Final Transcript

CENTURY ALUMINUM COMPANY: 2nd Quarter 2014 Earnings

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SPEAKERS

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Rick Dillon – Executive Vice President and Chief Financial Officer
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PRESENTATION

Moderator — Ladies and gentlemen, thank you for standing by and welcome to the Century Aluminum's Second Quarter 2014 Earnings call. (Operator instructions.) As a reminder, this conference is being recorded.

I'll now turn the conference over to your host, Peter Trpkovski.

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

I would like to remind you that any 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.

With that, I'd now 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 turn to Slide 4 please, I'd to give you a quick review of what we've been working on the last couple of months before I turn it over to Shelly who will take you through some thoughts on the industry environment.

Before I get to that, just to tee that up a little bit, obviously we think we've seen sentiment turn in these markets over the last couple of months and we think sentiment may finally be catching up to some of the movement and the fundamentals about which we've been talking over the last year or so. In our specific markets and the trading markets and in the commercial markets, conditions remain quite favorable. We continue to see tight availability of physical metal and growing demand for value added products that are already in short supply in our markets, i.e. the US and in Europe. I'll comment later in my remarks on what we're doing to address what we see as some pretty attractive opportunities for the company.

Let's get started over the last couple of months. As you'll recall, the winter weather had a severe impact on power prices in the Eastern and Midwestern US and as we expected, we saw a significant improvement during the second quarter. By the end of the quarter, we were seeing price levels back to what we would consider almost normal. We saw some transmission congestion issues during the middle of the quarter that have largely dissipated and I'll give you some more detail on that in just a couple of minutes.

Let me just use Hawesville as an example to give you a sense of the movement in power prices quarter-to-quarter. Hawesville is better to use here because Sebree was only on market power for two of the three months during the quarter, as you remember the old contract terminated on the 31st of January. For Hawesville our total delivered price, so the price we pay for energy plus transmission, plus all the other feeds, averaged $52 per megawatt hour as you'll recall in Q1. In Q2 that same number was $41 per megawatt hour fully delivered. In July, we've had July-to-date which includes as of yesterday $37 per megawatt hour. If you look at the last two and three week's averages, it's been even lower. Rick will give you some more detail on how this impacted our bottom line financial results for the quarter in just a minute.

Just as important and maybe more so, the expectations for future prices have settled out quite a bit. So we don't think this is simply a reflection of the mild summer weather that we've had to date. To give you a sense on the forwards, if you look at the 12 to 24 month forward strip, we're now trading in the range of $34 to $35 per megawatt hour. Now that of course is for energy only at the Indiana hub. In order to drive what the price would be at our plants, you'd need to add about $3 to $4 per megawatt hour. The $34 to $35 for energy today just at the end of May, those same strips were trading at $39 to $40 per megawatt hour.

As you know, these markets are also driven by the price of natural gas. The prompt price of gas is trading right now just shy of $3.80 per MMBTU. Just to give you a sense, most of you follow these markets; obviously that same price was in the high sixes and sevens at its peak during the winter. And as recent as at the end of June, we're still trading in the mid to high fours.

So this is all again consistent with our expectations and we're now getting closer to the point at which fixing a portion of our power needs might make sense. Of course the power markets are complemented by the

increase that we've seen recently in forge metal prices. We're watching the situation very closely and I'll give you some more comments about this in just a couple of moments. In the power area, again I'll detail this a little bit later, we're also looking at a variety of alternatives, both demand into the market price risk and to mitigate any risks of future congestion pricing.

Moving on a little bit here, we've got a labor agreement in Sebree we're very happy to report; you saw us announce this a couple of weeks ago. This is an early resolution. As you know, the existing contract isn't set to expire until the end of October. We've had a very good working relationship and good communications with the local steel worker leadership since we acquired the plant last year. We mutually decided that our objectives were largely aligned and thus we decided to give it an early try. The early agreement allows us to enter the 2015 commercial season with good confidence.

The power curtailment at Grundartangi is now over. As a reminder, this winter the reservoirs in Iceland were at 40 year lows, and thus the national power company curtailed a portion of our power that was obviously per their contractual right. They could curtail all the large users in the

country. The reservoirs are now back to better levels and full power was restored to Grundartangi in May, and we've had all our pops [ph] online as of the end of May. We had very good communication and cooperation from Landsvirkjun, that's the national power company during this difficult period and we appreciated that. And Rick will give you some detail on the lost production and the financial impact of that lost production.

