Final Transcript

CENTURY ALUMINUM COMPANY: 3rd Quarter 2014 Earnings

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SPEAKERS

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ANALYSTS

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PRESENTATION

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

Now I'll turn the conference over to Mr. Peter Trpkovski.

P. Trpkovski Thank you very much, Paul, and good afternoon everyone, welcome to the conference call. Today's presentation is available on our website at 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 statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties.

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

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

M. Bless Thanks very much, Pete, and thanks to all of you for joining us this afternoon. If we could just move along to Slide 4 please, like to give you a quick update of the last couple of months since we spoke with you in late July. We are pleased with the company's progress this quarter and the plants are generally operating well. That having being said, Hawesville did continue to struggle during the quarter with the aftermath of the power modulations, that we experienced in the spring and early summer. As you recall, we spoke to you about this during the July call.

Good news is that we've seen very good improvement during the last couple of weeks but the situation is getting back to very near normal. In a few minutes, I'll summarize the operational issues we faced during the quarter and Rick will give you some detail on the financial impact that they had during this third quarter.

So quick here now on the slide, let me give you a summary of some of the major developments over the last couple of months. We were really pleased last week to have announced the signing of an agreement to purchase the remaining interest in Mt. Holly, I'm sure everybody saw that.

As we said time and time again, this is a superb plant in virtually every area. It's got a great focus on safety first and foremost with a record of excellent results to prove that. It's got a high quality group of employees and a great management team and they've been producing excellent production efficiencies at an attractive controllable conversion cost.

Lastly we'd spoken with you about the good value added mix of the plant and importantly, Mt. Holly progress in a great local community and a very pro-business state. I'll make some more comments about that in a moment. As we discussed many times, the issue at Mt. Holly remains the cost of electric power. As you remember, we entered into a 3.5 year arrangement to buy the majority of our power requirement at Mt. Holly off system and that contract expires in December 2015.

We've been discussing that post-2015 structure with the power provider earlier in the year but regrettably at that time we are unable to reach an agreement. Thus we were forced to give the post-2015 termination notice in June, you'll recall we spoke about that with you in July. Despite all of its positive attributes, the plant simply isn't viable under the terms that we were being proposed at time. Just to put it in perspective under those terms, Mt. Holly would be paying by far the highest power rate of any smelter in the US.

We firmly believe a structure exists that should satisfy all the constituencies. The plant is obviously very important to the local community and to the regional economy. It should be amongst the most competitive smelters in North America. As in Kentucky we are absolutely committed to running this plant for the long term.

We are not interested in settling for a short term patch here. We've been working on a variety of structures over the last couple of months and in the coming time, we're going to be sitting down with all the relevant constituencies and again I'll make so more comments about that in a few minutes.

As it was in Kentucky we think the work will be hard here but we're confident in finding our path forward. Mt. Holly benefits from strong state and local political and business leadership who understand the relevant issues and this was one of the attractive attributes of the plant as we have assessed it overtime. We think this will be a really good transaction for Century. Rick will provide some detail on the terms of the deal itself but let me just give you a little bit of perspective at a high level.

As you see in the base purchase price of $67.5 million in cash. Based on the metal price over the next 14 months, that amount could go as high as $90 million or as low as $55 million. To give you a sense of the profitability, the 50% of the plant that we're buying would have added about $11 million of EBITDA to our Q3 results. So obviously $44 million on an annualized run rate basis based on Q3 performance.

To give you a little bit of further perspective, based on current natural gas prices and current foreign metal prices, over the coming 14 months—I should say the 13 months, from the projected closing date of the transaction at the end of November, through the expiry of the power contract at the end of December 2015, that 13 month period. We've earned well over $100 million of EBITDA, again from a 100% of the plant. Of course though we're taking the risk of the post-2015 power situation as we did at Sebree.

Let’s move along to a little bit, I'll make some more comments as I said on Mt. Holly here in a few moments. As expected power prices in the US Midwest generally and at our plants in particular continue to moderate that closer to historical norms during the quarter. The weighted average delivered price at our two plants, that's the average of the two plants, was down 10% Q3 over Q2 to under $37 a megawatt hour, that’s fully delivered price. We obviously continue to watch these markets very closely.

Moving along, as we expected, we spoke with you last time about this, we finalized the decision now to move forward with the rebuild with the second bake furnace at Vlissingen that’s our anode plant in the Netherlands, obviously. Just to give you some reminders here, we paid $13 million for the plant when we first bought it out of bankruptcy. We spent about $35 million in addition to refurbish and modernize the plants infrastructure and we also rebuild one of the two baking ovens.

Before moving forward with the investment to rebuild the second oven, we wanted to ensure that we can A) make a quality product and B) do it at the forecast conversion cost. We've been doing those two things successfully since the beginning of the year, so we've now taken a decision to rebuild the second furnace. This will be a $15 million project obviously much smaller than the first project given that we don't have to upgrade any of the infrastructure anymore. That was all done in the first project.

The incremental production will come online in late 2015 and at that time the complete plan will have an annual capacity of 150,000 tons of carbon anodes. That will be sufficient for almost all of Grundartangi current requirement. The investment will lower the plants conversion cost by over $100 per metric ton, thus producing an annual benefit of $15 million at least, thus producing a simple payback for this investment of about a year.

