Final Transcript

CENTURY ALUMINUM COMPANY: 1st Quarter 2014 Earnings

April 24, 2014/4:00 p.m. CDT

SPEAKERS

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Shelly Harrison – SVP, Finance and Treasurer
Peter Trpkovski – Senior Corporate Financial Analyst

ANALYSTS

Sal Tharani – Goldman Sachs
David Olkovetsky – Jefferies
Brett Levy – Jefferies
Timna Tanners – Bank of America
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PRESENTATION

Moderator Thank you for holding, and I'd like to thank you for standing by.

Welcome to the 2014 First Earnings conference call. At this time, all participants are in a listen-only mode. Later we'll conduct a question and answer session. (Operator instructions.) As a reminder, this conference is being recorded.

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

P. Trpkovski Thank you, Joseph, and good afternoon, everyone, and welcome to today's call. Today's presentation is available on our website www.centuryaluminum.com. We use our website as 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 statement 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 all for joining us this afternoon. If we could just turn to slide four, please, I'd like to give you a brief rundown on what's been going on in the company since we talked to you; I guess it was just about two months ago in late February.

During that time, we've seen our markets in the U.S. and in Europe continue to strengthen. We believe the strong premiums for value added products are a function of both present and future expected demand coupled with a limited onshore supply in these key product areas.

In addition, regional delivery premiums have firmed during the last month or two, as you've seen. Bottomline, we think the sentiment may finally be turning in these markets. That having been said, we think the price is being held back by a number of factors. Chief amongst them obviously are geopolitical concerns, obviously that are dominating the news and the uncertain trajectory of China's economy in capital markets. I'll cover our view of the markets here in more detail in just a couple of minutes.

We've had a busy last two months in the Kentucky power markets. As a reminder, we've received a positive order from the Kentucky Public Service Commission on Sebree's power contract in late January. In that respect, we've been buying market based power since the first of February.

Energy prices at both plants were obviously considerably higher in January and February than normal due to the weather. That having been said, the power cost for the quarter came in generally consistent with the forecast that we provided to you in late February. There was a substantial cost impact of the cold weather during the quarter as you would expect, and Shelly will give you some good detail on that in just a couple of minutes. She'll also show you that energy prices appear headed back to where we were originally forecasting. The prices at the Indiana Hub for the rest of the year generally back in the mid-30s and looking pretty flattish over the next several years, if you look at the forward screen.

Continuing along, also by the end of this month, the system will be in place which should mitigate the price impact of any future transmission congestion issues. Again, I'll cover that in more detail in just a few moments. Thus, we believe we're still squarely on track with the power strategy that we've laid out for these plants.

This, and the improvements that we made in both the plant cost structures and our corporate cost structure have materially changed the company's financial profile, as you've seen. We believe we're now at a point where we have really good protection against weak industry conditions and significant leverage to the upside.

Just to give you a sense of what I mean, our cash flow breakeven, and I'll define what I mean by cash flow in a moment, our cash flow breakeven for the remainder of this year is now well below $1,600 per metric ton LME. This is bottomline cash flow after everything, but investment capital expenditures, so that would be after sustaining capex, after cash taxes, after interest expense, after SG&A, after pension contributions, after everything generally, but discretionary capex.

Moving along, our carbon plant in Netherlands reached full capacity during the quarter. The anodes have been through several set cycles in the sales at Grundartangi and are working very well. We were able to produce at the high quality levels we believe we'd be able to achieve. Importantly, the conversion costs are also on plan.

As a next step, we now need to decide when to proceed with the investment to rebuild the second base furnace. We're currently producing at 75,000 metric tons of the year, just as a reminder, and this project would double the plant’s capacity to its full capacity of 150,000 metric tons per year.

At that full capacity, we'd be close to covering all of Grundartangi’s requirements. The investment would require less than $15 million of capital spending, as a reminder that's less than 50% of the cost that was required to bring back the first half of the plant. Importantly, it would also lower the conversion cost significantly, a little bit over $100 per metric ton of anodes. So the project has a very high internal rate of return.

We're likely to make the decision sometime during next few months based largely on our assessment of market conditions. As a reminder, this investment is not in the capital budget that we gave to you previous for 2014.

If we could skip to slide five please, as I promised a couple more comments and our view of the markets. The Q1 average LME cash price was down 3% from the fourth quarter on a one-month lag basis. However, the U.S. Midwest transaction price was up 5%, as premiums have firmed over the last two months, as you've seen. Of course, you've seen the commodity price firm over the last couple of weeks. LME stocks remain near their all-time high at about 5.3 million metric tons and cancelled warrants were also at a high of around 56%.

