Final Transcript

CENTURY ALUMINUM COMPANY: Third Quarter 2016 Earnings

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SPEAKERS

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

ANALYSTS

David Gagliano - BMO Capital Markets
Brett Levy - Loop Capital
Jorge Beristain - Deutsche Bank
Tony Rizzuto – Cowen & Company

PRESENTATION

Moderator Ladies and gentlemen, good afternoon. Thank you for standing by and welcome to the Century Aluminum Company Third Quarter 2016 Earnings conference call. At this time, all lines are in a listen-only mode. Later, there will be an opportunity for your questions, and instructions will be given at that time. [Operator instructions]. As a reminder, today's conference is being recorded.

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

P. Trpkovski Thank you very much, Tom, and good afternoon, everyone, and welcome to the conference call. Today's presentation is available on our website, www.centuryaluminum.com. We use our website as a means of disclosing material information about the company after complying with Regulation FD.

I would 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 operation 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 have 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.

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

M. Bless Thanks a lot, Pete, and thanks to everybody for joining us this afternoon. If we could turn to Slide 4 please, this will give you a quick rundown of what's been going on here over the last couple of months. I'm going to ask Shelly to give you some detail in the market environment in just a couple of minutes, but let me just make a couple of quick comments to put the quarter into context.

It goes without saying we're seeing mixed signals out there. This is one reason we believe why the LME price appears to be trading within a range. Most significant factor by far continues to be the excess supply in China. We began the year by seeing a relatively modest volume of capacity restarts. But this pace as expected has picked up and we expect to see over 1.5 million tons of restarts year-to-date and a little bit more trickling through.

The market's expectations for new capacity starts now appears to be coming true, with expectations for over 2 million metric tons of new capacity starts by the end of this year. This continues to puzzle us as most factors are not supportive of these capacity starts. You're seeing rising coal and energy prices in China, as well as most recently, rising alumina prices, which are a bit of catch-22 as far as we're concerned as they're driven on that primarily by unnecessary increases in production of aluminum in China, full circle.

The demand picture in China has been a bit better than originally expected, with government's stimulus spending on large projects driving demand, and the spike in property values in many regions driving residential construction as you probably read. It's clear to us and most others that these trends simply can't continue over the long term.

Otherwise in our markets, we're seeing mixed trends. On the one hand you've seen delivery premiums running in both the US and the EU; on the other hand value-added product premiums are looking weaker to us currently and going into 2017, largely driven by imports from regions flooded by material coming out of China. Some markets however do remain attractive. For example the EU foundry alloy market looks good to us and that's a very good business for our plant in Iceland, Grundartangi.

Turning to operational and financial performance during the quarter, Rick's going to give you more detail in just a couple of moments, but just a couple of quick comments. As you've seen if you've been able to read through the press release quickly, the results for the quarter were impacted by higher power prices in the US and by rising alumina prices. If you've had a chance to take a look, you've seen that adjusted EBITDA was down $26 million quarter-to-quarter. That's from Q2 to Q3 obviously. The impact of those two factors: higher US power prices and alumina prices in aggregate drove more than 100% of that change. The power price increase came fast and was very steep due to the very hot summer weather in the United States.

That having been said, delivered power prices to our plants are now down generally to pre-summer levels, obviously a good trend to see. The alumina price has seen a rapid increase over the last couple of weeks. We believe that the start-ups in China create a somewhat of a herd mentality and we expect this trend to moderate. There has been no substantive changes in the alumina markets, again other than the restart of Chinese metal capacity, and of course we're watching these trends closely.

We did have some minor operational issues at Sebree and Grundartangi during the summer. These plants usually deliver rock-solid performance. These issues are now behind us, although they did cost us some volume in Q3. I'll give some more detail on that in just a couple of moments.

