



## Final Transcript

### **CENTURY ALUMINUM COMPANY: 1<sup>st</sup> Quarter 2015 Earnings**

April 30, 2015/4:00 p.m. CDT

#### **SPEAKERS**

Peter Trpkovski – Investor Relations Manager  
Mike Bless – President and Chief Executive Officer  
Shelly Harrison – Senior Vice President, Finance and Treasurer  
Rick Dillon – Executive Vice President and Chief Financial Officer

#### **ANALYSTS**

Jorge Beristain – Deutsche Bank  
Timna Tanners – Bank of America Merrill Lynch  
David Gagliano – Bank of Montreal Capital Markets  
John Tumazos – John Tumazos Independent Research  
Tony Rizzuto – Cowen & Company

#### **PRESENTATION**

Moderator                      Ladies and gentlemen, thank you for standing by. Welcome to the First Quarter 2015 Earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session, and instructions will be given at that time. (Operator instructions.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Peter Trpkovski.  
Please go ahead.

P. Trpkovski

Good afternoon, everyone, and welcome to the conference call. Today's presentation is available on our website at [www.centuryaluminum.com](http://www.centuryaluminum.com). We use our website as a means of disclosing material information about the company and for complying with Regulation FD.

I would also like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations, and financial condition. These forward-looking statements involve important known and unknown risks and uncertainties, which could cause our actual results to differ materially from those expressed in our forward-looking statements. Please review the forward-looking statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties.

In addition, we've included some non-GAAP financial measures in our discussion. Reconciliations to the most comparable GAAP financial

measures can be found in the appendix to today's presentation and on our website.

Now, I'd like to introduce Mike Bless, Century's President and Chief Executive Officer.

M. Bless

Thanks very much, Pete, and thanks to all of you for joining us this afternoon. We appreciate the time.

If we could look please to Slide 4, I'll give you a quick update on what we've been working on here over the last couple of months at Century. First just to put my comments in a little bit of context, let me give you just give a couple of high level thoughts on the market environment that we're seeing. I'm going to keep these pretty brief because in just a couple of minutes, Shelly is going to give you a lot more detail on the market environment.

But it goes without saying that volatility and uncertainty remain constant in our markets. Obviously at the most macro level, a strong dollar continues to pressure all commodities including base metals. We've seen a little bit of give back by the dollar here over the last couple of days and you've obviously seen the aluminum price and the price of other

commodities react to it at a flat price. The cash price is up over \$100, close to \$150 over the last several trading sessions.

In our market specifically, fundamentals remain generally favorable. The US remains on a very good pace. We're seeing some light in Europe in agreement with the general economic indicators that we're seeing out of Europe, and little new supply we see in the world outside of China. Of course China is driving the sentiment towards aluminum in particular. A couple of factors, obviously, overcapacity remains even though the pace of new projects is obviously slowing. Growth in domestic demand is simply not keeping pace with the new supply in China, and of course the cost base has come down due to a decrease in energy costs amongst other factors.

These factors and others have contributed to an increase in the flow of exports coming out of China; we saw that at the end of 2014 going into early 2015. Some of the very recent data looks like that trend may be ending but obviously we'll have to watch this very closely. And Shelly again will cover the market environment in more detail in just a few moments.

So on now to the company, we think in this very complex environment that we've been seeing, we had a very good quarter here. We saw operating improvements across all of our businesses, most noteworthy at Hawesville and I'll get in to more detail about that in just a couple of minutes. Power prices in the US continue to be supportive of our business and we think we posted very good financial results with strong cash flow.

Getting to Slide 4 now in the individual activities, obviously at Mt. Holly we've been giving a lot of focus. The post-acquisition activity there is going very well. We continue to see really good value creation with our other businesses in key areas like safety, operations and commercial activities. The most significant transitional work that remains continues to be the transition of the business systems at Mt. Holly. We're using this opportunity to upgrade the systems across our entire company.

Our SAP installation at Century is now ten years old and we've put reasonably little investment in the play since 2004. At the same time, we're adding a full suite of the most modern analytic tools. This will be a meaningful investment this year. It's included in the capital budget that we gave you in February. But we're convinced it'll add real value especially as our business becomes more complex as it is.

Moving along of course the major objective at Mt. Holly is before us is reaching a post-2015 power arrangement. Just to take a step back and I remind you, the current deal we put in place in the middle of 2012 obviously expires at the end of this year. It's got two parts, we take 75% of the power we need at Mt. Holly from a third-party resource and 25% from the traditional supplier, that being Santee Cooper, which is owned by the state of South Carolina. We've spent the last four months in intensive negotiations with Santee Cooper. We've put a variety of proposals on the table, all of which would leave all other rate payers unharmed in any way.