Delivery premiums now appear to be holding steady with the U.S. Midwest premium at about $18.04 and appearing to be trending slightly upwards. European Duty Paid premium is currently holding at about $375 per metric ton.

Just a couple of comments on industry fundamentals, in the first quarter global demand was up 5.6% versus the first quarter of 2013. If you pull out China, it was up 2.4%. In our markets in the U.S. and Europe we’re seeing increasing confidence from downstream manufacturers, who are increasingly committing to the launch of investments that they need to support their customer requirements. These markets, as you know, have been undersupplied for some time, and thus they're short of the key value-added products that are required to support the significant capital investments that the OEMs are making in the automotive markets and in another key industries.

We see real opportunity for our company to participate in these developments. This participation would require only some modest and low-risk investments. We'll update you on these activities over the course of the next couple quarters.

On the supply side, global supply was up 5.5% in Q1 versus the first quarter of 2013. Extracting China, it was actually down 1.5%. Outside of China, we are seeing the expansion come on in the Persian Gulf and India as expected, but otherwise we're looking at a growing list of actual and announced curtailments in the U.S. and in Europe, and in places like Brazil, Australia and South Africa.

In China, we think about a million tons came out in the first quarter, in addition to recent announcements of further incentive curtailments. That having been said, we're taking a wait and see attitude, given the spotty performance in China historically on curtailment announcements. Bottomline, we see deficits in this market coming for this foreseeable future.

Just a couple of quick comments on alumina, which continues to trade at about $325 per metric ton; that’s the FOB Australia price. We expect modest surpluses to continue in this market. That's obviously a favorable environment for us as a purchaser of this commodity. That being said, the alumina balance remains a longer-term issue that we're working to resolve.

If we can go to slide six, please. Couple of comments as usual on the operations. First and most importantly, safety was generally good across the plants during the quarter, with total incidents and the severity of those incidents about equal to Q4. Our plans are now comfortably in the top half, the best performing half of smelters in North America and approaching the best quartile.

That being said, we aspire to an environment that's consistently without serious incidents. So we're always looking at the forward-looking indicators in this area and these data say that we're heading in the right direction. As you know, this is an area that you must stay absolutely vigilant and we do so on a daily basis.

Moving down the chart here, you see production is flat or up other than the slight decrease at Mt. Holly. Despite this good production performance, we've had shipments down at Mt. Holly and at Grundartangi. Shelly will give you a little bit more data on those, and let me explain what happened. We built a little bit of inventory at Mt. Holly. This was a normal course intended to maintain an orderly market in these value-added products, and as you would expect this is largely clear during the first couple of weeks in April.

At Grundartangi, we had a significant change. As you know, this was the first quarter that we had after replacing the former 130,000 metric tons per year tolling agreement. We obviously replaced that was the direct sales agreement. Under the old tolls, we recognized revenue exactly when it was produced. This was based on the contractual terms in those agreements.

However, under the direct sales agreements, as is normal, the revenue recognition takes a few days longer. Obviously, the customer has to actually take title of the material and there are certain other requirements that have to be fulfilled before revenue can be properly recognized.

So for the first quarter ever, we actually built a little bit of finished goods inventory at Grundartangi. This resulted in lower recognized shipments during the quarter and obviously had a profit impact. Obviously, it's a timing issue, that those revenues would have been recognized and were during the early days of April.

As we told you about in February, Grundartangi shipments were also down in the first quarter and will be further down in the second quarter, due to the power curtailment caused by the unusual weather patterns in Iceland. A near-historic lack of water in the reservoirs forced the national power company to curtail power supply to all large users in the country. Shelly will give you some more detail of the impact of this on Grundartangi's production.

Moving down the page here, production metrics were excellent across the plants, and we're especially pleased with the developments we're seeing at both Kentucky facilities. We had excellent performance in the reduction plants, current efficiency was up, energy usage down, and the line current was up nicely at Sebree.

At Hawesville, the production and capturing of high purity metal continues at record highs. And at Sebree, billet production is also at record levels. We're really proud of our operations people who produce these results, especially without any disturbance, especially in an environment of cold weather in the region.

Lastly, on the page, conversion costs were impacted mostly by power during the quarter. That was obviously the major factor. Shelly will give you some more detail on this, but if you look at these data here, as you can see, more than all of that variance versus the fourth quarter at Hawesville and Mt. Holly was produced by the highest power prices due to the weather, so the plants improved in all of the other areas.

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

S. Harrison Thanks, Mike. If you could turn to slide seven, please, I'll take you through the company's financial performance for the quarter.

Our U.S. shipments were down 4% in Q1, and this was largely due to slightly lower production as well as a temporary inventory build at Mt. Holly and two fewer days in the quarter. In Iceland, we had direct shipments of approximately 37,000 tons in Q1, which was a significant increase over Q4, due to the tolling contract expired at the end of 2013.

