Final Transcript

CENTURY ALUMINUM COMPANY: 1st Quarter 2018 Earnings

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SPEAKERS

Peter Trpkovski - Finance Manager
Michael Bless - President and Chief Executive Officer
Shelly Harrison - Senior Vice President-Finance and Treasurer

ANALYSTS

Novid Rassouli - Cowen and Company
Jeremy Kliewer - Deutsche Bank
David Gagliano - BMO Capital Markets
David Lipschitz - Macquarie Group

PRESENTATION

Moderator: Ladies and gentlemen, thank you for standing by. Welcome to the Century Aluminum Company 1st Quarter 2018 Earnings Conference. At this time, all participants are in a listen-only mode. Later we'll conduct a question-and-answer session and instructions will be given at that time. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Finance Manager for Century Aluminum, Mr. Peter Trpkovski. Please go ahead, sir.

P. Trpkovski

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

As a reminder, today's presentation is available on our website at www.centuryaluminum.com. We use our website as a means of disclosing material information about the company and for complying with Regulation FD.

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

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

M. Bless Thanks very much, Pete. And thanks to all of you for joining us this afternoon as always, if we could turn Slide 4 please. I'll give a quick rundown on the last couple months, they've obviously been busy ones. And most importantly, as I'll note in a couple moments, we had a very good quarter in the operations. Safety performance was acceptable and we had a generally stable process and good efficiencies across the department at each of the plants.

Financial results for the quarter came in just as we had expected. As we had forecast, realized higher metal prices were significantly more than offset by raw material price increases. Carbon costs were up as expected and the same is true for the higher alumina costs and material purchased back when the market was high, as you will recall in the late months of 2017. This will actually go the other way in the second quarter results as the normalized prices that we saw at the beginning of the year go through our P&L. Of course, the markets moved meaningfully since then and I'll comment on that in just a couple minutes.

Against that higher alumina price, we captured only a portion of the higher metal price in the first quarter, and that's of course, due to the fact that most of our sales contracts, in fact virtually all of our sales contacts are priced on a two-month lag. We will see close to that full amount in the second quarter, and Shelly in just a couple minutes will provide you all the detail on the various price movements both from Q4 to Q1 that we are reporting today. And then she will also give you some estimates on those same movements from Q1 to Q2.

The alumina price did develop late in 2017 and early into this year precisely as we predicted. The index had come down from just shy of $500 a metric ton to about $350, and based on a couple transactions that hadn't been incorporated into the index we think it still had a bit further to go. And this we believe was a rational reference at the time of the alumina to the metal price.

Of course there was an unexpected development in early March that sent the price quickly back to the prior levels in the high $400s. That of course is the Alunorte refinery in Brazil, which was forced by the authorities to curtail 50% of its production. This was due to a 100-plus year rain event and concern by the authorities relating to untreated waste water discharge. You've obviously read extensively about this.

Alunorte, as you know, is the largest refinery in the world and the sudden removal of 3 million metric tons in the Western World traded aluminum market of course had a very significant impact. The majority owner of this excellent refinery had studied the situation and said they believe the conditions are now safe to restart. We understand the discussions are ongoing and we firmly believe that logic dictates it's merely a matter of time before it restarts, the refinery is simply too important to the local economy.

The industry was thrown into further uncertainty of course with the implementation of sanctions on various Russian entities and individuals several weeks ago. And more recently, the deferral of the effective implementation date and a potential path for exemptions has caused the market to adjust in the other direction.

So sitting here today, metal is currently trading just above $2,300 a ton, the alumina price is posted at about $640, but the forward alumina price is down to $500 by the end of the quarter. Even that forward price represents over 20% of the aluminum price, and that's far above the level of a rational market. We continue to believe as do most industry participants that the right value for alumina is in the range of 16% to 17% of the LME price that would indicate mid-300 to the current metal price.