Thus far, the power company has declined to pursue any of these structures and we're continuing to work through the issues with them and with other parties to reach a package that'll support the plant's operations over the longer term. The more time we spend as a sole owner of this plant only increases the commitment to finding a path forward. I really can say we have world-class employees down at that plant. When you spend time down there, it's an infectious environment and again it just hardens our resolve to find a solution here.

The plant's got great production efficiencies and very good product quality. In addition, we've come to find that South Carolina is a terrific environment for a business like ours or frankly for any business for that

matter. So we're absolutely committed to running this plant for the long term, that having been said, the power price on offer from the traditional supplier is just not close to supporting the continued operations at this plant, and therefore we need to find a creative solution. I'll give you some comments later on about where we're heading here.

Moving along, we reached an agreement with our use at Grundartangi during the quarter; it's a five-year contract. The agreement preserves good operational flexibility for the plant and it ties the development of our personnel costs to the broader labor market in Iceland. We think it was a very good result for all involved.

At Hawesville, we began negotiating a new labor agreement with our union in February. Our goal continues to be to reach a fair and reasonable contract for employees that'll achieve the operational efficiency and flexibility that the plant needs, and obviously will control growth in future healthcare costs.

We reached two separate agreements with the union negotiating committee during the month of April and both regrettably were voted down by the membership. Thus we presented the union with our last, best

and final offer last weekend and we are now considering the appropriate next steps.

Just a couple of comments on the power situation in Iceland, there is not a point on the slide but I think it bears mention. Two parts, Helguvik first, as we've told you, we're back in arbitration with one of the geothermal companies. This company is making the same claim on which we prevailed in the first arbitration and that claim obviously was that the contract is no longer valid. Frankly, they've been trying to do this since the present majority owner of this company, of this Icelandic company, it's a non-Icelandic owner, bought this company five years ago. So obviously we'll have to continue along with that process.

With the other geothermal company, we're continuing a good level of discussions.

At Grundartangi, the contract with the national power company expires in 2019. This was the original contract when Nodural was first built in the late '90s and it now represents just about 30% of the plant's power requirement. We've begun discussions with Landsvirkjun regarding a post-2019 extension. The contract says that the two parties should be talking now even at this early time.



Moving along at Ravenswood, in recent months, we've had the most substantive dialog that we've had with the power company over the last couple of years. We now have a detailed proposal on the table and in conjunction with the state tax credit that we've been voted, it would absolutely support the restart of the plant. It's important to note again our structure requires no support from other rate payers.

Thus far, we've had no commitment from the power company on our proposal. The state remains extraordinarily motivated to get the plant reopened. We're getting close to a decision point here at which point either we can push the ball over the line, over the next few months, or regrettably we're going to have to conclude it can't be done, and again, I'll have a few more comments here at the end of my remarks.

Just lastly here to remind you, we've got a pretty aggressive capital expenditure budget for this year for 2015. We detailed that for you during the February call. Just to remind you we've got two reasonably large one time efforts this year, the first being the refurbishment and modernization and restart of the second baking furnace at Vlissingen; this is our anode plant in the Netherlands. That project is on schedule and on budget, and will conclude before the end of this year. We'll then have a 150,000

metric tons of final anode capacity at Vlissingen, and that's nearly enough for Grundartangi's current production rate. As a reminder, this is a \$12 million project with a simple pay back of under one year.

Second major project is the modernization of the anode rodding shop at Hawesville. This again is a significant investment, \$15 million, still on budget and on time. As we explained to you last time, this project is absolutely required for the operational stability of that plant but it'll also bring benefits in areas like a reduction in power usage and an increase in purity production.

We remain committed to the 2015 capital plan that we showed you in February despite the market disruptions we've been seeing here over the last month or two, but of course we reassess it constantly.

With that, I will turn it over to Shelly and ask her to talk a little bit about the industry environment.

S. Harrison

Thanks, Mike. We can move along to Slide 5, please. I'll provide some commentary on the industry environment. The average cash LME price fell to \$1,800 per ton in Q1. That's an 8% decline from Q4. Prices were fairly range bound in the \$1,750 to \$1,850 area during Q1, but in just the

past few days, we've seen prices push through the high end of this range.

The cash price today closed just above \$1,900 per ton at the level we haven't seen since late last year.

