesterday also over the last couple of quarters, they've been talking about not able to pass the premium in the downstream. And that's the downstream company. So, having taken some hit on it I was wondering how you sat in the (inaudible)?

Bill Oplinger - Alcoa, Inc. - CFO

Yes, and that's largely a European phenomenon. So, in North American markets, customers recognized a while back that there's a premium associated. So, we're able to pass that premium on to our customers in the North American business. Less so in Europe, and that's why I say, the midstream's largely insensitive to metal prices. In Europe we still have some customers that don't take the pass through of the premium, and so you can get a little bit of a compression margin. You've seen that over the last couple of quarters in the midstream business as you're not able to pass all that margin, all the premium on to them.

But largely, largely the both metal prices and premiums are passed through to our customers.



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Sal Tharani - Goldman Sachs - Analyst

Even on the can sheet it's part of--?

Bill Oplinger - Alcoa, Inc. - CFO

Yes.

Sal Tharani - Goldman Sachs - Analyst

Okay. The other thing I want to ask you about the midstream is that there's been a lot of talk about all these [BIW] capacity, is going to take -- is going to take some of the capacity out of the can sheet market. You are still a very large can sheet producer, of the 2 million ton mix (inaudible) I think half gone through your packaging [bar] business?

Bill Oplinger - Alcoa, Inc. - CFO

That's right.

Sal Tharani - Goldman Sachs - Analyst

And there hasn't been, not a great margin business lately, and I was just wondering what Alcoa thought about it, and do you see actually within your organization, moving away from can sheet as these BIW facilities ramp up over the next two years?

Bill Oplinger - Alcoa, Inc. - CFO

Yes, and clearly, the Tennessee facility historically was all the can body stock. We've got a very large can reclamation center there, so for recycling the cans. That facility has historically always been dedicated to making can body stock. By this investment in downstream capacity within that facility, we're utilizing the hot mill to be able to transition product from can sheet over into automotive. And so that gives us the flexibility depending on the marketplace, to be able to flex between those two.

So yes, that's absolutely a strategy of ours is to utilize that asset better and make automotive in the facility. And I think if you were to ask some of our competitors and I can't speak for them, but I think you would see the same thing.

Sal Tharani - Goldman Sachs - Analyst

Do you think it could bring the can sheet market a little bit in better health over the next five years?

Bill Oplinger - Alcoa, Inc. - CFO

It's clearly a way of taking excess can sheet capacity and turning it into something that we can earn a return on. So, you know, I think it will take capacity out of the can sheet market in North America.



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Sal Tharani - Goldman Sachs - Analyst

You have – and before we, again, we're going to go to upstream but you always mentioned that you want to be in a business where you can own your rate of return. Can sheet has not been, so far. I'm just wondering, can we envision that Alcoa just would draw from the market only?

Bill Oplinger - Alcoa, Inc. - CFO

Yes you know, that comes back to a much bigger question, which is portfolio management within Alcoa. So, let me address the bigger question. You haven't asked the question yet but I would imagine at some point during the course of the day we'll get the question of, should we split off our upstream and our downstream. We've been very, very clear over the last couple of years and I think Klaus if you go back to two investor days ago, Klaus said it very clearly. There are no core assets within Alcoa. We see ourselves as managing the assets and adding value to the assets, and if there's a time where we don't see that we're adding significant value, that the market would value those assets in different hands, we would consider doing something with them.

That goes for every part of our business. Upstream, midstream, and downstream. With that said, we think that today's configuration is the right one, and people will ask me often why is today's configuration the right one. If you look at some of the parental advantages that we bring to our businesses, and I'll start with the disciplined execution advantage and I've talked about our experience of implementation system. 15,000 ideas in the system that can be shared across all three groups.

On top of that, we're the world's largest lightweight metals R&D facility. We spend close to a \$250 million on lightweight metals R&D. That goes for upstream business or midstream and our downstream. It's everything from nickel-based super alloys, titanium, to aluminum. On top of that, when we look at procurement, we procure roughly \$18 billion of materials each year. You have much, much better synergies across those three businesses, roughly \$10 billion of the \$18 billion are materials that can be used in two groups. So, if one group were on its own, it would not have the leverage.

