



Final Transcript

CENTURY ALUMINUM COMPANY: 3rd Quarter 2017 Earnings

October 26, 2017/5:00 p.m. EDT

SPEAKERS

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ANALYSTS

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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session; instructions will be given at that time. [Operator instructions]. As a reminder, this conference is being recorded.

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

P. Trpkovski

Thank you, Greg. Good afternoon, everyone, and welcome to the conference call. I'm joined today by Mike Bless, Century's President and Chief Executive Officer; and Shelly Harrison, our Senior Vice President of Finance and Treasurer. After our prepared comments, we'll take your questions.

As a reminder, 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.

Turning to Slide 2, please take a moment to review the cautionary statement shown here with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

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

M. Bless

Thanks, Pete, and thanks to all of you for joining us this afternoon. If you can just turn to Slide 4 please, I'll give you a quick update on the quarter.

We're very pleased with the progress we made during the last several months. Importantly, our safety performance has been generally very good across the company. All plants have been stable and performing well and the financial performance came in precisely as we predicted. We saw excellent operating leverage on the increase in revenue. Very good product mix, we believe this continues to validate the investments we've made in our value-added product strategy and very strong cash flow conversion if you had to chance to look at it.

The industry environment remains volatile on multiple fronts. I suppose that's an understatement. Pete's going to give you some more detail on the macro situation in just a moment but let me make just a couple points to put the rest of my comments into context. The fundamentals we believe remain reasonably positive. Demand is holding up well in almost all regions. It's clearly the case in our markets in the US and in Europe. Identified inventories are down significantly across the world and even so-called hidden stocks have been shipped away.

When we talked to you last, the metal price had been strengthening and obviously then it took a leg up in August and September. It seems now to be holding at or above \$2,100, in fact today nicely above.

The significant new developments, since we talked to you last time, is the alumina price. The index skyrocketed from around \$300 where it had been stuck for some time; it's almost \$500 a ton now. All that happened in just a couple of weeks' time beginning a couple of weeks ago. As you may remember, we saw a similar pattern in the fourth quarter of last year as we expected the index price fell early in the year this year. Like last time, we don't think the current situation is sustainable for a couple reasons. Let me go through them.

First, you need to understand why this has happened. As those of you who follow this markets know this index represents a very thin market of traded alumina, and thus, it exhibits really poor price discovery. It can move significantly based upon the small number of buyers and sellers in this market, and that's precisely what happened here. Several refineries in China curtailed ahead of the closures of smelters that obviously we're seeing now. A number of smelters in China and also in India got very

short in alumina. They needed to find cargos literally at any cost for the obvious reason and that created the predictable herd mentality.

In addition, the smaller part of the price increase is in fact explained by a cost push. Caustic soda of course the key raw material in the refining of bauxite into alumina has recently hit recent highs. Again those of you who follow these markets know it's a very volatile commodity. In recent memory, this commodity has traded as low as zero, i.e., you could pick it up for free from the suppliers.

Second, the world has plenty of alumina even with the curtailments in China. This is especially true in the Atlantic. Of course, we procure all of our alumina both for our US plants and for Iceland in the Atlantic basin where we recently had a 1.6 million ton refinery restarted in Jamaica. The owner of this refinery said they're considering building another larger refinery Jamaica. We're hearing increasing rumors of capacity restarts in other parts of the Atlantic region, and thus, we believe the medium and long-term supply demand equation in alumina is quite favorable.

Last, the current economics are simply not supportable in the current environment. The current index price implies well over 22% of the LME

price, which is just not sustainable on a fundamental economic basis. If you look back over the last couple of years, the historical relationship has moved around between say 15% and 18%. At the current metal price, this implies an alumina price in the mid \$300 per ton.

We've also seen a run up in other commodities that we believe isn't sustainable. The most significant example being calcined petroleum coke. Again, this is driven by the rapidly changing environmental rules and other conditions in China.

We're confident these commodities will return to historical relationships in the not too distant future. But at their current values, obviously this environment will squeeze our cash flow somewhat versus what it would normally have been with an LME around \$2,100 or above. And Shelly will give you some detail on the raw material impacts both in the third quarter and our forecast for the fourth quarter in just a moment.

Moving along, a quick update on trade front. The administration has been quite upfront about where it sees this issues in its list of priorities. We know they continue to work hard in several potential avenues. They've been in touch with us on a frequent basis. In addition, you've recently

seen some key members of Congress anxious for a resolution on this matter. We believe the administration remains absolutely committed to making sure the playing field is leveled for the long term. And we continue to believe it's critical that there's follow through on the already announced actions. The major ones are those of course being the filing of the WTO case earlier in the year and the president's order under Section 232 a couple of months ago.

