Final Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2014 Earnings

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SPEAKERS

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ANALYSTS

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PRESENTATION

Moderator: Ladies and gentlemen, thank you for standing by. Welcome to the Fourth Quarter 2014 Earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will be given at that time. (Operator instructions.) This conference is being recorded.

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

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

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

In addition, we've included some non-GAAP financial measures in our discussion. Reconciliations to the most comparable GAAP financial measures can be found in the appendix to today's presentation and on our website.

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

M. Bless Thanks very much, Pete, and thanks to all of you for joining us this afternoon. Before I get started I would just like to give you all an update on Rick Dillon, our CFO. As you will recall we put out an announcement a couple of weeks ago about his health. First, we'd like to thank you and Rick to whom I have spoken almost every day of course would like to add his thanks to those of you who have inquired about him. I am happy to say that he's coming along very well and he expects to be back in the seat at least on a part time basis maybe as early as mid to late next week. And then as we expected, he will back in the seat full-time by the end of March and it goes without saying we're looking forward to having him back.

So with that said if we could turn to slide 4 please, and as usual I'll take you through some of the highlights of the last couple of months during which we think we have made generally good progress on most fronts.

This and the continuing volatile environment and I'll talk about the market in just a couple of minutes.

First and most importantly we completed the acquisition of the remaining interest in Mt. Holly on the 1st of December; that was the scheduled date. We are obviously very pleased to complete the transaction and now we are focused on the various integration activities, the most significant of which in the near term is the transition of the various business systems. We have had a closer look during the last two months and this has confirmed our long held perceptions of this plant, that it's a terrific plant with an exceptional management team and group of employees.

We are already seeing good cooperation with our other plants in areas like safety and production. We've also confirmed our assessment that there are certain deferred investments that need to be made in Mt. Holly. We are addressing the very important items now and the remainder will come after we reach a new power agreement. I'll talk about the status of our discussions on our post 2015 power contracts in a few moments.

Moving down the new value added product lines at Grundartangi and Sebree are now running at full capacity. As a reminder, these are as a result of some modest investments we made early in the year in 2014. As expected we had some breaking-in issues at both plants but the quality at both are now good, and we've sold all the product for 2015. The foundry alloy and billet markets remain reasonably good in the US and in Europe. So we are looking forward to a good year in those product lines.

Lastly, power prices in the US Midwest have continued to decline. Generation continues to be strong in the region and demand has not kept pace, which is partly of course due to the reasonably benign weather conditions that we've had until the last week or so.

Fuel prices especially since the turn of the year have come down significantly. Obviously the biggest factors in natural gas and coal in our power price and this has resulted in very favorable power prices thus far in 2015 and importantly we've had a lack of the congestion issues we saw last winter. So as I said obviously we've seen a bit of an uptick on some of the very cold days during the last week that seems to be abating.

If you can turn to slide 5 please, couple of comments about the external environment. It goes without saying that the LME cash price has been exceptionally volatile over the last several months. Just to give you a reminder here, we started the month of September up at the $2,100 mark on the cash price and that fell through the month and we began the fourth quarter at about $1,900. The price rose straight back into low $2000s and just back in November we averaged $2,050 and then again it comes straight back down. 2015 year-to-date we've averaged $1,815, again this is on the cash price and today we are sitting at about $1,790 and Shelly will give you some more detail on the pricing and our realized pricing during the fourth quarter in just a couple of minutes.

Turning to the more macro environment, the weakness in the commodity price in our assessment is due to significantly to issues a lot larger than the aluminum markets or even the base metals markets. Obviously there have been geopolitical developments in the Middle East and in Ukraine. We've had the Greek elections and the impact of the continuing bail out negotiations in the EU, obviously, the precipitous fall of crude price. All of these factors and more have led to the strengthening of the dollar and of course the selling of dollar-based commodities.

Delivery premiums remain strong through the fourth quarter but have begun to come down over the last couple of weeks as those of you have seen who follow these markets. The EU has been the hardest hit due to the relatively weak demand in that region and building imports principally from Russia. The duty paid premium in Europe is now posted at $435 a metric ton but we have information and others do that business is being transacted well below that, perhaps in the range of $400 per metric ton plus or minus $20 to $30. It is a wide range given the lack of liquidity in these markets.

The US has held up relatively better. Until last week the posted price was still about $0.24 per pound of course. The Metal Bulletin price now stands at 23 and 7/8, but again business is being done well below those posted levels.

There is a range of factors for this of course. One is that the fall of the EU premium is obviously going to put pressure on the US premium. Second, the contangos remain quite narrow. And in both regions obviously in all markets as we all know, this kind of environment becomes a self-fulfilling prophecy where owners of assets obviously seek to monetize them before prices fall further.