Total volume for Grundartangi was down 6%, primarily due to low water levels impacting power availability and fewer days in the quarter. As a reminder, the reduced water levels were driven by unusually low rainfall and lower temperatures causing less snow melt on the glaciers.

For Q1, reduced power availability impacted production by about 1,500 tons. At this point we expect an additional 2,000 ton to 3,000 ton to be lost in Q2, before we return to full production levels.

We also build about 2,500 tons of finished goods inventory at Grundartangi related to the shift from tolling to direct shipment. As Mike mentioned, under our tolling arrangements, all finished goods are owned by our tolling counterparty, but with greater direct volume we expect to carry a small finished good balance going forward.

So, overall, global shipments were down 5% quarter-over-quarter. On a one month lag basis, the average cash LME price was down about 3% in Q4 to Q1. When you look at our realized unit prices in the U.S., they were up 5% as a result of the significant increase in the Midwest premium.

In Iceland, our realized unit prices were up 23% primarily due to this shift from tolling volumes to direct sales. Our net sales were up 5% quarter-over-quarter, again due to more direct sales in Iceland and higher premiums, which were partially offset by lower overall shipment volumes.

Continuing down to the operating loss line, in addition to our normal adjustments for depreciation and amortization and lower cost of market inventory adjustment, this quarter we also had a $3 million charge for a legal reserve related to power in Iceland. After backing out these items, we had an operating loss of $7,000 in Q1, which compares to an adjusted operating loss of $8 million in Q4.

So let me take you through some of those changes quarter-over-quarter. Higher all-in prices, which include both the LME price and regional and value-added premiums, increased operating income by about $12 million, and that includes the LME impact on our alumina and power cost.

Operating cost at Sebree improved by $2.5 million due to higher labor and maintenance cost in Q4 that did not recur in Q1. Power prices at Sebree were relatively flat quarter-over-quarter, given that they didn't move to market-based power until February. The power costs were up about $9 million at Hawesville and $3 million at Mt. Holly, primarily due to the extreme weather conditions in Q1.

If I could get you to jump ahead to slide eight for just a moment, I'll take you through the weather impact in a bit more detail. In the upper chart here, what we've done is taken our adjusted operating income from the previous slide and further adjusted this for the impact of normalized power prices we would have expected absent the harsh winter conditions. Under these assumptions, Hawesville's operating income would have improved by $16 million and Sebree's would have improved by $13 million, assuming a full quarter and market power prices.

At Mt. Holly, operating income would have been better by about $2 million at normal natural gas prices. So in total, simply by adjusting for the power prices we would have expected based on historical level, this would have resulted in higher operating income, $31 million for the quarter. And this all goes down to the bottom line, so the benefit to EPS would have been roughly $0.32 per share.

In the bottom chart, you can see historical and forward pricing information for the Indiana Hub, which is the closes liquid node to our Kentucky smelters. If you look at both the historic prices before Q1 '14 as well as forward prices from Q2 onward, you'll see that these levels are consistent with the pricing and the example I just gave you, that results in a $31 million increase in quarterly operating income. So far in April, undelivered power prices in Kentucky are averaging in the mid-to-high 30s, so we are seeing prices return to more normal levels.

Let's go back to slide seven, please. The last item I want to note for operating income was a reduction of about $2.5 million in SG&A. This related to startup costs in Q4 for our anode plant in the Netherlands and did not recur in Q1, since that plant returned to operating status at the end of 2013.

Moving on to the EPS data, for Q1 we had an adjusted loss of $23 million or $0.23 per share after adjusting for the Sebree power contract amortization and the legal reserve that I mentioned earlier. Continuing down to the balance sheet info, we repaid the small balance on our Icelandic revolving credit facility and we had full availability on our U.S. revolver with no amounts outstanding other than letters of credit. So while cash was down $32 million for the quarter, our available liquidity only declined by $14 million.

Moving on, we've already covered slide eight, so let's flip ahead to slide nine. Here we show our normal cash flow waterfall bridging Q4 to Q1. As expected, we had $6 million in carryover capital spending in Q1 related to our anode plant in the Netherlands. We plan to spend another $5 million in Q2 to wrap up spending on the first furnace. We also spent $10 million at our smelter facilities in Q1, primarily related to investment in the expansion project at Grundartangi and maintenance capital.

Moving on to the right, you can see the $6 million repayment of our Icelandic revolver. And lastly, we had the $10 million payment related to the separation of our former CEO. As I mention last quarter, this amount was accrued in Q4, but the cash payment wasn't made until Q1. So quarter-over-quarter cash was down $32 million and we ended the quarter with $52 million of cash on the balance sheet.