Moving along, all operations as I said have been stable, been operating with good production metrics and importantly improving throughout the year. I'll give you some more detail on the operations in just a few moments.

There is a new operational challenge that's emerged over the last couple of months. This is one over which had no control but we need to make sure that you understand how it affects us. It's been widely reported on and this is a problem with the two locks, Locks 52 and 53 on the Ohio River you probably read again, have been written extensively in even the popular press. Several mechanical and other failures have left the river unpassable for significant periods of time. So it's really a significant, significant condition.

Like thousands of other industrial, agricultural companies, we depend on the Ohio for our logistics. For example, it's the only means by which alumina has historically been transported to our Kentucky smelters. It goes without saying a catastrophe ensues if an aluminum smelter runs out of alumina. So we've thus been forced to find alternate means to mitigate that huge risk.

The principal thing we've doing, we've been unloading barges down river of the blockage. The blockage has now been fixed. The river traffic is flowing again but this condition did exist for several weeks. We were unloading alumina down river of the blockage and transporting the last distance to the plant by truck. This requires significant amount of vehicles.

Just to give you a sense of the mass required, one barge holds 1,500 metric tons, and that's enough to supply our two Kentucky plants. It's just shy of enough to supply our two Kentucky plants for one day. You can put the plants to their current production rate use just shy of 1,700 metric tons a day. So the barge holds 1,500 metric tons. A truck can take 20 metric tons. You get a sense of the logistical challenges we've had to put 75

trucks on given days going back and forth just to keep the plants on a pari-passu basis.

We have other mitigants as well. We can take extra cargos if need be at Charleston, South Carolina and rail the material to Kentucky. Charleston is where we of course unload ocean-borne alumina from Mount Holly. These measures during the last month, month and a half combined with some of our barges actually getting through the locks have kept the plants stocked. But it will result in some increased logistics costs during the fourth quarter. And Shelly will give you some detail on that in just a moment.

Okay, moving along, as you may have read as federal judge about a month ago in South Carolina did dismiss our antitrust lawsuit against the state power company. We studied the order very carefully as you would have hope. We do respectfully believe the decision was incorrect. We continue to strongly believe the power company structure today is not in compliance with antitrust laws. Those laws are quite clear. The entity must be actively supervised to be exempt from the antitrust laws. That's clearly not the case here. So do we see real path in an appeal to the circuit court and that's what we're in the process of doing.

We do continue to believe however the right path is to reach an agreement that will support the restart of the second potline. As you know, for the last almost two years, one of the two potlines has been curtailed, so the plant has been running at 50% capacity. We're absolutely convinced that a simple structure exists that will allow Mount Holly to purchase all of its power needs at full capacity from the wholesale market and at the same time that structure would keep the power company absolutely whole versus the revenue they're receiving from us today.

Time is of the essence here, as you know our current agreement with the power company expires at the end of 2018. Thus we need to reach an agreement with them by early this coming year so that we can procure additional power for the post 2018 period. An agreement like that would allow the restart of the second potline, and it would create immediately 300 very good jobs at the plant and even more indirect jobs throughout the region.

We're very hopeful that the power company management will look at the facts on objective basis. As we've maintained, there's only economic

logic for the restart of the second line at Mount Holly if we can get to 100% market power for the entire plant.

It's a very different situation at Hawesville. Power prices continued to be quite favorable in the US Midwest. Just to remind you, those of who you have been following the company know, we've been operating two of five potlines, so 40% of capacity at Hawesville for almost the past two years or just about the past two years now frankly.

Again, power markets continue to be good in the US Midwest. The delivered price is decreased every quarter to Hawesville this year versus the increasing throughout the year at Mount Holly. We believe the situation will continue in Kentucky. The fundamentals are good and the power markets are stable. Thus, we believe it's a growing case to restart some capacity at Hawesville.

We're right now doing some preparation work in that regard. Our technical people have developed the new cell design that should enable us to squeeze more performance out of this older technology pot. We need to rebuild, just to remind you, we'll need to rebuild, whether we restart one line or two, we'll need to rebuild a significant number of cells as we've

been cannibalizing cells in each of those curtailed lines to feed the lines that have been running the last two years. We're going to be test grading this upgraded pot technology over the coming months to confirm that the benefit is truly there.