But not that much movement in value added products premiums. The billet premium is coming down in Europe but only in line with the delivery premium but no diminishing of the value of the billet in that price. And US billet premiums have been holding relatively stable.

There is a variety of fundamentals facing our industry and in North America conditions remain good with favorable short and longer term profiles. In Europe conditions remain somewhat stagnant and we have several key regions in the world that are struggling, Russia and Brazil are noteworthy examples. Of course the debate remains over China's trajectory, the trajectory of their overall economy and obviously that gets plenty of press so we won't cover it here.

Turning to our industry in specific on the fundamentals, demand for primary aluminum as a whole has remained good. We exited the year in the fourth quarter up 6% versus the prior year. China was up 10% and the rest of the world hanging in there at 2%, again with continuing weakness in the BRIC countries.

North America continues to be a standout up 8% in the fourth quarter versus 2013, with the EU flat and expected to continue around that level. In China supply growth has more than kept up with consumption. Closures continued but new capacity in the Western part of the country is driving surplus. Production growth was up 14% in the quarter versus the 10% increase in consumption. We will continue to have surpluses in China especially in the first quarter as normal, as business slows considerably during the present New Year holidays.

Net exports of primary metal out of China has continued at low levels in the range of 100,000 to 200,000 metric tons per quarter. However, the flow of semi-fabricated products in essence disguised as prime continues. Per industry sources this level has been in the range of about 300,000 metric tons in Q4 and this is in addition to 600,000 tons of real semis that came out of China in Q4.

Bottom line global supply was up 8% in the fourth quarter and up 3% excluding China. Putting the demand and the supply together, the global market had a small surplus in 2014. Again there will be a reasonably larger surplus in Q1 due to the holidays in China and for that reason as you have seen, there has been an agreement amongst market participants in China to hold back metal from the market.

Turning to inventories as you see on the slide, they continue to come down with LME stocks now inside 4 million tons and again as you see on the slide here, total identified inventories globally are now down close to 40 days of consumption.

Lastly just quickly on the alumina price, it had been relatively sticky until recently but now it has started to fall. The index price had held until recently at or above $350 a metric ton. Of course that's the Pacific price and it is now down around $340 or maybe just a little bit inside that level. But the Atlantic price trading at around $330 or again a little bit below that level.

If we can turn to slide 6 please, couple of comments as normal on the operations on which we think we made generally very good progress during the quarter, I will just give you some detail. First on safety, every plant had better safety performance in the fourth quarter versus the third, and all of our US plants had a better 2014 in total than 2013. However, as I said we are simply not where we need to be on safety at any of our facilities and thus we are redoubling our efforts. Some of the issues are easily identifiable and tactical in nature while some are more complex.

Down the page now turning to production, it was up as you can see at all plants quarter to quarter. Hawesville first and foremost as you remember is still at a relatively low base, still at about 3% to 4% below its total capacity. As a reminder, earlier in the year we had some significant power modulations at the plant and some issues in the rodding shop in both the second and third quarters.

Third quarter as we expected did turn out to be the low point. You remember we talked about this on the last call. Just to give you a sense, we had 30 production cells out of service at the quarter that is about 5.5% of the plant's capacity. Q4 was a bit better down to 21 cells out on average just shy of 4% out. Today we only have four cells out. The guys at the plant have done a very good job by bringing it back to largely stable condition. So we are struggling this week with some issues caused by the cold weather over the last couple of days.

It will take a significant effort this year to maintain the stable conditions as we work to correct some of the underlying longer terms issues. And in this respect we planned a large investment this year of about $15 million for the refurbishment of the anode rodding shop which has seen no major modernization in the 40 year history of the plant. Shelly will make some comments about our cap ex budget for the year in just a couple of minutes. As you can see the other plants had good production performance.

Running down the page further, production efficiencies or KPIs as you can see were stable across the plants. I'd make the same comment on Hawesville. We had good improvement from Q3 but we are still reasonably below where we were at the beginning of 2014, where the plant was operating at an exceptional level.

Lastly, on the page is as you can see we've had generally good progress on conversion costs. The only issue you see there at Grundartangi is a couple more cell failures than we have had historically that obviously drives up reline costs. This is expected as we continue to crank up the line current, the amperage in the plant due to the capacity creep program. That entire increase that you see there at Hawesville is explained by increased maintenance spending to correct the issues about which I just spoke. Assuming the cold weather problems that we have seen here over the last day or two abate, we shouldn't see a repeat of this maintenance spending in Q1.

If we could turn to slide 7 please. Before I turn you over to Shelly just like to make a couple other points on the operations. Again, Shelly will give you some more detail about product premiums when she goes through our 2015 plans, but I thought it was important at this point to show you what the portfolio looks like and how it breaks down. As you can see in 2015, we are planning on about 60% of our production to be in the form other than standard grade ingot or SOW, so a so-called value added product or purity product or premium product.

