Alcoa Corporation

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning and welcome to the Alcoa Corporation Global Investor Webcast and Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your touch-tone phone. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to James Dwyer, Vice President of Investor Relations. Please go ahead.

James Dwyer
Thank you, Nicole and good day everyone. I'm joined today by Roy Harvey, Alcoa Corporation Chief Executive Officer and William Oplinger, Executive Vice President and Chief Financial Officer. After comments by Roy and Bill, we will take your questions.

As a reminder today's discussion will contain forward looking statements relating to future events and expectations. Factors that may cause the Company's actual results to differ materially from these projections are listed in today's presentation and in our SEC filings. In addition, we have included some non-GAAP financial measures in this presentation. Reconciliations to the most directly comparable GAAP financial measures can be found in the appendix today's presentation. Any reference in our discussion today to historical EBITDA means Adjusted EBITDA for which we have provided reconciliations and calculations in the appendix.

With that, here's Roy.

Roy Harvey
Thank you Jim and good morning. Few Management teams have the opportunity to design and build a brand new public company but with 128-year-old starting point, starting with a company that has helped to not only create an industry but helped to build it and make it flourish. That's just the challenge that we had when we sat down and started to think about what Alcoa Inc's separation into two component independent companies would mean. The Management team, Bill and I, spent a lot of time being thoughtful about what it meant to not only have a group of operating plants stretched around the world that understood how to operate and be efficient in all parts of the cycle, but also to think about how we can capture some of the entrepreneurial spirit and be very creative in our approach to generating value across our supply chain and across all of our products and our customers.

So we spent a good amount of time in the design phase as well as the co nstruction of how these new systems would work and we're now at that exciting moment where we're launching. Here in a week and a half Alcoa Corporation will be traded as a standalone company and we're going to have the opportunity to realize all of those great ideas that we've been putting to paper.

As I go through my presentation today, I really want to help you understand three important points and they all point to one fact that now is the right time to invest in Alcoa Corporation. Number one: Alcoa is cost efficient, operator centric and focused every day on our shareholders and driving returns. Number two: It is the right time to invest. We are experienced and enthusiastic about how we can operate each and every one of our assets and how we can bring additional value, whether it be to reducing costs to driving (inaudible) production or finding new ways to use our assets.

Also we're very excited about being part of the aluminum market and about the future that this market entails. Number three: We're ready for what comes next. We have right-sized the balance sheet. We have done countless iterations to make sure that we know how to react if prices slip and even more importantly we're ready for when the market offers us opportunities for the future. We are prepared for challenges and we are poised for opportunity.

So let me now talk a little about what we're going to cover today and Bill and I will handle this jointly, but there's five main things that we believe underpin the investment opportunity in Alcoa Corporation. Let's start with number one. We have a global network of facilities and operations that are incredibly well run today. We have been focused on making them more efficient, on ensuring that we have the right portfolio here at the launch moment and also building a management structure that helps us to continue to optimize each and every of these assets.

Number two: Not only are we internally focused, we are focused on our customers. We've developed an internal and external knowledge of how these markets work, by really understanding who are the customers and how are they developing. So as we look at the future of bauxite and alumina at aluminum, we see that there are growth opportunities into the future as well as opportunities to continue to lower our costs.

Number three: We have a highly experienced, incredibly motivated team of managers, senior positions as well as all the way down to the very bottom level of the plant. We've driven an operator centric culture which means that we're focused on our operation, we're focused on supporting the people in our plant who are creating products for our customers and we're determined to succeed each and every day in our plant.

Number four: We continue to be focused on optimizing our cost structure. We recognize the fact that we live in a world and we live in an industry where the cost curve is vitally important. We love to be able to drive production and we love to be able to capture new niche market opportunities, but we are also very focused on ensuring that each and every dollar that we spend, whether it be an expense or whether it be for capital investment, will sustain the operation that we have today and therefore the cash generation but also look forward to creating additional value for our shareholders.

Number five: We have the right starting position. We've created a strong balance sheet and we have the right beginning financial position because we live in a cyclical world. Because we have a moment in time where markets have now been down for the last year and we need to be prepared to react whether those markets go up, whether those markets remain stable, we have a position that helps us to be strong and to win. To not just to survive in the downturns but to thrive throughout the entire market cycle.

So let's start with what I think is by far the most important point about Alcoa Corporation today. It's really an eight-year story about what we've done to change our portfolio and to prepare ourselves. At the beginning of the eight years we were preparing ourselves to be a stronger part of Alcoa Inc., and incredibly, over this last year we've been preparing ourselves to be a standalone company.

Let's start on the left and think about bauxite. We are the largest bauxite miner in the world and we are sitting today at the 20th percentile of the cost curve. That means we have a very lean and efficient set of operations and instead of focusing just internally, which has been the story for many years, in 2016 we started to think externally. With the growing third party bauxite market burgeoning in China, we now have an opportunity not just to mine what we mine today but also to extend and to think about how we can satisfy customer needs in China as well.