Lastly, the new value added production has come on stream at both Sebree and Grundartangi. We've spoken with you about this through the year-to-date and we’re on track to produce commercial quantities at both plants in 2015. We’re looking at about 50,000 tons in each product family at each plant in 2015. We experienced during the quarter some normal small run-in issues but we believe we worked all the kinks out of system.

They're very different products, obviously different plants, different circumstances and all that, but coincidentally each investment was about the same magnitude about $2.5 million each and the simple payback on each investment is less than six months. So we're excited about that.

If you could turn to Slide 5 please, just a couple of quick comments about the market environment. The cash LME price first saw a rapid rise from the end of June it was about $1,850 at the end of June to a high of over $2,100 per ton at the end of August. So, in just those two months we saw a 14% increase in the cash commodity price.

Based on obviously amongst other things, the sentiment which we believe is now turning solidly towards a growing perception of building deficits in the primary aluminum markets. We have obviously seen a turbulent period in all financial markets since late July with aluminum obviously subject to the same trends as other asset classes, especially so-called risk assets.

Cash price promptly fell straight back to almost the 30th of June level, making a low of $1,870 a ton in early October. As you've seen assuming you follow these markets, it's comeback nicely since then with the unofficial price this afternoon closing at $2,030. Bottom-line, the average cash price during the quarter was $1,987; that's up 11% from the average cash price in Q2.

Couple of comments on the fundamental picture of the market which we think continues to look good. Year-to-date global consumption is up about 3.5% ex-China with North America finishing especially strong well over 4%, and that rate should be increasing nicely into 2015. We obviously continue to see strong trends in sectors like automotive and aerospace.

China opposite picture, we're seeing a decreasing rate of growth, yet the pace is obviously still well in excess of GDP and underlying industrial production. Last couple of quarters we've seen consumption growth in the mid-teens. Part of this of course is based on the government stimulus programs.

The forecast going into 2015 show that without any incremental government programs, this rate of growth could fall into the mid-to-high single digit, sort of in the 6% to 8% rate going into 2015. This contrasts with the supply picture in China, to recall we talked last time when we thought about two million tons of capacity at close by the end of last year and the forecast show that about two-thirds of that has come back today. That's helped to produce a net production growth year-to-date in China of about 8%.

Forecasts call for that rate to accelerate potentially into the low double digits in 2015 in 10% to 12% rate. Supply growth in the rest of the world is quite different, current pace and the forecast pace for the next couple of quarters is for 1% growth or below, and that includes some small bits of curtailed capacity that we've seen coming back online principally in Europe.

All these data yield and mix balance picture in the world excluding China, we see a 2014 deficit approaching a million tons and this trend continuing into 2015 and in China based on the data that which I just talked, you're seeing a risk of supply growth outgrowing demand growth in 2015. And perhaps as confirmation of that, we're seeing some reasonable quantity as some of the fabricated products currently coming out of China.

Just couple of comments on the physical markets, the global LME stocks are down about 1 million tons year-to-date and the physical markets themselves remain tight as you've seen delivery premiums in the EU and the US are at $500 a ton and above. We think conditions remain in place for these levels to be sustained for at least the next couple of quarters, but as we've said we believe that some point in the future they've got to start coming down. In addition, product premiums continue to strengthen, to give you an example in Europe, billet premiums are now at $900 per metric ton or even a little bit above.

Just a couple quick comments on alumina before I move on, the index price has traded up substantially over the last month or so, with the Australian price now at about $355 per metric ton, with the discount in the Atlantic market. There is some short term factors at play here, we've seen some reasonably a large refinery outages in China, but we're also carefully watching the impact of the longer term trends. Perhaps things like bauxite supplies in China due to new Indonesian resource rules.

If we can move along to Slide 6 please, just a couple of quick comments on the operations before I turn you over to Rick. As you can see most importantly we had a pretty good safety performance this quarter. Sebree clocked just a few more incidents than Q2, but this was somewhat related to the law of small numbers. Plus importantly none of these incidents was severe in anyway. You see here the impact of the upset condition at Hawesville with production down due to the larger than normal number of cells out of service due to the instability from the power modulations.

Rick will also talk about our increase spending to ramp up our pot rebuild capacity to get those cells back into service and address some of the other related issues. As I said a few minutes ago, the number of cells offline has now significantly reduced over the last couple of weeks and we're now very close to our normal level. We also saw a fall off in high purity metal production during the quarter and this has now come back nicely over the last couple of weeks.

We believe we're out of the woods but Hawesville condition did have a meaningful impact on Q3 results and again Rick will give you some detail here in just a moment or two. The other plants look good, as you can see Grundartangi is back to full production after the Q2 power curtailment that we experienced due to the low reservoir levels in Iceland. Also at Hawesville as you see right here, production metrics were generally off across the board and again they're now recovering.

With that, I will hand it over to Rick.

R. Dillon Thanks Mike. Before we get into our third quarter financial performance, let's review some of the details of the recently announced acquisition. I'm on slide 7 of this presentation. As Mike noted, we're acquiring 50.3% interest in Mt. Holly for $67.5 million, subject to certain adjustments, with the deal anticipated to close in the fourth quarter at the end of November.

There's an earn out provision that could result in an adjustment to the purchase price, up or down based on the movement in the Midwest transaction price from July 2, 2014 through December 31, 2015. The maximum adjusted cash price under this provision of the agreement is $90 million and a minimum adjusted price is $55 million. The acquisition also includes an adjustment to put the parties in the economic position as if Century had owned 100% of Mt. Holly as of October 1st. The cash adjustment will be based on the results of the business over the measurement period from October 1, 2014, through the closing date. The calculation and settlement will happen post-closing as detailed in the agreement.