You see the significant level at Sebree to be close to 100% value added products this year. As you may recall the plant was only at 50% value added products when we acquired it just 18 months ago. As we've talked to you about in the past we're looking to improve this product mix further and we continue to analyze some significant investments at Hawesville and Grundartangi. At this point we've made no decision on those.

Just on to page 8 please, power prices obviously being critical. This page shows the monthly average Indiana Hub Day-Ahead energy price and this price obviously is impacted by a number of factors including fuel prices, supply and demand, again and until last week the absence of extreme weather. The forward curve for this power remains reasonably flat. One in three year energy you are trading around $32 for that strip per megawatt hour and $34 for the three year. The delivered price to our plants in Q4 was up just nominally versus Q3 up about 1% and Shelly will give you a much more detail on the impact on our financial performance in Q4.

Since Q4 energy prices have obviously taken a significant step down, in January and February again until the last couple of days we were looking at Indiana Hub Day-Ahead energy prices in the high 20s to the very low 30s. Again we have seen some higher prices in the last couple of days but nothing near last year's level.

With that, I'll turn it over to Shelly to go through the financials.

S. Harrison Thanks Mike. If you could turn to slide 9 please, I'll take you through the company's financial performance for the quarter. Our US shipments were up 3% in Q4 and this was largely due to the acquisition of the remaining 50% of Mt. Holly which closed on December 1st.

In Iceland, volume was up about 5% as a result of the ongoing expansion project as well as timing of shipments. The overall global shipments were up 4% quarter-over-quarter. On a one month lag basis the US Midwest transaction price, which includes both the LME and the regional premium was up 5%, which is in line with our increase in US realized prices. In

Iceland, we sell most of our metal on a two month lag. So on that basis the LME plus European duty paid premium rose 9% quarter-over-quarter which is also in line with the improvement in Grundartangi's realized price for Q4.

Continuing down the P&L, in Q4 we had adjusted EBITDA of $92 million which compares to adjusted EBITDA of $80 million in Q3. This quarter we had two adjusting items for EBITDA including $5 million primarily related to a onetime non-cash pension charge and $3 million related to a charge for separation of former senior executives. So let me take you through some of the changes quarter-over-quarter.

Higher all-in aluminum prices increased EBITDA by $26 million, net of the impact of our LME based alumina and power contracts. This is partially offset by $4 million of increased casting costs as we produced more value added products in Q4. Higher shipments primarily from Grundartangi and the additional stake in Mt. Holly contributed about $4 million to the quarter-over-quarter increase in EBITDA.

At Hawesville operating costs were up about $3 million mostly due to increased maintenance costs. However, at Mt. Holly we benefited from lower natural gas prices driving a quarter-over-quarter savings of $3 million on power.

Moving on to the EPS data, for Q4 we had adjusted net income of $63 million or $0.65 per share. In addition to the two adjusting items I mentioned for EBITDA, we also adjusted net income to exclude $7 million net purchase accounting benefit related to the Mt. Holly acquisition. Continuing down to the balance sheet info, we ended the year with $163 million in cash and debt just under $260 million. Availability under our revolver is down $38 million from Q3 and that's primarily due to credit support requirements for the Mt. Holly power contract.

Moving on to slide 10, please, on this next slide we show our normal cash flow waterfall bridging Q3 to Q4. In the fourth quarter, we spent a total of $17 million for cap ex. In addition to our normal maintenance cap ex, we spent $9 million on investment projects last quarter. These include the casthouse upgrades at Grundartangi and Sebree that Mike mentioned as well as the capacity creep program at Grundartangi.

In November, we received a refund of $10 million for withholding taxes in Iceland. This was partially offset by $2 million paid for income taxes. At this point, we have about $6 million in withholding taxes that were paid in 2014 and will be refunded to us in Q4 of 2015.

Moving on to the right, we used $54 million of cash on hand for the Mt. Holly acquisition in Q4. We expect to have additional acquisition related cash outflows in 2015 primarily related to pension funding for Mt. Holly and I will talk about those in just a minute. On the right hand side of the chart, you can see a $10 million working capital cash inflow primarily related to shorter customer payment terms and lower finished goods inventory as a result of a new off take agreement. We expect to see an incremental cash inflow from working capital reductions in Q1 when the new sales contract took full effect. So quarter-over-quarter cash was up $30 million and that includes the purchase of the remaining 50% of Mt. Holly which we financed entirely with cash on hand.