It goes without saying, we're going to see price volatility based on actual developments and rumors here over the coming weeks and months. Century is well supplied for the coming months and we're working on longer-term plans should the current situation persist. We'll obviously feel the financial impact as we do buy everyday as you know with reference to the index price, but we do believe this situation will be short-lived.

We obviously reached another major milestone in the industry when Section 232 tariffs became effective on the 23rd of March. All primary aluminum imports today are subject to the tariffs, other than production in countries that have temporary exemptions. Thus far the tariffs have had the expected impact on the US market with the immediate announcement of production restarts and I'll comment in just a couple minutes on our own plants.

The structuring of any exemptions to the tariffs will obviously be critical to ensuring the continued realization of the administration's desired outcomes and thus far we're seeing exactly that. A couple days ago on Tuesday, the government announced that all exempted countries other than Canada, Mexico and the European Union had reached agreements in principle on quotas. Argentina later announced their quota will be equal to their three-year historical average level of imports.

And from what we understand, any further exemptions for the remaining countries will be based on that same concept that is limiting imports, historical levels or below. Exemptions for the identified countries structured this way will continue to backstop the administration's goal of supporting US production restarts and importantly the long-term competitiveness of the industry in this country. The administration is clearly on record that it will ensure that all primary aluminum imports will be subject to either tariffs or quotas, and we're very confident no actions that would dilute the tariffs intended objective will be taken.

Bottom line, we're confident that we'll soon get through these two near-term issues: number one, the finalization of the tariff regime, and number two the clearing of the disruptions in the aluminum market. And for those reasons, we're proceeding at pace with our plan to restart the three curtail potlines at Hawesville. The restart activities are proceeding on budget and ahead of the scheduled plan. The first line will be restarted before July and reach its full 50,000 metric ton annualized capacity during the third quarter.

We've also advanced the high confidence plan to restart the last two curtailed potlines on an accelerated time schedule. We told you last month, the plan should achieve full capacity by the back half of 2019 and we now believe we'll get there reasonably well ahead of that schedule.

We're also very close to making a decision to invest in a new cell technology that we've told you about, the results of the five R&D sales continue to far exceed the modeled expectation. We're currently finalizing all these plans and we'll provide you an update when we release our second quarter results and that will include of course the timing for the restart of the last two potlines, when the incremental volume will come in and of course the timing of the spending. And for now Shelly will give you some data on what we expect the expenditure during the second quarter will be.

It goes without saying that we're proceeding with this program during some uncertain times, but as I said we're confident in the resolution of the tariffs in the alumina situation. There's serious incremental value to our share owners to get this production online as quickly as practical. And as a reminder this program is quite flexible. We can moderate or even stop it literally on a day's notice.

Lastly, we continue to search for a new power contract to enable the restart of the curtailed potline at Mt. Holly. So let me remind you about the proposal that we made, we told you about this last time. We made a proposal that would have us purchasing 100% of the power requirements for the entire plant from the competitive wholesale market, and that of course would enable us to restart the curtailed potline. We'd pay the local power company in the same unit transmission fee, but obviously on significantly more power and we'd make a small additional payment that would be required to get power company's revenues from us equal to what they're receiving today under the current agreement.

As you know the local power company has long said it is not able to let us import more power as they've contended the use of the incremental transmission capacity would hurt their other customers. They've recently publicly testified that they've never sought to calculate how other customers may or may not be hurt. We've long maintained the data show that there would be no harm whatsoever. They've thus admitted they have absolutely no basis for refusing our proposal. As you'd expect, we're a bit perplexed by this development, but we do remain confident that logic will ultimately prevail.

And with that, I'll turn it over to Pete to give you some data on the industry.

P. Trpkovski Thanks, Mike. If we can move Slide 5 please, I'll take you through the current state of the global aluminum market. The cash LME price averaged $2,159 per ton in Q1, which reflects a 3% increase over Q4. The LME price on a two-month lag basis was up quarter-over-quarter 2%, and averaged $2,129 per ton.