Moving along at Mt. Holly, as you saw us announce a couple of weeks back at the end of June, we were forced to give the notice of termination for post 2015 power. So take a step back, as a reminder in 2012 we entered into a 3 and a half year agreement, and that agreement allowed us to go off system and purchase power from a dedicated resource. This agreement expires at the end of 2015 but the master agreement with the power company with our supplier, Santee Cooper, a public service company in South Carolina, goes on through the end of 2023. Without that termination notice, we would have been liable for a significant demand charge for the period 2016 to 2023. That of course is whether this plant is operating or not.

We weren't able to agree to the last proposal that the power company made to us several months ago. The terms of that proposal would have

rendered the plant not viable. It would have given Mt. Holly the highest power cost of any smelter in the US and by a pretty good margin. We're now reengaged with the power company. We absolutely wish to operate this plant over the long term. As you know, those of you who have followed the company for a long time, it's a terrific plant. It's got an excellent safety record; it's one of the most efficient smelters in the US, but of course, a noncompetitive power price trumps all those favorable attributes. We believe the power company and the State political leadership are committed to help us find a solution that works for all sides. Again, I'll have some more comments in a few minutes.

Last, but definitely not least, after a six month search we have a new Chief Financial Officer and we are absolutely delighted to have Rick Dillon on board. You'll hear from him in a couple of minutes. He joined us in mid-June. He's already dug in in numerous ways. Those of you who have had a chance to take a look and seen he's got a terrific background. He has been the Chief Accounting Officer of three respected public companies. He's got a good knowledge of the mining industry through his last employer Joy Global, obviously a major supplier of the mining industries worldwide. And most important, Rick has got a real passion for helping

businesses improve and he's got the knowledge and experience to understand what it takes to make it happen.

Again, we'll let you hear from him in a couple of minutes, but first I'll ask Shelly to detail our views of the market environment.

S. Harrison Thanks, Mike. If we can move on to Slide 5 please, I'll provide some comments here on the industry environment. The average cash metal price during the quarter was $1,798 per ton. That's up 5% from Q1 when the price averaged $1,709. Since quarter end, LME prices have had a significant run up and are currently sitting right around $2,000 a ton, as sentiment towards the aluminum space has become much more positive recently. LME inventories remain high compared to historical levels, but there has been a significant downward trend over the last several months. And we've seen a decline of about 500,000 tons just since mid-March, although it is likely that some of these inventories have simply moved from registered to nonregistered warehouses.

As you can see on the chart, the combination of steady growth and demand and declining inventories has led to a meaningful reduction in days inventories from almost 70 days at the peak of the financial crisis to

less than 45 days currently. On the back of these positive developments, regional premiums have continued to strengthen and are near their all-time high set early this year. The US Midwest premium is currently $0.20 per pound and the European Duty pay premium is slightly higher at $455 per ton.

Digging in to the industry fundamentals a bit, in the second quarter global demand was up almost 7% versus the second quarter of 2013. If you pull out China, demand was still up 4.1%. In the US, we saw improved demand in Q2 as compared to the first quarter which was impacted by severe winter weather, and in Europe, consumption was strong in the second quarter, despite some recent signs of economic softness. Both of these key regions that we sell into are showing good growth in aluminum requirements for the automotive and aerospace industries, and this is a trend which most industry experts expect to continue for some time.

On the supply side, global production was up 6.5% in Q2 versus the year ago quarter, driven by continued Chinese growth. Outside of China, production was essentially flat. We continued to see announcements and implementation of curtailments in the western world during the second quarter, but these were mostly offset by the ramp up of the facilities in the

Persian Gulf. Bottom line, most analysts expect to see a modest global deficit for aluminum in 2014 with the supply demand gap growing over the next several years as a result of healthy demand growth and few smelter projects in the pipeline outside of China.

Just a couple of quick comments on alumina before we go on to the next slide. This market traded down over the quarter to about $310 per metric ton for FOB Australia pricing and Atlantic basin is trading at about $15 discount. This market looks to be reasonably in balance, but there does remain some uncertainty as to how the Indonesian ban on bauxite exports could impact the market in the future.

If we can move along to Slide 6, so just to round out the industry discussion, we wanted to provide an update on the aluminum cost curve. This curve here shows global smelter cash cost that has premiums received above the LME price. This will be comparable to the way we've presented our expected 2014 net cash cost back in February. As you'll recall, Grundartangi's costs are highly sensitive to the LME, given that both its alumina and power costs are directly linked to the aluminum price.

So with the recent improvement in LME, we believe the Grundartangi plant now sits at the low end of the second quartile. And our US plants are all right around the midpoint of the curve, thus resulting in a companywide position of about the 45th percentile.

With that, I will hand it back to Mike to talk about operations.

M. Bless Thanks, Shelly. If we could turn to Slide 7 please. As Shelly said, I'd like to give you just a quick update on how the operation did during the quarter and then I will turn you over to Rick for the financials.