I could go on and on you know, you look at the talent advantage when we're recruiting people out of the university. They can – you know, if you're coming out of school you don't know where you're going to end up being. At Alcoa, you've got three different fairly significantly different groups that you can go to. So as long as we think we're adding value, we keep the configuration the way it is. That goes for can sheet, also.

Sal Tharani - Goldman Sachs - Analyst

If I understand the synergy, but does it even if you look at the liabilities of the upstream side, can it stand on its own? The legacy liability and the [tax]?

Bill Oplinger - Alcoa, Inc. - CFO

You know, the upstream is at least recently recovering into a more normalized environment. We saw from 2008 onward, we saw very, very low margins in the upstream across the board. At any given time there was a significant portion of the global capacity that was underwater.

As we get into a more normalized market environment, the upstream has the ability to stand on its own.

Sal Tharani - Goldman Sachs - Analyst

You mention you are going on the global alumina cost scale from –



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Bill Oplinger - Alcoa, Inc. - CFO

From 30 to 21, so we're down to – I'll get the numbers wrong. 25 currently, going down to 21.

Sal Tharani - Goldman Sachs - Analyst

Is it going to come through productivity, or is it going to come through from the rationalization of portfolio?

Bill Oplinger - Alcoa, Inc. - CFO

Right, so you know that we have really a number of ways to come down the cost curve, both on the smelting side and on the alumina side. But the methods are the same for both businesses. But the first method is to fix, close or sell [high-cost] capacity. We just recently announced that we had – have a letter of intent with Noble to sell the Jamaican facility. That facility historically has been a high cost facility that will help us come down the cost curve. We have a memorandum of understanding with the Surinam government to continue to work through options in Surinam, and then on the fixed side we've invested in natural gas pipeline into San Ciprian, which is our Spain facility, which will significantly enhance its profitability.

So, that's the first side is that we try to fix or sell or close the high cost facilities. Secondly, productivity ideas, we've been able to show significant productivity in the upstream. Out of the \$1 billion that we get each year, probably over half of that comes out of the upstream to continue to drive down the cost curve. And then investing at the very bottom end of the cost curve, so we've invested in the joint venture in Saudi Arabia. It will be the lowest cost facility in the world. It is already the lowest cost smelter, and so we'll invest at the bottom end of the cost curve. That should help us get down to that 21st percentile in the refining area.

Sal Tharani - Goldman Sachs - Analyst

At the investor day, there was some questions about aluminum, cost [of itself] has come down very rapidly with the Chinese. Everybody cutting costs and Chinese starting to build some local smelters on the west and northwest of the country. Is it becoming more challenging to go to 38 and from where you are, 43 right now?

Bill Oplinger - Alcoa, Inc. - CFO

Mm-hmm.

Sal Tharani - Goldman Sachs - Analyst

I know Maaden is going to contribute a little bit into that?

Bill Oplinger - Alcoa, Inc. - CFO

Maaden was going to contribute a couple of points. Yes, I'll be clear, the 38th percentile target is a challenge, and it was a challenge when we laid it out to take a historically average, fairly large portfolio of assets from the 51st to the 38th percentile is not easy to do. With the strength of the US dollar, there will be some headwinds on that 38th percentile, but we are not coming off that target, Sal. We are very convinced that we will get there, and we're taking the necessary actions to get there. So, you know, there's – you've been around this industry long enough. There's always headwinds, and we're going to go after that target.



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Sal Tharani - Goldman Sachs - Analyst

Is there – I mean, you just announced one more in smelter area, Mt. Holly.

Bill Oplinger - Alcoa, Inc. - CFO

Mt. Holly.

Sal Tharani - Goldman Sachs - Analyst

You are exiting that also. But somebody's going to run it, and they see value in it.