As Mike discussed, there has been a lot of news driving significant volatility in our markets over the past couple months. As a result, aluminum prices have seen over a $600 per ton range just in the month of April, averaged $2,250 per ton for the month and are currently sitting above that level. In the first quarter, regional premiums averaged approximately 14.04 cents per pound in the US and $168 per ton in

Europe. However, spot premiums are significantly up and are currently, approximately, \$0.22 per pound in the US and \$240 per ton in Europe.

In the first quarter of 2018, global aluminum demand grew at a rate of 4% as compared to the year-ago quarter. We saw about 5% year-over-year demand growth from China, about 3% growth in Europe, and around 3% growth in North America as well. Global production growth was flat in Q1 versus the same period last year. This is driven by the winter heating season and the legal capacity cuts in China. However, despite these actions, China still added a net 3.8 million metric tons of smelting capacity during 2017.

On March 23rd, the US implemented a 10% tariff on all primary aluminum imports into the United States in order to stop the flood of foreign metal that has been destroying the US aluminum industry and threatening our nation's national security. These tariffs are now in place and working as intended. The US government has issued temporary exemptions from the tariffs to Canada, Mexico, the European Union, Australia, Argentina, and Brazil, while it negotiates quotas with these allieds to restrain imports, prevent transshipment, and protect the national security. It announced on Tuesday that it already reached agreements in principle on quotas with

Australia, Argentina, and Brazil and that it had agreed with South Korea that its aluminum imports would be subject to the tariffs in full.

It is clear that the US administration understand the importance of having an effective tariff structure and the administration officials have reiterated that any permanent exemptions will be subject to quotas to ensure that tariff regime remains effective in protecting US National Security and causing US production to restart.

With that, I will turn it back to Mike.

M. Bless Okay, Pete. Thanks very much. If we can turn to Slide 6 please, just a couple comments on the operations, and then I'll turn it over to Shelly to go through the quarter. As I said, we're pleased with the performance in the operations during the quarter. Let me just go and give a couple comments.

Safety there, you see a slight downturn at two of the plants, obviously disappointed to see that. I would note there that's simply a reflection of one incremental incident at each of those plants Q1 over Q4.

More importantly, we're making great progress toward the continuous and long-term improvement of the safety environment across the company. A couple examples, one at Grundartangi, they're currently going through a multiyear reinvigoration of an already very fine safety culture and processes. At Hawesville, we've got an appropriate and significant focus on the safety environment during the pot restart process there. You've got a really complex environment in that plant with a continuing operation existing side by side with a complex restart project.

As you can see production was good across most plants. Hawesville lost a couple cells in January as you'll recall a bad snap of very cold weather, but those cells came very quickly back into service and so you won't see that again in Q2.

Production metric is excellent, stable and favorable across the board as I said earlier. Moving down to controllable cost performance, generally it was good across the plants. Of course the major mover during the quarter as we expected was raw materials and we also had an impact of the cold weather on power prices in January.

As you recall, we talked about each of these factors and the expected impact on the first quarter results when we released fourth quarter results in February. And Shelly, in a minute, will provide detail on the financial impact in fact during the first quarter. Let me just make a few comments at the plant level on controllable costs.

Remember, this chart shows the conversion costs, so alumina has always been excluded, again Shelly will obviously comment on alumina costs. As you can see good performance at the plant in Kentucky, the issue at both Mt. Holly and Grundartangi was a labor costs. There is really no factor as we dive through the numbers at Mt. Holly, no worrying trend has been detected as of now, but of course, we're watching it closely.

At Grundartangi, we are seeing a trend of higher labor costs. We've got 10% higher per metric ton of aluminum production labor costs Q1 over Q4 that's embedded in that number there. It's the result of a very hot economy in Iceland, I am sure as you've read those mostly related to travel, mostly field by tourism. Wage inflation in the local currency has been up between 6% and 8% in each of the last couple years.