Alumina in the center here. In alumina, in 2015, we were the largest alumina refinery in the world. With the curtailment of Point Comfort in Texas we now compete with CHALCO to be the largest refinery in the world. That said, we sell 65% of our alumina into the external market to third parties and that is sold on a global basis, inside China and outside of China and that gives us an unprecedented understanding of how the alumina market works. Combine that with a 17 percentile position on the cost curve which means that we're prepared to succeed and to have healthy margins in all parts of the cycle and it makes for a truly winning business.

Now, number three, on your right. Let's think about aluminum and this has been a story of real struggle over the course of these eight years. We've right-sized the portfolio, we've driven out costs and we've prepared ourselves to launch and be a standalone company. We started in the middle of the cost curve, at the 51st percentile of just shy of 5 million tons per year production. Over these eight years we have curtailed assets that were no longer generating cash. We have smartly repowered assets and we have driven productivity endlessly and ceaselessly. We now find ourselves at the 38th percentile with a portfolio of about 2.5 million tons of aluminum production. What this means is that we continue to have significant exposure to improving aluminum prices. It's a great opportunity for us when aluminum prices could go up, but also we protect ourselves from the down side case and the 38th percentile helps us be sure that we no longer run into cash problems when the world turns against us.

So as we look across these three businesses, it really and truly helps us to understand the journey that we've made over these last few years, but I also don't want to forget about what we've been able to accomplish in 2016.

When we announced separation in September of last year, aluminum prices were down and alumina prices remained relatively healthy. By the end of 2015, we saw that aluminum prices had come down to between $14.50 and $14.75 and alumina prices have dropped below $200 per metric ton. That meant we needed aggressive action over 2016 to be able to win and to be able to have the opportunity to separate into an independent company.

We put together a $550 million productivity program. Smart ideas in every single one of our plants about how we can win in a market that looked like it did at the beginning of the year. I'm proud to report that by the end of the third quarter we've already achieved the $550 million target and are looking to Q4 add on top of those productivity gains. This is then a collection of wins across our entire portfolio. We've already talked about the primary aluminum chain. What I'd like to do now is focus a little bit on our value added products, cast and rolled products and then I want to talk a little bit about energy.

Starting with cast products and this is where I had my start with Alcoa. It's essentially the ability to add the icing on the commodity aluminum cake. It allows you to take a number of source molten aluminum, solidify it in our cast houses and then sell it to an array of customers, and it becomes a large linear optimization program of reducing freight costs, reducing operating costs, choosing the right customers with the right premium and the right payment terms.

What we've been able to do differently this year - and it's been driven by having a P&L separate for each one of our businesses - is a disciplined focus on cost management; in driving cost improvements in each and every one of our plants, while also driving the topline. This has helped us to double our profitability between the first half of 2015 and the first half of 2016. We also have been granted the rolled products business which was historically part of the global rolled products business but is an interesting and important part of Alcoa Corporation's future portfolio. It consists of an end and tab plant for aluminum cans in Warrick, Indiana and body stock plant in Saudi Arabia which is a joint venture with our Ma'aden partners that together provide an integrated package to North American can producers.

There are really two levers that we have here. Number 1, the market in North America for can sheet is becoming tighter and that's driven by the fact that the Tennessee plant, which was a provider of body stock and is now going with Arconic will be exiting can sheet and going into the automotive market, which is a similar trend that we've seen around North America. That means we will be selling into a market that is becoming tighter which bodes well for our margins. At the same time we're going to bring a little bit of our commodity-centric cost cutting mentality to how we run both of these rolling mills. The fact is is you win, when you fill the mills and when you lower your costs. That means you can survive all parts of the cycle and really win and drive cash for our shareholders.

Now I'd like to say just a few words about our energy business. Our energy business, to a certain extent, has benefited from our position around the world and particularly in Brazil as an important miner, refiner and producer of aluminum. It's allowed us to work our way into a position of equity, hydro power, real generating assets across Brazil from the North to the South. This means that Brazilian energy prices are incredibly important to Alcoa Corporation today and into the future and the good news here, as you look at the 35% EBITDA margin that we experienced in 2016, is that those were during cyclical lows of energy prices in Brazil as well incredibly weak Brazilian real. That means that this is a consist generator of EBITDA and a consistent generator of cash for the Alcoa Corporation business.

So now let's step back and look at our portfolio and think about what it means to be a global operator. You can see here that we stretch from North America into Brazil, across Europe, Middle East and down into Australia. It's not so important where we operate, outside of the fact that it's going to help us find the right cost structure, but it's also important that we're located in some of the most exciting markets that exist today for consumption of aluminum. Automotive and aerospace in North America, when you think about the growing bauxite market in China, we are correctly located not just to supply into these markets but also to truly understand how the markets work, how the industry is responding to changes so that we can move quicker. We can move faster and we can be more competitive as we look around the global landscape.

So let me spend a few minutes now talking about our industries. Talking about, again, each of these three primary aluminum drivers that will help to make us successful into the future. Bauxite; the real story in bauxite is that the third party demand in China has been growing at an increasing rate. When we look over the next decade, we expect to see an 8% growth rate in third party purchases of bauxite. That's a doubling from 2015 to 2025. Right now and when we think about how this market works, every refinery that comes on line is attuned for a specific kind of bauxite and in the past we've seen a lot of bauxite coming from places like Indonesia and Malaysia where the taps have now been shut off by government action. We also know that the Chinese are looking for long-term suppliers of high quality, very consistent bauxite delivered when they need it, which helps them no longer need such huge stock piles just in case a government decides to stop exports. What this means for us is that we have the opportunity to grow with real customers at the end of that value chain and we have the opportunity to creep the assets that we have today, to find ways to smartly increase production and sell into what we see as a balanced market.