Moving down, those of you who have been following the company for some time will remember that in 2009, we terminated the retiree medical benefits for our folks at Ravenswood. The liability before that termination had been well over $100 million, the related litigation has been winding its way to the legal system now since that time. The risk to us obviously was ultimately that it would go to trial on a West Virginia courtroom, with the obvious unpredictability of that outcome. We've now reached a tentative agreement. It's subject to a definitive agreement of the various parties and approval of the court.

We believe the settlement is a very good mitigation of the litigation risk to the company. It also does provide some support to those folks who work very safely for this company, some for decades and decades. The total value of the settlement is $23 million. This is the future value that's paid over ten years and there's no risk, there's no variability of that amount to the company. Our obligation is to make a fixed payment one time per year.

Lastly, we've seen a lot of activity on our fair trade efforts over the last couple of months and especially over the last month or so and even a couple of weeks. We've seen a lot of momentum building.

Just to give you a couple of examples. You may have noted that the Aluminum Extruders Council joined our task force some time ago. This is important to us as it demonstrates the broad-based support amongst the industry for these efforts. You may have seen also this was widely reported that last Friday, eight United States senators sent a letter to the US trade rep, urging the immediate filing of the WTO case and this is the specific action obviously that we've been recommending for the last several months, several quarters to be precise.

In addition, we've seen additional support from other members of Congress over the last several weeks. Last week, a statement came out from the EU specifically relating to subsidized excess aluminum production in China, and over the last couple of days at the WTO itself, several member states have requested that this specific issue be investigated.

This effort has been quite significant as we told you in the past. Just to give you an example, our researches in China have now translated over 100,000 pages of information. We continue to believe without condition that the case is absolutely irrefutable that the illegal subsidization by the government of China of this industry represents a textbook case of the violation of WTO rules and we're waiting for definitive action by the government.

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

S. Harrison Thanks, Mike. Let's move along to Slide 5, please. I'll provide some comments here on the industry environment. The cash LME price averaged $1,620 per ton in Q3, which reflects a 3% increase over Q2. Prices have continued to be quite volatile, trading as high as $1,690 and as low as $1,550 over the last three months. Today, the cash LME price is close to the high end of the range at $1,682 per ton.

The downward trend we saw for regional premiums over the last many quarters appears to have reversed. Delivery premiums in both the US and Europe have strengthened recently and continued upward pressure on retail premiums is expected for 2017.

The US Midwest premium averaged $0.064 per pound in Q3, but is currently sitting just above $0.07 per pound. In Europe, the duty paid premium averaged $120 per ton in Q3 and has since traded up to $135 per ton. The global aluminum market was in a deficit again during Q3, with a shortfall about 300,000 tons. We continue to see good demand growth with a 4.7% increase in global consumption year-over-year. Chinese demand growth at 6.7% was better than anticipated with continued strength from the construction sector.

And as Mike mentioned, we continue to believe this growth level in China is not sustainable as current demand is being propped up by government stimulus and other temporary factors. Global primary aluminum production was up 3.1% in the third quarter, driven by start-ups and restarts in China.

We expect to see meaningful capacity additions from China in Q4 as growth projects continue to come online and previously curtailed capacity returns to operation despite rising cost for key raw materials. These additions to production will continue to outpace consumption, further increasing China's already over-supplied position.

Most industry experts are now anticipating that 2016 will see a modest deficit and a global aluminum balance, with the sizable deficit in the western world being largely eroded by the ongoing surplus in China.

Just a couple of quick comments on the alumina market before I hand it back over to Mike. Alumina prices have been increasing recently from $235 per ton when we last spoke with you in July to their current levels close to $290 per ton. As Mike mentioned, the increase in price is being attributed to higher demand from Chinese smelter production growth, as well increased input cost for coal caustic soda.

And with that, I'll hand it back to Mike.

M. Bless Thanks, Shelly. If we could turn to Slide 6, please, a couple of quick comments on the operations during the quarter. As you can see at the top of the page, safety performance was generally reasonable across the company this quarter. We did have too many incidents at Hawesville, most were relatively minor, but too many is too many.