First and foremost, as you see here, we didn't make the progress that we would have liked to make in safety this quarter. This is an area those of you who follow it so you know in which staying still will definitely cause you to go backwards, thus continuous improvement is absolutely necessary. And looking through there's no-specific area that gives us pause, our assessment is simply that perhaps we've had some complacency seep into our system given the very good performance that the teams announced over the last couple years. This is an area that our board and our management team will only accept excellence in, and simply being better than the industry averages which is squarely where we

sit today is not nearly good enough. Thus as you would suspect, I and my senior team are spending a lot of time and effort appropriately in this area and we'll continue to do so.

Production as you can see moving down the page here was down a little bit at Hawesville this quarter versus Q1. Remember all these data are a comparison of Q2 to Q1. This production decrease at Hawesville was the result of some conscious decisions that we made in May. I referred to these earlier in which we scaled back productions on days when power prices were higher than they otherwise should have been due to congestion in the local transmission system. This condition is now gone, and the average energy price that we're paying at our nodes, or our plants, is essentially equal on a weighted average basis to the Indiana hub to the liquid node.

This is also the results of some other power modulations that we saw during the quarter, most specifically a lightning strike which we took at Hawesville in late June. We're still feeling the impact of these power modulations, with more pods out of service than we would normally have at Hawesville. And our assessment is this condition will go on for the

next month, month and a half or so. So that could cost us in Q3 anywhere based on our current estimates from 1,000 to 2,000 tons of production.

Moving to the right, at Grundartangi that decrease that you see was solely as a result of the power curtailments that we saw due to the weather. Moving down the page, production metrics and efficiency, as you can see KPIs were stable across the plants. We've got nothing unusual to report there. Before talking at the bottom of the page about the conversion cost performance at each of the plants, I'd like to note again Shelly's point about Century's position on the global cost curve. Those of you again who've been following the company for some time have seen the significant improvement here. Go back a couple of years where our weighted average position on that cost curve was somewhere towards the middle of, or even the back end of the 3rd quartile and as Shelly said, we believe we now sit at about the 45th percentile. Obviously, a lot of that improvement is coming from the Kentucky power restructuring, but as you know, we've also made very good progress in all the plants, in all the other cost areas. This is a process that will continue.

So going through the plants one by one quickly; at Hawesville, that significant improvement that you see there is largely driven by the

decrease in the delivered power price about which I spoke. We also saw a nice improvement during the quarter in maintenance and supply spending specifically. Sebree, most of that decrease you're seeing is coming from the power cost. Mt. Holly power costs were down about 4% quarter-to-quarter. We gave some of that back with supplies and maintenance spending at Mt. Holly up about two percentage points quarter-to-quarter. And at Grundartangi that increase is solely due to the production decrease due to the weather, as obviously we had to spread the fixed cost of the plants across a lower tonnage of production.

With that, I'd like to hand it over to Rick.

R. Dillon Thanks, Mike. Let's turn to Slide 8 of the presentation. I'll provide some additional details on the second quarter financial performance. Our net sales were up 9% from the first quarter, reflecting the combined impact of favorable market conditions, as well as increased volumes quarter-over-quarter. Looking at the market impact on a one month lag basis, the average cash LME price was up approximately 2% and Midwest premium transaction price was up approximately 4%. Realized prices in the US and Iceland were also up 4% sequentially, in line with the Midwest transaction price increase and a European duty pay price increase.

On a consolidated basis, global shipments were up 4% in the second quarter versus the first quarter of 2014. Our US shipments were up 5% with the Mt. Holly operations driving this increase. As we discussed last quarter, we ended the first quarter with elevated inventory levels at Mt. Holly due to timing of production, with shipments coming through in the second quarter. Our Kentucky operations shipments were essentially flat quarter-over-quarter.

In Iceland, we had direct shipments of almost 40,000 tons in the second quarter. Total volume for Iceland was up 3% sequentially. As a reminder, the nature of our business in Iceland is transitioning from tolling to direct sales and this is expected to continue through 2016. The first quarter was an unusually low quarter for shipments as we made a working capital investment in finished goods needed to support a growing direct sales business.

In addition as discussed last quarter, the impact of weather patterns on power availability also resulted in lower shipments in the first quarter due to production curtailments. As expected, the power shortages continued through the second quarter and the impact was in line with our estimates

of approximately 3000 lost tons. As Mike noted, power availability in Iceland has now stabilized and despite these headwinds, total shipment levels for Iceland were back to pre-curtailment levels by the end of the quarter.