With that, I'll turn it back to Mike.

M. Bless Thanks, Shelly. If we could just turn to slide ten, please, we'll conclude before taking your questions, by just talking about some of the major things on which we've been working and will be working over the next couple of months.

First, we recently engaged a major energy marketing firm to represent us in the MISO market. This change will take place during the next couple of months, and it will increase our options significantly relating to how we purchase energy in the market, and we're now looking at a broad range of alternatives with these outside experts.

We're also spending significant effort analyzing methods to mitigate the transmission related risks about which we've talked. As expected, our obligation to pay the cost of the power station that sits next to Hawesville ends at the end of this month. As I mentioned earlier, this should mitigate any price impact from any future congestion issues.

As a reminder, we've entered into agreements at both Hawesville and Sebree, which should require us to shed load under a range of unlikely, but possible series of events in the local transmission grid. And under the worst circumstances, these could be material to either plant's operational stability.

We can't operate over the long-term with these risks, however remote they may be. Especially, as the events, which could produce a worst case scenario, aren't under our control. Of course, they may be subject to acts of nature and also to the actions of other parties. So in that respect, we're working really hard on a range of alternatives.

Moving along, we continue to believe there should be a solution to Mt. Holly's post-2015 power requirements, a solution that would keep the plant viable and be acceptable to all the key stakeholders. That having been said, we've yet to be able to reach an agreement in principle with the power provider.

As you know, we need to give notice by the 30th of June of the termination of post-2015 service. If we weren't to do that, we'd remain on the hook after that time to pay the demand charge.

As you know, Mt. Holly is one of the safest and most efficient smelters in the U.S., with an excellent team of employees, and we're convinced it's worth investing the effort to find a path forward for this plant, and we're working hard on a range of alternatives. That said, we would have no choice but to shut down the plant if we cannot find a material improvement from what the power company is now offering.

Expansion project at Grundartangi is continuing on plan and on budget. In addition to that we're working on a modest capital investment to repurpose about 20% of the plant's production to a premium product. This is a low-risk high-return project for which production will begin in Q4 and shipments in 2015, and we'll give you more detail on this as we move through the balance of the year.

We continue to seek a path for the restart of the Ravenswood, West Virginia plant. As you know, we've continued to invest to hold the plant in a ready state. Discussions are currently ongoing with the power company and also recent discussions with the state and with the other key constituencies. We've had some progress here and continue to believe there is a solution to which we remain absolutely committed and that commitment also remains at the Helguvik project in Iceland.

We think that fundaments are very good for this project. The production is needed to supply the European markets. Otherwise product needs to come in from the Persian Gulf and Russia and other places. We continue to spend time on the smelter design, on the technology, working with our vendors and on other activities. We've kept in place a small but high-quality team; that team can be quickly expanded when the time calls for it.

We haven't yet seen a lot of progress on the power front. We've yet to reach agreement with the two contracted power suppliers, and we've not seen yet any interest from the national power company in participating in the project in a major role. That said, we remain hopeful that their position will change in the reasonably near future.

With that, Pete, I think we can open it up for questions.

P. Trpkovski — Thanks, Mike. Joseph, could you please take the first question in queue.

Moderator — (Operator instructions.) The first question comes from Sal Tharani from Goldman Sachs.

S. Tharani I wanted to understand at Mt. Holly you are a partner with Alcoa over there. And obviously I think you have now delayed the termination notice or whatever the notice, as of June of next year?

M. Bless June of this year, Sal, so the notice itself provides cancellation of the service after December of 2015, but that notice must be given by June 30th of this year, i.e. 18 months before the termination date.

S. Tharani And Alcoa has been aggressively shutting down smelters or curtailing around the world as the electricity contracts are coming up for renewal. I was just wondering, if you don't get the power contract from the local utility company and you have to go that route, which you did at Sebree and Hawesville, and Alcoa doesn't want to participate in that kind of route, would you be willing to buy their portion?

M. Bless We certainly wouldn't discuss something like that on this call, Sal, as you know.

S. Tharani Is it a viable, what you call plan?

M. Bless — The thing about Mt. Holly is, the answer is absolutely yes, it is amongst, and we've always said and Alcoa would say the same, it is number one, as I think you know, it's the only non-union smelter in the USA. And two, if you look at all measures of efficiency, most importantly energy usage per kilogram or metric ton of aluminum produced, it's the best or if not the best, one of the very best in the USA. So the plant with a reasonable power cost absolutely survives. There is no doubt in our minds.

S. Tharani — And the transmission issues, which could be a problem you mentioned in the Kentucky area and you say you're looking for alternatives, what kind of alternatives can you have? Is there other transmission company you work with?