Using this upgraded technology, the restart costs would be somewhat higher than using the current technology. But the IRR is significantly better and even the simple payback shorter. This next couple of months, will also, while we're doing the testing, will also allow hopefully the Ohio River operations to stabilize and the alumina market to settle down.

And with that, I'll turn you over to Pete to go through the industry.

P. Trpkovski Thanks, Mike. If we can move on to Slide 5 please, I'll take you through the current state of the global alumina market.

The cash LME price averaged \$2,011 per ton in Q3, which reflects the 5% increase over Q2. Shelly is going to provide the quarter-over-quarter impact on realized prices, but the LME price on a two-month lag basis was pretty flat quarter-over-quarter at around \$1,900 per ton. In the last month, aluminum prices have broken through the \$2,100, a level we

haven't seen since late 2014, and as Mike said, are currently sitting right around \$2,175.

In the third quarter, regional premiums averaged approximately \$0.08 per pound in the US and \$141 per ton in Europe. However, premiums have picked up and are currently approximately \$0.095 per pound in the US and \$155 per ton in Europe.

In the third quarter of 2017, global aluminum demand grew at a rate of almost 6% as compared to the year ago quarter. We saw 7% year-over-year demand growth from China, 4% growth in Europe, and 3% growth in North America. Global production growth was up 7% in Q3 versus the same period last year driven almost entirely by increases in production in China, which increased 13% year-over-year. As a result, for the first 9 months of 2017, the global aluminum market recorded a modest surplus of approximately 50,000 tons, a nearly balanced market.

As discussed last quarter, since the US has taken specific action upon WTO trade case and launching the Section 232 investigation earlier this year, we have begun to see some initial positive supply side responses from China. The first response announced shortly after the WTO case was

filed in January, is the winter heating season curtailment program managed by the Ministry of Environmental Protection. Under this program, aluminum producers, as well as alumina and petroleum coke producers in certain provinces in China, will be required to curtail 30% of their production during the winter heating season lasting between mid-November and mid-March. Given the timing of this program, we have yet to see if and to what extent the cuts will be enforced. But we have certainly begun to see the price of alumina and petroleum coke rise significantly in anticipation of these cuts.

The second response announced shortly following the initiation of the Section 232 investigation was initiated through the National Development and Reform Commission, and requires the curtailment of a legal, unpermitted production in several provinces. In order to restart this curtailed capacity, producers will need to obtain new licenses or purchase new licenses from curtailed legal capacity. Given the attempt at supply side reform in China, experts are now predicting a 2017 global market deficit of up to 525,000 tons and almost 2 million metric ton deficit in the world excluding China.

The implementation of these supply side reforms in China remains uncertain, and we believe the Chinese over production still needs to be addressed with concrete actions and clear remedies. While these cuts are helpful, Chinese production still will expand in 2017 and much of this production remains uneconomic without continued Chinese government subsidies. We continue to believe that the industry must remain vigilant in pursuing remedies resulting from the ongoing Section 232 investigation and WTO trade action, or otherwise, to ensure all participants are operating on a level playing field.

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

M. Bless

Thanks, Pete. If we could turn to Slide 6 please, just a couple of details on the operations. Some of this I've already gone through, so I'll go through it reasonably quickly.

As I said earlier, we had generally a few very good months on safety, specifically in the US plants, and we're especially proud of the performance over the summer there. As you know, all of our plants are in parts of the country they get very, very hot during the summer. Hot and humid I should add. We had zero recordable incidents over the summer

month due to heat stress, which really is an admirable result and we're very proud of the folks who produced that result in our US plants.

Production, as I said, was generally good. That small issue that you see at Hawesville was produced by a small number of cells during the middle of the quarter that weren't operating. This was due to some crane issues that we had in the middle of the quarter, and the crane damage caused the repair of failed cells to get bogged down for a few weeks. That problem is now solidly behind us.

Production metrics, as I said, were quite good across all the plants, I don't really have anything to add there. Let me just give you a little detail on what went on in conversion costs. So you see that increase in Hawesville there, about half of that is raw materials, principally coke and pitch, and the other half are the beginning investments to which I referred in beginning to prepare the plant for a restart of one and more potlines.

At Sebree that entire increase that you see there is raw materials. And in Mount Holly that improvement there, about a third of that improvement is the early benefit of our recent SAP conversion from the old business

system at Mount Holly and the remainder is really spread over a variety of items.

And with that, I'll turn it over Shelly.