Add to that a strengthening of the Icelandic krona by over 25% over the last couple of years that produces a real issue that we're working through. We need to address that issue in order to preserve the long-term competitiveness of this excellent plant. We're confident we'll be able to do that.

With that, I will give you to Shelly.

S. Harrison Thanks, Mike. Let's turn to Slide 7. I'll take you through the high-level results for the first quarter. On a consolidated basis, global shipments were essentially flat quarter-over-quarter but realized prices were up 5%, reflecting higher lagged LME prices and premiums, as well as some improvement in product mix.

Looking at operating results, adjusted EBITDA was $22 million this quarter and we had an adjusted net loss of $0.04 per share. In Q1, our only adjusting items related to a lower cost of market inventory adjustment which was a non-cash benefit of $3 million in our reported results.

Turning to liquidity. Our cash balance decreased to $131 million, as a result of a significant working capital build in Q1. The working capital investment was primarily driven by an increase in direct sales to end-use customers with longer payment terms.

Okay, let's go to Slide 8, and I can walk you through our Q-to-Q bridge of adjusted EBITDA. During Q1, we generated $22 million of EBITDA, as compared to $60 million in Q4. As expected, the $38 million decrease was driven by $47 million in higher raw material prices, as well as $6 million in higher US power costs, primarily as a result of that cold snap that we talked about on our last call.

These raw material and power price increases were partially offset by an $18 million benefit from higher LME prices and premiums. The $6 million increase in other operating costs was primarily driven by higher labor costs which over half related to Grundartangi as Mike discussed.

Alumina costs for Q1 were based on a realized undelivered price of $435 per ton, which was in line with the three months lagged index price of $445 a ton. As expected this was up significantly from the Q4 realized price of $338 a ton. For Q2 we expect our realized alumina price to decrease to $382. This decrease of roughly $50 a ton from Q1 should improve Q2 EBITDA by about $15 million.

In addition, LME prices and regional premiums have increased meaningfully over the past several months. Since our sales contracts average a two-month lag in pricing, the relevant period for our Q2 results is February through April. For this period, the LME price was up about $40 a ton. The Midwest premium was up $0.08 a pound; that's about $175 on a per ton basis. And, the European Duty Paid premium was up $20 a ton. This is all versus the comparable period for Q1.

As a result of the LME and regional premium improvement, we expect to see an EBITDA benefit of about $25 million next quarter. So in total, we expect the Q2 EBITDA benefit from these changes in selling prices and realized alumina costs to be around $40 million. As Mike mentioned, we anticipate that the first cells from the Hawesville restart will come on line towards the end of the quarter and we expect the impact on Q2 EBITDA to be a slight negative as some of the training and labor costs will precede the benefit from the additional volume.

Okay, let's turn to Slide 9, we'll take a quick look at cash flow. We started the quarter at $167 million in cash and ended March with $131 million. As I mentioned earlier, we made a significant investment in working capital during the first quarter, as our 2018 sales contracts include higher volumes sold directly to end-use customers with longer payment terms. On our last earnings call, we anticipated some reductions to inventory working capital on Q1 as alumina prices had fallen quite a bit from year-end levels. The reduction and Alunorte that Mike mentioned caused aluminum prices to rise, which drove our inventory balances back up.

In addition to the working capital investment, we also spent $3 million in capex during the first quarter. For Q2 we expect to have cash spending of roughly $20 million that we capitalize related to the Hawesville restart.

With that, I'll hand it back over to Mike.

M. Bless Thanks very much, Shelly. We appreciate again everybody's attention today and now we look forward to taking your questions.

Moderator [Operator instructions]. And we'll go first go to the line of Novid Rassouli with Cowen and Company. Please go ahead.

