



Final Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2013 Earnings

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SPEAKERS

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ANALYSTS

Timna Tanners – Bank of America

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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Fourth Quarter 2013 Earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will be given at that time. (Operator instructions.) As a reminder, this conference is being recorded.

I would like to now turn our conference over to our host, Mr. Peter Trpkovski.

P. Trpkovski Good afternoon, everyone, and welcome to today's call. Before we begin, I'd 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 conditions. 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 our website at www.centuryaluminum.com.

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, everybody, for joining us again this afternoon. If we could turn to slide four please, I'd like to give you a quick review of the last couple months, which, as I think you'll agree, have been a busy and productive period for the company. We're generally really pleased with the progress that we have made.

Let's start, at the end of January, as you have seen, the Kentucky Public Service Commission approved the new power contract with Sebree, and it was approved exactly as filed by ourselves and by the power company. This development allows us to move forward with long-term plans and investments for this excellent plant.

I'd like to note how extraordinary it was that our employees were able to work safely and productively through these uncertain times. They should be commended for that. The plant is running extremely well. We have got great efficiencies in the potrooms and record production coming out of the casthouse, and I will give some more detail on that in just a few moments.

I should note Hawesville is also firing on all cylinders now. We've got a record amount of high-purity production coming out of that plant. Again, I'll make some more comments here in just a couple minutes.

Let me talk about the power situation at Hawesville where we had some issues that impacted the full rate that we paid in the Q4, given some things that happened at the power company's generation station. As you might remember, we paid a net cost by contract of maintaining that power station next to Hawesville, it's obviously owned by the power company, until the power station can be closed and I'll update you on the status of that process in just a moment.

In October, the power company lost some generation units to unscheduled maintenance. At the same time, there happened to have some transmission lines down for schedule maintenance. They were thus forced to buy some replacement power for their other customers in the real-time market. At those of you who follow these markets know, the price in the real-time market is generally far greater than the price in the day-ahead market. This resulted in \$3 million of excess costs that we had to pick up under the contract.

That same incident also drove up power prices in the region significantly for the better part of that same week and this resulted in \$4 million of excess power costs to us in October. So at the bottom line, our power costs for Hawesville in October, and that's obviously in the fourth quarter, were \$7 million higher than we expected. This obviously impacted our Q4 results by \$0.07 a share.

Other than this incident, the power costs for Hawesville were right on with the expectations that we had in the forecast that we made. Just to remind you, this was for an energy costs in the low \$30 per megawatt hour and a fully delivered price in the range of \$35 to \$36 per megawatt hour.

I'll talk about this some more in the few minute, but quickly we believe the conditions ought be satisfied sometime during the second quarter to allow the power company to close its generation station if they so choose, and at that time we'll stop paying this monthly holding cost; that's whether they actually choose to close the plant or not. There are some important transmission related issues that still need to be resolved to support reliable service to both plants in Kentucky over the long-term and again I will make some more comments on this situation at the end of my remarks.

Moving along, let me just talk about Mt. Holly for a little bit. As you know, the current off system contract ends in of December 2015. That was put in place couple years ago. We're working actively with the power provider, with the state and with a multitude of third parties on a post-2015 structure that would the plant in an acceptable competitive position.

It's difficult to know at this point whether this particular structure will be successful. We and the power provider in December mutually extended the notice date for termination of post-2015 service until June of this year. That date is significant. We need to provide that termination notice or we're on the hook to continue to pay a demand charge to the power company after 2015 even if for whatever reason the plant were not to run.

Moving along, we completed the restarted the Vlissingen anode plant in December. That project was on time and over \$1 million under budget. The anodes have been themselves at Grundartangi for over a month and they're performing very well. The next decision that we'll face is when to rebuild the second furnace. As you recall, it's 150,000 metric tonne plant, two furnaces of 75,000 metric tonne each, and Shelly will discuss this when she talks about our capex budget for 2014.

Moving along, partly as you know we had several important commercial agreements that were set to expire at the end of 2013 and we have successfully replaced these. First, we signed a new hot metal sales contract with Southwire at Hawesville. The new contract is for a one-year duration. The volume is somewhat lower than the old contract. It's for about 40% of Hawesville's production.

The reason for this is that we've seen a significant increase over the last half a year in high-purity production coming out of Hawesville. We obviously want to realize the highest net price that we can for the products that we are able to produce at that plant. That being said, Southwire remains an extremely important and valued customer and we hope to continue to do business with them for years and years and years to come.

Also, as you know, the original toll contract at Grundartangi expired in December. That was for 130,000 metric tonnes a year. We actually replaced that contract with a direct sales arrangement. There are two primary reasons for that.

First, the market for tolling arrangements has become much more limited than it was. When that toll was originally put in place was actually 15 years ago. More important reason is our intent to also move Grundartangi to more value-added products production, and this is the first step in that process and, again, I'll give you some more detail on that in just a couple moments.