In alumina, the story really starts in the middle of 2015 when aluminum prices abruptly fell and we saw Chinese smelting capacity start to come offline; alumina refineries did not react so quickly and we saw a buildup of inventories at the end of 2015. The difficulty here is that alumina is notoriously difficult to leave in inventory. It requires special tanks, oceangoing vessels or large 1 ton super sacks which are used in China, but it means there's very limited capacity to hold inventory. So the story in 2016 had been the working off of this excess inventory and has driven both the Chinese in the rest of the world markets into a deficit position so that when we enter 2017 we're in a balanced position and we really don't see many inventories out there. As we look at the market today and the recent price action, we see more buyers than we see sellers in the market.

The second most important point about this market, and that is a benefit for Alcoa Corporation and where we sit on the cost curve, is that costs are increasing in China. Caustic prices have been rumoring to go up significantly. We've seen rising coal prices in China across this year which have increased the energy costs inside of Chinese refiners and transportation, which is incredibly important given the volumes of materials both flowing in and flowing out have been increasing as well. What this means is a steepening cost curve. A cost curve where those who are on the lower end have better margins because the marginal producers at the top who are making rationale economic decisions about whether they operate or not have a much higher clearing price and therefore support higher prices into the future.

Finally, I'd like to say just a few words about aluminum and this is a story that really across Q4 is just being told right now. Again we need to divide it into two components. Everything outside of China and then what's going on inside of China. Outside of China we have moved into a persistent deficit. With the exception of growing production in the Middle East including our joint venture in Saudi Arabia, we've seem very little capacity to come online while we've also seen demand continue to grow at a steady pace. That means in 2016 we were in a deficit position and we expect that deficit to continue into 2017. This also means that we continue to consume global inventories that have been built up and we have seen significantly decrease over these last few years. So the question then comes, what's happening in China?

In China we've seen significant discipline in bringing capacity back online across 2016. In my alumina story I talked about the reduction in smelting capacity at the end of 2015. As we went into 2016, what we really saw is that capacity started coming back in later than we had expected. It means that Q1 was in a surplus condition, more driven because demand tended to be cyclically low in Q1 in China because of the Chinese New Year, and then in Q2 and Q3 we've been in a deficit condition which has been obvious as we look at the flows of material moving through China.

Looking to Q4 it becomes a question of what happens both on demand and supply. We are seeing some smelters restart. We have seen some new expansions although at a significantly reduced rate that we had seen in prior years and we're also seeing new players emerging, Xinfa, Hongqiao Weiqiao that are intensely focused not just on creeping volumes or on community development but on the bottom line and on their top line which means we see a lot more economic financially motivated players in China, as well as CHALCO which is a very large producer that is also trying to drive a lot of discipline in what assets they choose to operate.

On the demand side of the equation we continue to see a very resilient China, and remember that every year the pie is getting bigger because of how quickly they've grown. We also hear a lot of statements from China, from the government and from the industry sectors talking about balance in supply and demand. So when we look at what will happen over the rest of 2016, it's hard to see exactly how we'll end it this year. In our Q4 earnings that we'll announce in January, we will take a definitive position on what we think 2017 will look like, but right now we see a lot of strength across the aluminum sector, both in China and in the rest of the world.

One more point, the other side of the equation as I mentioned in alumina, is the steepening of the cost curve. One of the most difficult things we saw at the end of 2015 with such incredibly low Chinese coal prices was the flattening cost curve because that meant the difference between a 1st quartile and a 2nd quartile producer was very little between the higher part of the cost curve. As transportation costs, as alumina costs and as energy costs skyrocket in China, it's re-establishing that steeper curve. It means that it's harder for higher cost plants to drive and make cash in China. It means that we're starting to see improving margins in our lower priced business.

Now the question naturally is we understand the markets, we see that there's some green shoots; how do we capitalize on this? Really, there's two really important points that I'm going to make before I turn this over to Bill so he can talk about the financials. Number 1, we have the right team to understand the markets, to determine what is the right strategy to react to what's happening, and to drive real cash into the future. Each one of the people that you can see here, self-selected to be part of our Alcoa Corporation. They're excited about the story. They understand what it means to be a commodity producer that lives on a cost curve. They've studied and understand also what it means to drive value in our value-added businesses and they are dedicated and laser-focused on making our cost structure as efficient as possible.

On the other side, we've also assembled a collection of directors that can help us to look in new directions, that come from adjacent commodities, that come from experience outside of Alcoa Inc. Board and wanted to be part of the aluminum story and also people that understand how financials work and how you can drive consistency. It's the right team and it's the right time and we know what to do at all parts of the cycle.

Finally, when we think about the operating system that we're creating as part of this new spun-off company. We've been incredibly focused on driving an operator centric culture and that means that everything that we do is meant to help support the people on the shop floor that are producing products for our customers. That's where we generate value. At the same time, we make a lot of transparency back up through the chain so we can understand what's happening in our market, so that we can better react to how we see our customers moving, how we see the supply, demand balances across the industry and with a clear sighted view of what we can achieve in each and every one of our facilities.