While Western world aluminum fundamentals remain positive, concerns around Chinese exports and a strong dollar continue to weigh on the market. There have also been some recent changes in Chinese tariffs that have heightened concerns that exports of primary aluminum disguised as semi-fabricated products will continue to grow. These changes are still being evaluated, but so far it appears that the products for which the tariff was removed represent only a small portion of Chinese exports. In addition, falling premiums in Europe and the US Midwest should discourage exports from China that the arbitrage is now essentially gone.

So let me talk about the regional premiums in a little bit more detail. The European duty paid premium peaked at \$490 per ton in January and is now down at \$175 per ton. In the US, the Midwest premium peaked at \$0.24 per pound in February and this is now trading at \$0.1425 per pound. The weakness in premiums is being driven by a combination of several things. These include the backwardation in the LME curve causing aluminum financing transactions to become uneconomic as well as changes in LME warehousing rules and continued overproduction of

aluminum in China. All these things result in increased availability of aluminum and less pressure on the premiums.

We believe we're rapidly approaching a level where premiums should find support purely based on a logistical cost and for Europe the duty to get metal into these regions. These things often do in markets. The downward momentum may overshoot before it corrects to fundamentally supported levels.

In Q1, LME inventories continued the trend of a steady decline that we've seen since early 2014 and they're currently sitting at the lowest point since mid-2009. As you can see in the chart, we're now approaching 40 days of demand in inventory. Dropping below this level historically has been considered indication of tight aluminum market, but movement of inventories to non-registered warehouses has made this data much more difficult to evaluate.

Despite the market overhangs that I mentioned, we continue to believe that there remains a good fundamental story for aluminum. North American year-over-year demand was up 5% in Q1 driven by the automotive sector and European demand is showing some signs of life.

On the supply side, we continue to see new production in China as lower power prices are improving the cost structure for aluminum plants in that region, but outside of China new smelter projects are essentially nonexistent. Even with the expected Chinese exports, the global market for aluminum is forecasted to be reasonably well balanced for 2015.

So just a couple of quick comments on alumina before I hand it back to Mike. Australian pricing traded down in Q1 from \$355 per ton in early January to \$335 per ton in early March. Since then, we've seen alumina prices tick up just a bit to the current level around \$340 per ton. Pricing for Atlantic alumina continue to trade at a discount of about \$10 per ton. Overall, the global alumina market is expected to see a modest surplus in 2015.

So with that, I will hand it back to Mike.

M. Bless

Thanks, Shelly. If we could turn it over to Slide 6, please. A couple of quick comments on the operations and then I will turn you over to Rick, who will obviously go through the financial results. First and most importantly, safety performance, as you can see, flattish at the US plants. This is a comparison as usual of the most recent quarter to the quarter before this. So, here, obviously, Q1 versus Q4.

Grundartangi though, uncharacteristically, had a very difficult first couple of months of the year. A team there has identified a variety of root causes for this and has put in place strict remedial actions. Last two months have seen an improvement and much, much better performance, but we continue to watch this closely. This is an area of significant focus from the highest levels of the company.

Moving down to production, as you can see, good results across the plants, with Hawesville in particular having significant improvement from the levels where it was in Q3 and Q4. Moving on, KPIs or production metrics, again, Hawesville showing noteworthy performance. A couple of examples here, we had amperage and current efficiency both up nicely, power efficiency improving by 2% and 2.5% more average cells online during the quarter. That's what obviously drove the production increase.

Going down and finishing with cost performance, as you can see, again, good results across the board. Hawesville in particular was very strong. As a reminder, going back to about the middle of last year, we endured some pretty severe power modulations and this caused an instability in the process, a drop in production as I've referred to and an increase in maintenance and related costs as we fought to get the plant under better

control. We've seen a significant improvement in these areas and, as I said, production is now back to full capacity. As you can see Sebree and Grundartangi, obviously good performance as well, no particular area of note there, the improvement was across the board.

With that, I'll turn it over to Rick.

R. Dillon

Thanks, Mike. Now let's turn to Slide 8 of the presentation and I'll provide some additional details on our financial performance for the first quarter of fiscal 2015. Our net sales were up 7% from the fourth quarter reflecting the impact of increased volume from the Mt. Holly acquisition and our continued conversion from tolling to direct sales in Iceland, partially offset by unfavorable market conditions quarter-over-quarter.

Let's start with the market impact. As a reminder, our fiscal 2015 pricing is on a two-month lag basis versus the one-month lag used in fiscal 2014. The average cash LME price was down 3% on a two-month lag basis and the Midwest transaction price was down less than 1% sequentially.

Realized prices in the US were down 3% in the first quarter reflecting that transition from one-month to two-month lag for pricing. It is important to note here again, as Shelly pointed out, the LME in the Midwest transaction

price actually declined 8% since December 2014 and this decline will show up in our realized prices in the second quarter of 2015.