We're particularly proud of the performance on safety at Sebree this quarter. During that summer we experienced very high employee attrition and some process instability during the height of the summer heat. These factors produced a very risky environment, and we're proud that our employees really focused on job number one, that's obviously keeping themselves and their colleagues safe.

Turning to production volume, you can see the impact of those operational issues at Sebree and to a lesser extent at Grundartangi. Both of these plants are expected to be up in production Q4 over Q3, and we have good confidence in that result based on the current state of the operations. As I said, both plants have returned to full stability very quickly.

Turning now to production metrics. As you see, the operations at Hawesville have remained very strong. Just to give you a sense, almost 80% of the production at Hawesville is now high purity metal. That's a record for the plant. You see the impact of the summer pot line instability of Sebree there with current efficiency, power and raw material deficiencies all down Q2 versus Q3.

Turning to conversion costs. Again, just to note, conversion costs here are all costs other than alumina, of course, and these again driven by US power prices. Let me just give you some details so you can see that.

At Hawesville, quarter-to-quarter, again, this is all Q3 over Q2, power prices were up 35%. Those of you who followed the MISO markets, the Indiana Hub price, already know this. Power up 35% Q3 over Q2. Labor and other controllable costs were down 11%. Sebree power up 29% Q-to-Q, controllable costs up a little bit as I said due to the instability. Mt. Holly power up 12%, controllable costs down 2%.

You can see the operations in general turned in pretty good performance on costs that they're able to control. In addition, as I said, the power price drag appears largely behind us. Power prices at our Kentucky plants have come down nicely. We're almost past the utility maintenance season. The natural gas prices, for those of you who follow these markets, have finally now begun to come down nicely over the last couple of days, obviously watching that closely.

And we're also watching the alumina price closely. As Shelly said, it's had a very rapid and quick run up. We continue to be convinced it's based on people chasing the price as it goes up in anticipation of restarts in China, and we do expect it to moderate.

Mostly, we're pleased with the status of the operations. Value-added production is now a significant portion of our product portfolio. As a reminder, we produced billet, high purity metal, foundry alloy and molten aluminum. In aggregate those products represent about 85% of our US production and about 25% in Iceland.

Importantly, we have the flexibility to flip quickly between these product groups in order to address the market that looks the most attractive. Let me just give you a quick example of them. P1020 standard grade is actually looking a little bit tight right now in the US specifically in the Midwest and going into 2017. That's due to the flood of imports that are chasing value-added products.

And for that reason, we have literally an almost brand new automated sow caster that we had put in about a year, regrettably before we had to choose to close Ravenswood, and we're moving that sow caster now to Sebree to enable us to take advantage of the best market as we go into 2017 and throughout that year. And we'll continue to make these kind of small investments to maintain this kind of flexibility.

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

R. Dillon

Thanks, Mike. If we turn to Slide 7 of the presentation, I'll provide some details on the performance for the third quarter. Our net sales were up almost 2% from the second quarter on the shift from home to direct sales with the exploration of the last holding contract in the second quarter. On a two-month lag basis, the average cash LME price was up 3% in the third quarter and the Midwest premium decreased 10%, resulting in a Midwest transaction price increase of approximately 2% quarter-over-quarter on a lag basis. Realized prices in the US were down 1%, reflecting weaker value-added product premiums as Mike discussed. We are expecting this continue in the fourth quarter and 2017.

For Iceland, the all-in two-month lag LME and European duty paid premium increased approximately 2% in the third quarter. Realized prices on direct shipments also increased 2% quarter-over-quarter, and there was an additional 10% of realized pricing attributable to the shift from total to direct sales in the quarter. On a consolidated basis, global shipments were down 2% in the third quarter of 2016; production levels were essentially flat quarter-over-quarter.