N. Rassouli Hi, guys. Thanks for taking my questions. So you mentioned that you don't believe the current environment for alumina prices will persist, I just wanted to see we've had some developments on that front given the Norsk Hydro call. I just wanted to see, what are your expectations for when you think is most reasonable for prices to trend back to the lower levels before all of this started?

M. Bless Well, that's a great question. I wish I had a better sense of the answer that the timing is going to be. All I can point to, Novid, is a couple things. One is, as you know it's fallen from its high, so it peaked above 700 and it came down a good chunk, I think, guys, it was sometime last week at this point maybe five or six or seven trading days ago or posting days ago I suppose one should say for the index. And that was, at least market participants, Novid, believe that was due to the more, accommodative perhaps is the right word, words coming out of both the individual involved, obviously the majority owner, ultimately Rusal and the US government relating to the sanctions.

We think that the real bottom will fall out of that when there's positive developments on Alunorte. Because, if you remember the price, as I said in my comments, the price that as we expected had come down to where we thought it would have been, in the mid-300s, and it was kind of sitting there for some period of time, a couple months. And then it rocketed right up to, if I recall just shy of 500, like 480, 490, guys, 480 right on the Alunorte development.

We were talking about this the other day. It's kind of difficult to believe that that announcement on Alunorte was only eight weeks ago. So it's reasonably fresh. And so we think other than sanctions, of course we've had two issues as I said. And other than Alunorte the price goes back into the mid-300s.

So I guess that's what we would be looking for, look for some positive developments on Alunorte. You saw what that did to the price; it was up $150 give or take. And then the rest of the write up was a reaction to the sanctions.

I wish I could answer your question better. I would say fundamentally we remain convinced that the price goes back at a $2,200, $2,300 LME environment as we've been seeing for the last couple weeks, goes back into the mid-300s where it belongs.

N. Rassouli — Right and you generally realize kind of your alumina prices on a three month lag. I just wanted to see if given this spike and the dislocations that we're seeing, extreme volatility, is there any reason to believe that there would be a change in lags and how that pricing will flow through your P&L and how you realize that?

M. Bless — That's a really good question.

S. Harrison — Yes, it can change a little bit from quarter-to-quarter just based on the shipments and inventory levels but on average three months is still going to be good reference point.

M. Bless — Yes, just speaking from an operational standpoint, it's an excellent question. I'll cut it into two operational and pricing. From an operational standpoint, all else being equal of course with a nod to liquidity and working balance sheet, we would prefer in the times where supply lines are tight, if we can pick up a cargo or two that we otherwise wouldn't have had on hand at any of our plants we'd probably do that.

As I said, looking months and months and months and months ahead, we're fine from a physical supply standpoint. So could a couple days more alumina inventory on hand cause a distortion in that three months? I think as Shelly said it would be marginal.

Otherwise as we're looking to replace cargos, we and other people are looking at a Chinese material for example that trades a discount to the posted price that you see every day and so that's the only other factor there. Again whether at the margin that makes much of a difference, I couldn't say at this point in time. So that's a long-winded way of saying probably not.

N. Rassouli — Sure. And the $47 million, what was the portion of that, that was alumina?

M. Bless — Of the movement quarter-to-quarter?

N. Rassouli — Yes.

S. Harrison — It was about 30 of alumina and 17—

M. Bless	Closer to $40 million on alumina.
S. Harrison	Okay, so 35 and 12; 35 alumina, 12 carbon.
N. Rassouli	Okay. And Mike, I just want to sure, I think I heard in your initial comments, you said, you mentioned about taking alternative measures if prices remain elevated. I just wanted to see was that about alumina, did I hear that correctly and what measures would those be?
M. Bless	I am not sure. Was it specifically related to the Hawesville restart program?
N. Rassouli	It might have been. I might have misheard you though. But as far as just alumina procurement as far as the restarts at Hawesville nothing is at risk of not being able to actually procure for all those restarts?
M. Bless	Absolutely correct.
N. Rassouli	Okay. Great. Thanks so much.