M. Bless — The wires are owned by whom they are owned, so there are a bunch of things that could happen, Sal. There are upraise, which we wouldn't pay for directly, most likely, which would be paid by system operators and then amortized into power prices for the whole region of—let me take a step back. This system is only as good as its weakest link. And so what the studies do is they isolate the weakest line in the grid and model various contingencies based on that line being out another line, surrounded being out.

So short answer to your question is, is one thing that could be done is that weakest link could be upgraded to a reasonably modest investments. In addition there are other things. There is a whole panoply of other things we're looking at; nothing is close right now, but we've got a bunch of things in the hopper.

Moderator Next question comes from David Olkovetsky from Jefferies.

D. Olkovetsky So just a couple quick questions here. The first one, as I'm sure you guys are aware, there is a another vertically integrated—or, I should say, a vertically integrated producer that's making some noise, trying to get some better rates from their power supplier. It appears that a conclusion to that case is fairly imminent, within the next two months or so. They've indicated that if they don't receive the kind of rates they'd like, they might shut that down. I realize it's a negotiating tactic, etc. I'm just wondering if you've done anything to position yourself to potentially take some of that business from them at premium levels, maybe contract some of that business or potential business.

M. Bless Sure, we're obviously familiar with the situation to which you're referring. We are in, David, as you obviously know, some of the same markets in the Midwest, billet to be specific. It goes with that saying that if that production went away, the market, which is already short, would be even shorter. So one would think that all else being equal, I suppose producers who remain would benefit, but there's a lot of production that comes from that plant. It couldn't easily be made up. As you know, our plants operate at full capacity, above their design capacity but, of course, we're interested in what's going on there. And like most industry participants in the U.S., are following it.

D. Olkovetsky I guess just sort of maybe to follow-up a little bit, the question, I was sort of alluding to Mt. Holly specifically, if this decision would come out, I believe, at the end of July, and you would have to issue notice in June. So I'm wondering if there's any way to extend the Mt. Holly drop-dead date.

M. Bless No, I think there are two separate issues, because Mt. Holly is viable and profitable and can make good cash on cash, good cash returns at the right power price. I don't think there's an increase that you could conceivably and realistically see in billet and other value-added product premiums that could make the plant at an unrealistic or bad power price, let's say, all of a sudden viable. It wouldn't flip that digital switch there. I think those are, if I'm getting your question right now, I think there are two separate issues.

D. Olkovetsky Really what I was getting at was when Ormet shut down, I mean pretty soon afterwards we saw a robust premium spike pretty dramatically, and if you experience that sort of thing, and the gross premium goes to say $0.30, I guess I was wondering if Mt. Holly would be viable.

M. Bless The June 30th termination notice, Dave, is just that; it's a date by which we have to provide notice to terminate service 18 months later. There's nothing there, it's just, I mean I suppose maybe now I understand why you started drawing analogy to what we did in Kentucky.

We gave that termination notice, as you well remember, in August of 2012 and then proceeded to get down to business in negotiating a new agreement with the power provider that finally culminated nine or so months later. And so there's nothing to that prevents us, if we and our partners at Alcoa felt we had to give that termination in June. There's nothing that the plant would most likely almost certainly continue to run, number one. There's nothing would prevent us from finding a solution in the ensuing months.

D. Olkovetsky — And then if I could just switch gears quickly to Grundartangi. You mentioned the expansion project there. I'm just wondering if that implies a reduction in production during the build out phase.

M. Bless — An absolute reductions, David? Or a reduction versus what the expectations otherwise would have been?

D. Olkovetsky — Yes, if you don't undertake that project, would you reduce your production from the facility?

M. Bless — I'm sorry.

D. Olkovetsky — I mean like in a state where you don't undertake this project, do you increase your—I'm phrasing this horribly. If you were to not take this project on, would you decrease your production?

M. Bless — Maybe you're mixing up two things. So we are currently engaged in the hot metal production expansion project at Grundartangi. It's started a couple of years ago. It's on pace where we're at or above ahead of plan. The only plan you had in the Grundartangi of course is, as Shelly referred to, is the short-term year in Q1 and Q2, lots of production due to the power shortage, due to the lower reservoir levels. And perhaps you're referring to the expansion of the anode facility in the Netherlands that we were talking about?

D. Olkovetsky I'm sorry; I must have misheard.

M. Bless No sweat. Sorry about that. That's the no go decision, there is no impact there at all on Grundartangi's expansion capacity. We're buying the anodes now from our 40% owner affiliate in BHH. We can scale up there. So there is no impact to Grundartangi's production whether and when—I should really just say when, because we're going to do it—when we choose to double the productive capacity at the anode plant in the Netherlands.