Turning our attention to operating profit, we are reporting an adjusted EBITDA loss this quarter of $5 million, a decrease of $26 million when compared to the $21 million of adjusted EBITDA recorded in the second quarter. The adjustments to EBITDA this quarter include costs associated with the negotiated settlement of the Ravenswood retirement medical benefits class action suit, additional impairment of the Ravenswood assets and a non-cash adjustment to the carrying value of inventories.

As Mike discussed, we reached an agreement in principle to settle the class action suit for $23 million. This agreement in principle remained subject to entering into a definitive agreement with the class and obtaining the court's final approval after notice to the class, which we expect in the first half of 2017. The proposed settlement costs were a $5 million cash payment upon final approval and $2 million per year for the nine years thereafter. As Mike noted, we have no further obligation other than making the cash payment.

We have also reached a tentative agreement for the disposal of the Ravenswood assets, and we have adjusted the carrying value of these assets to their indicative fair value based on this agreement. We expect this transaction to be completed by early 2017.

Also as Mike noted, the $26 million decrease in our adjusted EBITDA for the quarter is entirely driven by the changes in market conditions. Let me provide a few more details of the impact during the quarter. Higher raw material costs decreased adjusted EBITDA by approximately $15 million, led by a significant increase in the realized cost of alumina. As a reminder, there's a one or two-month lag on alumina cost utilization depending on the timing of shipments and inventory levels.

Power costs continue to increase at our Kentucky operations as hot temperatures continue to affect the demand over the summer months. This resulted in a decrease in adjusted EBITDA for approximately $9 million from the second quarter of 2016.

Power costs at our Mt. Holly facility were also unfavorable to the second quarter by over $2 million. As Mike discussed, natural gas was up in the third quarter, also due to summer temperatures, and we believe it is still elevated on expectations for the cold winter.

Higher all-in alumina pricing netted the impact of rising LME on Iceland power, resulted in an increase to adjusted EBITDA by approximately $5 million. These gains were fully offset by the impact of a $5 million reduction and value-added product premiums during the quarter as discussed earlier. Collectively, these items resulted in an adjusted loss per share of $0.31, an increased loss of $0.26 when compared to the $0.05 adjusted loss reported in the second quarter.

Moving on to liquidity; there are no outstanding borrowings under our revolver other than letters of credit. We ended the quarter with $118 million in cash and $90 million of availability under our revolving credit facilities. Our facilities are secured by both accounts receivable and inventories and have availability under revolver—our availability under revolver would fluctuate as our working capital levels move during the quarter.

Please turn to Slide 8 and we'll take a look at the cash during the quarter. Cash decreased this quarter by $11 million. Capital expenditures were $5 million during the quarter, which brings year-to-date capital spending to $13 million. We now expect spending for the year to be at the low-end of our range of $20 million to $25 million provided in our 2016 items. Cash taxes paid in the quarter were almost fully offset by improvements in working capital.

With that, I will now turn the call back to Mike.

M. Bless I think, Pete, we can probably directly to questions.

P. Trpkovski Thanks, Mike. Tom, if you can go ahead and facilitate the Q&A session, please?

Moderator Thank you. [Operator instructions]. Our first question today comes from the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano Hi, thanks for taking my question. I actually just had a little bit of a challenge understanding the bridge that was just mentioned on the EBITDA from quarter-to-quarter. Can you just go through the numbers again on the driver? I got the $15 million on alumina. Can you give me the rest of the bits and pieces that explain the delta?

R. Dillon — Sure. If you had the $15 million on alumina and then the rest of it was power costs, $9 million from the Kentucky operations, $2 million from our Mt. Holly operations.

D. Gagliano — Okay. Then you mentioned there was a $5 million drag on value-added premiums. Is that correct quarter-to-quarter?

R. Dillon — Right, $5 million drag on value-added premiums, but you also have to look at the higher aluminum pricing. So, the $5 million from LME and Midwest transaction pricing offset by $5 million on value-added premiums.