Our Iceland direct sales are also on a two-month lag basis as they have been historically. The all-in two-month lag LME in European duty paid premium decreased 2% in the first quarter consistent with the decline in realized prices. Iceland had direct shipments of approximately 46,000 tons in the first quarter, an increase of almost 6% from the fourth quarter of 2014.

We continued our migration from tolling sales to direct sales with an additional Iceland tolling contract of 49,000 tons expiring at the end of fiscal 2014. There is one remaining contract for 90,000 tons, which will expire in mid-2016. Tolling sales were down 15% in the first quarter at approximately 30,000 tons.

On a consolidated basis, global shipments were up 9% in the first quarter versus the fourth quarter with the Mt. Holly acquisition driving the US shipments up 15%. Iceland shipments were down approximately 4% sequentially, which is a reflection of the timing of title transfer on direct sales as discussed in previous quarters. Daily production in Iceland was actually up 2% in the first quarter versus the fourth quarter of 2014.



Turning our attention to operating profit, we are reporting an adjusted EBITDA this quarter of \$101 million, an increase of \$9 million, compared to the \$92 million adjusted EBITDA in the fourth quarter of 2014. The impact of higher sales volumes from the Mt. Holly acquisition, favorable power prices and other operating costs was partially offset by the unfavorable impact of market conditions on pricing and higher alumina costs. Lower all-in pricing, including the impact of the declining LME, regional premiums, value-added product premiums, net of the impact of the LME on our power costs, all combined to reduce our operating profit by \$15 million.

As we noted on our last call, the majority of our alumina purchases will be based on an indexed price in 2015. This change, combined with the expiration of certain percent LME contracts negotiated with historical terms very favorable to current market terms, resulted in \$12 million of increased alumina costs in the first quarter, of which \$6 million remains in inventory and will be realized in the second quarter of 2015. We'll refer to that again when we discuss cash flow. Hawesville power costs were down \$3 million and Sebree power costs are down \$2 million from the fourth quarter of 2014.

Our average delivered price to Kentucky in the first quarter was \$34 per megawatt hour in line with our discussion on the last quarter's call down from the \$37 incurred in the fourth quarter and well off the extreme highs experienced last year this time, as you can see on Slide 7. Mt. Holly power costs were down \$2 million, driven by the decline in natural gas prices, with average prices just under \$3 during the first quarter, versus just under \$4 experienced in the fourth quarter of 2014.

Our operating costs decreased \$13 million in the first quarter with Hawesville cost improvements being the largest driver. As Mike discussed, the cost incurred in the back half of last year getting Hawesville pot lines stabilized and the resulting impact of lower production volumes on fixed cost absorption are behind us resulting in approximately \$7 million in cost reductions, sequentially from the fourth quarter of 2014. SG&A costs decreased approximately \$2 million during the quarter that's after the adjustment to exclude severance-related costs and was attributable, primarily to a decrease in stock compensation costs in the first quarter.

In summary, incremental volume for the Mt. Holly acquisition, lower operating costs, including power, partially offset by unfavorable aluminum pricing, and increased alumina costs drove a net operating profit

improvement resulting in adjusted earnings per share of \$0.72 for the quarter, an increase of \$0.08 from the fourth quarter.

Moving on to liquidity and turning to Slide 9. Cash increased during the quarter by \$84 million with the adjusted operating profit being the obvious driver. I will note our ending cash balance on Slide 9 includes approximately \$21 million of restricted cash as a result of the decision, the cash collateralized from short-term power commitments that was released unexpected just subsequent to the quarter end. Capital spending during the first quarter was \$13 million and we expect spending in the remaining quarters of fiscal 2015 to be higher. As Mike discussed, we will continue to anticipate plan spending levels in that \$80 million to \$90 million range.

As noted in the earnings release, during the quarter our board expanded our share repurchase program by approving an additional 70 million. In the first quarter of 2015, we repurchased 1.2 million shares with an aggregate purchase price of approximately \$19 million. As of the end of the quarter, we had remaining authorization under the program to purchase approximately 61 million of additional shares.

In the first quarter we initiated the purchase of \$7 million worth our 500,000 shares of common stock that settled subsequent to the quarter

end. We do expect to continue to execute under our share repurchase program in the second quarter of 2015. The increase in cash from working capital is driven by a favorable accounts receivable payment terms negotiated for 2015 and the timing of liability payments.

As we discussed last quarter, we expect to see a significant increase as we realize the full quarter benefit of these new sales terms. This benefit however was offset by an increase in inventory during the quarter. The growth in inventory is primarily attributable to the timing of alumina, inventory received at Mt. Holly combined with that increased cost for alumina noted earlier.