Turning our attention to operating profits, we're reporting an adjusted operating profit this quarter of $44 million, an increase in its entirety when compared to the zero reported adjusted operating profit in the first quarter of 2014. The two drivers of the improvement are market pricing and power costs. Higher all in pricing, including our a rising LME, regional premiums, value added product premiums and the impact of the LME on our aluminum and power costs, all combined to improve operating profit by $21 million.

Now let's take a look at Slide 9. Lower power prices improved operating profit by $23 million quarter-over-quarter. Hawesville power costs were down $12 million and Sebree power costs were down $10 million from the extreme highs caused by weather conditions in the first quarter. These improvements are consistent with our discussion on last quarter's call with the difference being two things: average Indiana hub prices coming in a

little higher than we had assumed, and the congestion issues experienced in May as Mike discussed.

So our average delivered price to Kentucky in the second quarter was $41 per megawatt hour and that's higher than the $37 assumed in our analysis on the last call. We have included again on Slide 9 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 to our Kentucky operations. The graph shows average Indiana hub prices in the second quarter were approximately $37 dollars, down from an average of approximately $56 per megawatt hour in the first quarter. The forward view of delivery prices for the Indiana hub would suggest back half of 2014 prices of approximately $33 and that is consistent with July average prices to-date. As a reminder, every dollar per megawatt hour impacts EBITDA by approximately $8 million per year.

Mt. Holly power costs were also down by $1 million driven by the decline in natural gas prices from the first quarter. As Mike discussed however prices in the second quarter remained elevated in the mid-fours compared to pre-winter pricing in the mid to upper threes. Since quarter end, natural

gas prices have fallen nicely and currently sit around 3.8 MMBTU. So the operating profit improvement resulted in adjusted earnings per share of $0.22 per quarter, an improvement of $0.46 from the first quarter of 2014.

Moving on to liquidity, let's turn to Slide 10. Cash increased during the quarter by $9 million, with adjusted operating profit being the obvious driver of the increase. The offsets include capital spending, taxes, interests, and working capital. Capital spending was $9 million in the quarter, which is down $7 million from the first quarter. The decrease reflects delayed timing, planned spending on our anode facility in the Netherlands, and continue to invest in our smelters, including expansion at Grundartangi. As a result, we expect back half capital spending to be higher than the front half, but we still see spending in the $50 million to $60 million range for the year.

Taxes primarily reflect temporary withholding taxes in Iceland and interest reflects are semi-annual interest payments. The working capital increase is driven by the timing of liability payments in the quarter. The impact of the rising LME in the quarter on accounts receivable and inventory was offset by the workdown of inventories previously discussed. In the third quarter, we expect working capital to be unfavorably impacted

as the extended terms we have had on our Mt. Holly power invoices expires and we move from 60 to 30 day payment terms. This will result in a onetime impact of approximately $8 million in the third quarter.

There were no outstanding borrowings under our revolver other than letters of credit and available liquidity increased by $9 million. No change in our debt this quarter. However, a quick note here that we will retire the remaining 2014 senior unsecured notes carried at $2.6 million upon maturity in the third quarter.

With that, I'll turn the call back over to Mike to discuss our third quarter priorities.

M. Bless Thanks, Rick. If we could just go to Slide 11 and as Rick said, I'll go through for you a quick summary of some of the things on which we'll be focusing over the next couple of months and what you should be expecting from us. Then we'll get right to your questions.

As we've discussed before, we think the current market power environment looks favorable. This is partly due of course to the unusually mild summer that we've had to date in the Midwest and Eastern part of

this country. But we think it principally represents a return to the pre-winter prompt in forward pricing. Thus we are looking hard at fixing a portion of our power requirements. We are considering tenders of up to 24 months at most. We don't think the risk/reward trade off after that kind of period is favorable. We are also analyzing the spread between power and metal prices. Obviously when you are going to look at fixing a portion of your largest cost, you need to look at whether it makes sense to also fix a portion of your output as well.

We've got the hedging facilities in place, they have attractive credit support, and so we are ready to go when we deem conditions are ideal. We are also discussing with several third parties a variety of bilateral power purchase agreements. Some of these would likely mitigate any future transmission congestion issues were they to occur in the region. In addition, we are looking at the rationale of actually acquiring generation assets of our own and/or entering into long term leases of generation assets. So again, you should expect more to come from us on this topic over the next couple of months.

Moving on, the initial value added investment projects that we launched earlier this year are nearing completion. I'll just detail them quickly for

you. At Sebree, the small form foundry line is on schedule to start producing trial quantities in August. Assuming the product is qualified, we will plan to sell out the 60,000 tons into these markets in 2015. These products attract a good premium above the incremental casting cost and in addition, it will decrease the amount of metal that we need to sow at Sebree next year.