M. Bless — Thank you.

Moderator — We will next go to the line of Jeremy Kliewer with Deutsche Bank. Please go ahead.

J. Kliewer — Good evening. I know you mentioned that at the Q2 call you'll kind of give some more guidelines on the Hawesville restart. But I was just wondering, what has been freed up or how have you found I guess the ability to expedite it by whatever three to six months? Because, time was a big issue.

M. Bless — It was just again charting out, literally. I wish you could see, I was in the plant for a couple days last week and they've got literally every cell in the plant gantt charted out by the nine steps starting with digging SPL out of the cell that's been curtailed and ending with putting a pot on bath and power, and so it was simply—we never like to either internally or certainly to our investors get ahead of ourselves.

And so what we told you guys last time was told our board on, the last time we met with our board about a month and a half ago, and it was simply rolling up our sleeves and with a view towards, as I said, we believe in this environment every incremental ton adds value to our shareowners.

And so with a view towards getting those tons on as fast as possible, it's simply doing the work to see how quickly we could get those cells back on line. There was no sort of single bottleneck that went away or a project that we deferred or anything like that. There was no big bang there.

J. Kliewer Okay. Thank you for the color. And then Shelly gave us some great color on EBITDA kind of expectations in the upcoming quarter. So I was wondering if you could kind of give the same kind of bridge or outlook for working cap for the rest of the year. Is there going to be a big drag on cash flow or is it going to be a source of cash towards the end of the year? If you can give any kind of color there that would be great.

S. Harrison Let me give you a little color. It's tough to really do any sort of forecasting given that you have to make an assumption about prices going into your inventory, but a couple things to note. The first quarter we had that big build in inventory related to receivables. That was due to selling more to direct customers with longer terms. We should be through that.

That shouldn't recur. That was just building in the new contracts for 2018.

That said in the second half of the year, we are going to build some working capital for Line 5 and the other lines restart, so there'll be some additional inventory we'll have to build that. So, you have some offsetting factors then, and then it's really just a matter of what your raw material pricing does.

M. Bless

Let me just, if I may, also make a comment, it should be obvious and I believe we've talked about it before on the direct sales. So as you know our strategy has been over the last couple years to drive more value-added sales and we've succeeded in doing that. Our strategy from a distribution standpoint is for commodity products to go through third-party intermediaries, traders, marketers. It's a standard product and there's nothing custom that needs to be done in terms of touching the customer. That's the cheapest way to go to market.

And we believe, and we believe it because that's what our customers tell us, that on the value-added products they want to buy from us directly. It's more of a bespoke sale, they're custom alloys. Different alloys perform in our customers' plants in different ways. And so we want to go direct because our customer wants us to go direct.

The payment terms that we get from our main trader or purchaser of our standard products are very, very short; they pass very quickly in a matter of couple days. Our direct customers pay on industry standard terms, 30 to 40 days, and so that's the difference there.

As you would expect, the IRR of that investment, i.e. the incremental margin that we get by going direct and not through a trade or on the value-added products divided by that investment in working capital, is a very attractive IRR, or else we wouldn't be doing it. But just wanted to belabor the point that we're not simply investing in working capital to invest in working capital, there's a high unlevered IRR financial return by doing that. Plus of course, as I said, we're servicing the customer how they want to be serviced.

J. Kliewer Great. Thank you for the color.

M. Bless Thanks. Yes, you bet.

Moderator — We'll next go to the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano — Hi, thanks for taking my questions. First one, just on the timing on the Hawesville stage, restarts, obviously it's been pulled forward a bit, but just wondering and you also mentioned could be stopped on a dime. What's the next day or week or whatever that we should be thinking about in terms of a go or no go decision? And what alumina price do you need to see or expect to continue to push forward with the stage restart here?