We can move along to slide 11, I will take you through the company's full year performance. Total company shipments were up 13% primarily due to our ownership of Sebree for a full year in 2014, the acquisition of Mt. Holly this past December, and the ongoing expansion project at Grundartangi. In 2014, the average one month lag LME price was essentially flat year-over-year but Midwest premiums were up almost

80%, resulting in an 8% increase in the Midwest transaction price, which is in line with our increase in US realized prices.

In Iceland, our average realized price was up 28% year-over-year primarily due to the shifts from tolling to direct sales and 40% increase in the lagged European duty paid premium. Adjusted EBITDA increased by over $200 million in 2014 with the most significant impact coming from higher premiums globally and lower power prices for our Kentucky smelters. The increase in realized aluminum prices contributed about $150 million to the year-over-year improvement in EBITDA and this is net of the impact from our LME-linked alumina and power contracts.

Partially offsetting this was $14 million in additional casting costs as we produced more value added products in 2014. On the power side, lower power prices in Kentucky added $53 million to the increase in EBITDA primarily as a result of our new market-based power arrangements for Hawesville and Sebree. However at Mt. Holly power prices were up $7 million year-over-year driven by extreme weather and high natural gas prices early in the year.

Moving on to slide 12, please. Here we have the full year cash flow waterfall and I'll just call out couple of items to note. We spent a total of $56 million in cap ex for the year including $13 million to finalize the restart of the first furnace at Vlissingen and another $13 million on the expansion in Grundartangi. We also contributed $6 million to our defined benefit plans and paid down $9 million in debt including $3 million for bonds that matured in August. So for the full year we generated positive cash flow of $79 million.

So if you can turn to slide 13, please, on next couple of 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 am just going to focus on some of the key points. In 2015, we anticipate that all operating facilities will be producing at full capacity levels and the volumes you see here reflect the additional value added products as a result of our recent casthouse investments in Sebree and Grundartangi.

Similar to last year, we provided our expectation for the average premium we'll receive on value added products on top of the LME and regional premiums. Please note that this is the average we receive over just the value added tons and not a weighted average over all tons. For power, we're assuming Kentucky prices will average in the mid to high 30s on a fully delivered basis, with 10% to 15% improvement over 2014 mainly due to the milder winter we're experiencing this year. Even though temperatures have dropped significantly over this past week, we are still expecting winter prices on average will come in lower than the prior year.

At Mt. Holly we're assuming natural gas prices will average $3 per MMBTU in 2015 which translates to a 15% reduction in power costs as compared to last year. Our assumptions for power in Kentucky and South Carolina were determined based on the forward markets for power and natural gas in their respective regions. For 2015 we agreed to use a Spot Index price for most of our alumina contracts as opposed to the LME link structure we have historically used. This change, along with the Mt. Holly acquisition, increases our sensitivity to changes in the LME price. So for every $100 per ton movement in the LME, our EBITDA now changes by $85 million annually.

We've also included our latest sensitivities to premiums and power in the appendix to this presentation, so you can check that out when you have the chance. 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 LMEs, meaning that if you take the LMEs and deduct this number, the resulting amount is our expected cash margin per ton with no further adjustment needed for regional or value added premium.

You can turn to slide 14 please. Corporate SG&A is expected to come in around $40 million including roughly $6 million in non-cash expenses. Keep in mind that we expect an additional $10 million or so in plant SG&A that we've accounted for in cash costs on the previous slide. In the first half of 2015, we expect to make a contribution of $35 million to $40 million into the Mt. Holly pension plan. As part of the acquisition, the partners agree to fully fund the plan, and Alcoa has already funded their portion.

Moving down to cap ex, with the acquisition of the remaining portion of Mt. Holly we now expect maintenance cap ex to be $20 million to $25 million annually. In addition we expect to spend $10 million this year on the Grundartangi expansion and $15 million on the restart of the second anode furnace at Vlissingen. We have another $35 million to $40 million we expect to spend on mostly high returns, quick payback projects in the

US. The largest of our investment projects relates to the anode rodding shop at Hawesville. As Mike mentioned this is a mandatory project required to maintain the facility but it also comes with a decent return primarily as a result of improved energy efficiency.

Lastly on taxes, we continue to expect our US NOLs to shelter essentially all of our US taxable income other than some modest state taxes. In Iceland we will pay some cash taxes related to 2014 income, but these payments will be partially offset by the withholding tax refund we expect in November.

With that, I will hand it back over to Mike.

M. Bless — Thanks, Shelly. Just to finish up here before we get to your questions, if we could turn to slide 15 and we will just give you a sense of what you ought to be expecting from us over the next couple of months. As I said, the post 2015 power contract at Mt. Holly is now a significant focus. Just to take a step back, as a reminder in mid-2012, we entered into a three and half year agreement and that agreement over the last couple of years is ahead of taking of power from Mt. Holly's traditional electric power supplier as well as from an off system designated resource.