D. Gagliano — Okay. And then did you quantify roughly the EBITDA hit from the operating issues during the quarter, not raw materials, but operating issues?

M. Bless — No, we didn’t, David. It was a couple million dollars. It wasn’t quite $5 million, but it was a couple million dollars quarter-to-quarter.

D. Gagliano Okay. And then last question, you said obviously alumina's price on a roughly one to two-month lag. Given that there's been quite a bit of movement in alumina during the course of the quarter, what was the average price that actually flowed through the cost line?

R. Dillon We don't have the average price that flowed through the cost on hand. Shelly?

S. Harrison Yes the actual for Q3 was $234.

R. Dillon Right.

S. Harrison So you're going to see the prices have run up significantly from there, so there's further alumina pressure to come.

D. Gagliano Sorry, you said the actual was Q3 or Q2?

S. Harrison Q3 actually. Ignoring any lag was $234 a ton.

D. Gagliano Got it. Okay, great. Thank you.

R. Dillon — The key there is there's more negative costs to be realized into the fourth quarter.

D. Gagliano — Understood. Okay, great. T hanks.

M. Bless — Thanks, David.

Moderator — Our next question will come from the line of Brett Levy, representing Loop Capital. Please go ahead.

B. Levy — Hi, Mike.

M. Bless — Hi, Brett, how are you?

B. Levy — Reconnecting from a new spot.

M. Bless — Yes, that's what we're seeing. Maybe closer to us than before.

B. Levy — Absolutely. We're in the same town now.

M. Bless — Great.

B. Levy	Although I still don’t understand the move from California. I would have stayed.

S. Harrison	[Indiscernible].

M. Bless	No comment yet. No comment.

B. Levy	Yes. Especially as we’re coming up on winter, although go Cubs.

M. Bless	Thank you again.

B. Levy	But tell me a little bit more about Iceland, what’s going on, Grundartangi, Helguvik, potential stuff like that, the Pirate Party.

M. Bless	Yes. You’ve been reading up. You’ve been reading up with Dan [ph]. Let me go through in the order rather than reverse order there.

B. Levy	Okay.

M. Bless Grundartangi is kind of motoring along. As I said, we had, like Sebree, but less than Sebree, some pot line issues this summer caused largely by some dusting from some anode quality issues. That's completely behind us now. The plant is kind of in a reasonable steady state at this point in time.

No movement on Helguvik to talk to you about, and really the reason for that in a certain respect is sort of any movement there is going to be a result of ultimately being able to secure power. As I think you know, there was an arbitration filed earlier this year in this matter against HS, which is one of the two power suppliers to Helguvik.

You may remember that a similar, in fact frankly the carbon copy arbitration, was filed and litigated three or four years ago with the result that the contract was found to be still in full force, HS had sought to prove and have the tribunal order that the contract was null and void. So we're waiting for the result, Brett, of that process and that will be a key determinant into sort of the next steps on Helguvik.

As we've said, there's no firm date, but we said we would expect given the normal timing of these things, the tribunal's judgment sometime during the fourth quarter, but there's no promises. That's the big next inflection point on Helguvik.

You asked about the election really, I think in your last part of your question, and speculation just like other elections, I suppose at this point is probably pretty idle. This one will be settled even before the one in this country. The Icelanders go to the polls this coming Saturday, and so this will be known on Sunday and so to speculate at this point in time is probably a fool's errand. But there are more and more parties every year and this election clearly is indicative of a healthy and robust political debate in Iceland. There are plenty of parties.

B. Levy Is there sort of a sense, generally, whether or not more of the parties are in favor of expanding the energy available to gross projects in aluminum or anything else or anything like that? And then the other piece of the puzzle is to the extent that you could hedge alumina, aluminum, anything in North America. I know historically you've tried that. Any inclination to go back to that kind of strategy in terms of the US but not the Icelandic assets?