Lastly there is a working capital adjusted mechanism related to the partnership. However, this mechanism excludes alumina, and the related liabilities, finished goods and trade receivables. It's important to remind everyone that this partnership has historically operated as a tolling business so we are anticipating a networking capital investment post-closing.

Pursuant to the agreement Alcoa will fund serve the current existing liabilities to the partnership that closing estimated at $11 million. We anticipate additional working capital need of approximately $10 million to fund alumina and other costs in the months following the close. Both parties have agreed to fund their respective share of the GAAP pension liability for Mt. Holly. In addition, we will provide the incremental funding required by law to get to the PBGC fully funded status of the terminated plan.

The amount of this funding will be determined by actuary calculations based on the existing plan assets performance through the closing date. Under the agreement we have an option to differ these payments for about 12 months. Alcoa will fund it's share of the Mt. Holly liability estimated at $2 million at closing. The deal will result in approximately 150,000 tons of incremental annual capacity, had we owned 100% of the business in the third quarter, our reported EBITDA would have increased by $11 million as Mike previously discussed. However given the timing of the closing of the transaction, the deal is expected to have a minimal impact on our 2014 results, but should be accretive to our results in 2015.

So now let's turn to slide 8 of the presentation and I'll provide some additional details on the third quarter financial performance. Our net sales were up 9% from the second quarter, reflecting the combined impact of continued favorable market conditions, as well as increased volumes quarter-over-quarter. Looking at the market impact on a one month lag, the average cash LME and Midwest premium transaction price were up approximately 10%.

Realized prices in the US were up 9% in the third quarter just a little bit lower than the market prices, reflecting an unfavorable mix of lower price products sequentially. Specifically, Hawesville saw a reduction in high purity metal quarter-over-quarter, as we dealt with the impact of power modulations in early spring and summer as previously discussed. This resulted in loss production volume of just over 2,000 tons consistent with our discussion on the last call.

The instability during this time also resulted in increased costs as we rapidly moved to get all pots back online. I'll talk about more about that impact later. As Mike noted this effort has continued through the last few weeks and we are currently close to normal production levels. The European Duty paid price increased 12% in the third quarter while realized prices in Iceland increased only 8% quarter-over-quarter. This is reflective of our remaining tolling contracts and reduced direct sales on increased volume resulting in a heavier weighting of lower price tolling shipments quarter-over-quarter. As a reminder, we only receive a portion of the premium on our tolling sales.

Iceland had direct shipments of approximately 38,000 tons in the third quarter, a decrease of almost 4% from the second quarter. With the shift to direct sales as we previously discussed, title transfer for revenue recognition occurred at the port versus at our facility. As a result almost 3,500 tons were awaiting title transfer at the end of the third quarter resulting in a quarter-over-quarter decline and direct sales volume. Iceland production volume however increased 4,000 tons in the quarter and tolling sales were up 3,800 tons or 12%. On a consolidated basis, global shipments were up 1% in the third quarter versus the second quarter of 2014 with US shipments flat and Iceland shipments up 3% sequentially.

Turning our attention to operating profit, we're reporting an adjusted EBITDA this quarter of $80 million, an increase of $36 million when compared to the $44 million adjusted EBITDA in the second quarter of 2014. The drivers of this improvement are favorable impact of market conditions on pricing and power costs, partially offset by increases and other operating costs at selling general administrative expenses. Higher all in pricing, including a rise in LME, regional premiums, value-added product premiums, net of the impact of the LME on our aluminum power costs, all combined to improve operating profits by $37 million.

Now let's briefly revisit our power cost discussion from the last quarter as prices have stabilized nicely. Taking a look at slide 9, lower power prices improved operating profit by $9 million quarter-over-quarter. Hawesville power costs were down $3 million and Sebree power costs are down $4 million from the second quarter both consistent with our discussions last quarter. So our average delivered price to Kentucky in the third quarter was approximately $37 per megawatt hour and that's down from the $41 incurred in the second quarter.

Slide 9 includes again the historical and forward pricing information for the Indiana hub, which is the closest liquid node to our Kentucky operations. So you need to add another $3 to $4 per megawatt hour to get to the delivered price.

The graph shows average Indiana hub prices year-to-date of $42 per megawatt hour. The forward view undelivered prices for the Indiana hub would suggest fourth quarter 2014 undelivered prices of approximately $34 per megawatt hour and this is consistent with what we are currently experiencing in the fourth quarter to-date. 2015 through 2017 forward prices are at approximately $36 per megawatt hour. As a reminder, every dollar per megawatt hour impacts EBITDA for our Kentucky operations by approximately $8 million per year.

Mt. Holly power costs were down $2 million driven by a decline in natural gas prices with average prices in the low 4's during the third quarter versus the mid to high 4's experienced in the second quarter of 2014. Natural gas prices are currently under $3.75.

Operating cost increased $10 million in the third quarter of 2014, the cost associated with getting Hawesville potlines stabilized and the resulting impact of lower production volumes on the fixed cost absorption collectively increased operating costs $5 million during the quarter. The cost element of this increase consisted primarily of increased pot relining costs, including outside labor, materials and supplies. Sebree incurred an incremental $1.3 million in cost associated with finalizing its new labor contract. Lastly Sebree and Grundartangi both incurred startup costs during the third quarter associated to bringing in the new small form foundry and alloy capacity online.