In her remarks Shelly will provide some detail and some additional liquidity for the company we created over the last couple months. We feel really good about the company's financial position given this and the significant improvements that you'll see on the cost side. As usual, Shelly will also give you some financial estimates for 2014, so you can build your models, and based on these data you'll be able to calculate the company's breakeven point and the company's cash flow at any LME that you choose, but let me just give you a little bit of foreshadowing so you don't have to calculate numbers yourself.

If you look at bottom line cash flow, after everything other than working capital changes, which are difficult to predict of course, and investment or non-maintenance capex. So after everything really, including maintenance capex, the company's free cash flow breakeven in Q1—I know Q1 will be

significantly higher than the rest of the year given some high power prices we're seeing in Kentucky right now due to the cold weather. Shelly will give you more detail on that in a couple of minutes.

But that breakeven cash flow will be \$1,715 per metric tonne roughly in Q1 and then importantly through the full year, we see a cash flow breakeven of around \$1,600 per metric tonne. So you can see we brought the company's cost structure down to a point where we feel like we're strongly protected on a downside, but we've retained a tremendous amount of upside for our shareholders to higher commodity prices.

If we could turn to slide five, please, let me just make a couple of quick remarks on the market. It goes without saying; we've seen some real volatility in global economic data as late as today, so data going each direction moving markets around as you know. This has obviously been reflected in the price of industrial commodities.

In aluminum, specifically, the cash LME price during the fourth quarter averaged \$1,768 per metric tonne. That was down about 1% from Q3. If you look at it, the price was relatively steady throughout the quarter, but then as you know it fell just after the turn of the year and bottomed out in

about the mid-1600s. The cash price has now found its way back into the low 1700s. That having been said, we're still looking at the lowest levels we've seen since 2009 in terms of spot prices.

Turning to regional premiums, obviously these have been the subject of a lot of attention. If you look back to December, the U.S. Midwest premium has been supported at the end of the quarter. It has been trading around \$0.10 and it wandered up to about \$0.12 at the end of December. Then, of course, we saw a rapid increase during January and it's currently sitting just shy of \$0.20 a pound.

There has been a lot of speculation as to what's behind this move. We think there are a whole bunch of factors at play. I'll name a couple of them. One is on the actual business side, demand remains very good, especially in the U.S. Midwest and this is driven principally by the automotive market among some others.

A significant amount of metal remains tied up in financing transactions, as you know. This is supported by a large contango and continuing low interest rates. Scrap markets remain very tight, obviously supportive of the premium. Based on all this, we believe a lot of consumers have waited

to secure metal anticipating or hoping for lower premiums, and when those didn't come the situation began to feed on itself.

In Europe, the duty paid premiums are also up significantly, like the Midwest premium and sitting at about \$350 per tonnes, a little bit above that. In our own business planning we're in—Shelly will take you through these numbers—we're not planning on these types of elevated levels to persist. We do believe that there are some structural changes that will support premiums comfortably above historical levels. But we also believe that market forces should drive down premiums from their current levels at some point. Obviously the art is going to be deciding when and to what extent those premiums movements happen.

Let's turn to the fundamentals. On demand remains generally good, as I said, in the U.S. led by the aerospace and automotive markets. You've read a lot we're fixing some real substitution towards aluminum that Ford's F-150 is the most obvious example, and you've probably seen GM's very recent announcement along the same lines. The EU also looks like it could be building some momentum but, again, as I said, the data are a little bit spotty.

Data coming out of China has also been inconsistent. We still see the potential for a meaningful surplus in primary metal in Q1. In China, the Q1 demand forecast for primary metal is about 12%. At the end of the day, a lot will depend on the supply side.

Back at the global level, Q4 demand in aluminum rose 7.5%. That was 3.3%; that was out of China. A couple of comments on the supply side, you've obviously seen an increasing number of curtailments over the last couple of months. Seen two plants in the U.S., one in Europe, a recent confirmation about that a plant in Australia intends to shut down by midyear.

We're also starting to see some real capacity come out in China, but still not at the levels we need to have an impact on the global balance, for global inventories to be specific. Excluding China, we see no significant new capacity coming on in the foreseeable future. In Q4, the global supply growth lagged demand; it was 4.5% up versus the 7.5% increase in consumption about which I talked.

Supply growth ex-China in Q4 was 2%. As you've read, most forecasters are now calling for a deficit in 2014 on a global basis and certainly by

2015. To us it looks very certain that there will be a deficit in the world excluding China and, of course, the global balance is going to depend upon China's ability at the very least to clamp down on new primary capacity.

Let's move on to slide six, talk a little bit about the operations. Most important, we continued to have a very good safety performance across the plants. We remain very focused, principally on the identification of hazards and behaviors that could lead to serious injuries in our plants. We've had a lot of programs focused at that.

Looking at production volume, as you'll see, Grundartangi up 1%, this is all quarter-over-quarter. So these data would be Q4 over Q3, which is obviously from the continuing capacity creep program. In Q4, the plant produced at an annualized rate of 297,000 metric tonnes.