Bill Oplinger - Alcoa, Inc. - CFO

They do.

Sal Tharani - Goldman Sachs - Analyst

I'm just wondering, and you know, you always said and stuff that it's a good smelter, it's one of the newest smelters in the US, but the power contract is really prohibitively expensive. But you know, (inaudible) public information tend to be who – other stakeholders buying in, they think that they can turn around the power contract. I was just wondering that for that – to a distraction for you to get involved in this whole process, that you didn't pursue it, or you don't think that even with the power contract negotiation it will be good enough to (inaudible)?

Bill Oplinger - Alcoa, Inc. - CFO

So you have to go back to our over-arching strategy. Highly competitive commodities business in the upstream, and then the downstream building it out. Mt. Holly did not fit into that overall strategy. The power negotiation will come up at the end of 2015. We did not see line of sight that Mt. Holly would contribute to us getting down the cost curve, and be an asset that over the long term could generate value and bring us down to the level of cost curve that we need it to be at. Clearly, Century had an appetite for that asset. They think that they can get a power contract agreed to. We structured the deal in a way that we retain some upside, so the deal includes an earn-out which allows us to get, capture some upside if they see that upside over the next – the course of the next year.

Mt. Holly, as you said, and I have a lot of friends at Mt. Holly because I used to be in that business. It's a good facility. It's good technology. It has great people. And it just is in a part of the world that's tough to get a power contract that will be competitive in the industry.

Sal Tharani - Goldman Sachs - Analyst

You are currently providing Maaden the bauxite, or sorry the alumina?

Bill Oplinger - Alcoa, Inc. - CFO

We are, yes. Out of Western Australia.

Sal Tharani - Goldman Sachs - Analyst

There is – when is that going to be completed, the – their alumina facility?



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Bill Oplinger - Alcoa, Inc. - CFO

The refinery? The bauxite mine is mining now, and shipping to the refinery. The refinery is coming up as we speak and I believe we said that we would have the refinery up and running in this quarter. So, we're making tremendous progress. If you think about – and again, it's interesting to have some historical perspective – how many mega projects in our industry over the last ten years have been delivered on time, on budget, and on cost? And if you go back, and not a lot of megaprojects have been built in the aluminum space. But if you go back over the last decade, there's not a lot of projects that can say that we will be on time, on budget, and on cost.

So, it's a \$10 billion project that will be the lowest cost complex in the world, and so, we expect to have the refinery up and running this quarter.

Sal Tharani - Goldman Sachs - Analyst

So you will have some excess alumina once that refinery itself is self-sufficient?

Bill Oplinger - Alcoa, Inc. - CFO

We will.

Sal Tharani - Goldman Sachs - Analyst

I was –

Bill Oplinger - Alcoa, Inc. - CFO

Not a lot, though, Sal. I mean, it's pretty much made for sourcing the smelter. Any excess alumina could be shipped within the region.

Sal Tharani - Goldman Sachs - Analyst

How long are you now on alumina, right now?

Bill Oplinger - Alcoa, Inc. - CFO

We have capacity for \$18 million metric tons of aluminum. Alumina. We're running roughly 16 million metric tons, and our needs internally are – we're making 3 million metric tons of metal. You would need roughly 6 million metric tons. That would suggest to you that we're around 10 million tons long of alumina, which you have to remember that we have a 40% partner in Alumina Limited, so they get an economic benefit associated with the 40%. So when you run the numbers, backing out their economic benefit, you get a much smaller long position. But still long alumina.

Sal Tharani - Goldman Sachs - Analyst

And alumina prices have lately been coming up?

Bill Oplinger - Alcoa, Inc. - CFO

They have, so they've been returning into the \$350 per ton range. As you know, we have fundamentally changed the way alumina is sold. We took that initiative on back in 2008, 2009 time frame. We did not believe selling alumina as a percent of aluminum made a lot of sense. And alumina has



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its own supply-demand fundamentals, it has its own cost structure. So, we made the switch and at this point roughly 65% of our contracts are alumina or on an API price basis, higher percentage next year.