S. Harrison

Thanks, Mike. Let's turn to Slide 7. I can walk you through a few high level points on third quarter results.

On a consolidated basis, global sales were up 3% quarter-over-quarter reflecting an increase in shipments and increased value-added product sales. Higher shipments in Q3 primarily relate to our reversal of the timing impact we discussed last quarter. On a lag basis the LME and regional premiums were fairly flat with what we saw in Q2. But our realized price per ton was up about 2% reflecting the increase from value-added products.

Looking at operating results, adjusted EBITDA was \$48 million this quarter, and we had adjusted net income of \$0.15 per share. Adjusting items this quarter primarily related to the mark-to-market of our remaining forward sales contracts and a one-time non-cash gain related to the settlement with the Ravenswood retirees.

Okay, let me take a moment here to give you some background on this gain. Accounting rules required that the original accrual for the retiree settlement we booked on an undiscounted basis because the agreement had not yet been fully approved by the court. In Q3, the agreement was officially approved, at which point accounting rules required the liability be adjusted to reflect the discounted amount. This resulted in a reduction in the liability and a \$5.5 million non-cash gain.

During Q3, we had a \$5 million realized loss related to our LME hedges that settled during the quarter. As we discussed on our last call, we don't adjust EPS for realized losses on our hedges. So our bottom line, both reported and adjusted, reflects the loss incurred on hedges that settled in Q3. In Q4, we'll settle the last of these hedges, so you'll no longer see these losses in 2018.

Turning to liquidity, cash increased by \$43 million to \$174 million as of September 30th and availability under our revolving credit facilities was essentially flat at \$137 million. We're very pleased with the strong cash flow generation in the quarter, and I'll talk about this in more detail in a couple of slides.

Okay, let's go to Slide 8, and I can walk you through our Q-to-Q bridge of adjusted EIBTDA. During Q3, we produced \$48 million of EBITDA as compared to \$34 million in Q2. As we anticipated on our last call, we had a \$14 million increase in EBITDA driven by the effect of lower-lagged alumina prices partially offset by higher coke and pitch prices.

We also had a \$6 million improvement, driven by higher shipment volumes and value-added product, partially offset by a \$5 million increase in other costs, primarily a result of higher SG&A. Based on the forecast we provided at the beginning of the year, we anticipate that SG&A spending will be about \$10 million per quarter. Q3 was higher than average due to several ongoing projects, including the relocation of our IT department to be closer to a large talent pool.

As we've discussed on previous calls, we're in the middle of the multi-year upgrade of our SAP systems, which can cause some lumpiness in our SG&A costs for items that aren't capitalized. As Mike mentioned, raw material prices continue to climb and alumina prices have risen dramatically. For Q4, we expect the EBITDA impact of raw material cost increases to be around \$20 million. This is made of up about \$15 million

of higher alumina costs and \$5 million for other raw materials, primarily carbon related.

For alumina, \$15 million includes both the impact of the price increase to about \$340 per ton on a three-month lag basis, as well as about \$4 million for additional transportation costs due to river issues that Mike talked about. Based on what we know at this point, we don't anticipate any further costs related to the transportation issues beyond this \$4 million in Q4.

On the revenue side, we've seen LME prices continue to move up nicely and expect the increase in a two-month lagged LME will drive about \$30 million in additional EBITDA for Q4, more than offsetting the cost increases.

Okay, let's turn to Slide 9, and we'll take a quick look at cash flow. We started the quarter at \$131 million and were able to convert almost all of the \$48 million EBITDA into cash on the balance sheet. Capital expenditures during the quarter were \$5 million, bringing us to a total of \$24 million year-to-date. For full year 2017, we continue to expect capex to be around \$30 million. We also paid \$4 million for LME hedge

settlements during the quarter, and if LME prices remain near quarter-end levels, we'd expect to pay an additional \$6 million for hedge settlements in Q4.

As I mentioned earlier, the court formally approved our proposed settlement with the Ravenswood retirees in September, and we made the first installment of \$5 million. Our next payment under this settlement will be in September 2018, at which point we'll pay \$2 million per year over the next nine years for a total of \$23 million.

Lastly, we had an \$11 million cash inflow from working capital reductions in Q3. For the fourth quarter, we're not anticipating any material changes on working capital other than normal quarter-to-quarter swings due to timing of collections and payments.

And with that, I think we can open it up for Q&A.