About a year ago, a little longer than a year ago, in late 2013 going into 2014, we tried to reach an agreement for post 2015 service but were unsuccessful in doing so. And thus we needed to tender that termination notice in June which you saw us do for post 2015 service. As a reminder this was required to eliminate any further payments after 2015 if a new agreement can't be reached and the plant can't operate post 2015.

After that we had relatively few discussions with the power supplier through the summer and into the fall. We have now reinitiated those discussions as the sole owner of the plant and thus far we have had a lot of very good back and forth. We've got the full attention and responsiveness from the power provider; this is clearly important to them as well. We have not yet reached the framework of agreement with them as a complex series of issues being debated. Thus it is hard to speculate at this point the type of structure that could ultimately make sense to both parties. That having been said we must find a solution here as the plant simply isn't viable with what the power company has thus far put on the table.

Couple of other items here at Hawesville, the current five year labor agreement expires on the 31st of March, so obviously we will be working hard on this over the next couple of weeks and in fact yesterday we began negotiations with the steel workers. At Grundartangi, the multi-year agreement expired at the end of last year. Iceland’s a little bit different, the convention there is only to begin serious dialogue between the company and the union around the time of the expiry. So we have been in discussions with the unions since January and our expectation is that those discussions will continue over the coming weeks. Obviously plant operations are going along without any disturbance at all.

At Ravenswood we submitted the full formal proposal to the power company in January as we had planned. They had given us a preliminary response which we are reviewing right now. We have not yet reached an agreement there but continue to be hopeful and believe our proposed structure should satisfy the criteria of all the constituencies.

As a reminder the transmission grid in Western Kentucky is relatively weak especially in Hawesville's specific load pocket. This puts Hawesville at risk in non-standard conditions in the transmission grid and those can come in a number of ways.

You can have obviously high demand. You can have constrained supply due to key generation in transmission assets being removed from service for maintenance, either planned maintenance or emergency maintenance or you could have unusual transmission flows through the system. This condition also puts a cap on future economic development in the region. For all these reasons we continue to work with MISO and all the other relevant constituencies on upgrades of the transmission grid.

One solution that has been identified is a new line that could be built from the Indiana, outside of the Ohio River, to a substation adjacent to Hawesville; it's a relatively short distance, about less than 20 miles growth wise. We believe this project meets all of MISO's various investment criteria, and that's why we are pushing on this very hard. Implementation of an upgrade like this would mitigate a significant black swan type risk especially for Hawesville.

Shelly did a very good job in taking you through the cap ex and the detail on the cap ex budget for 2015, so I won't belabor it. But given the number of large projects and the importance of those projects goes without saying we'll be putting a lot of focus on project execution in both the timing and budget standpoint.

With that, we can, Pete, open it for Q&A.

P. Trpkovski Thanks, Mike. Justin, you can go ahead and kick us off with the Q&A session please.

Moderator (Operator instructions.) Our first question comes from Brett Levy with Jefferies.

B. Levy Thank you for the candor and also thank you for all the good financial information, as well. Can you guys talk a little bit about like any hedging, is this sort of hedging out of the story now for North America or kind of what's your thought? Then also talk about the Midwest premium, I asked this on another Aluminum call, I mean obviously $0.24 is a good number, you want to sort of make sure it holds up, what makes you think it does?

M. Bless On hedging, Brett, thanks for the questions, I wouldn't say that it is out of the picture. I mean this is the age old debate right and we rehash it here if not daily then several times weekly. This is the same old story where I may not talk about—one example is natural gas so you look at it $3.50 and you say well that's a nice price and relative to you know where it's been over the last couple of years. Then all of a sudden you wake up one day and the strip for next year is at $2.90 and you obviously humans are hopefully learning animals and you say gosh, I am glad I didn’t do that.

So we continue to look at it Brett, I’d say we continue to look at it on a tactical basis. As you’ve heard us talk about in the past we do have a fundamental view that taking long-term positions in these commodities markets, this is one point I'll make, and then I’ll make another, is not the right thing to do. And number two, when you look at the key commodities that we would seek to hedge in our cost structure with the key obviously being Indiana Hub power on the one hand and natural gas on the other, you have to think long and hard.

Again, this is consistent with what we have been saying about only taking one side of that trade I suppose is one way to say it. So, if you were to fix a portion of your electric power and your electric power constitutes let’s call it 35% of your cash cost of sales, can you responsibly do that without taking a position, i.e. selling forward 35% of your revenues? So that’s a lot of words, we are actively considering it, that I can assure you but we haven’t bid on anything yet.