So I guess it's a two-part question. Is the general tone of the election going to help Century in Iceland and then anything you would do to mitigate what's going on in the US right now?

M. Bless Sure, Brett. You got it. I'm actually going to quick kick, I'm not even going to get to fourth down here. It's really hard to tell. As usual there's a debate in two sides on that coin. There is significant support every time you see polling for so-called heavy industry in Iceland. There's a course obviously on the other side.

It's really difficult to tell. You're going to have to get through the election, get through the formation of a government, of course, as I think you know it's a parliamentary system there. So depending upon the results of the election, it could take some time, weeks, or even longer we've seen in various parliamentary democracies around the world for a government to be formed just depending upon how dispersed the vote is.

It's hard to tell. We think, we being the industry, have got great support in Iceland and just how that manifests is really hard to tell. What's really going to drive again the next steps on power for Helguvik by the contractual issues, not the political issues, it's this arbitration and sort of what comes out of that and what our next steps are.

On hedging, the answer is yes. I'll give it in your order. Alumina is difficult to hedge. There is a new product out there from what we understand with a relatively thin market that enables people to buy and sell forward the index price. That thus far, it's an undeveloped market.

On the other side of course as you're well aware is a really deep LME market, and the answer to your question is yes, we're trying to be patient here and calm. But we have every time we feel like the price and depth of the market is afforded, we have sold forward LME. And so I'll just give you the specifics right now for the balance of this year and for 2017, we've sold forward 5,500 tons per month at a price just shy of $1,700. There's no set bogey, but given all the factors on any given day and again given the depth of the market and whatnot, we are as you can tell in the mode of trying to, at least we believe, intelligently take some risk off the table.

B. Levy — Thanks, Mike. I'll hand it off.

M. Bless — Thanks, Brett.

Moderator — [Operator instructions]. And we will go to the line of Jorge Beristain with Deutsche Bank. Please go ahead.

J. Beristain — Hi, Mike. It's Jorge Beristain with Deutsche Bank here. Just wanted to dive more deeply on the charges of the $27 million, I think. Can you just quantify how much of that was cash versus non-cash?

M. Bless — Sure. It's all right now non-cash. Let me just take you through all that because they're interconnected to a certain extent. The retiree medical settlement, as Rick said, is $23 million. That's a future value, a simple value, however you want to say it. It's not PV. That is non-cash today, but as Rick told you, it will be cash over the next ten years. So it will diffuse itself as she said $5 million, assuming the quarter proves it sometime in the first half of '17 and then $2 million thereafter. If you want to go to PV on that, you can use whatever discount rate you think is appropriate, but that's non-cash today, but will be cash.

The second chunk of it, the rest of it is just a further impairment of Ravenswood of the asset that's sitting on the balance sheet. It's what it's doing, that's non-cash period. What we're doing there is we're writing it down to the value at which we have a tentative agreement to sell it.

One way to look at this at least in our opinion is that if you look at the present value, again, whatever discount rate you wish to apply of that stream of payments for the retiree medical, $23 million, you know the cash that we think we're going to get for selling the plant and the site is in the mid-teens. It's just about equal to the PV of the settlement.

Those two weren't linked in terms of we didn't seek a settlement that has necessarily got us to the sale price of the plant, but they just turned out that way.

J. Beristain Okay. But you're saying, sorry, that what you could sell Ravenswood for is equal to the PV of the settlement, not the future value?

M. Bless Correct. It's about $14 million, give or take. That deal isn't finalized yet, but it's in its final phases of documentation. And so to answer your question, that's a long-winded answer to your question, of the $27 million, $23 million will eventually turn into cash over the next ten years and the rest is just a further impairment charge to write down the Ravenswood asset to the cash value that we believe we're going to be paid.