P. Trpkovski Thanks, Shelly. Greg, if you can go ahead and kick off the Q&A please.

Moderator [Operator instructions]. And our first question comes from the line of Jorge Beristain with Deutsche Bank. Please go ahead. Your line is open.

J. Beristain

I just wanted to clarify again a little bit of that commentary on the alumina. So basically because of the lag effect you're kind of locked already for upcoming 4Q results. I just wanted to understand though based on where we're seeing market rates of alumina, if you could talk about when we would start to see the impact possibly into 1Q results and maybe what you're penciling in for 1Q.

M. Bless

Yes. Thanks, Jorge. You're absolutely right, so we are locked. I think we have enough information based on the historical pricing and the pricing mechanism that you just cited, and as we said the way—it's a little bit different every quarter, I'll call it as an inventory effect, but it generally lengthens it out to something close to three months, two and a half to three months is where it generally lengthens and out. As Shelly said we can with reasonable accuracy predict Q4. Q1 is a crap shoot at this point in time depending upon where the index heads here. If it were to stay at the current rate, it would have a material, a significant effect.

Shelly, if you want to go ahead.

S. Harrison So Q4 the underlying price will be that lag 340 but year-to-date Q4 actuals, which will drive Q1, again as Mike said if it stays at this level we're at an average of 460 roughly quarter-to-date. Obviously we're early in the quarter right now but a significant impact.

M. Bless So 340 to 460, \$120, you can do the math we use—we don't want to predict prediction for next quarter. We don't generally do something like that. But you can just use the shipments tons as a proxy for production this past quarter, Jorge, 185,000 ton, 1.92 tons of ore per tons of metal and do the math, it could be significant if the market stays where it is.

J. Beristain Right. That's what I was trying to understand, any of the puts and takes that we should aware of in terms of maybe lagging the index a little bit or maybe it's having some inventories or if there will be anything else that would mitigate sort of the raw market price effect that we would get off of the index.

M. Bless No, not inside alumina itself, if I understand your question. The only mitigant, of course, is the same "favorable lag" that we'll continue to experience in the metal, in the LME price itself if the LME price stays

where it is. So the actual price that Shelly referenced that we can use to predict Q4 was an average LME price of—

S. Harrison

Just under \$2,100.

M. Bless

Just \$2,100, we're just shy of \$2,200 today. So we'll have that same headwind, if I get this right, that we'll have on alumina. All else being equal, as spot prices today, per your question if I understood it, were to persist for the rest of the next quarter, next two months, we'd have a tailwind on the metal side.

J. Beristain

Got it. And if I could just maybe ask about the Santee Cooper situation, it did not seem like the judge threw off favorable comments, I think he was almost of the position that he would be fine with your plan to filing for Chapter 11. Could you just kind of discuss if you were to be allowed to exit their monopoly pricing, and as you said get "market power," would that have a negative impact on consumers? Because it seems like the utility's position if they were to sort of effectively lower your rate they would have other customers have to pay more.

M. Bless

Not one, thank you, not one bit. Again the math goes as follows just to de-construct it a little bit, or the structure goes as follows, and without being precise on the math given that it's a private contract of course.

Today, we're paying them two revenue streams. One revenue stream is a transmission fee on the power that we're importing from outside of their system; that's three quarters of the power we're using today or 150 megawatts. And the second revenue stream is the demand charge, i.e. a capacity charge or a demand charge, a fixed charge on the power they're selling to us directly. We're assuming that bit—not assuming we know that, they neither make a profit nor a loss on the energy itself that they sell us. We pay the energy cost so we're paying the demand charge, so two energy streams.

What we're proposing and have been proposing for the past several years is that we'd like to import all of the power acquired to run the plant, so 400 megawatts. We would pay them that same per unit per megawatt hour transmission fee to import all the power, and that fee, compared to the two revenue streams in aggregate we're paying them today, would be essentially equal. So rate payers, the power company and obviously the

rate payers because the rate payers are the power company here, it's obviously a state agency, would at par with where they are today.

J. Beristain Got it. Thank you very much for that clarification.

Moderator And next we turn to the line of Novid Rassouli with Cowen & Company.
Please go ahead.

N. Rassouli Thanks for taking my question, guys. Michael, on the release you guys had mentioned the distorted relation between the LME and key raw materials. I was wondering if you could just expand your thoughts here and I guess give us a sense of whether you're expecting LME prices to rise or raw materials to fall. I'm just trying to get sense of, do you think LME moving up from here to kind of normalized that ratio is unreasonable. Any of your thoughts there would be helpful.