At Grundartangi, the foundry alloy project is almost complete. As you recall, this was a reasonably modest investment, about $2 million. We've been producing trial quantities on a manual basis over the last couple of months and this has given us the ability to learn the production process and importantly to engage with customers and qualify the metal. Again assuming success, we'll dedicate between 50,000 and 60,000 tons most likely to this premium product in 2015.

Shelly noted the favorable conditions of these markets and these value added markets do indeed remain underserved in the US and in Europe due to the expected growth in the automotive market and several other industries as well. Right now, a significant amount of these products must be imported. The product is principally coming from places like Russia and the Persian Gulf and for a variety of reasons, we are hearing from

customers that they want high quality local supply. In that context, we are analyzing more significant investments that will allow the company to address these opportunities over the years to come. And again, we'll be providing you updates over the next couple of quarters.

At Mt. Holly as I said before we've reengaged with the power company. With them, we are going through a complex series of issues, looking at a variety of structures. Despite the fact that the current contract doesn't end until December 2015, we'll be pressing hard for a conclusion over the next couple of months for a post 2015 arrangement.

At Ravenswood, we've made some reasonable progress during the last couple months. We are exploring various structures that would provide a long term competitive power rate to the plant and of course at the same time also need to work for the power company and for the rate payers. As we said, the market environment is favorable. This metal is needed in the US and we hope to have news to report in the reasonably near future, perhaps before the end of the year. One more time we want to make sure you understand that the restart to this plan is right at the top of our focus list. We're working hard on it.

With that, Pete, I think we can move to questions.

P. Trpkovski Thanks Mike. Cathy, if you can go ahead and kick off the Q&A session.

Moderator (Operator instructions.) Our first question will come from Sal Tharani with Goldman Sachs. Go ahead, please.

S. Tharani I just wanted to understand or reconcile the operating profits from first to second quarter. You had a slide last quarter where you felt that if you didn't have power issues or other operating issues you would have made about $31 million of operating profit and then I see this quarter you announced about $43 or so. But you saw $23 million of power benefits and your conversion costs were lower on both the [indiscernible] plants. I'm just wondering what are we missing in these two in this slide.

M. Bless Sal, with apology we're going to try to answer your question. The connection is quite bad. It sounds like either you're on a mobile or I'm not sure what. So we kind of heard every other word but we think what you asked is could you compare and please correct us, Q1 to Q2 operating profits. Look at Q1 pro forma for what you said the power would have been if the winter weather hadn't driven up power prices and kind of relate

that pro forma number to what we actually reported in Q2. Is that where you're heading?

S. Tharani Yes, exactly. From $31 to $43, you have a power benefit in the second quarter. You have a higher aluminum price. I thought that the conversion cost was lower. So I thought that if I look at the sensitivity to your aluminum price to your volume or to your total volume, that should be even higher that what you have reported.

R. Dillon From a power perspective, the $31 versus the $23 that is almost entirely driven by the $41 per megawatt hour that we saw in the quarter versus the $37 we talked about. Using our 2014 items that we provided, if you calculate that sensitivity it's about an $8 million impact.

M. Bless The point is Sal, it wasn't quite as—pro forma was done at a lower pricing and it came in a couple of bucks above. I can give you further just to come at it from another perspective. Let me just give you some of the big movers of profitability quarter-to-quarter sequentially.

Again, as Rick said we went from zero to $44. Of that delta $44, $18 was due to the net impact of the aluminum price and when we say net of

course you guys know how we talk about that. We mean the realized price net of the increased cost for alumina and power in Iceland which of course floats with the price. So that was $18 million.

Kentucky power as Rick told you with $22 million and South Carolina with another one. So $18 plus $23, that tips a little bit over $40 million. Then there was a bunch of nits and lights going up and down but that's basically the roadmap if that's what you're looking for from Q1 to Q2.

S. Tharani Then on Mt. Holly, is there structural advantage you can do similar power arrangement as you did at Kentucky or is it not allowed in that state to do and go buy power outside?

M. Bless Yeah. The answer Sal is yes. It would require some call it structural changes, but as you know, we're buying power from outside of Santee Cooper system today. We have been since mid-2012. They wheel it in to us because as you suggest, South Carolina is not a retail access state. So you have to buy power from—I'll use the easy term, the monopoly utility power provider. The other difference that's important to understand is that there's not an organized market in South Carolina like there is in Kentucky, which is part of MISO of course. You'll see reference to the

VACAR market that means Virginia and Carolina's, but it's largely a bilateral market.