While there were no the acquisition-related payments during the quarter, subsequent to the quarter we did make an additional payment of \$38 million pursuant to the terms of the purchase agreement for Mt. Holly, which covered the final resolution of the pension funding obligations and the working capital on economic close settlements as previously discussed. There were no outstanding borrowings under our revolver other than the letters of credit and available liquidity increase by \$96 million at quarter end, including the temporarily restricted \$21 million in cash.

With that, I'll turn the call back over to Mike.

M. Bless

Thanks Rick. If we can turn to Slide 10, please, just to give you a sense of what we'll be focusing on here over the next couple of months and then we'll get right to your questions. Obviously, Mt. Holly right at the top of the list, as I said we need to reach a form of agreement for the post-2015 power arrangement.

And in this respect we need multiple parties to work with us and work together creatively. Time is getting short, if we can't find a solution over the next few months we would be required to begin [indiscernible] operating that plant with a view towards December. This shouldn't have to happen. All the pieces is there, South Carolina authorities are very engaged and are well aware of the importance of Mt. Holly to the economy of Berkeley County and to the broader state. It's now time to break the back of this and we're cautiously optimistic it can be done.

As I said before also we have to find our rational path forward for our labor situation at Hawesville and we'll be spending lots of time and effort on this over the coming months.

On Ravenswood, as I said power contract there. We've got what we think probably is our last substantive idea on the table with the power company. If we can't develop any traction on that we'll need to assess our next steps. This could include a filing with the PSC, the public service commission obviously on a unilateral basis. We're convinced our structure works, so we think that path forward might have some merit. At the same time we'd have to start considering what our next steps would be if we're unable to find a path forward.

Lastly, we continue to make very good progress with the design and engineering at the value-added products investments that we've been considering both in the US and Iceland. And we continue to believe given our hot metal position that we are in a unique position here. At this point though we're going to take a short pause and assess where these markets are heading in the US and Europe. We're still convinced that they're attractive long-term market opportunities and as I said we're in a great position to exploit them.

With that, operator, I think we can go right to questions.

Moderator

(Operator instructions.) We do have our first question from Jorge Beristain from Deutsche Bank. Please go ahead.

J. Beristain                    Congratulations on a really solid quarter and a much improved balance sheet. Although we can appreciate there is some restricted cash in there.

M. Bless                        I'm sorry to interrupt before you ask the question. As my colleagues know that's always a risk with me, but that cash has now been made unrestricted as of the first couple of days in April. Just what it was is it was the MISO capacity auction and the rules say you've got to post in LC from the time you enter your order, you've got to order, obviously, all the capacity and these are the time the auction clears. So it is just the procedural things now. It's now done and over with so that cash is back in the real till.

J. Beristain                    And thanks for the clarification because I actually thought it was restricted cash pending from the Mt Holly acquisition.

M. Bless                        No, not at all. Sorry about that. It was literally, it's a one time thing, we have to go through it every year now, until when we buy capacity in MISO.

J. Beristain                    My first question I guess just plain and simple if you guys are now on a two-month lag and given where we are in this quarter you basically know

what your realized average pricing should be. Would you be able to just kind of walk us through what the next step down is? You'd kind of hinted that, I think, you took something like two or three percentage points of the 8% down move in aluminum so you kind of know that there is an about another five percentage points to go. Could you kind of give us maybe what you are looking at for your realized price into 2Q?

M. Bless                      Well done. I will try do the math. I understand the math; the puzzle piece that you're asking us to fill. I can't, Jorge, do it on that basis, but other than to—let me make a couple comments. We agree 100% with your comment, I mean Q2 is very close to price at this point. And so all you really need to do is to take our volumes obviously and take the actual Midwest transaction price. So, obviously Midwest premiums plus cash LME with two-month lag for the roughly 700,000 tons in the US and the European delivered price obviously the LME cash plus the European duty paid premium in for the roughly 300,000 tons. Those are rough numbers in Iceland and that's kind of before product premiums, and we've given you guidance back in February on product premiums, that's going to be your weighted average delivered price.

J. Beristain                      Right, sorry, I was being lazy and obviously we can work ourselves off-line, but I just thought I'd ask. And then just a strategic question, just if



you could walk us through why you think that the negotiations at Ravenswood seem to be coming to a head. I just from your language it seemed to be that you are going to sort of be at a make or break decision shortly and could you just provide more color on that?