As you see, Hawesville and Mount Holly were steady. We had great improvement at Sebree. The plant is now operating in a stable manner and is now producing, as I said, at record hot metal and cast-outs volumes. As you'll remember, we had a tough couple of months right after the

acquisition, but team down at Sebree has done just a superb job of getting the plant quickly into really good shape, really proud of them.

On production metrics, you've also seen an improvement there at Sebree, a meaningful one. I'll give you just a few examples. Those of you who follow the technical side of the industry, current efficiency was up two points quarter-to-quarter. Power and carbon efficiency is obviously critical, improved between 4% and 6%, and we have 4% more average operating sales in Q4 over Q3.

As you see, Hawesville, Mount Holly and Grundartangi were nicely stable. A couple of comments on cash production costs, we see good performance on Hawesville. This was driven principally by decrease in maintenance spending. It was down about \$40 per metric tonne between maintenance and supplies.

As I said, power went the other way. It was up \$25 per metric tonne. Shelly will elaborate further on this. Sebree, that nice improvement comes from most areas in the plant. At Grundartangi, those data are little bit funny. The actual operating performance Q4 over Q3 was flat. So stable operating performance, no increase. What you see there is just a bit of an

anomaly. The plant actually built some inventory purposely at the end of Q3, principally in the rodding shop.

We knew we had to take the rodding shop down for a couple of days in Q4 to do some major upgrades consistent to support the capacity creep, and thus we had a lot of rodded anodes at the end of Q3. When those blew through the cost statement in Q4 that obviously impacted cost. So really a one-time-ish event with inventory movement, the real operations were flat quarter-over-quarter from a cost standpoint.

Let's move along to slide seven please. I'd like to talk about just some of the major items before I turn it over to Shelly to go through the numbers, just some of the major items that we think will impact the business in 2014. First on the revenue side, as I've mentioned a couple of times here we're very focused on maximizing our production of premium products and we'd also be making some target investments to increase future production of value added products. The chart you see here shows monthly production of high purity metal at Hawesville. Our ability to produce high purity at the plant consistently is based on maintaining very soft, stable operations in the pot rooms, and is also the result of some modest investments that we successfully made in 2013.

Customer requirements are driving increasing demand for very pure metal. This is principally in the aerospace and some other specialty markets. And as many of you know, Hawesville is one of the very few volume high-purity suppliers in the world. The premiums in this market, of course, on top of the Midwest transaction price are very attractive and the incremental cost to make these products is small.

We're seeing the same trend in billet production at Sebree and we'll talk to you about that as we move through the year. The improvement in the net realized prices from these premium products in 2014 is embedded in the forecast that Shelly will share with you in just a couple moments.

Moving to slide eight please, that was on the revenue side. Here is the major issue on the cost side obviously. I want to give you a sense of what we're dealing with on the power side in Kentucky. The chart here shows the price for energy alone and this is at the Indiana Hub, which is the most liquid node near our plants.

The actual energy price at either Hawesville or Sebree can vary a little bit during normal times from these data, but this shows you the trends. As

you remember, the forecast that we had provided you assumed energy prices in the low \$30 to megawatt hour. So we still think that's a good number.

That having been said, you can see—no great surprise for those of you who follow these markets, you can see the impact of weather on January and regrettably February has continued at these kind of elevated levels. On the other side, the forward screen shows prices reverting to more normal levels by April and May. That having being said, in Q1, our power costs will be a good deal higher than our prior forecast and our forecast for the rest of the year.

I'll turn it over to Shelly now who will provide you with detail on that and other items.

S. Harrison

Thanks, Mike. If you could turn to slide nine please, I'll take you through the company's financial performance for the quarter. Our U.S. shipments were up 2.5% in Q1. This was largely due to higher production volumes at Sebree. In Iceland, we had direct shipments of approximately 3,400 tonnes in Q4 and total volume for Grundartangi was at just about 1%, as a result of the additional volumes from the ongoing expansion project.

So, overall global shipments were up 2% quarter-over-quarter. On a one-month lag basis, the average cash LME price was down about 1% from Q3 to Q4. When you look at our realized unit prices, they were down 2% in the U.S. and essentially flat in Iceland, so both pretty much in line with the change in LME.

Our net sales were essentially flat quarter-over-quarter with a slight increase in shipments, offsetting the decline in LME. Continuing down to the operating loss lines, in addition to our normal adjustments for depreciation and amortization and lower cost of market inventory adjustments, this quarter we also had an \$8 million charge related to the separation of our former CEO in 2011. After backing out these three items, we had an adjusted operating loss of \$8 million in Q4, which compares to an adjusted operating loss of \$4.5 million in Q3.

Let me take you through some of the changes quarter-over-quarter. Lower LME prices in Q4 reduced operating income by about \$5 million, but raw material costs were favorable by \$3.5 million, primarily due to lower carbon costs at all facilities. At Hawesville, power costs were up about \$1 million in the fourth quarter.