On the Midwest premium I think you heard us say we don't think $0.24 is a good number, we think it's coming down. I mean let me just be blunt, it is coming down. Anybody who is in these markets knows that the deals that are being transacted have been done, the number one the posting price has come down. Midwest is below $0.24, Europe is falling more as we said, and actual business that's being transacted is happening below those posted prices.

Now as I said there is not a lot of liquidity there, and I think that's because both buyers and sellers, people who are long metal and people who need to own metal are sitting there saying there is a gulf between buyers and sellers as to what's going to happen in the future. So unless you really need metal or unless you really need liquidity as an owner you are not acting but the evidence says to us watching these markets very carefully as you would hope we do that those premiums are coming down. How fast and how hard until they find an equilibrium would be very, very difficult to speculate.

B. Levy Then on the power agreement front, is there any way of just kind of going back to your power suppliers and saying listen whether its natural gas or coal, your input costs are down. You should give us some sort of break on that. Then to some extent when they come back to you are they asking for something that sort of asks for an adjustment back up again if these input costs ever go back up for them?

M. Bless That's a great question. It's like you have been sitting at the table here. So your question really is specific to South Carolina, to Mt. Holly, because implicitly the answer to your question is yes in Kentucky since we are buying on the market, I mean that marginal generation that prices are power and everybody else's power in the dispatch order in effect has current power prices, pardon me, fuel prices in it. So coal and natural gas that is embedded in the price, in our LMP and our marginal price that MISO assigns to us every day. And so it is long winded way of saying yes, in Kentucky.

You are on the right path for some place like South Carolina. Of course power provided there has its own structure in terms of fuel costs and so one way to get about it would be to say okay, we will take our own. We will manage our fuel cost by ourselves; that will require some work to do.

Obviously, it'd be treated differently than other people on the system but it can happen. And the other way that could happen perhaps more directly is to do a deal similar to the one that we did, the so-called off system resource deal, Brett, into which we entered in mid-2012. That one has us exposed directly to natural gas. The reason you don't see as much volatility in our final power price at Mt. Holly because as I've said as I have reminded you guys, it is a mix right now of, I don't want to call it fixed, but reasonably fixed price power from the power company on the one hand and power from the third-party resource that floats based on natural gas price on the other hand. I hope that answered the question.

B. Levy — No, good answer. I'll get back in the queue. Thanks.

Moderator — Our next question comes from Timna Tanners with Bank of America Merrill Lynch.

T. Tanners — Good afternoon. I am still trying to understand what the gap is on Ravenswood. I know you characterized to those you are in the process and I get it but is there anything else that you can tell us to help us characterize the probability of that succeeding? You are one of the few companies that looks to be restarting and if you could talk to us about any further detail there and how much do you think about the price of the LME vis-à-vis that decision? I know it is about power but at some level does the LME price factor in?

M. Bless Yes, that's a good question, Timna. I will take the second question first if I may and so, the answer there is our view—sort of mid to long-term view hasn't changed. You can't make decisions like this based on as I said, we were up at $2,100 just a couple of months ago, now we are down at $1,800. Premiums are coming down a little bit but they are way, way up from like a year ago when we would have happily restarted the plant had we gotten the right power deal. So, again long winded way of saying of course we look at it and if we had a view, our view is no better than anybody else's. I think we are looking really ugly in the world here over the next couple of years. Of course [audio disruption] but other than that we've got to proceed here I think responsibly with the longer term view than that.

It is very simple answer to your first question. I mean the posted tariff of the power provider it is a regulated power market there so they don't like us to use this word, but it's what it is—it is a monopoly power provider there of course, as it is in most all regulated regions in the US. Their posted tariff just doesn't work and doesn't come close to working. As you know we have been voted very generous support by the state of West Virginia. So taking that and reducing the posted price from the power provider we are still not there and so that I think you use in my opinion the exact right word, that gap there is what we are trying to solve. And we haven't gotten there yet. What we have on the table we think is a structure that should solve it and again it would be difficult to speculate at this point in time. We think it works but we are not quite there yet.

T. Tanners Well you have track record so that means something and that is why we are still hopeful as well. I guess—

M. Bless Just to be clear, we'd like to start that plant; we really would.

T. Tanners Then the only other thing I wanted to ask about is what you didn't talk about which was Helguvik. And maybe I missed it but is that still something that—is it more on the back burner now or where does that stand?

M. Bless No, thanks for bringing it up, Timna. We didn't mention it only because we don't like to add filler. It is very much on the front burner but there's just been no substantive change since last time and so we probably should have put it on there. We were still very focused on it. We are in discussions with all the relevant parties as late as I can say.

Yes, with all three within the last couple of weeks but two we have contracted in the larger companies that we have mentioned in the past that's not yet part of the power supply for Helguvik but we certainly would like to come in there. That's a national power company owned by the state of Iceland. So it is just that there hasn't been, there has been a lot of discussion and some developments but nothing that rises to updating you guys on this call.

