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CENTURY ALUMINUM CO

Form 10-K

February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-34474

CENTURY ALUMINUM COMPANY

(Exact name of registrant as specified in its charter)

Delaware

13-3070826

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

One South Wacker Drive

Suite 1000

60606

Chicago, Illinois

(Zip Code)

(Address of registrant's principal offices)

Registrant's telephone number, including area code: (312) 696-3101

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

Common Stock, \$0.01 par value per share NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in a definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes
No

Based upon the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 30, 2018, the approximate aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$782,000,000. As of February 14, 2019, 88,103,440 shares of common stock of the registrant were issued and outstanding.

Documents Incorporated by Reference:

All or a portion of Items 10 through 14 in Part III of this Form 10-K are incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A for its 2019 Annual Meeting of Stockholders, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if the Registrant's Schedule 14A is not filed within such period, will be included in an amendment to this Report on Form 10-K which will be filed within such 120 day period.

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Forward-Looking Statements

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to the "safe harbor" created by section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are statements about future events and are based on our current expectations. These forward-looking statements may be identified by the words "believe," "expect," "target," "anticipate," "intend," "plan," "seek," "estimate," "potential," "project," "scheduled," "forecast" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," "might," or "may."

Forward-looking statements in this Annual Report and in our other reports with the Securities and Exchange Commission (the "SEC"), for example, may include statements regarding:

- Future global and local financial and economic conditions;
- Our assessment of the aluminum market and aluminum prices (including premiums);
- The future impact of any Section 232 relief, including tariffs or other trade remedies, to Century, on aluminum prices or more generally, the extent to which any such remedies may be changed, including through exclusions or exemptions, and the duration of any trade remedy;
- Our ability to procure alumina, carbon products and other raw materials and our assessment of pricing and costs and other terms relating thereto;
- Our assessment of power pricing and our ability to successfully obtain and/or implement long-term competitive power arrangements for our operations and projects, including at Mt. Holly;
- Our ability to successfully manage transmission issues and market power price risk and to control or reduce power costs;
- Our plans and expectations with respect to the future operation of our smelters and our other operations, including any plans and expectations to curtail or restart production at any of our operations;
- Our intention and ability to bring our Hawesville smelter back to full production and any plans, expectations, costs or assumptions with respect thereto;
- Any future impact of the May 2018 equipment failure at Sebree and related events on our financial and operating performance, including our expectations with respect to insurance coverage relating thereto;
- Future investments in new technology or other production improvements;
- Our ability to hire and retain qualified employees for our operations;
- Our plans and expectations with respect to the sale or other disposition of our 40% interest in BHH;
- The future financial and operating performance of the Company, its subsidiaries and its projects;
- Future inventory, production, sales, cash costs and capital expenditures;
- Future impairment charges or restructuring costs;
- Our ability to access our existing or future financing arrangements and the terms of any such future financing arrangements;
- Our ability to refinance or repay debt in the future;
- Estimates of our pension and other postretirement liabilities and future payments, property plant and equipment impairment, environmental liabilities and other contingent liabilities and contractual commitments;
- Future construction investment and development, including our expansion project at our Grundartangi smelter and our plans and expectations with respect thereto;
- The anticipated impact of recent accounting pronouncements or changes in accounting principles;
- Our anticipated tax liabilities, benefits or refunds including the realization of U.S. and certain foreign deferred tax assets and liabilities and the impact of tax reforms in the U.S. and foreign jurisdictions;
- Our assessment of the ultimate outcome of outstanding litigation and environmental matters and liabilities relating thereto;
- The impact of any new or changed law, regulations or other action affecting our business, including, without limitation, the impact of any trade actions, sanctions or other similar remedies or restrictions implemented by the U.S. or foreign governments;
- Negotiations with labor unions representing certain of our employees; and

- Our future business objectives, plans, strategies and initiatives including our competitive position and prospects.

Where we express an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from future results expressed, projected or implied by those forward-looking statements. Important factors that could cause actual results and events to differ from those described in such forward-looking statements can be found in the risk factors and forward-looking statements cautionary language contained in Item 1A. Risk Factors in this Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and in other filings made with the SEC.

Although we have attempted to identify those material factors that could cause actual results or events to differ from those described in such forward-looking statements, there may be other factors that could cause actual results or events to differ from those anticipated, estimated or intended. Many of these factors are beyond our ability to control or predict. Given these uncertainties, the reader is cautioned not to place undue reliance on our forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

Throughout this Annual Report on Form 10-K, and unless expressly stated otherwise or as the context otherwise requires, "Century Aluminum Company," "Century Aluminum," "Century," the "Company," "we," "us," and "our" refer to Century Aluminum Company and its subsidiaries.