SG&A cost increased approximately $2 million and this was attributable primarily to an increase in stock compensation expense driven by the rise in our stock price during the quarter, as well as transaction costs associated with the Mt. Holly deal. So, favorable market conditions partially offset by increased operating cost in SG&A expenses drove a net operating profit improvement resulting in adjusted earnings per share of $0.52 for the quarter, an increase of $0.30 from the second quarter of 2014.

Moving on to liquidity, let's turn to slide 10. Cash increased during the quarter by $72 million, with the increase in adjusted operating profit being the obvious driver. As projected capital spending in the third quarter increased to $15 million up $6 million from the second quarter. This increase reflects the plan spending on our anode facility in the Netherlands and continued investment in our smelters, including the expansion project at Grundartangi. We expect our spending in 2014 to come in at approximately $60 million at the top end of our previous range of $50 to $60 million.

Taxes during the quarter primarily reflected temporary withholding taxes in Iceland. The working capital increase is driven by favorable accounts receivable payment terms negotiated during the quarter and timing of liability payments. There were no outstanding borrowings under our revolver other than the letters of credit and available liquidity increased by $69 million. During the quarter we retired at maturity the remaining 2014 senior unsecured notes carried at $2.6 million.

Now let's take a look at our fourth quarter and the impact we expect Mt. Holly to have on our liquidity position. We expect to fund this acquisition using a combination of available cash and the revolver. Slide 11 provides the forecast view of the liquidity post acquisition holding LME and power price at Q3 levels assuming no significant movement in working capital.

With those assumptions, we should generate another $80 million in EBITDA in the fourth quarter. As previously discussed the first price for the transaction is $67.5 million, subject to several adjustment mechanisms of which likely none will be finalized by the end of the fourth quarter. As noted earlier, we will have to invest in working capital as we move away from historical tolling structure, I believe the majority of this investment will happen over the first quarter 2015.

We expect favorable withholding tax refunds in Iceland and will make our semiannual interest payment in the fourth quarter as well. We also see capital spending at $20 million. With these assumptions, we would end the quarter with cash just a little bit under where we ended the third quarter, while there may be an increase in our outstanding lines of credit as we take our business and we take on this new business we don't believe the acquisition will have a significant impact on our liquidity.

With that, I'll now turn the call back to Mike to discuss the fourth quarter priorities.

M. Bless Thanks, Rick, very much. If we could turn to slide 12 please, as Rick said I just want to give you a quick sketch of what we're working on these next couple of months and then we want to get right to your questions. Obviously the finalization of the Mt. Holly transaction is at top of the list. We expect the closing at the end of November or certainly by the end of the quarter. We are currently engaged in discussions with customers and suppliers regarding 2015 business as you would expect.

We are preparing for the normal integration activities relating to employees, financing business systems and other matters. Most important, during these next couple of months, we'll be keeping the folks at Mt. Holly working safely and motivated during this period of uncertainty due the power contract.

I don't want to make light of this; this is a real, real challenge. We faced the exact same issues at Hawesville and Sebree, before those power contracts were approved the year before last. The emphasis also will now be on restarting discussions as I said on the post-2015 power contract. It's a complex series issues with which we are dealing; it is a different situation than Kentucky but many of the underlying concepts are the same. Though the expiry date is 14 months away, we think it's in the best interest of all parties to get this done with the real sense of urgency and in that respect, we'll begin meeting with all the key constituencies in the near future.

Difficult for us to gage at this point exactly what the successful structure will look like, we've done a lot of work and firmly believe that a solution exists that should satisfy all parties. As I said before, the plant simply isn't viable at the levels that were being discussed earlier in the year so we need to roll up our sleeves and find a different path.

Moving along, we'll be finalizing our business planning process during the next couple of months. As you recall we've talked to you in the past that we're considering some significant investments in both the US and in Iceland in value-added product capacity. These kind of investments require pretty long term planning, especially given the key, the attractive nature of the key markets, the important equipment has some significant lead times. If we do decide to move forward the cap ex process would take about 18 months.

Thus, we'd see some production in late 2016 but no full scale production until 2017. We'll update you on where we are when we give you the highlights of our 2015 plan when we speak with you in February.

Obviously any proposed project would be compared to an alternate deployment of the excess cash flow that we're generating. Around the current market conditions, the company should be producing very good cash flow in 2015 and thus our capital allocation policy will be in the area of major focus as we enter 2015.

Couple other comments, the local transmission bottle necks remain an issue for the Kentucky plants. This is more acute for Hawesville which sits in a relatively weak load pocket. The specific transmission weaknesses are well known and several potential solutions exist [indiscernible].

This is only a risk on days with unusual conditions. Couple of examples, obviously the very high demand that we saw in the very cold months of January to February. And number two during the shoulder seasons in the spring and fall, when the utilities proactively take generation and transmission out of service for regular maintenance.

We obviously saw the negative results of that in May which of course has led to the power issues with which we've been dealing at, or the pot issues with which we've been dealing at Hawesville but we saw pretty benign conditions in September. We need to find a long term solution here. As we've said Hawesville's viability is an issue with this long tail risk going forward.

This very real issue also effectively prevents any major economic development from occurring in this region in Kentucky and thus we believe it will have the attention of the local political and business leadership. Lastly, at Ravenswood we've continued in an active dialogue with the power company and we continue to have the very real goal to have a structure to present in Q4 for the power.