J. Beristain Got it. Obviously, I'm a little rusty on keeping up on the older MISO power changes. But you said that the bulk of the $27 million or more than $27 million EBITDA hit that you took into costs in this third quarter is abating now. So could you just kind of give us a sense to how much the power costs have come down either percentage-wise or dollar-wise so we can be bracing for what fork you could be looking like?

M. Bless Yes, sure. As Rick said of that $26 million delta reduction in EBITDA Q2 to Q3, about one-third about $9 million of it was due to the power in Kentucky and $2 million due to the power, ultimately natural gas, in South Carolina because we're floating based on natural gas there. So, to deconstruct those two, the MISO prices have come at our plants, delivered to our plants, have come back down basically to where they were before the summer.

So if those were to continue where they are now, you should see that $9 million anchor go away, i.e. Kentucky power prices, all else being equal ought to be $9 million if they stay where they are now, $9 million lower Q4 versus Q3.

Nat gas, I'm going to have to take a guess here right now. I'm just thinking about the forward screens. It's probably showed about by halfway down that. We're going to say the same thing, so we'll go with that, about halfway down. Of that $2 million bump, you'd only we see $1 million better in Q4.

So putting that all together, everything else equal, gas staying where it is today, MISO energy staying where it is today, Indiana Hub energy staying where it is today, actually delivered at our plants, you'd see $10 million of that bad news go away, get better in Q4 verses Q3.

J. Beristain Perfect, and if I can just push my luck with one more question. Can you walks us the same alumina ladder and is there any of the alumina that you've contracted or are you going to be sort of recouping in any way as the months go on? If you could be facing a tail wind in other words if things could improve for alumina, or should we just be sort of market to market for what we're seeing?

R. Dillon — As we talked about earlier, you will see still some of that increase that Shelly talked about during the quarter. You'll see some of that in Q4, as I mentioned you have a one to two month lag, so maybe by the end of the quarter, all things being equal, you'll start to see some of the reductions that Shelly talked about.

M. Bless — Another point, Jorge, just to remember, so of the total amount of alumina we buy right now, just let's make it simple, a little over 700,000 tons of finished metal production, let's just call that 1.4 million tons for easy math of alumina. About 40% of that we buy on a percentage LME basis through the end of this year, so we're not chasing up or down the Alumina Index that you can read every day. It's a fixed percentage of the LME price.

That number hasn't been finally negotiated for 2017. It could go up or go down but right now like I said roughly 40% of our alumina cost is pegged to the LME price, not pegged to the index price.

J. Beristain — Got it, thanks very much.

Moderator — And our next question will come from the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano — Thanks, I just wanted to ask a couple of follow-ups and I apologize I have been jumping between conference calls here, so hopefully these haven't been covered. But one actually that you just mentioned, you said 40% of your alumina costs are pegged to the LME price. Can you just remind me, can you give me the tons that are exposed, just that actual tons on a quarterly basis?

M. Bless — Sure so 1.4 million tons is our total alumina and somewhere around 450,000 tons, again on an annualized basis for the balance of this year, I want to stress that, are pegged to the LME and the rest is that we buy on an index basis. And again that David's under negotiation right now as to what that split will be for 2017.

S. Harrison — And David, just as a reminder we put out the sensitivities at the beginning of the year, so for the exposure we do add to the spot price for every $10 change in that annually that's $9 million in EBITDA.

M. Bless — That's a very good point, Shelly. That takes into account the amount that we buy obviously index versus LME base.

D. Gagliano — Sorry, you said a $10 change in the spot price is a $9 million change in annual EBITDA. Is that what you said?

S. Harrison — You got it.

D. Gagliano — Okay, great, thank you. Then I just have another question, I think I heard you say that you sold forward some of the aluminum. If I got the numbers right it looks like it's about 10% of the volume, sold forward, something like.

M. Bless — Oh, 5,500 tons a month, so for 2017, to just do the math, 66,000 divided by 7—yes maybe 8% have 9.5% just off the top my head, David.