We are very focused on being a value-driven company which means that we protect the health and safety of our employees. We protect the future of our environment. We work with our community but we never stop being clear sighted about how we put every single dollar to its best use and how we can adapt our portfolio to what comes down the road.

When we think about what we've achieved on productivity over these last few years as well as in 2016, it shows how much we understand that cash is the life blood of today's Alcoa Corporation and in all of those things that we are excited and motivated to do for the future.

So to talk about that I'd like to ask Bill Oplinger to speak about the financials.
Bill Oplinger

Thanks, Roy. If we turn to the first slide on the financials, what we're showing here is a segment profitability and segment revenues for the first six months of the year. A couple of key points to take away from this slide. First of all, as Roy has alluded to, we have six sources of earnings, six profitable segments, and the other thing that jumps out at you is high profitability in the bauxite and the energy segment. I would caution you though, if you were to go back over time, you would see higher profitability in other parts of the business and that shows the importance of being exposed to all segments of the value chain. So we've provided the 2015 numbers in the backup.

A couple of other points on this slide. We've broken out the transformation spending for you. Transformation, just so you're clear, is the amount of money that we're spending on our closed and curtailed assets. We've tried to give you some better insight into the overall corporate spending.

In aggregate, first six months of the year we generated a 10.2% EBITDA percentage and we continue to drive to approved margins.

If you take a longer term look at both sales and EBITDA, this is one of my favorite slides, and the reason why it's my favorite slide is because it really visually shows the impact of the re-positioning that we've done in the business. I would point out to you, if you look at the 2013 revenue numbers versus the last 12 months through the second quarter of this year, revenue has fallen significantly and that's largely related to the drop in commodity prices. You can see that in the middle section. LME prices have fallen from $20.89 down to $17.24 representing a $370 per ton drop. That combined with the lower alumina prices has driven our top line revenue from $12.5 billion down to $9.6 billion. So with a $3 billion loss in revenue, one would expect significant profitability deterioration but clearly you can see in 2013 we generated a little bit over $1 billion of EBITDA. On a trailing 12-month basis we would be generating close to a billion dollars also, so this very dramatically emphasizes all the restructuring that we've done and how we've been able to really battle hard in the business so that we can make profitability at a low metal price.

In addition to that we have skinnied down capital expenditure spending. We've been running at around a $400 million rate. You can see that sustaining capital is around $330 million over the last year or so, and we continue to invest in the business. Even at these low metal price environment, we're investing in return-seeking projects, albeit at a lower level than what we've done historically.

Let me turn to the balance sheet. We will be launched, Alcoa Corp with be launched with a very strong balance sheet. We will have roughly $1.25 billion of funded debt. In addition to that we will be picking up the Brazilian loan which is attached to some of the hydros in Brazil, so we will have around $1.5 billion in overall debt. We anticipate having north of $600 million of cash on November 1st and so that would put us at a net debt position of around $800 million. In addition to that we will have a revolver that is undrawn, a $1.5 billion revolver, and we've already received the ratings from the credit agencies. We will be a BB minus and Ba3 from S&P and Moody's, respectively.

A fairly low levered business at this point of the cycle, which if we then turn to the following page, you can see that if you do the math on a net debt to last trailing 12-month EBITDA, we are at around point eight multiple. We have debt to equity of around 20%. So again very prudently geared for this point of the cycle and we've done a lot of work on the working capital side and expect to have that at less than 30 days.

If we then turn to—one point that I want to make clear on our balance sheet, excluded from the numbers that I've show you are a couple of different value drivers that I think are important. On our balance sheet in the Other non-current assets line, we've got the Saudi complex that's valued at $900 million. As Roy alluded to, it is the lowest cost smelter in the world. It is a fully integrated aluminum complex that we believe with will drive value in the future. In addition to that, we have $800 million of pre-payments for energy on the balance sheet. That kicks in around 2020. What that means is that we've already paid for natural gas in Australia, so we will be getting a tranche of natural gas for essentially for free starting in 2020 since we've already prepaid it.

Then the last one that I would point out is we have approximately $300 million of VAT receivables sitting on the balance sheet that if we were to restart our aluminum smelter in Brazil, we can monetize that receivable and convert that asset into cash in the future.

We then turn to the growth opportunities that we have as a company. I've outlined here the fact that we have growth opportunities in all aspects of our business. We have 18 projects lined up that generate very positive returns. In aggregate, you can see those 18 projects will cost us in capital around $370 million and they generate around $300 million of EBITDA impact. So if you think about that, these are projects that have very quick pay back, slightly over a year, and so good opportunities for growth across the value chain for the company.

We then turn to how we think about our financial policies. A couple of things should jump out at you from this slide. As I've already talked about, we will be prudently capitalized, well capitalized throughout the business cycle starting with low leverage given where we stand in the cycle. Secondly, very strong liquidity, $600 million of cash on hand; when we start $1.5 billion of undrawn revolver so we have significant credit capacity, and we'll have operating cash flow as the primary source of liquidity.