There is nowhere where you can go to see a price, and there's not the kind of organized market that there's in MISO. So that's a long winded way of saying it can be done in South Carolina, Sal, but it's not as I guess easy as—it wouldn't be as easy to do as—not that it was easy in Kentucky but it would take some more doing. Let me leave it at that.

S. Tharani So you and your partners are ready to shut it down if power price doesn't come to your expectations?

M. Bless Yes. We're absolutely aligned.

Moderator Our next question will come from Brett Levy with Jefferies. Go ahead, please.

B. Levy First off, I am also calling on a cellphone. Does it also sound like I'm calling from a [indiscernible]?

M. Bless No. Your mobile gets the higher grade. You sound good.

B. Levy Can you guys talk a little bit about Iceland, either the Helguvik situation, if there's any progress on the Grundartangi expansion?

M. Bless Sure. Absolutely Brett. Thanks. I'll take the latter first because that's easy. So I think Rick alluded to this. We're absolutely on target there. We lost some production due to the weather cutbacks, but the expansion continues at pace. We're right on plan or a little bit ahead and we'll be giving as we usually do in the February call, we'll be giving you the tonnage for 2015. But we're right on pace there.

On Helguvik, really we didn't talk about it. We didn't put it in our outbound I suppose comments this quarter because really there's been no change to the assessment that we've taken you through, which is that we really need a national power company, Landsvirkjun, to step up into a leadership role in this project if we're going to get this thing going anytime in near future. And discussions continue, but there has been no substantive change in the status as of 90 days ago.

B. Levy I mean is it really just like an availability issue? Because I mean, even if they gave you power at half the global cost, it would still be very lucrative

to make more aluminum in Iceland. I guess the question is, are they being ridiculously greedy? Are you being ridiculously greedy or it's something in the middle?

M. Bless It hasn't even gotten to that. Let me take a step back. Maybe I thought we talked about this last time, but it may have been in a conference or something like that. So really, in Iceland the debate, which frankly for what it's worth, is an appropriate one as far as we're concerned, it's on two levels.

The first is whether they're going to develop it or not. So to your point, it certainly is there. It's there in abundance but the question is from an environmental and otherwise standpoint, as a country, as a society, will Iceland wish to develop it or not. So that's an environmental question. And the government has put certain projects into—they call it the framework program, green light, yellow light and red light is the easiest way to think about it. And so the question is, are more projects going to be taken from yellow, and put into green and more projects are going to be taken from red and eventually find their way to green? And that's an open and very public debate in Icelandic society. And then after you answer that one, it's kind of serial questions if I suppose.

You need to ask yourself again, this is the debate in Iceland, if we're going to develop it, how do we wish to use it? And as you say, we would agree with your comment that we couldn't say it any better but there are other opinions as well. You may have seen it's been very public in the Icelandic press anyway that they're looking at potentially building a submarine cable, underwater cable, quite a long one. It would go of course all the way to the UK and it would be terminus in some place like Scotland. Then all the predictable questions are asked about how we as a society wish to use our power. Do we wish to use it to encourage employment and economic development in the country? Or do we wish to try to sell it in Europe for a price that goes up and goes down. It might be higher. It might be lower. So that's a very long winded answer to your question that the price negotiations to which you allude haven't even taken place because they're pending those sort of contextual, structural decisions.

B. Levy Then also obviously with the Midwest premium where it is and alumina where it is there a percentage that you are locked in at for a certain amount of your US prod—it's the same question I ask almost every quarter. What percent of production in the US is price locked in and what are your plans

for the back half of the year in terms of a percentage of the production that you price lock?

M. Bless None of it is locked, Brett. So it's all sold but it's sold at the market price, and generally on a one month flag is the way our business usually floats, not just Century's but the industry convention. It's US—for the US but in Iceland and the US it's all sold. It's all committed but it doesn't price until a month ends and then you calculate what the one month prior price was and the Midwest premium or the European duty paid premium and that's what the customer owes you. So none of it is priced.

B. Levy And there are no LME hedges or anything else like that?

M. Bless No, nothing on the books for it.

B. Levy What it tells me is you are very bullish, right?

M. Bless This is where we were also, Brett, 12 or 24 months ago and this is the wonder of hedging. You have Monday morning quarterback discussions all the time. Had we hedged of course we'd be fogging ourselves now but as I did say as I stated in my remarks, an interesting analysis to do which

as you would hope we do and update daily is the spread between -- and I'm talking about the US only which is perhaps to your question. If you were going to "protect some of your production" where you'd be doing it and the spread between metal and power prices because the rest of your cost you pretty much know. Your alumina is priced, all the rest of your plant costs are within de minimis variations a long as you are running your plants correctly you already know what those are. And so that spread is getting to be one that we are looking at hard because you can imagine—I don't like using this term but I'll use for brevity and lock it in.