Moderator The next question comes from Brett Levy from Jefferies.

B. Levy Sorry, if it seems like Jefferies is trying to monopolize.

M. Bless You guys are ganging up on us, Brett.

B. Levy I'll be brief. First off, can you make the case that the current Midwest premium is the new normal given warehouse policies and the tightness of supply and capacity shutdowns and that sort of thing? What do you see as the threats to the Midwest premium going back to a single-digit number as it has historically been? And then, like I said, makes the case for the current situation being the status quo.

M. Bless I mean your former and your latter, that's a tough case to make. We don't think, as we've been saying, we don't think the old normal of say $0.06 to $0.08 give or take is supported anymore. Just given the increasing costs, given the dearth of onshore supply, given the freight cost, you know all the, we'll call it the fundamental factors that go into the market's assessment of what the regional, the local delivery premium ought to be, and so then it gets hard. If you're now in the double-digits, cents per pound, of course, what's the right equilibrium level and a lot of that your partner there asked the question about—I think it was David, not Sal, before about supply coming on road.

B. Levy We haven't merged, or I missed the memo.

M. Bless: No. I didn't mean that. That would be interesting. But in a market that's already short, marginal tons coming up as the reference was absolutely right. We saw it when the Hannibal smelter owned by Ormet came up. That had a tangible impact. So there's a lot of factors there. I'm probably going to punt, to be honest. If you look at, for example at, Shelly, at third-party forecasts you've got CRU at least for the balance of the year in sort of the mid-teens. There is one reference point, time will tell whether that's a good one or not.

And then you've got all the extraneous, let's call them factors, Brett, to which you refer as well. It's hard. As we told you before you've seen it in the forecast that we provided you in February. Our business plan isn't based on the kind of levels, spot levels, at which we're sitting today, I suppose is the way I should probably just stop.

B. Levy: And then in terms of your discussions with Iceland, I know sometimes that could be an unreasonable situation. But doubling of Grundartangi, starting up at Helguvik, I mean at some point do they just say listen, power costs should be—I mean, at Grundartangi, if you doubled production, is there any change in your power costs from kind of where you are now to like what you would require if you doubled production? And can you just sort of walk into somebody's office and say, you know what, it's six of one, half a dozen of another, at the end of the day, you should let both happen, or, I don't know, it feels like reasonable people should agree.

M. Bless Just a couple of distinctions. No doubling of capacity at Grundartangi. That would be a nice concept. The hot metal capacity that we announced two years ago is adding 40,000 to 45,000 tons. So based on that rich phase, we're going to peek out at 325,000 to 330,000 tons. And we believe we've got the power for that and the small amount of incremental power that we'll need in addition to the power that we have contracted for that now, will come at around the same levels as give or take as we're currently paying. Again, I think that the double productions, of which you're referring, is the anode plant.

B. Levy You’re right; it is the anode plant. But I mean, honestly it would be something actually to propose to them. Add more product lines at Grundartangi and let them sort of leave Helguvik as sort of a scale up.

M. Bless Yes, I mean, Brett, that's been something that has been talked about. We've never talked about it; it’s been talked about in Iceland. We think

Helguvik is the right site for a new plant for a whole host of reasons. That's how the project was conceived. That's how the power contracts were signed. That's how the operating permits were given and it was based, as you know, the original concept, on both power being available and made available by the owners of that power in the region. And, of course, on the creation of jobs in the region of Iceland, which needed and still needs them the most; that's the Reykjanes Peninsula in the southwest part of the country.

And so that's where we're still heading here. You ask do we think we can do both? Yes, I mean it's a reasonably modest expansion at Grundartangi and Helguvik still stands as an independent project as long as you saw the digital problem of getting power, that kind of chunk of power at the right terms. But, yes, we think both can be done. We are plowing ahead at Grundartangi, irregardless of when we get Helguvik off the drawing board.

Moderator The next question comes from Timna Tanners from Bank of America.

T. Tanners Long day, so I think we're getting a little confused. I know I am. So I might have some basic questions here. Sorry. A couple of things. On SG&A, you're still targeting $34 million for the year?

S. Harrison We are, and that's just corporate SG&A. So if you look at this quarter we were about $10 million total SG&A, back off about $2 million for plant SG&A, that gets you right in line with that $34 million for the year.

T. Tanners And then there seems to be a lot of things in play, right, that are being negotiated and kind of being worked on, but I just wanted to drill down into Grundartangi a little bit. First of all, into the second quarter, is it going to be, do you think, a similar amount of curtailments because of the weather as the first quarter or is it still playing out?