Given that Q4 was the first full quarter with Hawesville at market based power, we expected power costs to go down by \$6 million. The difference between our expectations and actual results for Q4 related to issues with the power plant next door and higher energy costs that Mike mentioned. Partially offsetting this power impact, maintenance spending at Hawesville was an improvement of \$3 million quarter-over-quarter.

At Seabee, power costs were down about \$1 million due to a refund of excess charges in Q3 while the rate case was still pending. Seabee also had an improvement of about \$2 million in the quarter for maintenance and other costs driven by improved efficiencies at the plant.

The last item I wanted to note for operating income was the inventory drawdown Mike mentioned at Grundartangi. This is a timing difference related primarily to a reduction in anode inventory that impacted cost by \$4 million in the fourth quarter.

Moving on to the EPS data, for Q4 we had an adjusted loss of \$27 million or \$0.28 per share. In addition to the items I just mentioned, we also had a

\$3 million reduction in income taxes quarter-over-quarter, primarily due to lower taxable income at Grundartangi.

So continuing down to the balance sheet info, in the fourth quarter, we entered into a new \$50 million revolving credit facility that's secured by the current asset of our Grundartangi plant. We also increased the size of our U.S. revolving credit facility from \$137.5 million to \$150 million.

At the end of the year, we had \$6 million borrowed on our Icelandic revolving credit facility and nothing outstanding on our U.S. revolver other than letters of credit. So while cash was down \$57 million for the quarter, our available liquidity actually went up by \$11 million.

Moving on to slide ten please, so here we show our normal cash flow waterfall bridging Q3 to Q4. Capital spending in Q4 was the highest of the year with almost \$10 million for the restart of our anode plant in The Netherlands. We spent \$14 million in capex at our smelter facilities and that includes \$7 million for investment in the expansion project at Grundartangi.

During Q4, we received a refund of \$22 million for withholding taxes in Iceland. At this point, we have about \$10 million in withholding taxes that were paid in 2013 and will be refunded to us in Q4 of 2014. We also received a refund of almost \$10 million in prepaid income taxes for Grundartangi.

Moving on to the right, we had an \$11 million net reduction in debt, as we repaid the Q3 balance on our U.S. revolver, and borrowed \$6 million on our new Icelandic facility. So quarter-over-quarter cash was down \$57 million and we ended the year with \$84 million of cash on the balance sheet. While we're discussing cash flow, I wanted to mention that the \$10 million payment related to the separation of our former CEO will be made in the first quarter 2014. So the cash impact will lag the accounting charge that occurred in Q4.

If we can move on to slide 11, I'll take you through the company's full year performance. Total shipments were up 18% in 2013, primarily due to the acquisition of Sebree in June. We also saw a 3% increase in shipments from Iceland as a result of the ongoing expansion program with about 13,000 tonnes in direct shipments from Iceland, and that number will

increase significantly in 2014, as the first of our tolling contracts expired at the end of the year.

In 2013, the one month lag to LME price was down 7% year-over-year. When you look at our realized prices, they were down 5% in the U.S. and 6% in Iceland, reflecting the improvement in regional premiums in 2013.

Net sales were up \$182 million primarily due to the Sebree acquisition and this was partially offset by lower LME prices. Adjusted operating income was down \$27 million in 2013, with the most significant impact coming from the decline in LME. Lower metal prices reduced operating income by \$52 million, including the impact of our LME based alumina and power contract.

Partially offsetting this decline was an improvement of \$24 million in raw material costs across all facilities and a \$13 million decrease in power costs, primarily at Hawesville. We also saw an improvement of \$11 million in higher shipments from Iceland and another \$11 million at Grundartangi for lower pot lining, maintenance and supplies cost.

The acquisition of Sebree negatively impacted operating income by \$28 million due to higher power costs under the previous contract and low LME prices. We also had an \$8 million increase in SG&A in 2013 due to activities at our anode plant in The Netherlands that preceded the startup of operations.

Moving on slide 12, please. So here we have the full year cash flow waterfall and I will just call at a couple items to note. We spent \$18 million in 2013 on the restart of our anode facility in The Netherlands. The entire project cost is about \$28 million, so you'll see an additional \$10 million cash outflow in early 2014. We also spent \$49 million in cap ex at our smelters in 2013 and that includes \$24 million for the multiyear expansion program at Grundartangi.

For the full year we had a net inflow of \$3 million related to withholding taxes in Iceland. We also received the \$10 million prepaid income taxes that I mentioned earlier, but this is offset by \$10 million in Icelandic income tax payments. In the U.S., we also received a \$5 million income tax refund, and that related to loss carryback.

Moving to the right, we spent approximately \$48 million for the Sebree acquisition, and that amount is still subject to working capital adjustments which have not yet been finalized. We also spent \$8 million in the year to refinance our bonds that were maturing in 2014.

If you can turn to slide 13, please. On the next couple slides I'll take you through the company's expectations for financial measures in the coming year. There is a lot of data on these pages, so I'm just going to focus on some of the key points. In 2014, we anticipate that all operating facilities will be producing above their rated capacity levels. In Iceland, the severe lack of rain this winter has impacted water levels. As a result, we expect to have reduced power availability over the next few months, which will have a modest impact on volume.