M. Bless Thanks, Novid. That's a tough one. I don't want to duck it but you really—what we do know is that because of the structure of the industry, the cost structure of the industry I should say, that the current relationships can't persist because the industry as a whole or even the better parts of the

cost curve can't bear these kind of relationships, where coke is right now and where alumina is right now. Those are the two principal drivers.

Where the adjustment is going to be, it's usual in business and in life, it's probably it could be some of both. It really, on the metal price, does depend, really does depend, not to try to dumb it down or oversimplify it, on the developments in China here. I mean everything else, again, at the risk over simplifying it is really just noise.

You've seen the price here start to react to perhaps a growing consensus with all the dangers of consensus that maybe these cuts are for real and maybe these market deficits, as Pete said, the non-China deficit is significant, it's a couple of million tons. And if China now is going to through these actions get to something close to a balance you could see, we think you could see, some more upside to the metal price. That's not a prediction; there were a lot of ifs in there.

Clearly if—and we think as certainly not a failsafe, but we really do believe what we said that the government, the administration is committed to this. It's clear this was one of the important things that the administration talked about in the early days. And we take them at their

word. They are committed to this. So I guess one way to look at is one way or another that situation, i.e. the excess subsidized illegal capacity, all of the above, has got to get worked out one way or another.

N. Rassouli

Got it. And then just switching gears over to China, so you spoke about alumina being plentiful. If we see the kind of bauxite mining and alumina refining restrictions that we've seen in China and there is actually longevity there, does that preclude alumina from moving back down to kind of the 350 level that you said would be supported by the current LME to alumina ratio? Maybe you could just give us your sense of that if these regulations are here to say.

M. Bless

Yes, that's a great question. We really think that the alumina situation here, I talked about the timing but let me expand or expound on the time a little bit, is really just due to the winter cut. So you see the winter cuts obviously and they've been well talked about coming on the smelting side which I suppose other than the strict "trade press" is the alumina cuts.

Obviously they cut our refining capacity in anticipation of the smelter cuts, number one. And number two, it's oversized alumina versus aluminum because if you just look at the math and you put a dot on each

map for a location of a refinery in China versus the smelter, you see a much greater concentration of the refineries in the parts of the country, i.e. the east and the northeast where there are “pollution problems” related to the winter heating degree day. So a disproportionate amount of alumina is coming off just given where those refineries reside.

Ultimately, we believe that wherever the smelting capacity settles, i.e. where the cuts settle, the refining capacity in China because that alumina didn't go anywhere else will adjust to feed that smelting capacity. We've just got a little bit of a timing dislocation now.

N. Rassouli And do I dare ask you how long you think this dislocation will take to complete? You kind of led me to the question there, Michael.

M. Bless No, it's okay. That's a good question. Is it months and months and months and months? It could be. Is it a year? No. It can't be because the situation can't persist. But could it be months and months and months? I mean at similar dislocations for a different set of factors driven by different set of factors as you recall happened last year, and then we were quite confident, as you may remember us saying, that the situation had to work itself out. And in fact the price fell precipitously almost as soon as

the year turned. We're not predicting anything in terms of the timing similar to here because of a different set of facts and circumstances. But the relationship just can't hold to your point, it's got to go one way or another.

N. Rassouli Thanks for taking my questions, Michael. I appreciate it.

Moderator And next we turn to the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano Hi, thanks for taking my questions. I just wanted to drill down a little bit more on a couple of topics. I'll save alumina for later. First on Hawesville on the restart commentary, could you just remind us again what the, first of all, the annual production capacity of each potline is?

M. Bless So, 50,000 tons per line, so there's 100,000, David, producing now and 150,000 off; it's ratable, 50,000 tons.

D. Gagliano Okay, thanks. And then on the cannibalization of some of the cells, I know its early days, you mentioned start, restart costs higher than typical. Can you say in order of magnitude what the restart costs would be?

M. Bless

Yes. I mean we talked about this in the past. So depending upon which line we started and when we restarted it, the restart costs for each line before cell rebuild, restart costs being deferred maintenance and hiring and training all that is several, several millions of dollars. And then you put the restart costs in, if you have to rebuild say 100 cells per line that's a \$10 million investment as well. Let's say you were talking about two lines, you would be talking about a couple tens of millions of dollars and then you might increase that by—again depending upon where we settle out without getting into the way the cell is rebuilt in the current technology versus the—because there's more and more expensive materials, I guess, is one easy way to say it in the upgraded technology. You could be looking at 40-ish percent increase there.