S. Harrison You're talking about in Iceland?

T. Tanners Grundartangi, because of the power conditions, yes.

S. Harrison So 1,500 in Q1, 2,000 tons to 3,000 tons additional in Q2.

T. Tanners And you kind of didn't give us a lot of details, and I assume there's a reason for that. I just wondered if you had anything else for us to kind of grasp onto in terms of how to think about what it's going to take for Ravenswood, what it's going to take for Helguvik. Those have been kind of out there for a while. Has there been any progress? Are there any upcoming kind of deadlines that we should be watching for or things that will help us know whether or not this is going to move ahead?

M. Bless No, in answer to the latter part of your question, Timna, no specific deadlines at either of those. So it's not Mt. Holly where we can point to specific deadlines and say, look, watch to see if we get that termination notice, we and Alcoa—when I say we, I mean ourselves and our partner, prior to 30th June here. Discussions are ongoing in West Virginia. I would say they're ongoing even as we speak. There is a meeting next week with the power company, but there is no sort of nearing event or date or deadline to which we could point to.

I would say it's very much the same in Iceland. Discussions there are continuing. There are various developments, but there's nothing tangible to which we could point you to say, watch this data and watch this space and watch this as an indicator. I think I understand what you're seeking, regrettably the answer is no.

T. Tanners And the only last thing, it sounded like you were alluding to some possibilities of further value add. Do you mean like processing, do you mean value add in terms of the aluminum ingots you make or what did you mean by that? If you could give us a little more detail?

M. Bless Good question. Thanks for that, because we probably should have provided a better distinction. So we're not talking about processing “downstream,” as the industry generally goes. What we'll be talking about is further development of either value added primary products that we currently produce; foundry, ingot, billet, etc., or some new primary products, various mixtures, alloying metals, etc. That kind of thing. But that's a good question, and thank you. This is not a move to go into what people generally refer to as the downstream space.

Moderator The next question comes from David Gagliano from Barclays.

D. Gagliano Mt. Holly, just a quick one. What was the profit contribution from Mt. Holly in the quarter?

M. Bless We don't give per plant profit contributions, David. You know that.

D. Gagliano How about this? Obviously, we've been talking about the run up in Midwest premiums, the LME price, not so much, but a little bit of a bounce. But anyway, when you add the two together, the realized price for your existing assets, not plant-by-plant, but overall, what percent of your production was positive on sort of an EBITDA basis in the quarter?

M. Bless Let's talk about it this way. Basis, current cash LME plus basis, we'll talk about the U.S., basis current spot, maybe it's a bit redundant, basis spot Midwest premium and adding on the net product per net casting premiums, we get obviously the premium net of the incremental casting cost; the casting company casting something other than an ingot or a cell. An easy answer is that at current power prices, i.e., not the average for the quarter including the spikes, all of the plants would be cash EBITDA positive for sure.

S. Harrison And I'll even add on to that, at first quarter power prices at today's metal price, so up from where it was in Q1, but where what we're seeing with the recent run up, it would all be positive as well.

M. Bless — Even including those power prices.

S. Harrison — Yes.

D. Gagliano — Can you remind me again, where does Century sit on the global cost curve?

S. Harrison — So with normalized power costs, we would be sitting right around the midpoint of the cost curve for our U.S. facilities and in Grundartangi we'd be down in that first set quartile.

M. Bless — As you remember, two, three years ago the U.S. facilities were up and sort of on the border between the third and fourth quartiles. As Shelly said, Grundartangi is, it moves based on the metal price.

Moderator — Next question comes from John Tumazos.

J. Tumazos — Could you update us on your alumina arrangements and how far out they go, how many years whether you only book the current operating smelters without anything for Ravenswood or Helguvik? And where the bauxite that feeds the refineries go, and as much as you can about the tolling arrangements or if anything is a fixed price?

S. Harrison — We don't currently have anything in place for the non-operating facilities. What we do have in place for all operating facilities is the supply taking it out through 2017 under percentage LME based contract, with the only real exception for that being for Grundartangi for this year about half of the alumina under our direct shipment is spot price rather than percentage LME.

Moderator — The next question comes from Sal Tharani from Goldman Sachs.

S. Tharani — Can you tell us what was that increase in the legal reserve at Grundartangi you were talking about?

M. Bless — Sure, Sal. So that has to do with one of the original Helguvik contracts. In a take or pay provision in that contract, we're obviously now using that power to fuel the expansion at Grundartangi. The issue is a—I guess I'll call it a historical one in that it’s if there is a liability there, and I'll address that in a moment, it's fixed because we're now using power that's at or above the take or pay level. So there is no even claim by the supplier that any issue would be growing. Most importantly, we think we have no liability there. And thus, if they were to make a formal claim, which they haven't, we would aggressively defend it. But again, it has to do going back to those original Helguvik power contracts.