With that, Pete, I think we can move along to Q&A.

P. Trpkovski — Thanks Mike. And Paul now, can you facilitate the Q&A session.

Moderator — (Operator instructions.) Our first question will come from Sal Tharani with Goldman Sachs. Please go ahead.

S. Tharani — Can you just give us a little bit of color on how to model the minority interest going forward?

M. Bless The minority interest, you speaking about Mt. Holly?

S. Tharani No. I mean, since last quarter we're seeing a minority interest in the P&L, in the income statement.

M. Bless I'm sorry Sal, that relates to our investment in our anode affiliate plant in China, BHH, and that's kind of a hard one to model Sal, because BHH basically has two businesses. One is the supply to Grundartangi to ourselves, and the other is the supply to the local China market. And of course the supply to Century, to Nordural, has been relatively constant but the China market as you well know is a much shorter term market, it goes up and down and up and down. So, I'm not trying to duck the question, that is a tough one here. We can't give you any sort of parameters to model in there.

S. Tharani Also the electricity contract at the Mt. Holly, I understand it is in a different structure which is MISO versus what you had in Kentucky. What are the options you have, are there more than one power suppliers in the state or is it like Kentucky where you had only one supplier?

M. Bless — It's the other way around of course. So, Kentucky is MISO where you were buying on the market, in Mt. Holly—I will put quotes around the word "market." It's in a market that's referred to as VACAR, which stands for Virginia and the Carolinas obviously. It's not an organized market in the true sense like MISO is you can't go to your Bloomberg screen and look at the price for VACAR, it's a bilateral market. So the answer to the question is there's lots of suppliers in VACAR but you've got go and do individual deals with them rather than buying from the market.

For example, the deal into which we entered now almost 2.5 years ago that expires in 14 months. That was obviously a one-on-one transaction. The supplier there, the generator, the place from which the power is coming happens to be actually outside of VACAR, it happens to be coming from a natural gas fired generator in the state of Alabama and obviously it's transmitted to us by the local power provider. But to your question perhaps, it's quite a different situation than as Kentucky which is in MISO.

S. Tharani — And your goal is to deal with the same company which is supplying right now?

M. Bless Don't know, Sal. Truly it could be one, it could be the actual power provider, public service company of South Carolina, Santee Cooper, and we'd be very pleased to reach a result with them that makes sense for both parties. It could be a third party like the one with which we're dealing today or different ones. We've had inquires and contacts from lots, or it would be a combination, in fact today it is a combination I should say, I said majority, we get three quarter-ish of our power from that off-system resource and the rest from the historical power provider and a solution like that for the post-2015 could well make sense. It's just, it's too early to tell what it's going to be.

S. Tharani I have just one more if you don't mind. You gave this $11 million EBITDA if you would have owned Mt. Holly's 50%. What would it be if you had the same electricity price as Kentucky also during the quarter?

M. Bless I'm not going to state that other than to say lower. An electricity price is a good deal higher, the EBITDA would be a good deal higher.

Moderator Our next question in queue will come from Jorge Beristain with Deutsche Bank. Please go ahead.

J. Beristain — My question is, are you seeing or what is it that's giving you confidence that you would be able to successfully renegotiate the power at Mt. Holly? Could you give us any indication of changing community support or government support or any kind of green shoes you could talk to?

M. Bless — We think we will have that kind of support but our confidence is based solely in the economics at which we have looked and as we've dissected the various analogies that are relevant to try to come up with, what kind of structure makes sense and from what, what type of sources as I just said to Sal. And it's strictly based on that. It's not based on those kind of extraneous things which could be important, but we certainly wouldn't have the confidence that we do, if we didn't believe that the base market economics made sense.

As I said, there are uncertainties. We had no certainties in Kentucky when we terminated Hawesville's power contract and when we agreed to buy Sebree. But obviously we wouldn't be moving forward with the acquisition of Mt. Holly if we didn't have a reasonable confidence that there's a way through.

J. Beristain And just given all the proliferation of natural gas in the US just getting sort of like on-site independent power producer, is that something that's even legally possible?

M. Bless On-site you mean building the generator?

J. Beristain Yes, but having a third party do it.

M. Bless I mean we've had people approach. ITPs approached us to do exactly that. I guess I'd say that could be a longer term solution but right now there is excess natural gas fired power as Rick said, the price I haven't seen it today but the spot price was $3.67, shy of $3.70, Pete's giving me a thumbs up, shy of $3.70 yesterday. There is capacity and excess generation that are out there. So that's a good idea and we've had some enquiries on that but there's big blocks of available capacity that are out there right now it's just a question of how you obviously structure and negotiate the right deal.

J. Beristain So if I could just clarify as well, on the EBITDA just to clarify the $11 million incremental EBITDA that you would have made, that would be assuming for the full third quarter consolidation of the 50%?

R. Dillon That's correct.

J. Beristain So, the annualized is $44?

M. Bless Sure. At the third quarter prices, yeah.

J. Beristain So, one last question if I may. Just on your comments about the supply demand globally obviously where ex-China everything is cleaned up nicely but the restart of some of these Chinese smelters is a concern and we're seeing this in the steel market as well, but in steels there has been some talk of maybe China taking away export rebates. And I understand on the aluminum side there, they're moving up the value chain to export semis, could you comment, are the semis also facing an export rebate? Is that something that you've heard if that could be taken away as a way for the government sort of rein in rogue exports?