Thirdly, and I thought Roy did a very good job of talking through the fact that we envision being very disciplined around capital execution. Our capital priorities are first and foremost to sustain the assets that we have. Secondly—really second and third is to manage the leverage and potentially de-lever a little bit more at this point in the cycle while investing in high returning projects and then returning cash to shareholders.

Then the last point: again, we are prepared to continue to manage the portfolio aggressively depending on where we are in the cycle. We've done that over the last seven or eight years and will continue to do so.

So where does that leave us for 2017? We've provided a couple of levels of guidance here to help you model what our 2017 will look like. We expect production growth in bauxite. We also expect production and sales growth in our rolled products business. Alumina, aluminum and cast products are all relatively flat to 2016. You may wonder why that is. The reason why that is, as we have taken out higher cost capacity around the world, specifically in places like Point Comfort, we will replace that capacity by creeping our lower cost facilities in alumina and aluminum. So we are able to replace all of the capacity that we've taken offline in 2016 with creep opportunities in 2017.

In addition to that, we're very focused on corporate overhead. We are projecting corporate overhead to be less than $200 million in 2017. We will manage capital spending wisely. Sustaining capital will continue to come down and we anticipate that will be less than $300 million while we invest in the business. Return-seeking capital, we're projecting it as being less than $100 million. I will caveat that however; if we see that markets improve, we will accelerate our investment in those projects that I listed, and if you go back to the prior page, we have approximately $370 million of capital projects that provide a return very quickly. If we have the cash generation because markets are improving, we will continue to invest in those projects.

Last two bullet points, just giving some guidance around pension and OPEB. Pension and OPEB cash contributions of less than $250 million and pension and OPEB expense is less than $200 million. One point on that is that those are not additive. The cash contribution is inclusive of the expense, so I don't want people to be confused by that.

If I were to summarize quickly. We have multiple sources of earnings with different drivers in the segments and it's positive that we're exposed to all parts of the value chain within aluminum. We're very well capitalized, we have a strong balance sheet to go into the future, and we have numerous growth opportunities but we will be very disciplined about our use of capital.

Let me turn it back over to you Roy for some closing comments.

Roy Harvey
I think we're all looking forward to the question and answer. Let me just circle back to the beginning and remind you what we're trying to portray as we got through these five incredibly important points.

Number one, Alcoa is cost efficient, operator-centric and focused on our shareholders. We refuse to not find new ways to drive productivity and to not be able to gain value and be able to invest in smart projects at all points of the cycle. These are projects don't need incredible prices to gain returns. They're projects that at today's prices allows us to continue to win and to generate additional cash.

Number two, I told you that I was going to help you understand that it is the right time to invest. We know how to drive these additional projects. Our plants are lean and are efficient and are focused on continuing to drive down the cost curve. We're also very thoughtful and very constructive about what the future of aluminum will be. Whether you think about the opportunities we have in bauxite to build a merchant third party business, when you think about a balanced aluminum market where we continue to be the largest third party seller in the world or when you think about aluminum where we see a lot of green shoots and where the future will be determined in China over these next few months but where the rest of the world continues to have great opportunity as inventories come down significantly and as we continue in a deficit position.

Finally, number three. We're ready for what comes next. We've put together the right balance sheet. We are focused on how we live through the market cycles. We are prepared for what will be thrown at us and can adjust our portfolio, can adjust the way that we do business, and have experience in doing so, but we're also poised for opportunity. We look and we are excited about these $370 million of projects. We can't wait to get them done and start to drive additional cash flows, and are also firmly excited about what new ideas that will come up as we continue to operate these assets.

Why don't we go ahead and move to the question and answer session?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question you may press star, then one on your touch-tone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time we will pause momentarily to assemble our roster.

Our first question comes from Jorge Beristain of Deutsche Bank. Please go ahead.

Jorge Beristain
Hey Roy and Bill, I just wanted to firstly congratulate you guys on a really great disclosure and presentation that you guys have put together. It's really going to help us better cover this company going forward.

Roy Harvey
Thanks, Jorge. Really appreciate it.

Jorge Beristain
I guess maybe my first question is for Bill. Maybe if we can go back to page 18 of the slide deck where you break out that there is Other non-current assets and you go through the Saudi complex and pre-pay on the Australian Energy. Those total about $2 billion; the category itself is still carried at book value at about $4.4 billion. I was wondering if you could detail what else is going on in there?

Bill Oplinger
I think the biggest thing in there is we have to mark-to-market our embedded derivatives and so you know we have embedded derivatives on power contracts in places like Canada and Iceland and so that's what would make up the majority of the difference. Just to be clear when I say mark-to-market the embedded derivatives, in a case where LME prices have fallen from when the contract was originally put in place, energy prices would also fall too because these are LME linked contracts and therefore all of the accounting for that means you have to mark that benefit to market, that you're projecting lower energy prices in the future.

To be clear, personally, I would love it if that debt benefit didn't exist because that would mean that LME prices would be higher and energy prices would therefore be higher and we would not have an embedded gain on those contracts.

Jorge Beristain
Understood, but what I guess I'm getting at is any of that stuff in there monetizable?

Bill Oplinger
No, we've highlighted the three big monetizable items.