The numbers shown here include the expected loss of about 2,000 tonnes due to extremely low water level. As Mike mentioned, value-added products are becoming a much more meaningful part of our business so we've now included premiums product volumes in the shipment section and pricing information below.

For 2014, we expect to earn an additional \$250 per tonne above the Midwest price, and that's on average over all of our premium products volume. For power, we've broken this out by Q1 and then the balance of the year due to the high energy prices we recently experienced in Kentucky as a result of the harsh winter weather.

For Q1, we are forecasting that fully delivered power prices will be \$50 per megawatt hour on average for both Kentucky smelters and then we expect prices to revert to more normalized levels and average around \$37 per megawatt hour in Q2 to Q4. Down at the bottom of the slide, we've updated our forecast for net cash cost. As in past years, we are presenting these costs net of all premiums that we receive above the LME price. That way this number is directly comparable to the LME, meaning that if we take the LME and deduct this number, the resulting amount is our expected cash margin per tonne, with no further adjustment needed for regional or value-added premiums.

If you can turn to slide 14, please. For capex in 2014, we expect to spend \$15 million to \$20 million on the Grundartangi expansion and another \$10 million to wrap up spending on the first furnace at our anode facility. We also plan to spend about \$10 million on other investment projects that are

quick pay back high return projects. As Mike mentioned, we're also analyzing the restart of the second furnace at our anodes facility, which is expected to cost around \$15 million. At this point, we have not included these costs associated with the project in our capital forecast.

Moving down to the amortization line, we amortized the remaining balance of the power contract liability for Sebree in January so we'll have a credit of \$5 million in Q1, but no further amortization in Q2-Q4. Lastly, on taxes we continue to expect our U.S. NOLs to shelter essentially all of our U.S. taxable income. In Iceland, we'll pay some cash taxes related to 2013 income. These payments will be more than offset by the withholding tax refund we expect in November.

With that, I'll hand it back to you, Mike.

M. Bless

Thanks. If we could just turn to slide 15, please, we want to get to your questions. So I'm going to quickly go through some of these items that we'll be spending time working on, certainly in early 2014. I've covered most of these already, so I think I can go through this reasonably quickly.

As I said, we've got some meaningful issues still in Kentucky in the realm of power. First, as I briefed earlier, we need to complete the process of allowing the power company to close the generation station next to Hawesville if they choose to do so. We've installed the physical infrastructure that's required to do this and the regulators have approved that, so that part of it is done; it's behind us. What's remaining now is the regulators need to sign off on the operating protocols that are required if we were ever forced to cut power during a great emergency. After the regulators approved those protocols, as I said, we'll stop paying the monthly support cost of that generation station. Again, that's the problem that's hit us during the fourth quarter.

Again, we believe this whole process will be wrapped up some time during the second quarter. The remaining issue in Kentucky to which I referred is the maintenance on the regional transmission system and the potential impact it could have on both Hawesville and Sebree. Thus far, the power company had maintained its insistence on de-energizing the transmission lines when they perform maintenance, even on a scheduled basis. If an unscheduled event were ever to occur during these periods, we'd be at risk to have to curtail load at one or both plants, potentially a significant amount of power.

Working on energized lines is a proven and safe practice and it's done by utilities across the country, so we need to find a solution to this issue which puts our plants at some unnecessary risk in the future. We'll also importantly be working on alternatives for managing the price risk on power in Kentucky. We're now buying over 850 megawatts on and around a buck basis so it goes without saying this is a significant issue for us. We are looking hard at a range of alternatives including bilateral, physical purchases, financial hedges and other transactions and we'll be updating you on this as we move throughout the year.

As I said, we are in detailed discussions on a post 2015 power arrangement for Mt. Holly. As you know, this is a terrific plant with an excellent group of employees, great safety performance and production efficiencies, a good cost structure other than power and also a premium product mix; about half of its products are billet. Under the power company's tariff, Mt. Holly would have one of the highest if not the highest power price of any North America smelter. Obviously that would not support the plant's operations post 2015. In this case, the state of South Carolina has a major role to play, they obviously, like any state, would be concerned about the preservation of the substantial economic

benefits that are provided by the plant, but here the state actually owns the generation system so they have a unique role to play in these discussions.

A complex structure is now being negotiated as I said. Multiple parties are involved. We need to find a solution here, either this one or if this one doesn't work an alternative solution. So we're going to be working hard on that, obviously with our partners at Alcoa. We will continue to press forward on the hot metal expansion at Grundartangi; it's been a great success thus far.

As Shelly said, we were looking for about an additional 5,000 metric tonnes from this program, 2014 versus '13, and we'll still get those, but we'll get some back due to the impact of the curtailments of power from the National Power Company due to the unusually low reservoir levels and, again, Shelly mentioned that. We'll be working hard to try to make up part of that volume loss. As I have said a couple of times, we'll continue to work hard to increase the value of each of our plants. We see a—as I think you can tell—a major, major opportunity here at each of the plants.