M. Bless You're asking an excellent question in my opinion. So, a couple of years ago, I can't remember what the couple was, but we can all go back and look, the duty regime on both [indiscernible] primary and semi-fab on the other hand was the same. And then they changed it and this was probably three or four years ago, unwrought to my head and a lot of the production moved to semis. And a lot of the semi-fab stuff is not semi-fabricated products in the classical sense of the business, to be blunt people getting around, paying the arbitrage and the duties and making a very minor "value-added improvement" to a primary product to qualify as semi-fab.

So, perhaps to your point, there's been some rumors that the government obviously is well aware of this that they might move to kind of correct that arbitrage there, but long-winded answer, we're not aware of anything sort of in the imminent offering.

Moderator Our next question in queue will come from Timna Tanners with Bank of America. Please go ahead.

T. Tanners I'm going to ask one question on Mt. Holly and I am hoping you can provide us some help on all the other moving parts but on Mt. Holly, I want to just clarify that it also adds to NOLs and can you use your existing NOLs? Is that fair?

R. Dillon It wouldn't add to our existing NOLs. They have NOLs of their own that we can use for Mt. Holly.

M. Bless But I suppose, Timna, maybe guessing at the inference in the last part of the question, it will increase the base of taxable income against which we can use the NOLs that we have.

T. Tanners Any idea why—is there anything you can share with us in terms of why Alcoa decided to divest its stake? Anything you can say on that?

M. Bless No. We don't know and we would never speak for a partner like them—a very good and long term partner or any third party. You'd have to ask them.

T. Tanners Of course, that's fair. You have so many moving parts right now between expansion at Grundartangi and the talk still at Helguvik and Ravenswood. So as far as some of these other projects, you clearly have made the decision to make the investment in the anodes but can you help us prioritize or give us a timeline on when to start thinking about potential other projects?

M. Bless As I said, we were hoping to no promises, and it will depend, we're not going to rush it of course for a February call with you guys, but we would hope as we go through our business planning process here finalizing it over the next 60 days and including a detailed discussion with our board before the end of the year. So as to conclude on at least one of these value-added investments because we are of the strong opinion that the market is there. So that we'd be able to talk with you about that in late February when we release earnings.

There's a couple on the docket right now, in size they could range in terms of cap ex from a couple tens of millions to a couple, couple, couple, couple, couple, couple tens of millions, that's kind of the zip code of the cap ex that we're looking at. And you can guess the market I think we've talked in the past the markets at which they're targeted.

T. Tanners So, between like value add or between expanding smelter capacity or—

M. Bless I am sorry Timna, value add, value add, value add, everything right now we're talking about value add, there's no—other than, I should say the hot metal expansion project, multi year at Grundartangi that we commenced three years ago or so and that's continuing on pace and we'll have another chunk of new capacity at Grundartangi come online in 2015, again, we'll give you all those forecasts in February. But other than that there is no, you shouldn't expect any imminent announcements of any major hot metal capacity expansion.

Moderator Our next question in queue will come from John Tumazos. Please go ahead.

J. Tumazos Can you elaborate on your double-digit output growth expectation for China for next year? Some people were concerned that the economy is slowing there or that the Indonesians won't give up their bauxite? In particular, and I apologize, I'm very naïve and I just read the IAI data and believe it, but I know you guys are smarter. If you take the August IAI data for Ingot and multiply it by 1.94, the reported alumina output was 1.7% too little and the September Ingot data went up about 2% output but the alumina output went down a little bit. So, September the differential was about 4%. Do you think the alumina supply is more than the IAI reports or the Ingot output is less or both because obviously they kind of need to converge to make sense?

M. Bless Yes, John, I am not even going to get to fourth down—I am going to quick kick on third down. I just don't know. We haven't down the sleuthing to which you refer there. I don't know where you're missing or is—I am going to have to with apologies—I don't know, it's an interesting one, so Pete will go and see if we can track it down but we just don't know.

On your broader question, I mean, I think the pieces that you're espousing is a good one and if I can repeat it or at least assume I am right, the pieces is to the extent that consumption, the demand is going to moderate 6% to 8% level that's in the base case forecast at least the ones at which we look, shouldn't production also moderate down to meet it as you well know, John, of all people, that hasn't necessarily always been the case in China but has a nice—we'll sign up for your thesis there, it's a nice thought. Who knows, at this point we're giving you what we think is sort of the consensus for what it's worth in the marketplace.

J. Tumazos So Mike, if would bear with me one more question. I talked to a very nice one million ton container board company in China, they have very good equipment, speak good English and I can understand—they pay a dividend on the NYSE. They were told in 2017 for their steam boiler in the providence that's just north of Vietnam to switch to natural gas from local coal and of course the natural gas only comes from Russia, and the local coal is cheaper, it's like a three, four fold increase. In your intelligence, do you see any issues about electricity supply or cost?

M. Bless — No. John, we don't. Our anode plant is I don't know if it's in the same providence, I think at least two that border Vietnam, we're in Guanxi but we haven't heard or come across that kind of information. But thank you for it, we actually have a Board meeting in China, my colleague Jesse Gary, General Counsel and I next Monday and Tuesday in China. So, we'll put that on the table for our partner to address.

Moderator — Our next question in queue will come from Paretosh Misra with Morgan Stanley. Please go ahead.