Jorge Beristain
Okay. Then maybe just talking a little bit about corporate overhead, you do break out that it's a $200 million annual expense, but you've excluded the transformation and the corporate and the pension and all that stuff. So if we think about your last 12 months trailing EBITDA of your operational units, can you just give us in a nutshell what would be the overhead nut that you guys need to carry and understanding that some of that OPEB is already being borne at the subsidiary levels that were quoting in the last 12 months EBITDA for?

Bill Oplinger
Jorge, I'm not understanding the question.

Jorge Beristain
So what I'm saying is, you're saying your last 12-month EBITDA has been around $1 billion but that's at the segment level, and then on page 21 you break out your projected corporate overhead as being $200 million, but then there's some other corporate overheads that are excluded from that—the transformation and some other expenses. So I'm just trying to figure out sort of what's the right dollar number that we should officially add to the $200 million to just get a good sense to what you're kind of corporate level EBITDA would be?

Bill Oplinger
Got it. Got it. So the best way I can do is point you to page 14 and I can also point you to a backup page but let me step you through page 14. When we talk about $1 billion of EBITDA, that's $1 billion of corporate EBITDA, that's not just segment EBITDA. So that's after we've taken the negative impact of corporate spending. If you go to page 14, you can see for the last six months we are at $452 million of EBITDA. Inclusive of that was a negative $96 million of expense of what we would consider corporate overhead. Then in addition to that there was $65 million of transformation. If we then go to backup page 31, you can see that EBITDA for 2015 was at $1.7 billion of EBITDA and that corporate spend was at around $183 million, with transformation being around $92 million for that period. That's why we're projecting at less than $200 million for 2017. Once we get settled as a public company, we are going to start really trying to drive down overhead costs and we've given ourselves a little bit of space at this point just because we will carry a little bit of extra overhead for the fact that we're a new public company but then once we get settled into the routine of a new public company, we will continue to bring that down.

Jorge Beristain
Great. Thanks very much.

Roy Harvey
Thank you, Jorge.

Operator
Our next question comes from Andrew Quail of Goldman Sachs. Please go ahead.

Andrew Quail
Good morning, Roy and Bill. Thanks very much for the presentation. Congratulations on the appointments. Looking forward to you guys obviously going public and listing on the first of November. Just a couple of questions. Firstly, on bauxite price, you guys obviously are looking to grow the third party section of the segment. You've given in the back, obviously negotiated prices. Is there anything you guys can give further that would help us sort of model what was there?

Roy Harvey
Let me hit that first and maybe Bill can hit some on at the end from a purely financial standpoint. Bauxite pricing is dependent on quality, which is about alumina content and about silica content. It's also dependent upon where you're mining and how easy it is to process in the refinery in question. So pricing isn't as simple as saying what should be the right price for a standard ton of bauxite. It's what makes it a differentiated product, and to be honest it's also what makes that

connection between customer and supplier so important because by tuning a refinery correctly, which is what we've done obviously in our internal system, you can get better and more valuable use of each chunks of those bauxite (phon). So part of what we're trying to do is help our customers succeed. We know how to operate with our bauxite. We know how they should design their refineries to use our bauxite and therefore accrue more value for our customers and accrue more value for us. From a pricing perspective we're at a moment where most of our contracts stretch out no more than one to two years and so we've been taking for the most part, fixed prices for our bauxite to have small adjusters. As we look to the future, we also want to be thinking about how do we develop a pricing structure that can fit with a contract that might last for 10, 15 or 20 years from a volume standpoint. So still lots to determine there.

From an absolute standpoint, and I think you see some of our historic margins, it's important to remember that our bauxite tons have both very high quality bauxite, for example coming from the CBG partnership in Guinea which is 50% of aluminum or more, but also coming from our Western Australia bauxite which is more around 30% to 35% of aluminum content. So what that means is you need to think about those EBITDA margins in the context of the sourcing of the bauxite, and as we drive our bauxite portfolio across the world, we have the options and opportunities to sell all these different grades and each one will have its own pricing environment as well as its own margin profile.

Bill Oplinger
Andrew let me just add onto that. I think Roy gives a great answer around the different qualities of bauxite around the world. One of the nice things about being a new public company is you have this great thing called a Form 10 and if you look at—and I hate to do this to you—but if you look at page 142 of the Form 10, there is very good disclosure around the bauxite segment for the trailing six months ending in June, and you can very quickly, given the EBITDA that we give you, I think calculate what prices are, an idea around margin and you can triangulate to the margin slide that we provide. So we give you that toward the trailing six months for '16 and then earlier in the document, I don't have a page number in front of me but we have the 2015 numbers also. So you can see what—roughly in aggregate what (inaudible) bauxite prices are doing for us. (Inaudible).

Roy Harvey
If I could just add one more point too is think about the fact that what we're driving is margin. Some of our sales are done on a CIS basis and some are done in FOB basis, so that means revenues and total costs can shift a bit depending on your source and your destination.

Andrew Quail
I understand it. We've gone through the Form 10, but I mean, look, obviously you've got third party and (inaudible) and we were just trying to work out is there an easier way to sort of model this going forward given it is a big growth driver for you. Then obviously transport is going to be a component too which it's going to be hard for us to sort of model this on a pricing theme if you guys don't have the split between third party and intersegment.