So you could—if you're just thinking—if your question, David, is aimed at capital requirements or cash requirements, you could be looking at—if we were to restart two potlines simultaneously, which is by no means, it's certainly not required and it's by no means an obvious conclusion, you could be talking about \$40 million, \$50 million investment.

D. Gagliano

Okay, and you have three idled lines.

M. Bless Correct. Now to remind you two of those idled lines are capable of producing high purity, and the newest line, line 5, is not capable of producing high purity. So that's why, as I was describing this earlier, I talked about one line or two. I would never say never that the plant would operate at all five lines again because that's when you get your best leverage of your fixed cost, your best cost structure. But I think the way we're thinking about it now and as we would ask you to think about in the near future meaning, let's make it a year even, is one or two lines restarted.

D. Gagliano So that was my other question. I think you said around 12 months sort of lead time.

M. Bless Yes. I mean the way the timing works, if that's what you're asking, David, is so we would take the next couple of months to improve these cells to put the new technology into service, to let the pot operate for a couple of months, and then to cut it out, literally to cut the pot out, tap all the metal out and then do an autopsy to look at the insides of the pot to see how the new technology held up against the stresses of the smelting process of course. And then assuming we're a go, and industry conditions

dictate we're a go, obviously we would let our investors, let you guys know.

At the time we fire the starter's pistol, you're probably looking at six to eight months. I mean just ordering cathode blocks, those are the material that line the cells, that's probably the longest lead time item in the market right now, that's sort of six to seven, maybe even eight month lead time. We do have a little bit of inventory on hand but not much. We've thinned it out as you would expect. So I mean if you want me to take it to the very end, you might be seeing production towards the end of 2018 and certainly going into full production in 2019. Full production or whatever however many potlines we were to restart.

D. Gagliano Okay, perfect, thank you for that. And then sorry last one on that. Will those be the high purity lines you're looking at restarting?

M. Bless Yes.

D. Gagliano Okay, thanks. And then switching over to alumina, I don't want to beat the dead horse, given all the volatility, I think a lot of people are trying to calibrate their models based on where we are now and kind of that sort of

math, one quarter lag API alumina price is roughly \$295 a ton, Shelly mentioned a 340 number earlier. I'm just wondering what alumina price actually flowed through the cost-of-goods sold in the third quarter.

S. Harrison Dave, that would be consistent with your 295. Basically if you look back to the Q2 average price and that is roughly what flowed through our Q3.

M. Bless So, 340 was for Q4.

D. Gagliano Got it, perfect, thank you.

M. Bless Sure. Look, you're not beating a dead anything, this is critical and I think it's probably—it's complex. As you look at all the moving parts of how our cost structure works as it flows forward, it's important for us, to us, that everybody have a good understanding of this. So please don't be shy.

D. Gagliano I'm not shy, thank you, a little shy, thank you.

Moderator And next we turn to the line of John Tumazos with John Tumazos Very Independent Research. Please go ahead.

J. Tumazos Thank you. I don't mean to be too shy but I don't know a lot about river locks. How long do they take for the Army Corp of Engineers to fix? Would it be like a two-week thing or a two-month thing?

M. Bless So, 30 years. And here's the answer, thank you John for that straight man, straight person question. That was excellent. So you can just go ahead and Google Ohio River Locks 52 and 53, you'll find hundreds of articles in the last couple of weeks. In fact, there was, I hate to cite any one media, there was a *New York Times*, it may have been front page, but a prominent *New York Times*, yes, it's a front page article when this got really ugly a couple of weeks ago, and talking about as you would suspect the aging infrastructure of our country especially given that the administration has talked about infrastructure.

So the reason for the flip answer of 30 years is that the Army Corps of Engineers had designed and proposed a replacement for these locks in 1988, and so that's how long it's been known that we have a problem here. Over the last year, our operations people took—our COO took me through a recounting of sort of some of the minor mishaps over the last year here. But they had some reasonable problems but nothing like has happened

over the last month where literally for days and days and days at a time the locks were closed.

Just to give you a sense at one particularly bad time, I got to remember here, I believe there were 130 tugs stuck behind. Each of those tugs is guiding six barges, so think about how many vessels that are literally queued up. It went back either 34 or 43 miles, I can't recall, 46, thank you Shelly, 46 miles behind this locks. Just Google it and you can see where these locks are. So John, that's perhaps more than you wanted to know, if that's the answer to your question.