T. Tanners Okay, thank you.

Moderator Next will be John Tumazos with John Tumazos Very Independent Research.

J. Tumazos Thank you very much for your very good performance. It helps the job security of all the metals analysts to have somebody do some good things.

M. Bless Thank you, John. We're concerned about our own, as well, but thank you.

J. Tumazos

We certainly like to see your progress. Two questions, could you talk a little bit about the forward tax rate and the cash and book base as NOLs going forward first? And second, looking beyond the 2015 year, further out, if you had some good earnings several back to back years how would your capital allocation priorities lean? Oh I thought of nine different things: paying down debt, paying down benefit liabilities, dividends, buybacks, restarting West Virginia, Iceland expansions and acquisitions, raw materials, cap ex in existing plants. Do you remember how there used to be a nickel quarterly dividend back 12 or 13 years ago? Lots of ways to use money when it comes in.

M. Bless

Thanks, John. We don't get up to nine when we talk about at the board level, so let me take the tax rate first. It's pretty straight forward as of right now we'll get to as you correctly imply on the book side of the US. There is zero provision right now not because of the valuation, because of the deferred tax asset. So it's pretty simple on a cash basis. Obviously, Shelly and Pete have given you the modeling assumptions, obviously based on your own commodity assumptions. So take whatever models spits out for US taxable income and obviously use a 0% tax rate until further notice and take what gets spit out for Iceland and using 18% tax rate. That's what we have right now. The statutory rate in Iceland being

20% but we have an investment agreement as you know that caps us at 18%. So that one is pretty straight forward.

NOLs. There is still a very large NOL -n our books. You'll see the size of it when we file our K here over the next couple of days but it's just a little smaller than it was before because we had used a little bit of it as we start to generate taxable income in the US, I am happy to say. It's still fully allowed for. There's still full valuation allowance against it and until further notice that's the way it's being carried on the books.

Capital allocations. So look capital projects are always looked at, you know this vis-à-vis our weighted average cost to capital and our hurdle rates. And the ones that we have on the docket for 2015, obviously some of them are maintenance related or sustaining. We believe they nicely make the grade. Using your example assuming that things continue to go well and commodity price continues to support it, we are going to look at it, I think at this point in time I should let Shelly comment, paying down debt is probably not something we would look at.

We think we're on behalf of the share owners reasonably capitalized from a leverage standpoint, i.e. not over leveraged. So all those being equal at this point in time, I think we'd look at how we return capital to the share owners. As you know we haven't done that in a direct sense for some time and everybody has his or her own way of looking at dividends versus repurchased but we would look at the panoply of that stuff. I hope we are talking to you about that over the coming couple of quarters.

J. Tumazos Thank you.

Moderator Next question comes from Tony Rizzuto with Cowen & Company.

T. Rizzuto My first question is during the last call you talked about significant investments that you're considering in both the US and Iceland in value added product capability. I would assume that you're looking at or evaluating maybe the electrical and auto markets, so kind of in a billet and slabs area. Would that be correct to assume?

M. Bless That's very correct to assume.

T. Rizzuto Then could you give us an idea about the magnitude of investment? You talked about your '15 kind of cap ex but let's think a little bit longer term.

What could be the magnitude of those types of investments and how do you foresee that playing out just to go forward with that?

M. Bless

You bet, Tony, good question. So those as we've said we'd more significant than the small cast house projects that we had last year. So in the US, we are still working on this. We are working on evaluating the market and then the capital project but they are given that we have existing cast houses, i.e. value added cast houses, some of the infrastructure there right now so you can leverage off of that. You've got casting pits, you know how all this works. You know you're probably there talking about a couple 10's millions of dollars but no more than that. Whereas in Iceland you are starting from scratch, all you have right now, all we have right now of course is an ingot cast house that value added product line there that the foundry alloy is still being casted as an ingot, that's why the investment there were so low.

So in Iceland number one that reason, you need to dig down in to the earth to put in casting pits, you're ordering new equipment, homogenization furnaces and sawing equipment, and because of the seismic requirements in Iceland when you start touching the earth and such; you are talking about an order of magnitude above that. If in the US you are talking about

$20 million to $30 million investment, in Iceland, you are talking about maybe 2.5 to 3 times that and so we are approaching all of that with a good degree of optimism but a good degree of caution as well.

Both as I said on the capital side and on the market assessment side given that the market is moving around here a little bit. Obviously these are long-term investments. These projects would each take on the order of 18 to 24 months once you fire the starters pistol to before you started having your first casts, your first production. But we want to take a sober look at this before we move forward.