M. Bless

Yeah, sure. It's a good question and I'm sorry it didn't come out but the reason is pretty straightforward; we're end of the line is maybe an hysterical statement. But we've made the last proposal, the last cut at this that we know how to make along the premise that that we can't ask for any structure that would transfer costs from one group of rate payers to others, i.e. from ourselves to others. And so we're kind of—we've got a proposal on the table that we believe accomplishes that. If this one doesn't get taken up, then I guess the way to look at it is, if this doesn't work, what will at this point? We've tried and tried and tried.

So there is no, Jorge, I don't know if I am taking the right inference in your question, there is no third party saying that, it's we're at the end of the line or that we're at the decision point. We're just saying, look, we can't keep doing this forever on behalf of our shareowners it costs money to hold this plant in a ready state. And at some point, we either have to say we're going to move forward and get a structure that works or very

regrettably, it will be a terrible day, to conclude that we just can't get there.

J. Beristain Is there a specific kind of line in the sand deadline you could give us?

M. Bless No, there really isn't. I mean there isn't because there isn't and because we've continued to and we're going to continue to do everything we can to find a solution. So if I told you end of May, but then by mid-May we had a kernel of an idea that was bearing some fruit with the power company, the end of May would no longer be a good day. So I am not trying to duck the question, but you kind of know it when you see it, right, I won't use the [indiscernible] analogy.

J. Beristain Lastly, any relation to the other side of the table maybe taking a wait and see attitude to how you do with Mt. Holly or do you view those as two completely separate?

M. Bless That's an interesting question. I think they are absolutely and completely separate. They really are and if you know that's sort of a nature of the negotiations and structure, you could appreciate that. But they really are totally separate situations, totally separate counterparties, totally separate

states, totally separate, a PSC on the one hand and a state owned power entity on the other hand.

Moderator We do have our next question from Timna Tanners from Bank of America Merrill Lynch. Please go ahead.

T. Tanners So a couple of things, I think you always give us good detail on your progress on restarts or power negotiations, but remind us that you're thinking changes given the Midwest premium having declined or if that is not part of the calculation when you're deciding go or no go on some of these projects.

M. Bless Yeah, very, very good question and on Ravenswood in particular, I'll answer Ravenswood and then I'll answer the other. So on Ravenswood, no, in fact when we built our restart model its interesting as the premium starting falling, we pulled it out because we hadn't updated it in two months or so and looked at it. And we use long-term estimates in these kind of models as you would hope. Anybody who is putting spot prices in there on either the flat price or the premium regime I think doesn't understand our business very well. So that's a mid-winded answer to your question; no, the financial analysis that we did still stands where we think premiums are heading.

Perhaps on the second part of your question, the value-added investments turn on the net value-added premiums. When I mean net value-added premiums, obviously it's the product premiums net of the incremental casting costs. And those are totally independent of a) LME and b) delivery premiums. Those have to do obviously with if it's for the billet market, the automotive market, construction market, if it's for body and white kind of stuff like slab, the automotive body sheet market, supply and demand in those markets. So it's no to both questions, but for different reasons.

T. Tanners                      So to be greedy here, you give us really nice amount of detail on Slide 13 of last quarter's deck and you don't update it. But is there anything that you could point out here that's changed in your thinking in terms of the guidance? Do you have anything to update here?

R. Dillon                         No, not yet and we will typically when we see something that we're ready to update, we will provide an update on the call. We had that discussion and pretty much we would go with the assumptions that we ask we you guys to use for 2015 as presented last call. Obviously, there is movement in the premiums, in the LME, but the sensitivities that we provided help you to adjust accordingly.

M. Bless                    But on things we can control, cost, cap ex, SG&A, interest and all the rest, as I think Rick made the salient point to me, if there were a significant change, we would be outbound telling you. And I think if I recall, Shelly, did we not update it mid last year because there were some changes or one year we did differently.

S. Harrison                We would definitely update on that.

M. Bless                    We've done a mid-year update. So, we'll do that if anything changes.

T. Tanners                My last question I wanted to ask is more like big picture, but there's been kind of shuffling around of aluminum players, global and domestic, deciding to go upstream and downstream. Where do you see Century's role in the larger picture of aluminum players? Where do you see yourself? Are you content being mostly smelter player or do you see yourself participating in other parts of the value chain going forward?  
  
Thanks.

M. Bless                    That's a great question which we talk about all the time. So I'll try to keep it as brief as I can. We see ourselves as an upstream player. That's where our competencies lie, technical competencies and operational

competencies and on the marketing side, but principally on the operations side. I mean that's what we believe we do and so in that respect, you never want to say never but I would be surprised to see us make a move downstream.