P. Misra — I was just trying to see if you could provide what was the EBITDA impact because of the operational issues at Hawesville during third quarter?

R. Dillon — Sure, for Hawesville as we talked there's about $5 million of negative impact on EBITDA associated with the pot relining effort and the under absorption there. Then you mentioned 2,000 tons of lost production as well which could give us an offset of roughly $1 million or $2 million of EBITDA as well, so those are the two elements.

P. Misra — The second one is also Hawesville, right?

R. Dillon Correct.

P. Misra And then, did you say, and I am sorry if I missed that, that there were some direct sales in Iceland that were not included in third quarter results?

R. Dillon Yes. We talked about shifting from tolling to direct, the phenomena that we saw and will happen that the important notice is going to happen, we're open to that on the quarterly cut off, is that our direct sales title transfer occurs at the port and not at our facility. And so we're at risk of having cut off issues and we saw at the end of the third quarter—didn't happen at the end of second quarter and it's purely due to the timing, it was about 3,500 tons with a title transfer in the subsequent month.

M. Bless Just to give you a little bit of background. It's the suttlest of changes, but as Rick said you have to get the revenue recognition right. And so, in the tolling contracts the title transfer occurred I.E. the revenue gets recognized literally the minute that the product is produced, as the Ingot comes off the casting line and gets palletized, the revenue gets recognized because contractually that's when the customer owns it. Whereas as Rick correctly says, he says the port it's, I'm trying to visualize it—half a mile away is where those pallets get put in containers and shoved on a ship.

So it's just a happenstance of the last day in the quarter and where that all was. So historically before we move to direct sales, production always equaled shipments because of what I just said and now you can just have timing differences.

P. Misra This will show up actually in fourth quarter results?

M. Bless Sure.

P. Misra Then lastly on the SG&A side, it sounded like there were some one-off items, what's your expectation for SG&A in the fourth quarter?

R. Dillon Sure. Generally speaking, our SG&A is actually pretty consistent. The one-off items you speak of where we had about million roughly stock compensation expense well over a million and then some transaction costs associated with the deal. So we expect our SG&A not anticipating any other one-offs would be fairly consistent minus those items.

M. Bless — As you remember, we've said and it's been as Rick correctly says consistent. The GAAP SG&A has been about $10 million a quarter of which about $2 million is non-cash. So, our cash SG&A is $8 million, $8.5 million, $10 million is the GAAP, this quarter as you saw it was $12 million and the $2 million delta versus the $10 million is exactly as Rick just said.

One is just the vagary of the accounting for our stock compensation units, which just Rick marked up and get marked down based on the quarter end stock price that's obviously non-cash and then most of the rest as Rick said was just spending on getting the transaction with or without tolling negotiated. The $2 million is the answer to your question. It was the unusual or one-offs.

Moderator — We'll have a follow up in queue from Sal Tharani. Please go ahead.

S. Tharani — Can you give us a little color on what advantage do you get—monetary advantage when you move from tolling to direct sale, is just a premium you don't share or is there other benefits in that?

M. Bless So, there's a couple, each moving in different ways, Sal. Remember what the tolling fee is, it's simply the metal price minus an implicit negotiated alumina value. So, one thing going against us of course—and if you negotiated those two things on the same day we talked about this last fall when we're talking about our approach to tolling versus direct sales as the first toll expired.

If we negotiated those things on the same day putting the premium aside for a second, the economics would be exactly the same because the tolling fee is just the value of a metal minus the alumina. The fact of the matter is of course that those tolling deals were put in place a long time ago, that first one in the late 90s when Nordural was first started up and that's the alumina price were couple of 100 bps below where they are today. So, that of course goes against us that's just like marking our regular way alumina cost up or in this case up as the market moves.

Going the other direction is as Rick correctly said is the premium. So, at the time again 15 years ago we negotiated with the counter parties a fixed premium that we would get and they would get everything above that and back in those days, we didn't feel like we were giving away very much because what we were getting was pretty close to what the actual number was back in the day and of course premiums have run on and on and so as Rick said we're only getting a portion of it. So those are the two things you're kind of seeing there as we're moving from the tolls to the direct sales.

S. Tharani Mike, guess is that because where the premiums are overall even if you lose them on the alumina side, overall economics is beneficial for you to go direct?

M. Bless As you remember we said—can't remember whether this was in the fourth quarter last year or in the first quarter once we had actually inked these deals, but we said, at the time, it just was a complete coincidence of course, Sal, at the time when we looked at the economics of the expiring toll with the economics of the new direct sales, those two offsetting things the increase in the premium and obviously the premium was much lower at the time versus the new alumina cost was literally a push, it was like within $1 million on all that volume when we did the math. Now today alumina prices have continued to rise, but premiums have risen proportionally more and so you can draw your own conclusion, but it was literally a push at the time, a year ago we were negotiating the first end to that first toll.

S. Tharani — And I have one more question on the alumina, and I am sure you have probably spoken about it in the past. Just give us a color, you buy alumina in Kentucky and you buy alumina in Grundartangi, how are these set up? Are these connected to all-in-aluminum price or is this API index of just LME price? Can you give us some color? Prices are rising so we just want to keep an idea of how to offset the LME increase in the aluminum price versus the alumina price.

M. Bless — No problem, Sal. So, in the US it's all—and it's all on just the LME price, not on the final price of course. It's all percentage LME. In Iceland this year that's just concluding was mostly percentage LME. There was a small dose of index and I don't have an answer for you in for 2015 yet because we're currently literally in the period where we're negotiating with the counterparties what 2015.