Bill Oplinger
Off the top of my head, I don't have the split of pricing between third party and intersegment. What I would tell you is that we make every attempt to price our intersegment at market level. Now clearly one of the things you have to factor in, and I think Roy hit on this well, is that much of that intersegment will be dominated by Western Australian bauxite and Western Australia bauxite due to its quality will be slightly slower priced to the refineries. That's about as much as I can provide I think at this point.

Andrew Quail
Okay. Then the other one was just on energy prices. Obviously you're going market prices. Would you guys ever look to sort of hedge? Hedge the currency there in Brazil?

Bill Oplinger
We do from time to time sell forward on energy in Brazil. When we see that we think that prices are in a range that provide a good opportunity, so going into 2017 we have about a third of our energy already sold in Brazil.

On the other side of the equation, we don't do a lot of hedging of currencies. We from to time have put in no-cost collars around the Brazilian real but they're wide enough that they don't typically pay in either direction, and the reason why we do that is just to keep from getting hit by a massive shift in the real in a very short period of time. But up until now, those collars have been out of the money and that's kind of the way they are designed to be. They are designed to be wide enough that allows the real to float but protect us against a big change in the real quickly.

Andrew Quail
Okay. Thanks.

Bill Oplinger
Sure.

Roy Harvey
Sure, Andrew.

Operator
Our next question comes from Justin Bergner of Gabelli & Company. Please go ahead.

Justin Bergner
Good morning, Roy. Good morning, Bill.

Roy Harvey
Hey, Justin.

Bill Oplinger
Hey, Justin.

Justin Bergner
Thanks for the presentation today. I guess on the bauxite side, are there any mid-term targets for what you would like to do on the third party side?

Roy Harvey
We haven't published at this point how large we think we can grow that business. We've done that for two reasons. Number one, it's still a debate that we're having internally how quickly we will grow that business, and to a certain extent that depends upon the cash flow environment in which we live. So, I of course as an old mining engineer think we can grow that business incredibly quickly because we have customers on the other end, and then Bill keeps tackling me to the ground and saying, "Drive some cash in your plants and then we'll let you build some additional capacity." That's the first side of it.

The second is is that we have a brand new Board of Directors that will be getting started here in just a few weeks and one of the first and most important topics we're going to have is particularly the bauxite part of our portfolio so that they can have a good understanding of how it works and the opportunities that we're going to have.

I also want to just—one additional message is that we're at a critical time where we have significant growth in the third party market in China which means the partnerships that we build today and the customer-supplier relationships are going to be very important for us going forward. So a good start to 2016 with 6 million tons of bauxite sold and nearly $500 million of bauxite contracts over this year and the next is a great way for us to start getting familiar with the large bauxite customers out there. That means that we start to trust each other and it means that as they think about putting capital dollars in the ground, they're going to design things where they know that Alcoa is going to be a supplier, which then gives us a risk-free opportunity or a much less risky opportunity to expand mines where you already know who the customer is going to be.

So, you'll see more guidance on how quickly that particular segment is going to grow; we just haven't released it yet.

Justin Bergner
Okay. I understand. Any sort of rule of thumb for sort of the cap ex required for an extra million tons of bauxite capacity?

Bill Oplinger
It's going to vary and it'll vary depending on where it goes to. When we look at the growth opportunities that we have in bauxite, there's two big growth opportunities that we control. The first is incremental creep at Juruti. Juruti, for those of you who have followed us long enough, I think started at around a sub 3 million metric ton mine back probably six years ago, five or six years ago. We're now at around a 6 million metric ton mine and we've done that all through low capital creep projects and we'll continue to focus on that. At some point, if we step out Juruti much bigger than this today, it will require some capital.

The other area that we're looking at investing is in Western Australia. Clearly we've got excess bauxite that we can monetize in WA. It's about the infrastructure of getting it out of the port and up to China.

So, no rule of thumb at this point but those are the two big areas for central growth.

Justin Bergner
Okay, good. Then just one quick clarification question. The first half EBITDA results, they would not include any allocation for extra cost associated with being a separate standalone company, is that right? Then are you sort of willing to quantify what those costs might initially run in terms of separate standalone costs?

Bill Oplinger
They do not include any type of an estimate for dis-synergies. The dis-synergies on the Alcoa Corp side are small and we have committed to basically eliminate the dis-synergies through overhead improvements. When you see that we spent $96 million I think in the first six months and we're projecting $200 million, that is inclusive of all the dis-synergies that we will be taking on. So, again, one of the things that we are going to try to do differently within Alcoa Corp,

given the fact that as I thought Roy put it very well, we live on the cost curve, is to try to drive down overheads as significantly as we can.

Roy Harvey
If I can just add to that, the mention of the word overhead gets me excited. When we've been part of the primary products business and in plants we spend a lot of our time complaining about overheads and the fact that there's way too many of them. So one of the fun things we've been able to do is look at every single line item and think about what that needs to be at the moment of separation and then what are we going to do in order to continue to drive it down.

I would say that we've got a good start. We've been able to imagine how we should run the business, but we've got more to do and we've got additional overhead to squeeze out, whether it's the location of business units around the world or any other number of places, we've got more work to do when we're not satisfied with where the overhead sits today.