Now on the upstream side as we say, I mean our view is that one of the areas that would be interesting for this company to look at is to further upstream bauxite and alumina. Obviously we're completely short of alumina and while we would never make an investment in "vertical integration" for the sake of it alone, I think over time the company probably ought to have a position further upstream and it's just a question of waiting until the right opportunity presents itself.

Moderator Our next question comes from the line of David Gagliano from Bank of Montreal Capital Markets. Please go ahead.

D. Gagliano I was wondering first of all if you could just walk us the next steps and the potential backup plan at Hawesville. Obviously there is some issues there and then feel free to use another [indiscernible] reference in the answer.

M. Bless I guess I deserve that probably. Look, at Hawesville right now, the answer is we don't know and we're considering the right next steps and really, at

this point in time, that's all I can or all I should say. When there's something material to say, obviously, you'll know about it. But at this point in time, we're really just thinking about what the right course of action is.

D. Gagliano                      Now I may have misunderstood what you said. The value-add commentary, I thought what you said was you may be backing away a bit from the investments on the value-add side.

M. Bless                              Just from a timing standpoint—so let me be transparent. If the market had sort of developed as I think most market participants had, meaning premiums had continued to fall as we predicted they would last time, but had fallen in sort of the more linear fashion that most people had expected, I think we'd probably be going forward. These are good looking investments with good IRRs.

And again the beauty of them is there are not a lot of people with hot metal capacity, which is what you need of course to devote to investments like this. I mean the players in these markets are looking for hot metal capacity and we have it. And so, the only thing we're saying is, look, let's be sure here that we understand at least the factors that are going to drive these markets over the next couple of quarters, if not next couple of years,

specifically what's going to come out of China both figuratively and literally, what's going to come out of China, before we pull the trigger here and move forward.

And so, that's all we're saying. We like the investment. We like them from a financial standpoint. We like them from a strategic standpoint. We think we can execute on them. We know what we're doing in this area. We have people on staff who know what they're doing. We've got customers ready to go. It's just out of an abundance of caution. Let's just hit the pause button here for a couple of months or so and see what the world feels like at the end of the summer or something like that.

D. Gagliano

And then you touched on really the nature of where I was going with that and I guess, from my perspective, it sounds like you're seeing a little softness in the value-add market. I don't want to put words in your mouth, but I mean essentially that's to me what you just said and then I really—

M. Bless

No, actually, billet premiums have stayed pretty decent. I mean when I say billet premiums, of course, I mean net over Midwest delivered or European delivered. So that's a billet content, the value-adding content of the premium because they're priced final delivered. But, no, I mean they



come in just a tiny little bit, but they've basically fallen with the Midwest transaction price and the European price.

And so it's more just from a very high level macro standpoint where these markets are heading. Because, as you remember, I was talking about in February, we were seeing some products coming out of China that were disguised as things that they weren't supposed to be and some of those products were ending up in these markets, both in the US and getting, for example, remelted in secondary billet producers in places like Mexico.

While those haven't had an influence yet on these markets, billet premiums, you're in the right zone as far as we're concerned, we just want to make sure we understand to the best of our ability what's going on here. It's so many factors moving around. Shelly talked about the change in the export tax regime and we just want to make sure we have a better understanding, because some of these commitments as we said last time are reasonably larger, not \$100 million kind of commitments, but some them get close to that.

D. Gagliano

And then just the last question that's related. Obviously, you mentioned the change in exports and in export taxes and tariffs out of China and

putting the sort of the steelhat on for a second. Why are we hearing more, or is there any reason to talk about some sort of trade protection?

M. Bless Great question. There is a lot of people thinking about that, David. And looking at that and for those of you who cover the steel business as well, industry as well, you've seen some on that side and obviously an excellent question, it's an obvious point and don't take any thus far sort of public silence from the industry either in the US or in Europe by the way. There's been more noise from the industry in Europe thus far from the primary producers. Don't take it for a sign that there is no activity going on.

Moderator Our next question comes from John Tumazos from John Tumazos Independent Research. Please go ahead.

J. Tumazos Thank you all for delivering a 5% after tax return on assets, and over 9% return on equity for the quarter. I'm a little hesitant to annualize those numbers, but they're very good.

Two questions, first, does the model of reorganizing an existing smelter and lowering costs work in other countries? I know that there is a 447,000

tons smelter in Sao Luis where the power rates are very high, but I guess sometimes in Brazil near the equator it could rain.

M. Bless                    It would be wonderful if it did, John, as you know they're operating on about 60% of their normal hydro capacity, you've raised an excellent point. We're reasonably familiar with that situation and so I get it on our restructuring of the power costs. That market in particular that's a tough one. You've got market prices in Brazil now, they price obviously in real, but on a US dollar just on the free exchange rate, you're talking like undelivered above \$50 a megawatt hour. Unfortunately that's like the market and the market, here we've been willing to structure a business against that's what you're looking at down there and so that I think that's the tough putt.