You know how these deals work. They are multiyear deals but there is a re-pricing every year within a min, max range on the percentage LME and that's what we're negotiating right now. We'll have some good guidance for you on that in Feb.

S. Tharani Because most of the aluminum companies—when you listen to Alcoa's call yesterday trying to move these contracts to the API index, API contract and I am just wondering is that something you may end up doing eventually?

M. Bless Yes. We may well, that's an excellent question, and we're looking at it hard and so I'll leave it at that. The answer is, yes. Obviously we tended it to call it a natural hedge, but you lose pardon me, the linkage between let's call it your second largest cost and most of the value or at least historically most of the value of your finished products. But, yes. You could see us moving to more of an index buyer on alumina.

Moderator Our next question will come from Paul Massoud with Stifel. Please go ahead.

P. Massoud I just wanted to ask a little bit about future investments. Obviously you mentioned the demand has picked up because of both aerospace and auto, and on the auto side if you believe some of the third party estimates that are out there we really haven't seen the steep part of the demand curve just yet. But, over time it seems that a lot of the volumes that's going to be going in the auto industry, it's going to be coming from packaging machines, I am just curious, as you look out of investments in the future, is moving into the mid-stream business something that you'd consider? Has that come across your radar?

M. Bless No. Good question, we don't feel like, we like to do what we think we can, where we think we can add value, and that's not in the mid-stream business. We'll supply those mid-stream guys. So, body sheet obviously is one of the markets that's going to be growing. There's a severe shortage of slab which would be the primary product, "value-added" product that goes to those guys and so that you can reasonably conclude, I am sure that's one of the markets that we're looking at hard.

P. Massoud Then maybe—I know you didn't really mention much about it and I assuming there's not a lot to update but I mean if you could just talk a little bit about Helguvik, if there are any updates there? And then I am thinking about the investments that you have talked about, I mean should we take from that the assumption that Helguvik is becoming less and less likely and therefore you're starting to look at other areas that are probably more attractive in growth rather than just sort of sitting on?

M. Bless No, Paul. There is not a lot of update to give just to your specific question on Helguvik right now. There's been a lot of work and a lot of discussions taken place, but rather than just say that to you, we prefer to say whether it's actually been a development and so there's no material development, but they really stand on their own. Helguvik we consider still to be a superb investment, assuming we can get the quantum of power obviously and at terms that makes sense for us. So, they're really independent.

All you're seeing now is that, we got opportunities on the value add side. They're there right now because the market is really short of those products and so we're going for it and especially they are in regions where there's not a lot of primary metal capacity that can be converted to these products and that's why that stuff is coming from places like Russia and from the Persian Gulf into Europe and into North America. Helguvik is totally separate. We still are doing whatever we can reasonably to make that happen. We just don't have any substantive update for you today.

Moderator We also have a follow up in queue from Paretosh Misra. Please go ahead.

P. Misra One last one on Ravenswood, is there anything to look forward over the next few months? Any kind of key dates, key meetings?

M. Bless Well, there are meetings all time, the date or the thing that you might see I suppose, if that’s what you’re looking for at some point of time we would have to make a filing with West Virginia Public Service Commission and that's, and I’m ignorant as to whether in most VFCs that would be a reasonably public thing they post it on their website. One of my colleagues Jesse is nodding his head up and down now and so that’s something that you would see if we got to the point which we’re hoping to do as I said by the no later than end of the year that we were in a position to make a filing. I think that would be the “thing” you would see.

Moderator Also a follow up from Jorge Beristain. Please go ahead.

J. Beristain Just under the worst case assumption that things at Mt. Holly were not renegotiable on the power contract, what would be the shutdown cost and exit cost of that smelter?

M. Bless We don’t have an estimate on that. We’ve looked at it to the best of our ability I suppose thus far. It wouldn’t be very different from the answer we gave you for Hawesville. The biggest risk would have been as you remember at Hawesville and would have been at Mt. Holly, if we hadn’t provided the termination notice. So, there's no demand charge, there's no fee payable to the power company after December, 2015, if regrettably as you say we weren't able to reach an agreement with them.

So it would be the normal settlement of the tolling liabilities and contractual liabilities. Kentucky was in the $10 million or $20 million range and you wouldn't see very different—we believe here at Mt. Holly but as you can tell we haven't done a lot of thinking about that because we were focused on in our opinion where we should be focused, which is getting a post 2015 power deal.

Moderator We also have a follow up from Sal Tharani. Please go ahead.

S. Tharani One more. Just a housekeeping, if I were to model Mt. Holly unless that you buy that $67 million, what depreciation should be used?

M. Bless That's a tough one. It depends on the purchase accounting, Rick, I guess, and how the purchase price is allocated to the assets. So, you want to take a stab at that.

R. Dillon — No. It’s too soon for us to give you that. Especially with this purchase price and the moving parts, I don’t even have a good estimate.

M. Bless — It really is, as you know Sal, depends upon how you allocate the price of that based on a appraisal—valuation that you’re doing and that's a tough one.

Moderator — At this time there is no additional questions. Please continue.

M. Bless — We thank you all for joining us this afternoon and we look forward to speaking with you in February, if not before. Take care.

Moderator — Ladies and gentlemen, it does conclude your conference call for today. We do thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.