At Hawesville again it's high purity. At Sebree where we want to maximize the current billet production, plus we see some real opportunities for other value-added products that we're working on now. Lastly, at Grundartangi, we're working on a really exciting trial with a customer that could lead to up to 20% of the plant's production going into high value European auto markets. This likely wouldn't come until 2015 or late this year, so we've thus not reflected it in any of the forecasts that Shelly took you through, but it is, indeed, an exciting opportunity for us.

At Helguvik, we continue to work with the two contracted power providers as you now. We really do still believe we should be able to eventually reach an arrangement which works for ourselves and for each of these companies. This will however take some time, and it also, however will be for aggregate amount of power we believe in the foreseeable future, far short of what we'll require to get this project up and going again.

Now as we've said, we really do need the support of the national power company here. We're not looking for a subsidy or any kind of special deal from them. We're just looking for terms that we believe should work for each side in our strong opinion. But what we do need first, though, is their

willingness to stand up and support the project in a major way and we're working with them on that.

At Ravenswood we're still actively working with all the important constituencies with the power company, with the state, with the union and importantly with the retiree group. We really do see the path to get this plant restarted and we remain committed to doing so. Ravenswood should be able to produce a good return at a reasonable metal price. As you know, we've got a very high quality customer next door, who we continue to believe would be interested in taking a significant amount of the output in the form of molten metal.

With that, we'll wrap it up and, Pete, I think we can turn it over for questions.

P. Trpkovski Thanks, Mike. Towana, if you could please take the first question in queue.

Moderator (Operator instructions.) Our first question comes from the line of Mr. David Olkovetsky.

D. Olkovetsky My first question is around the revolving credit facility. Shelly, you mentioned that the U.S. facility was increased to 150, I think you said?

S. Harrison Yes, that's right.

D. Olkovetsky I didn't catch the number for the Icelandic one, how big was that?

S. Harrison Five zero; 50.

D. Olkovetsky Can you give us some metrics around those facilities, are they both asset based, what are the interest rates, what are the advance rates, are they 85 AR, 70 inventory and so on?

S. Harrison all right, so they are both backed by receivables and inventory. They are both variable rates over LIBOR, U.S. is 125 to 175 depending on availability, Iceland is 375 over. Typical advanced rate 85% on receivables in U.S., I believe its 70% on inventory. Iceland is a little lower, 65% on both, but no ineligibles.

D. Olkovetsky Are they both fully available with the exception of the 6 million or so that's drawn in Iceland and the LCs in the U.S.?

S. Harrison Yes, I mean, there are things that we have to look at like different reporting requirements at different levels and dominions and things like that that you get into, but otherwise fully available.

D. Olkovetsky Are there any financial covenants like a minimum liquidity requirement or a fixed charge coverage ratio or something like that?

S. Harrison No fixed charge coverage ratio. There is a minimum liquidity requirement, but again that's when you get into the dominion issues that I mentioned before, and that's just on the U.S. side. On the Iceland side nothing like that.

D. Olkovetsky The dominion issues, what is that? What do you mean?

S. Harrison Basically if you get down to a certain level, the bank will come in and take dominion over your cash accounts as well as your receivables and inventory.

D. Olkovetsky What's that level?

S. Harrison I believe it's 35.

D. Olkovetsky In other words, you need to maintain at least 35 million of cash or revolver availability before the banks come in and say we're pulling your lines?

S. Harrison Yes, and David, all the stuff is online that you can get all the details that are filed.

D. Olkovetsky Perfect. Then with respect to, maybe we can just talk a little bit about Helguvik. When I first started looking at Century, now it was supposed to be the huge growth project and I guess I just want to get a little bit of an update on where the conversations are with the Iceland government, what's sort of stalling that and are there any potential breakthroughs on the horizon with respect to restarting it.

M. Bless Sure. There are two separate buckets of issues as it relates to power, and really three, but to compartmentalize it the first bucket is the discussions, as I said, with the existing power providers. As you know, the national power company owned by the state is not a current supplier to Helguvik. Two contracts were signed—I'm sure you know this—in 2007, we have two geothermal companies and we've continued to talk with them. The

biggest issue with those guys, as we've said repeatedly, has been their weakened financial state after the financial crash. They've gotten a little bit better, but not materially so and that's impacted greatly.

They are financing of their own power projects and thus our being able to reach a final agreement or a modified agreement. As it relates to the national power company, I mean, the issue there is how that company wishes to allocate the power both that it has available to sale today on the one hand and that it can and wishes to develop in the future.

There the issues are complex, but they're no different than anywhere in the world that I've seen, it's simply how a company, and in this instance, a state, wishes to use its power resources. So there's a political debate going on and we have to be mindful of that and respectful of that. It sounds simple. It's a zillion complex issues that are embedded in this, but you see these kinds of public discussions and debates going on all over the world, appropriately so.