S. Tharani — Couple of things, which I think you have already said, but I just want to just confirm that. In Iceland, the production curtailment will be, because of the power issue, will be 2,000 to 3,000 ton additional to 1,500 tons? It's like 3,000 to 4,500? Is that the way we should look at it?

S. Harrison — That's right, in total for the two quarters.

M. Bless — So the 1,500 is history and the 2,000 to 3,000 will be incremental there, 1,500 in Q2.

S. Tharani — And alumina you mentioned price in the U.S. are linked to the LME prices at the moment?

M. Bless — Yes.

S. Tharani — And until 2017?

M. Bless Yes.

S. Tharani And when will this, whatever the link is, is that a contract? Since when do you have that contract?

M. Bless There are two. There is one that's been in place for a long-term that expires here over the next year or two and then the new ones, we talked about this I think in the fourth quarter. We signed up sometime during the fourth quarter, Sal, I can't remember exactly when and, as we've said, as normal for this industry, they are at a put/call range. So you agree on a min/max and then each year the supplier and the buyer negotiate to try to find a place within that min/max and if you can't, each go their separate ways for that one calendar year. It's very standard in the industry.

Moderator Next question comes from Paretosh Misra from Morgan Stanley.

P. Misra I just wanted to go back to your comments that you're not interested in owning downstream assets. Is that because of capital requirements? Are you thinking the market is not big enough? Because you used to own Ravenswood rolling mill facility, right?

M. Bless — Yes. Paretosh, 15 years ago the company sold it and so it's a very straightforward answer to your question, we think they are very fine markets. But the two businesses are very, very different. My background pre-Century is in manufacturing. And those businesses are really manufacturing businesses. Ours is a process commodity business, and the two really have no linkage other than the very obvious fact that one provides a raw materials for the other.

But other than that to me all you're doing, unless you have a particular competency in the manufacturing business, all you're doing is vertical integration. In our opinion, vertical integration purely for the sake of it can lead you down a very bad path. So we think they're very fine markets, many of them with good returns, and of course they require capital. It's just this company, we don't think brings anything special to its share, for its shareowners in those markets.

P. Misra — And then within your product portfolio, especially within the U.S., is there anywhere where you see any risk from imports coming from China or other places just because the premiums here in the U.S. are quite attractive?

M. Bless Yes, great question. Not just China and other places. So from China, we've been seeing for some time, Paretosh, the industry refers to them as semi-fabricated products. They've traditionally been showing up here more to get around the duty in taxation regime in China, which is much more favorable to our product that has value added content to it than for primary metals.

So people take an ingot and change it in that very minor way and thus their economics improve. But the backend of your question, perhaps, we're now starting to see because of the premium, increased material coming in from places like Russia. And while we've been seeing, for the last couple of years, material coming in from the Persian Gulf, we've seen increases coming in from that region as well.

P. Misra And my last question. Just wanted to confirm that the guidance that you provided for the U.S. cash costs for second quarter, $1,550 to $1,600, is that still okay to use?

S. Harrison Yes. The guidance that we gave in February is unchanged.

Moderator The next question comes from David Olkovetsky from Jefferies.

D. Olkovetsky I just want to apologize to the operator. There seems to be a lot of difficult names today. Except for Brett, he's got the easiest one of all, right? So as I'm looking at chart eight, and quite frankly I'm a little surprised that none of the equity guys are honing in on this one. It looked like your 2Q power prices are sort of right in that sweet spot, mid-30s. So if I'm looking at this top chart, it seems almost as if I could just add $40 million to your EBITDA?

I know you're not going to give guidance to what EBITDA is going to be in the second quarter, but is there, aside from the small adjustments that you mentioned in respect to the incremental 2,000 to 3,000 ton reduction in Grundartangi, and I actually do mean Grundartangi this time. The other factor that I need to think about and is that kind of a good way to look at your second quarter?

M. Bless Yes, I mean David, I think you nailed it. All we're saying here that’s based on a lot of assumptions, and we tried to footnote this chart, and also that people could follow all the assumptions, all we're saying here is that, and then I'll answer the last part of your question, in Q1, if power prices had been at this level rather than including the spikes that we saw due to the weather, the EBITDA would have been this much higher. And then to answer your question, Shelly, I'll ask you, there is nothing else in Q2 over Q1 that's kind of a change—no change in the other cut, other than what you referred to, David, it ought to be roughly the same.

S. Harrison That's right.

M. Bless So yes, you've got it.

D. Olkovetsky Well, that's fantastic for everybody who uses forward outlook. So thank you.

Moderator There are no further questions at this time.

M. Bless We appreciate, again, everybody's time this afternoon and we look forward to speaking with you in July. Take care.

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