Justin Bergner
Okay. Thanks for that perspective.

Operator
Again, if you have a question, please press star, then one. Our next question comes from Matt Cartoceti of BMO Capital Markets. Please go ahead.

Dave Gagliano
Hi. It's actually Dave Gagliano at BMO but thank you for taking my questions.

Roy Harvey
Hey, Dave.

Dave Gagliano
I just have a few really basic clarification questions mostly related to Slide 21. First of all, just to try and clarify the Other corporate overhead line, in the footnote for 2017 it actually says it does not include transformation. I'm just wondering what we should assume for that transformation for 2017. That's my first question.

Bill Oplinger
We haven't provided guidance around transformation for 2017. I think the best thing that you can do, Dave, is just to take a look at what we spent in '15, take a look at what we spent in the first half of '16 and use those numbers to estimate forward.

Dave Gagliano
So that number doesn't—I'm just kind of curious. First of all, what is that number and why doesn't it fade given the transformation is kind of done now?

Bill Oplinger
Why does transformation not fade out? Well, because we will have—we have more assets that are now in the transformation bucket, right? We've moved assets from things like Point Comfort, from operating assets were operating in 2015—I'm sorry, in 2016 and now are in the transformation bucket, so that number will be I think for '17 similar to what we have in '16 as we continue to work through all of the closure costs of these facilities.

Roy Harvey

Dave, if I can just jump in too and a little bit why transformation exists. For a good amount of time we had run these assets as part of our operating businesses, so the person that ran Smelting would have a series of operating smelters and then a few smelters that were curtailed or closed. So by separating it out, the idea was to, number one, make it very clear in our financials the operating portfolio versus the portfolio that was under active remediation or under inactive curtailment. It allows us to operate it as a business. Now it's a business with very few revenues. You do sell a little bit of scrap here and there, but we look at it as an opportunity in order to reduce cash outflow as much as possible while at the same time making sure that we live up to all of the standards and all of the commitments that we have to redevelop these sites.

We also come at it from an entrepreneurial spirit in that was can transform some sites and find ways to monetize them and we've done that at a number of places over these last few years.

Bill Oplinger
The other thing to keep in mind there Dave, is when you think about transformation there are all of the curtailed and closed assets, so just off the top of my head you've got things like Portovesme, Fusina, Surinam, Point Comfort, but then the biggest out of the bunch is our Rockdale energy contract sits in that transformation number. The Rockdale energy contract for us is one of the biggest negatives that sits in Alcoa Corp and that's in the transformation bucket and we will continue to work through trying to address that energy contract but that's the biggest driver of transformation.

Dave Gagliano
Okay. That's very helpful. Thank you. I just have two other quick ones. Just a clarification, on the cap ex line, is that 100% basis or is that proportionate?

Bill Oplinger
Hundred percent basis. Everything you're seeing in this deck is 100% basis.

Dave Gagliano
Okay. What's the AWAC cap ex associated with that?

Bill Oplinger
You know what, Dave? I don't know off the top of my head how much of that is coming out of AWAC. If you look at the two segments, bauxite and alumina, it's a pretty good approximation for AWAC. You have a little less refining because we have one facility that is not AWAC or a part of a facility in fact that's not part of AWAC, then you also have one smelter that is part of AWAC sitting in Eastern Australia.

Dave Gagliano
Right. I understand that. I just didn't see guidance for cap ex ex bauxite and alumina but maybe I missed it so I'll look for that.

Bill Oplinger
You didn't miss it. We can refer it to you or provide it another time, Dave.

Dave Gagliano
Okay. Last question: if we just do the basic math, 452 million shares divided by 3, the distribution, that's 151 million shares. I know the guidance is 180 million. Where did that other 30 million come from?

Bill Oplinger
It goes to Arconic. Remember that-

Dave Gagliano
So that's issuing new stock. That's issuing new stock then, right?

Bill Oplinger
Ultimately as we do the distribution ratio, Arconic retains 19.9% of Alcoa Corp so the distribution ratio for a shareholder is 3, right? So 3 for 1. The distribution ratio including the 20% or the 19.9% that Arconic owns is more like 2.4 to 1, but ultimately an existing shareholder who owns 3 shares of Alcoa Inc will get 1 share of Alcoa Corp.

Dave Gagliano
Okay. All right, that's helpful. Thank you very much.

Bill Oplinger
Good. Thanks, Dave.

Roy Harvey
Thank you, Dave.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Roy Harvey for any closing remarks.

CONCLUSION

Roy Harvey
Absolutely, and thank you. I appreciate the attention. I also appreciate what were some good tough questions. I think we have the opportunity now to speak to additional investors and we'll be available to answer questions as you need. We want you to understand what is the Alcoa Corporation story, and again, we want you to understand why now is the right time to invest. Remember, we're cost efficient. We're simply not satisfied with not finding ways to run our plant a little better every day.

Number two, we're ready to go. It's the time, it's the right time to step in because we have opportunities to build value on the businesses that we have today and we have a market that could have a lot of upside potential and does have a lot of upside potential across the chain.

Number three, we're ready. We have the right balance sheet. We have the right people in places so that we can win at all parts of the curve.

Thank you for your participation. Thank you for listening in and we look forward to seeing you soon.

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