B. Levy So what you are basically saying is you will consider locking an aluminum after you've got a little bit more certainty on some of the elements of your power cost?

M. Bless I think that's a fair way of looking at it and the way, Brett, so yes but the way you can get more confidence or certain about your power cost either by just deriving that confidence or by locking in that power cost through the markets or through a bilateral arrangement with a power generator or somebody else who's got power to sell.

Moderator We'll go next to John Tumazos with John Tumazos Very Independent Research. Go ahead, please.

J. Tumazos With the floating power per market base power, do you operate something resembling a small in house trading desk for power, metal, alumina or do you farm some of that out to a consulting or trading company like your shareholder Glencore and pay them a market based reasonable fee for that? Or how do you manage all the moving parts that we are looking at? We commend you for working so hard.

M. Bless Thank you, John, and thanks for an insightful and excellent question and so the answer is on the metal, alumina, no, absolutely not. Right now we are price taker on a daily basis, like I said, priced every month.

On power you ask a great question and when we in May saw some—for example, some of those transmission congestion issues, it was over a course of like two, maybe three weeks. We did look at as I said the trade off every hour literary because as you know the MISO prices come out in hour increments, every hour of whether it made sense on behalf of the share owners to make metal incrementally or made sense to dial back. And this is why this cut more sales out at Hawesville right now because it

doesn't do well with the stability of the plant and to sell the power back into the marketplace and so that's what—at the margin.

Now you could only do that to a certain extent. You can't crank the plant way back. There's only an extent to which you can do it, but there is an ability under our power contract. Obviously it's all laid out in the contract what we can do and what we can't do because as you know and as we said in an answer to a different question, retail wheeling isn't allowed in Kentucky. We're not a utility, but to a minor extent we can do, it and we did do it in May just to the extent that we were able.

Moderator Then we have a follow up from Sal Tharani with Goldman Sachs.

S. Tharani Mike you mentioned an interesting point about owning a power asset or leasing long term. I don't know what the relationship—is there a very strong correlation between gas and power price and how about owning a gas asset rather than a power asset? Is it easier to own and more abundantly available? Have you thought about that?

M. Bless Absolutely. If I misspoke Sal, so thanks for the follow up. When I said a generation of power assets, we're willing to consider coal fire, gas fire, a

combination of the two. As you say, there's a pretty easy, if you're familiar with these markets, a general calculation that you can make between depending on the asset that you're talking about and its efficiency heat rate in the parliaments of the industry between the price of coal, delivered price of coal on the one hand or natural gas on the other hand, the cost of the megawatts that are coming out of the generator. So, absolutely.

Mt. Holly as you know the deal that we struck a couple of years ago is indeed with a gas fired system. That's a long-term lease and that's exactly what it was. We leased that capacity for three and a half years. So absolutely, we think there's great opportunity in Kentucky from the coal fired side, of course Kentucky being a big coal supplier and so we're spending a lot of time there. But we are looking at and we'd be happy were it to prove economic to act on either.

S. Tharani What I meant, Mike I'm sorry, actually owning a gas exploration field.

M. Bless I'm sorry Sal. I apologize.

S. Tharani Rather than a power asset because if there's a very good correlation between the pricing of the two, maybe it's easy to own and finance a gas exploration. I'm not sure. I just was wondering if that makes sense.

M. Bless I apologize. I didn't listen well to your question. That is indeed what you said. I guess the way I'd answer that is you've got to draw a bull's eye or the archery target, whatever it's called and as you get in on sort of a standard deviation or two outside your core competency which leads me to what we're doing now. We are working with some companies who own those kind of assets and develop them. That's what they do for a living. As partners to see whether we could attack a situation together, whether it's a generator that could be for sale, a generator that's currently closed that could be reopened, something like that. I think for a company like ours that's the best way to approach something like that and that's what we're doing right now in a couple of circumstances. We've got a bunch of oars in the water.

S. Tharani Can you remind us on the Grundartangi transition from the tolling to the direct? Is it going to be transitioned fully to direct by 2016? Is that the idea?

S. Harrison Yeah. So the expectation is as we move forward, the tolling contract will transition to direct. We have about 40,000 tons that roll off at the end of this year and the final 90,000 tons rolls off in mid-2016.

S. Tharani The last question I have is on Ravenswood power contract or power negotiation, are you only considering talking to the power companies, or are you looking at the other options like Kentucky option also?

M. Bless Both. Again all we've done through the power company, Appalachian Power and so they're a part of all these discussions. They're a good partner. We're convinced. They want this plant open, truly this smelter open as much as we do. The question is at the end of the day assuming success what the right formula is. I wouldn't want to predict at this point in time, but the answer to your question is both.