M. Bless — Yes, that's a good question, David. I'll answer the last question first and then I might ask you for some clarification on the first part of the question. As we told you last time, let me just isolate some math for you. We told you that Line 5, the first line to be restarted has an incremental EBITDA—incremental investment of $15 million; that hasn't changed. As I said, we're at least on budget or better than budget on the entire program not just Line 5.

And at the time that we told you, the base commodity prices, the spot price at the time, and that incremental EBITDA of $25 million now. At spot prices today that number is lower of course because the increase in alumina has overshadowed the increase in the Midwest transaction price but it's still nicely positive.

Just to isolate your question at the current metal price, alumina would have to go into the mid-700s for there to be no incremental EBITDA on bringing up Line 5. And so right now a six month return, pardon me, six month simple payback that we told you about you about last time looks probably more like an 11- or 12-month simple payback. Even at spot prices today with alumina priced at 640, again that 640 would have to go mid-700s for it to go to a zero incremental EBITDA. So I think that hopefully answers your second question. We've got some room.

I think those numbers show the attractive nature of the project because once alumina goes back into the below 500, below 400, current metal prices, you start talking about a simple payback in a matter of just a couple months. And the same math applies for the full three line restart.

Can you ask your first, David, I apologize, your first question again, the first part of your question again because I didn't quite follow it?

D. Gagliano Sure. I was trying to figure out if there's any sort of day that you need to make a decision, and not on Line 5, but the other two lines.

M. Bless I'm sorry, David.

D. Gagliano That's okay, and also, but related to that you just mentioned one other thing, and I think I heard you correctly. Are the economics the same for the other two lines that you just mentioned for Line 5? Is that correct?

M. Bless Yes. They're prorate to what we gave you last time, as I just gave you now for the first line, Line 5 absolutely.

On the first part, I now understand, I apologize. There's really no day, there's no like big bang day where we have to make large commitments. The biggest forward commitment we make here is to order some of the long lead time materials, the cathode bricks and collective bars, but you're not talking about a significant forward commitment there.

But otherwise literally, I wish you could—you're more than welcome to come to the plant and see it. It's just labor, both internal labor, digging cells, etc., and then building cells internally and then external contractors things like yanking superstructures and getting them straightened, all the process in that nine-step process about which I summarized in the gantt chart.

And so there's really not—there's truly not a big bang. It would be a terrible thing to have to do if the market really, really got sideways, obviously we're watching it closely. But it's not an exaggeration we really could stop the project at any given time. That having been said, our intention is and sort of the default answer is to proceed at pace. We think our investors are going to get paid if we do that.

D. Gagliano — Okay. That's helpful. Thank you. Then just switching gears for a second, earlier I thought I heard Shelly mention $20 million of cash spending that will be capitalized related to Hawesville restarting in the second quarter that will be capitalized, I think you said. Are you still planning to account for about $95 million of the start-up costs in operating expenses or have you decided to capitalize these?

M. Bless — Yes, that's a great question David, and the answer is with very near certainty we're near at the end of our analysis, but we're going to be capitalizing as is the industry convention. As we've discussed before through our research, we've determined we're the last "primary aluminum company" to still expense pot rebuild. And in fact under international standards as we've done our research it's not even permitted. You must capitalize and depreciate over the economic life of the cell.

So at least for the restart at Hawesville, and I underscore that, you hit it perfectly. For that $95 million our intent, again, we're not 100% of the way there yet, but we're very close to 100% of the way there and that's why Shelly talked about it as she did is it to capitalize.

We have not yet even considered, David, at all changing our treatment for I'll call it the normal re-line activities. This is where we're rebuilding the entire reduction department at Hawesville, all five lines, all 560 cells. And that's why we think it makes sense and the accounting experts think it makes sense to capitalize that effort. It just wouldn't be right to expense it in a number of ways. Going forward we'll have to study the situation in terms of normal pot re-line expensing but for now no change there.

One more time you put it perfectly that $95 million of which $20 million as Shelly said will be spent in the second quarter for all intense and purposes it will be capitalized.