D. Olkovetsky

If I may just one more, I want to just make sure I'm understanding correctly, Mike. Earlier you were saying that there was \$3 million and a

\$4 million associated with the power contract. Are you guys adjusting for that?

M. Bless

No. We haven't adjusted for that because we felt like even though it was an unusual circumstance, and I'll repeat again what it was. It wasn't just the contract so much as it drove up—actually that's not true. It drove up our price, part of it was the contractual obligations to the power company on that Power Station and part of it was just an increase in general prices in the region as a result of that unanticipated series of events. But we haven't adjusted for it because it's power costs and it hit us and we just didn't feel like it was appropriate to adjust for it. But if you believe it's a one-time event, you might adjust for it. It was \$0.07 or \$7 million of EBITDA.

Again, just to break it out, \$3 million of it was the incremental cost that the power company bore to replace that power to their other customers. Again we're on the hook for that until we believe in the second quarter when we finished the process of getting all the regulatory approvals and \$4 million was simply market power prices being driven up by that unanticipated event.

- Moderator Your next question comes from the line of Timna Tanners with Bank of America Merrill Lynch.
- T. Tanners I have couple of questions, you threw a lot at us and we're trying to get smarter about these power arrangements. So please, if these are really basic questions I apologize. Lot of moving parts, so on page 13, I just want to make crystal clear here , when you talk about the footer here of fees and you say an LME price of \$1,700 and \$1,900 per tonne, those are your cash costs. That LME price also includes, that's net of a Midwest premium, that's net of any premium. That's the total aluminum price?
- S. Harrison \$1,700 to \$1,900 is the LME price. Then any Midwest premium or other premium that we receive above that LME is a reduction to the cash costs that are shown on the page.
- M. Bless This is consistent with the way we've shown it the last at least three or four years. So the way you've been building your models, if you've been using these data to build your models based on that won't change this year. Again, Shelly said, we think it's the most helpful to those looking at the company modeling it because, as Shelly said, it's directly LME comparable cost. For that costs you don't have make any adjustments, you

can just assume whatever LME you can, you've got the sensitivity right on there and you can calculate what the cash costs would be at any LME.

T. Tanners Obviously with the volatility in the Midwest premium, I just want to make crystal clear what that entailed. So that was helpful.

M. Bless Sure. You see the Midwest. Let's assume down there, we've just used ..., we've just used the CRU estimate. And so you know it yourself, you see the U.S. tonnes, for example, that we have, so if you want to sensitize that number by a penny or \$22 per metric tonne, it's easy to do. You just multiply it for every penny \$22 times the number of U.S. tonnes for example.

T. Tanners Then a couple of other questions, one is you had talked in the third quarter call about concern over supplying, sourcing alumina and there has been some bauxite pricing strength on what's happening is need, so just want an update on how that's faring for you?

M. Bless It's going very well, thanks. So I skipped over it, or quickly, part of it was embedded in my comment on Grundartangi, which implicitly we replaced the toll, so we got alumina and we sold metal there. But we've got

alumina contracts now covering all of our production in the U.S. and in Iceland. We replaced expiring contracts in the U.S. as well as expiring contracts in ... and Iceland, it's all embedded in the cost data that Shelly has given you there.

So the market remains, although it's traded up a little bit as you said, I didn't make any comments, the index price was up a little bit during the quarter. The PAX price is sitting at about \$335 now; it was up a little bit during the quarter. But it's easily procurable. We've got importantly the right material for our plants, despite the fact that it's a commodity as you know each alumina performed a little bit differently at each plant. So it's important that we get the right source and so net/net we're covered through 2017 now and we feel good about our alumina supply.

T. Tanners

Then last one, and I am sorry if I missed it, this was on the SG&A guidance, of course, a lot lower. Sorry if I missed why that would be the case from 2013?

S. Harrison

Yes. So in 2013, excluding any unusual items that we've called that specifically, the biggest difference is the SG&A related to Vlissingen in The Netherlands, that's our anode plant that we were starting up last year,

I think that was about \$7 million to \$8 million that we had in SG&A that will basically go away in 2014 now that the plant's up and running.

Moderator Our next question comes from the line of David Gagliano with Barclays.

D. Gagliano Same line of questioning as Timna made a minute ago on the 2014 targets on the cash cost side, I just want to make sure I got it right, too. So if you back into the math, and I'm doing in pennies per pound, I apologize. I will give it to you in dollars ..., whatever's easier, and it works out to a weighted average cash costs target of, let's call it \$1,560 a tonne? But what you're saying is that number already includes, let's call it \$325 reduction associated with the premiums, correct?

M. Bless Correct. Same presentation as always, David, you take the gross cash costs in order to get these data, you reduce it by all premiums, as Shelly said, not just the physical premium to which you are referring, but the value-added product premiums as well.

D. Gagliano Essentially what I'm getting at it is, and I think what we're trying to figure out here relative to 2014, I mean, obviously, I'm guessing that the

premium assumption you're making for '14 is actually meaningfully higher than the premium assumption made for '13?