S. Tharani You mentioned that is your highest priority so we could assume that as the next big investment or big sort of move from you?

M. Bless Sal, that one we missed entirely. None of us caught that one. You said you mentioned that and then we didn't hear you.

S. Tharani As the most important priority of the company you mentioned successfully.

M. Bless Yeah, I mean this is something that as you know we've been working on in earnest for four years that I can remember off the top of my head. And even before that since the plant closed, but in earnest for the last three to four years. We think it's in the prospective market environment and assuming we can get to a power structure that offers upside but protects the shares on the downside. We think this will be a great investment for the share owners. There's a restart cost, but it's reasonably modest in the grand scheme of things. And the plant we think could be producing quickly and producing a product that's needed in the marketplace with a customer right next door that we believe would like a good chunk of it in molten form. That's Constellium's plant of course. It's got all the attributes of something that would be reasonably low risk again assuming power and could give some nice upside.

S. Tharani And [indiscernible] cash cost of the Kentucky power, Kentucky smelter?

M. Bless I'm sorry?

S. Tharani Do you think the cash cost eventually will be close to—I mean the electricity costs are the same, you think its conversion cost is very similar to the Kentucky smelters?

M. Bless It would be worse, Sal, because of the inefficiencies due to the output. Just to remind you Ravenswood is 170,000 tons of annual capacity. Its next closest one going upside is Sebree which is just a hair over 200,000 tons, as you know and more importantly the Ravenswood pot is quite small. So there are more cells per ton of output which means you need more operators to tap the metal and set the carbon, etc. It would not be as good as Kentucky.

Moderator Our next question is from the line of Paretosh Misra. Please go ahead.

P. Misra If you have considered hedging both pricing and cost for at least two of your smelters in the US I'm just curious, have you also considered an MLP structure?

M. Bless An MLP structure?

P. Misra Yes.

M. Bless That seems to be all the rage these days. Telecoms and now aluminum companies, that's a great question. The answer is, the factual answer is no and I'm not even going to take a stab at that one but I'm sure going to go research it now. I don't even know whether it would be applicable to our industry from a tech standpoint. I understand your point on—I think I should say, I shouldn't be presumptuous, understand your concept that if you fix out the cash flows that would make a nice, conceptually anyway, a nice candidate for a partner for an MLP. But the answer is no, we haven't looked at it.

P. Misra And just going back to the hedging part for the metal, are you talking about hedging both LME and premiums because I wasn't even sure if the market for the premiums is that liquid?

M. Bless You're correct on the latter.

S. Harrison Yeah. It's not that liquid, but there are transactions that can be done. As you can imagine in this market with strong premiums, buyers and sellers are generally quite far apart. So that's really making liquidity quite

difficult. So we would look at all three components. We would look at power. We would look at LME, and we would look at premiums.

P. Misra Last question just any commentary on the imports, especially given I think you said that US premiums are now below European premiums. So that should reduce an incentive for imports, right?

M. Bless All else being equal, you bet. But as Shelly said, that run up in the EU duty paid premium has really come over the last 60 days.

S. Harrison Yeah, absolutely. Midwest is now starting to creep up again. So they are neck and neck.

M. Bless But you are right. Those two premiums obviously people who own metal are doing that same math every day.

Moderator Our next question is from Paul Massoud from Stifel. Please go ahead.

P. Massoud I apologize for my cell phone connection as well, but first if you could just give us a sense of what you think your tax rate might look like for the second half of the year. And then the second question would be all else

being equal, with all the moving parts, where do you think you'll end up on the cost curve by year-end?

R. Dillon I'll touch on the tax issue briefly. I think the effective rate in the second quarter was close to 8%. We aren't a taxpayer in the US right now because of our outstanding NOLs with the exception of a few state taxes and we pay taxes on our Iceland operations at around 18%. So as you work through your model, if you can carve out the Iceland operations at 18% wherever that lands you from an effective tax rate perspective.

S. Harrison And from a cost curve standpoint, the numbers we put out there were based on the information that we gave you back in February for Q2 through Q4 of the year. At this point, we have not made any updates to those numbers. There have been a few things that have moved around. Power is just a little bit higher in Kentucky, but premiums are stronger which offsets that impact.

So, again no real update to those numbers. We will come out in February of next year as we do every year with updated forecasts for cash costs. So at this point in time, we're not projecting any change from what you saw in the cost curve.

Moderator There are no further questions. Please continue.

M. Bless We'd like to thank everybody again for joining us this afternoon and I look forward to speaking with you in October.

Moderator That does conclude our conference for today. Thank you for your participation. You may now disconnect.