The more salient answer to your question is they now are almost completing, the Corps is, hopefully permanent fix which is—and that's why I said—which is slated for the fourth quarter at late next year, late 2018. The traffic is flowing again but that's why we've got all these contingency plans in place just in case for the obvious reason.

J. Tumazos

Does this constrain Hawesville and Sebree both?

M. Bless

Yes. They're both up river. They're both east of this problem.

J. Tumazos

Thank you.

Moderator

And next we turn to the line of David Lipschitz with Macquarie. Please go ahead.

D. Lipschitz

Two quick questions, first in terms of potential of restarts. If we have the same market conditions today three months from now, is that something that—what makes you go ahead or not go ahead in terms of market conditions to go forward? It sounds like alumina is still 450 or 460, does that mean it's a no go or if it's at 350 like we're okay? What makes you make that decision?

M. Bless

So, 350 definitely, I mean 350 in the current metal price that's a sensible, if you just do the simple math, relationship between those two commodities. And it's relationship we think is the right one in the medium to long-term. It's a relationship at which our cash flow would be based, our EBITDA per ton, which is one of the key metrics that we use here as you might suspect, and especially, David, the incremental marginal EBITDA per ton because again you bring on those tons and really all you're paying for some additional labor but mostly just additional, and of course power and alumina and carbon, the materials that you actually use

in smelting the ore into metal and so absolutely. Now grow that up to current conditions that would be a deep breath, that would be a tough one. I wouldn't want to give you a definitive answer either way because I don't know but it wouldn't be an obviously yes, David. It would not by any means.

D. Lipschitz

Okay. Would be there any thought of waiting to see how the winter cuts play out, like delaying until the spring and sort of seeing how this all sort of plays out before you made any decisions?

M. Bless

I think effectively, the answer is de facto yes. I think effectively we will because the heating season is going to go on over the next six months. And so by the time we finish four to six months, so by the time we finish our R&D project here, I'll call it, we'll be into Jan and Feb. By that point in time we'll kind of know where things, if not have if settled, where things seemed to be heading in China. We'll have more—we essentially will have more conviction anyway and hopefully the market as well one way or another.

And so yes I think it will all kind of come together, we believe for us anyway as it relates to the restart question, during the first quarter of 2018.

D. Lipschitz And then my final question is in terms of if anode and all the other costs would stay where they are, how would that impact first quarter?

M. Bless So calcined petroleum coke, I think is what you're specifically talking about, because our conversion costs in all of our anodes, both the ones that are integrated into our smelters in US and in the Netherlands and even our share of the BHH in China, those don't change of course. The coke is at least \$100 a ton today, so that's \$50 per ton of metal at about 50% usage. Alumina we just talked about. We've given you—

D. Lipschitz I was just wondering in terms of like being a dollar basis from a coke perspective.

M. Bless Yes, so it's up versus where we are today, what we realized in the third quarter probably, I'm just looking at my colleagues here, \$100, \$80.

S. Harrison Call it \$50 to \$100, close enough.

M. Bless And then David, as you probably know a typical smelter, Pete's given a thumbs up here, a typical smelter uses net, I should give the net number

not the net carbon number, not the gross; Shelly is correcting me here. So it's about 42%, let's call it, tons of anode per ton of aluminum. So you can use that math times the—so the price increase that we just cited that range, times that math, times our production in metal to get to the dollars in millions impact in the carbon prices, if that's what you're after.

D. Lipschitz Yes, that's what I'm asking. Thank you.

Moderator [Operator instructions]. And we have a follow-up from the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano Okay. So just another sort of calibration type of question here, a lot of moving parts, simple costs, everything as usual. I guess the basic question I'm trying to figure out here is lags, everything, set those aside, everything stays the way it is as today, I mean everything flows through six months from now, and everything is exactly the same in terms of prices, would we essentially be free cash flow positive or free cash flow negative?

M. Bless Oh sure, positive.

D. Gagliano Well, that's a good answer, okay, that was a definitive answer. Don't be shy, I like it, thank you.

M. Bless That was an easy one.

D. Gagliano Okay, so with current alumina where it is, aluminum where it is everything?

M. Bless Yes, absolutely, it's like marking everything to spot, David, oh, yes, absolutely.

D. Gagliano Thank you.

Moderator And speakers we have no further questions in queue.

M. Bless We would like to thank you all again for the time and look forward to talking to you again in a couple of months and obviously a follow-up between now and then. Take care.

Moderator

And ladies and gentlemen, that does conclude our conference for today.

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