J. Tumazos                May I ask another question? What is your average company-wide electricity consumption per pound smelted and what would it cost to improve say by a quarter kilowatt hour per pound? I was reading stuff about 600 kilo amperage in China supposedly only using 5.5 kilowatt hours per pound. I don't know if that's real or just a general—

M. Bless                    You're killing me here. We do it on megawatt hours per metric ton, so I have to do the [indiscernible]. Hang on its 2.2 times is 12. I mean that's

close, we've heard like 12.5% on the way we look at, you're citing 12.1%. Frankly on that 12.5% that we think that 500 to 600 KA, I don't know much about the 600, but the 500 either the [indiscernible] technology or the stuff in other parts of the world, Grundartangi is darn close to that number right now. On a weighted average basis with the rest of or whole system, which is just, John, this is a guesstimate, it would be somewhere in the 14%, give or take the way we look at, Shelly is giving me the up sign, maybe a little higher than that. So, 14.5% maybe close to 15% and divide by your 2.2 and you get to the way you're looking at it.

In terms of investments you're talking about big dollars and you asked a good question. All of these technologies, these pots we're running at way above their design line current, their design amperage. So, you're talking about, I can't cite it in the metric that for which you asked, but these are nine figure investments to make a material move. A material is practically anything at this point given that we're pushing all these against their stops. So, you never want to say never, but that's a tough one, these are kind of all or nothing.

Moderator

(Operator instructions.) Our next question comes from the line of Tony Rizzuto from Cowen & Company. Please go ahead.

T. Rizzuto First, I just wanted to follow up on one, I wonder if you could share with us what Midwest premium you guys are using in your financial modeling?

M. Bless Oh gosh, it was kind of consistent with the long and this would be just for these, for say something like a Ravenswood restart model, Tony, where the Midwest Premium is quite relevant. It's around where the CRU's of the world have their long-term estimates so in the very low double-digits, kind of area. Very, very low.

T. Rizzuto They just—they lowered that, you're probably well aware—

M. Bless Oh yes, they're all—yes.

T. Rizzuto And then my second question, you brought up China and another questioner did about steel and there are lot of people listening in today that also cover steel. It has been occurring to us more and more that each day goes by, it feels like aluminum is becoming a little bit more steel with the over production. We are alarmed at some of these tax changes, the export changes. I am wondering as long as they over produce, does it really matter where the arbitrage is?

M. Bless                    Well, I mean that's a fair point. You're saying if the material there, it's like a glacier it's going to move. Is this your point irregardless of the economics?

T. Rizzuto                 Right.

M. Bless                    Yeah I mean, I suppose, no, please go head, Tony.

T. Rizzuto                 I'm sorry. I was just going to say it tends to move in the different parts of the world. I mean it's one of the things that we've had to deal with in steel and you know it seems like as they move their cost position, as they're getting a little—John mentioned about the consumption. I think if you do those numbers it comes down to about 12,500 to 13,000. They seem to be developing new technologies which are enabling them to get better electrical efficiencies than we do here in the west.

M. Bless                    Sure, the big mover, of course, the power efficiency is important although the vast majority of the capacity in China is still at much, much, much higher power efficiencies, i.e. worse than that. The big news, of course, is in the price of the fuel and thus the price of the power as they move the smelting base—two things, as they move it, the smelting further west, closer to the coal fields, and it's just the world price of coal as you're well

aware continues to come down. That's kind of been the big news over the last, I don't know couple of quarters in terms of China's cost base as you know. Look we believe ultimately the economics are going to dictate. They're not going to produce an export for a loss.

It's really interesting you've seen so many conflicting signals and that's why I think a lot of market participants are confused. It was just a month ago when you saw the first official statement from the Chinese government through an official Chinese government-owned newspaper where for the first time there was a critique of the so-called exporting of the fake semis. And so, it was clear to market participants that the government was sending a strong signal there, it was coming right from the government and then they turn around and then they removed this export tax on these very small product codes, pardon me. And so if anybody out there is purporting to understand what the trend is here, I'd like to talk to him or her.

T. Rizzuto                      That's extremely complex to try to get arms around it. It really is.

M. Bless                        Yes, sir.

Moderator                      Peter Trpkovski, we have no further questions at this time.

M. Bless                    We, again, very much appreciate everybody's time and we'll look forward to speaking with you in July, if not before. Take care now.

Moderator                Ladies and gentlemen that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.