T. Rizzuto Absolutely. Mike, how far along are you at this point in the evaluation process?

M. Bless Pretty far. I mean in Iceland we've got RFPs out to vendors for quotes and I just reviewed them when I was there with the team a couple of weeks ago and our board is going to review them soon. There we are going to have a pretty good capital budget. I am reasonably confident because they are going to be good quotes.

US again, less equipment needs to be ordered. The US at this point in time is more I'd say a market assessment, Tony, at this point which is fundamentally harder of course. Capital, you got good engineers and good quotes and you put in the contingency that's reasonable and you are going to get it right hopefully if you execute well. The market is of course more esoteric debt analysis so that's where we're—I wouldn't say hit the pause button but we are trying to be careful here.

T. Rizzuto Well, you guys have made a lot of various good investments and so far so good. I want to switch gears a little bit and talk a little bit about Ravenswood, just if you can help me understand, I understand about power and obviously it's critical for smelter but from my recollection it's an old vintage smelter. I think it's got or had relatively poor energy efficiency levels. So assuming you guys can obtain the kind of power contract that you would need from that monopoly power provider, what kind of magnitude of investment might you be looking at there or is this something that you kind of got a deal in pocket with some of the subsidies that you might be able receive there from local and state constituencies?

M. Bless Good question, Tony, the two parts to your question and two answers to it. So on the investment side we've continued to look at this, we've continued to question our assumptions and the start-up costs are still coming in around where we thought they were. On the fixed start-up costs if you will, i.e. non-working capital start-up costs, sunk is another way to term it. That's still looking like a $40 million to $45 million investment of which only a third or so is cap ex, maybe a bit more than that and the rest is preproduction labor, preproduction power, etc., i.e. cash costs that you have to bear before you start making product and cash flow.

On the energy efficiency side you touched at a very good point. So given the vintage of that plant, it sounds a bit defeatist but it's just pragmatic, you are never going to be able to be as productive there in terms of unit of output for unit of energy input as you are at our other plants. Even at our next productive plant down the curve, Mt. Holly being the most productive, so the next one would be Hawesville. Even Hawesville would be I'd say 8% or 9% more productive from an energy efficient standpoint than Ravenswood and how that manifests, Tony, I think you scratched at it or hit it is and Timna hit at this as well as—I mean, let's just be blunt, the power price that we require to start that plant, given the technology, we just have to be very realistic about what it will take to operate that plant responsibly and profitably over the long term.

T. Rizzuto Okay, that's great stuff. I appreciate it, Mike. Thank you.

Moderator (Operator instructions.) The next question comes from Jorge Beristain with Deutsche Bank.

J. Beristain Good afternoon, Mike, and everybody. I guess my question is really on the tolling. I guess you have given the implicit guidance of about 95,000 tons for 2015. I was wondering if you could just give an outlook maybe out longer-term 2016-2017, if we should continue to see tolling fall off in Iceland.

M. Bless Yes, that is good question. So, the guidance there is easy. I mean that is the amount that is still subject to the portion of the old tolls that hasn't expired yet. So that should be a pretty good number assuming we produce at that level and there is so many aluminums—I guess I should have said it in reverse order—aluminum is delivered. The alumina is delivered and we produce under that 10 year plus old total. I think, long-term, I think we would if I had to speculate at this point in time, we would guess that total to be replaced by direct sale for two reasons.

One is to have a good tolling customer and a robust option for a toll, you need to have market participants who are on the one hand long alumina and on the other hand short metal, i.e. want the product. When Nordural first put those tolls into place, Shelly what late 90s, there were a lot of folks with big majors like that out there. There are very few or really no market participants who have those dual attributes today. So, the world can change but if I had to speculate for a year when those are being replaced, it would, I would say more likely direct sales than tolls.

S. Harrison — And just to pile on that, that contract expires mid-2016 so that's the timeframe we are looking at.

J. Beristain — Could you talk about the value added premiums at Sebree and Grundartangi? Are they remaining the same? I think you mentioned on the call it was about $0.045 a pound. Could you just talk about what's happening there with the value added premium?

M. Bless — Those are relatively stable. Those markets as we've said, Sebree is the incremental margin there or the incremental value added production there is in foundry of billet, slab as well we will be making this year as well, small amount of slab, and at Grundartangi foundry alloy. Thus far those premiums have kind of gone sideways in each of those markets. So that is the implicit assumption there, you are correct.

J. Beristain — Great. Thanks very much.

Moderator — That does conclude the question and answer session. I will now turn the conference back over to you for any additional or closing remarks, sir.

M. Bless — We very much appreciate your participation and good questions. Again today again we will be filing the 10-K here in the next couple of business days and we'll look forward to speaking with you in April as a group if not before. Thanks very much.

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