D. Gagliano — Okay, thanks for clarifying. And then one last quick one, Shelly, thanks for the bridge to the second quarter, obviously clearing it up and spelling it out. Just to round it out, any other movers in the second quarter we need to be thinking about? For example incremental carving costs, power prices declining that kind of thing.

S. Harrison — No the only thing that I would mention is we talked about that cold snap that we had in January that cost us about $6 million in the first quarter. We wouldn't anticipate something like that recurring in the second quarter. But other than that no major movers.

M. Bless — Carbon looks pretty flat, David. That's been, as you well, been the other one the last couple of quarters. So, Shelly gave you the big movers and as she said we did eat a couple million bucks more than a couple million bucks in Q1 due to that cold and that seems to happen every four years or so. And thus far that hasn't repeated, unless we have some strange weather or some strange transmission problems in the Midwest grid; that shouldn't repeat in Q2.

D. Gagliano — Perfect. That's helpful. Thank you.

M. Bless Thanks.

Moderator [Operator instructions]. We'll now go to the line of David Lipschitz with Macquarie. Please go ahead.

D. Lipschitz Good afternoon, everybody. Quick question with the whole Rusal situation, are you impacted any way from that in terms of alumina in any fashion if these sanctions come back in October?

M. Bless I mean other than the index price being where it is, obviously we're very impacted by that, but otherwise no. We did from time to time, like a lot of people in the industry just given its size, take alumina from the refinery in Ireland, that's a Rusal refinery; it's an excellent plant. And as you'd expect it, when we took cargos it would go to Grundartangi plant in Iceland. But other than that from a physical supply standpoint, no, and I'm trying to think of any sort of down line. I guess the answer is really no, again other than the obvious impact on the price.

D. Lipschitz Okay. And a quick follow-up, I just want to make sure I got it straight. When you said that the second quarter EBITDA—did you say it is going to be around $45 million or is that excluding like the add back of the tower that you guys hit with in the first quarter—add to that? I just want to make sure that that's what you're giving us guidance for the second quarter.

S. Harrison Yes. So walking from the Q1, $22 million of EBITDA in the first quarter, we got $15 million benefit from the lagged alumina price and then another roughly $25 million from prices, meaning LME and regional premiums. That $15 million and $25 million gets you $40 million on top of the $22 million for this quarter. So you are in the low to mi-60s.

M. Bless She's just given you a bridge. Remember, in all these prices, she's giving you price changes, I should say realized price changes, important to understand realized quarter-to-quarter.

D. Lipschitz Okay. That's helpful. I just want to make sure I heard it right. Thanks.

M. Bless Thanks, David.

Moderator Thank you. We're going to return to the line of Novid Rassouli with Cowen and Company. Please go ahead.

N. Rassouli Thanks for taking my follow-up. I just wanted to touch on Slide 5. It looks like based on the figures you guys are expecting a deficit of about 1.2 million tons for aluminum in fiscal 2018. Is that correct?

M Yes. According to the market expert, that is correct. This considers the restarts such as ourselves that we've announced and any supply changes in China or the Western World.

M That's what's baked in right now.

N. Rassouli Yes. That's one thing I just wanted to ask. I think there's kind of an expected 4 million tons of new capacity expected to come on line in China this year. I just wanted to see if that number—what kind of level of new capacity for China that number includes if you guys have that off the top of your heads?

M. Bless I can't verify the 4 million, it's a couple million definitely. Let's see we're working off a base of—it's got to be between three and four, just given the growth rates and production off the base, off the 17 base. I can't precise that number, but you're in the right zip code.

N. Rassouli Got it. Great, thank you.

M. Bless Sure.

Moderator That does exhaust all questions in queue at this time. Please continue.

M. Bless We thank you, as always, for joining us and look forward to talking with you when we report results for the second quarter. Good evening.

Moderator Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T's Executive TeleConference Service. You may now disconnect.