D. Gagliano — And just conceptually I'm wondering what the thought was behind selling forward the aluminum while leaving yourself exposed to alumina.

M. Bless — As we said there's no perfect philosophy, to use a highfalutin word, about this. I'll just say in simple terms we liked the forward price in terms of selling for that reasonably modest amount. And on alumina, as I said there's just no good liquid forward market for buying it or selling alumina at this point in time. You have may been off, there have been some markets that have opened up here, organized markets, but they're really, if you look at the open interest, the volumes they're really, really thin at this point in time. So there's not an economic ability to address alumina at this point in time.

D. Gagliano Okay. And then just one really last question; the 40% of alumina costs that are pegged to LME through the end of this year, obviously that's under negotiation. Is the hope that that number is high—that percentage that's pegged to LME higher or lower than the 40% next year?

M. Bless That's a good question. There's no right answer, I suppose, David, to that question. It depends upon one's view of the LME price. Ultimately it depends upon your ability to achieve, let me just be blunt, a percentage in your negotiation on the one hand or a deal around an index price on the other hand, and you have to compare those two. I'm sorry to be so opaque here.

D. Gagliano I understand, but you negotiate now. Is Century's position they want that percentage to be higher or lower at this point? Given everything that we know, would Century rather have that number be higher or lower?

M. Bless David, I'm sorry to evade, but it's really hard. Let me just give you an example. If you told me my LME reference price that I could buy at was going to be 12% on the one hand or 19% on the other hand, just to give you the two extremes of where the market has been since I've been in this business for the last 11 years, my answer would be really different.

And so it's really hard to answer that question in that respect. We want the lowest price that we can. Now you're going to be taking a risk on the one hand on the index, on the other hand on what the LME that you're multiplying that percentage that you can negotiate. It's so variable, the answer to your question, based on what the market is for LME-based contracts at the time that you're agreeing with your counterparty.

D. Gagliano All right, got it. Thank you very much. I appreciate it.

M. Bless Thanks, David.

Moderator Next, we'll go to the line of Tony Rizzuto with Cowen & Company. Please go ahead.

T. Rizzuto Hi, Mike. I'm sorry, I don't mean to be the dead horse here.

M. Bless Beat away.

T. Rizzuto Just on those LME-base contracts, I typically think about it. You mentioned that range. I think about a little bit tighter range, maybe 15% to 17.5% range. And then you indicated—so are we to think that going into the fourth quarter into '17, the 60% will continue to be on the one to two-month lag?

M. Bless The convention, Tony, is increasingly whether you're buying on an index basis on the one hand or on an LME reference basis on the other hand, the convention is increasingly to have the reference price be a lag either one or two months. I would say the answer to your question either on expanded EBITDA, 60% or the 40%, assuming that those percentages don't change and just going to '17, I would say the answer is—I'm looking at my colleagues here—yes.

Again, subject to negotiation, but it's increasingly the convention that metal is sold on and aluminum is bought on a lag of a month or two, or sometimes even three.

T. Rizzuto	Okay. And you guys mentioned the figure there, and I didn't write it down quickly enough, but for each $10 per ton change, you mentioned the impact and I didn't get that down. Could you repeat that?

S. Harrison	Don't worry, Tony. It's $9 million annually on EBITDA.

T. Rizzuto	So, $9 million, okay. And then one question, a follow-up on Ravenswood. I would assume that there's going to be no environmental or reclamation that you will be responsible for going forward.

M. Bless	That's correct. The sales proceeds that we're estimating here, it's a net price, so the buyer is assuming all of those liabilities. Correct.

T. Rizzuto	Okay, all right. Very good. I think that's all I have for right now. Thank you.

M. Bless	Thanks, Tony.

Moderator And there are no other questions queuing up at this time.

M. Bless Okay then, we again greatly appreciate your interest and time. We look forward to talking with you in the new year, if not, before. Take care.

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