M. Bless It's right there on the page, it's right there on the page.

D. Gagliano For 2013 as a premium assumption?

M. Bless What was embedded in '13 is—

D. Gagliano Correct.

S. Harrison Yes, the Midwest pricing around the time we put out our last numbers of around \$0.11 per pound.

D. Gagliano So then that went to 15 so?

S. Harrison Yes.

D. Gagliano So understood, and then just on the pricing side, the other question I had. I appreciate the breaking out the shipments by higher quality shipments and also the value-added number, \$250 a tonne on all premium tonnes.

What I'm trying to get, figure out is, what was that value-added number in '13, is this all incremental? I'm assuming it's not.

M. Bless

No, I can take it down for you really quickly. So, let me just do it one-by-one. So at Hawesville, as you see we're predicting about 120,000 tons of purity this year, that number was less than half of that last year, a little less than half of that and so the plant, as I said, I can't say it enough. I don't say it enough to them, has made just extraordinary strides there. And at Sebree, it's all new since June, so I guess it's seven months new. We had Sebree for—pardon me, it will be five months incremental. We had Sebree for seven months, the deal closed on the first of June.

So it's about the same, a little bit more than the plant produced last year. But we owned the plant for about five months, five months more. At Mt. Holly, that's pretty comparable to what we did in billet last year. And at Grundartangi, as I said, it's essentially nothing this year. We're doing some small trials, as I said, but the big stuff, the big volume stuff if the trials are successful won't come until 2015.

D. Gagliano So when you do that math on the U.S. value-added line, at \$250 per tonne on average over all premium tonnes, was that a \$250 per ton number as well last year, or it sounds like that's probably gone up as well, correct?

M. Bless It's gone up as well. Maybe, I'm just trying to guess, David, where you might be headed. Let me give what I think at least might be a helpful statistic. So the last time we talked about our breakeven, and this was a breakeven pro forma for market power, so it's comparable for the numbers that I just gave you a couple of minutes ago. It was \$1,775 and that's a holdback number and the new number I just gave you, again after we get through the cold weather in Q1 we believe and get back to power prices as Shelly said at \$37 is 1,600, so a \$175 difference.

If you look at that—and again, that's a comparable power for power, so there is no difference in the power there, that \$1,775 was pro forma for market power at both plants in Kentucky. If you look at that \$175 improvement, about half of it is from, as you correctly pointed out, the better assumption in regional delivery premiums, it's up at regional delivery premiums and the assumptions are up about 90 bucks. And about the other half is due to a richer product mix and better high purity and billet premiums.

Moderator Our next question comes from the line of David Olkovetsky with Jeffries.

D. Olkovetsky That's actually the exact line of questioning I was about to go down, is the \$175 you just went over. And then I guess maybe I'll just ask something else. Let's talk maybe a little bit about working capital, how do you guys understand working capital sort of playing out over the next quarter or so with all of the various moving parts?

S. Harrison Well, I mean, obviously working capital can swing significantly from quarter to quarter. Nothing in my case. If there's anything that you can think of, there is nothing dramatically that we know of in Q1 that would be a big swing. There's a little bit of an inventory build maybe, but nothing huge.

M. Bless No. As Shelly said, you're going to get variations just because you'll have disbursements that are scheduled on the last day of the quarter or a customer payment or two will be lumpy. But if you asked over the course of the next couple of quarters, there's nothing. As you know, you've watched the company, I mean basically our working capital over the long-

term meaning longer than a quarter or two goes up or down in sympathy with the LME price.

D. Olkovetsky And then with respect to that 37 per megawatt hour that you guys have alluded to a few times, how confident are you about being able to get down to that, what are the sort of parameters under which it will stay high, obviously, cold weather is having a big impact. But how confident are you guys when you get down to that 37?

M. Bless Sure, I mean, one level of confidence is based on the forward screen and our discussions with dealers. We could create that price right now, we could hedge. We could buy forward at that price right now. So that 37 again is made up of—it's actually been a little bit conservative. Prices are sort of 32, 33, 34, when you get to the forward screen outside April and then for the rest of the year. And then once that support cost for the generation station goes away, the remaining costs are just another couple of bucks, two bucks or so for transmission and then a buck or so of ancillary costs. So, I mean, one level of confidence is if we so chose we'd go out and create that price today.

D. Olkovetsky Have you guys just made that decision to do that with at least part of your requirements?

M. Bless We haven't done any transactions yet, but I think it's safe to say, it's very safe to say we've done a lot of work on it. As I said, we'll be reporting to you. I wouldn't be surprised that the next we report to you we'll have put some of that in place.

D. Olkovetsky Then with respect to the breakeven, what is the maintenance capex level you guys were assuming for that breakeven cash cost?

S. Harrison Yes, we used \$20 million in the breakeven.

Moderator There are no further questions in queue.

M. Bless We appreciate everybody's time and we look forward to talking with you in April if not before. Take care.

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