So, it's been a good change for the industry.

Sal Tharani - Goldman Sachs - Analyst

We have time for one or two questions, anybody from the audience?

Bill Oplinger - Alcoa, Inc. - CFO

Quiet audience. You know.

Sal Tharani - Goldman Sachs - Analyst

I want to ask you about the free cash flow you're going to generate over the next few years, and – which is a good problem.

Bill Oplinger - Alcoa, Inc. - CFO

That is a good problem to have.

Sal Tharani - Goldman Sachs - Analyst

What other priorities? I know you're growing continuously, you have some project always going on. So before that, just let me ask you, what is your sustaining CapEx, do you think, about cost of complex? With Firth Rixson, or maybe without Firth Rixson, you haven't given a Firth Rixson number. And then how much you think you will spend on the CapEx, you have given some targets this year, and what do you do beyond that?

Bill Oplinger - Alcoa, Inc. - CFO

Right, so we've not given 2015 targets. We'll give 2015 targets in January. If we talk about 2014, we're spending roughly \$750 million of sustaining CapEx and another \$500 million of organic growth. As I look at uses for cash flow, as cash flow is generated, first and foremost sustain the assets. Sustain the facilities, that's as I said in 2014 roughly \$750 million. But second is, we do have an underfunded pension plan. That underfunded pension plan requires us to contribute around \$500 million a year, so we'll continue to do that.

Next, we have great – a great organic growth pipeline. We've shown that with the investments in Davenport and Tennessee, but also in La Porte, Indiana, where we are building out our power and propulsion business there. The Lafayette cast house – so we have a very strong pipeline. We prefer organic growth because organic growth gives the best, generally gives the best returns. So, we'll continue to invest in organic growth.

Once we've done that, once we've done those things, if we have excess cash flow we will be balancing between debt repayment and inorganic growth in the value add business. So, what we're trying to balance there is, we would like to get back to an investment grade rating so that would require some debt repayment, but we also don't have a lot of debt that is pre-payable, that wouldn't cost us a lot of money to prepay.

So that's the balance that we'll have.



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Sal Tharani - Goldman Sachs - Analyst

Very quickly, do you have any appetite to go upstream on other metals, like titanium and super alloys? Because you do so much downstream now?

Bill Oplinger - Alcoa, Inc. - CFO

All right. Well, when – I guess what I could say is, that in the EPS business we still see that there are opportunities for growth. And if you know, I talked about the very robust pipeline that we have on the organic side. We have a similarly robust pipeline in the inorganic side. And we'll be looking at opportunities in the value-add business that can generate value for our shareholders. So, if it meets a set of criteria we'll look at it.

Sal Tharani - Goldman Sachs - Analyst

Great. There's one question over there?

Unidentified Audience Member

Yes, just you touched on desire for debt reduction and also lack of pre-payable debt. You also touched on the pension underfunding. Any – since you might advance the closing the shortfall on the pension underfunding, that does count towards your rating agency metrics?

Bill Oplinger - Alcoa, Inc. - CFO

Absolutely. I mean, it does count toward our rating agency metrics. We understand that, and I should make it clear that the debt is pre-payable but right now the debt would be expensive to pre-pay. So, we have that option also, and then in addition to that, we've got an AR sales program that we can pay down some of that. We also have some debt in Brazil that we can pay down. So, we do have options to lower our overall indebtedness, whether it's directly or as measured by the rating agencies through – as you said, through further contributions to the pension.

We'll have to weigh that versus EBITDA generation opportunities, right? Because what the rating agencies are largely looking at is indebtedness versus earning power. We – every time we look at excess free cash flow, do we make -- do we pay down debt or do we grow? And that's the calculus that we're going through.

Sal Tharani - Goldman Sachs - Analyst

Great thank you very much Bill. We appreciate it.

Bill Oplinger - Alcoa, Inc. - CFO

Thank you.

Sal Tharani - Goldman Sachs - Analyst

Thanks for coming.



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