Item 1. Business

Overview

Century Aluminum Company is a global producer of primary aluminum and operates aluminum reduction facilities, or "smelters," in the United States and Iceland. Aluminum is an internationally traded commodity, and its price is effectively determined on the London Metal Exchange (the "LME"), plus applicable regional and product premiums. Our primary aluminum facilities produce standard-grade and value-added primary aluminum products. Our current annual production capacity is approximately 1,016,000 tonnes per year ("tpy"). We produced approximately 753,000 tonnes of primary aluminum in 2018.

In addition to our primary aluminum assets, we own a carbon anode production facility located in the Netherlands ("Vlissingen") and hold a 40% interest in Baise Haohai Carbon Co., Ltd. ("BHH"), a joint venture that owns and operates a carbon anode and cathode facility located in China. Carbon anodes are consumed in the production of primary aluminum. Both BHH and Vlissingen currently supply carbon anodes to our smelter in Grundartangi, Iceland. Each of our smelters in the United States sources anodes from on-site carbon anode production facilities.

We operate our business through one reportable segment, primary aluminum. Additional information about our segment reporting and certain geographic information is available in Note 18. Business Segments to the consolidated financial statements included herein.

Century Aluminum Company is a Delaware corporation with our principal executive offices located at One South Wacker Drive, Suite 1000, Chicago, Illinois 60606.

Strategic Objective

Our strategic objective is to maximize the financial returns we generate for our stockholders by: (a) optimizing our safety and environmental performance; (b) improving the competitiveness of our existing assets by managing costs and improving productivity and efficiency; (c) pursuing upstream investment opportunities in bauxite mining, alumina refining and the production of other key operating supplies; and (d) expanding our primary aluminum business by improving and investing in the facilities we currently own as well as constructing, investing in or acquiring additional capacity.

Primary Aluminum Facilities

Overview of Facilities

We operate three U.S. aluminum smelters, in Hawesville, Kentucky ("Hawesville"), Robards, Kentucky ("Sebree") and Goose Creek, South Carolina ("Mt. Holly"), and one aluminum smelter in Grundartangi, Iceland ("Grundartangi").

Grundartangi

The Grundartangi facility, located in Grundartangi, Iceland, is a primary aluminum reduction facility owned and operated by our wholly-owned subsidiary, Nordural Grundartangi ehf, and is our most modern facility. Grundartangi is currently in the process of a multi-year expansion project that has brought the annual production capacity from 280,000 tonnes to current capacity of 317,000 tonnes (2018 volume) and is expected to ultimately increase annual production capacity to approximately 325,000 tonnes. Grundartangi produces standard-grade aluminum ingot and a primary foundry alloy product, which is a value-added product that is sold at a premium to standard-grade aluminum.

Hawesville, located adjacent to the Ohio River near Hawesville, Kentucky, is a primary aluminum reduction facility owned and operated by our wholly-owned subsidiary, Century Kentucky, Inc. ("CAKY"). Hawesville has an annual production capacity of approximately 250,000 tonnes. Approximately 60% of Hawesville's capacity was curtailed in the fourth quarter of

2015 as a result of significant declines in the LME price for aluminum. In 2018, we began the process of restarting capacity on the three potlines at Hawesville that had been curtailed. The first of these three lines was restarted in September 2018 and the second was restarted in December 2018. We expect that the third line will be restarted and back in operation during the first quarter of 2019. Each line represents incremental production of approximately 50,000 tonnes per year when fully operational.

Hawesville produces standard-grade and high-purity aluminum that can be cast into sow or delivered directly to nearby customers as molten metal.

Hawesville is our largest U.S. smelter and has the capacity to be the largest producer of high purity primary aluminum in North America. Four of Hawesville's five potlines are capable of producing high purity aluminum which is sold at a premium to standard-grade aluminum and is used extensively by the defense industry as well as for aerospace and other applications.

Sebree

Sebree, located adjacent to the Green River near Robards, Kentucky, is a primary aluminum reduction facility owned and operated by our wholly-owned subsidiary, Century Aluminum Sebree LLC ("Century Sebree"). Sebree has an annual production capacity of approximately 220,000 tonnes. Sebree produces standard-grade aluminum that can be cast into sow and value-added products, including billet, that are sold at a premium to standard-grade aluminum or delivered directly to nearby customers as molten metal. In May 2018, we temporarily curtailed one potline at Sebree due to an equipment failure. We returned the curtailed potline at Sebree back to service during the third quarter of 2018.

Mt. Holly

Mt. Holly, located in Goose Creek, South Carolina, is a primary aluminum reduction facility owned and operated by our wholly-owned subsidiary, Century Aluminum of South Carolina, Inc. ("CASC"). Mt. Holly has an annual production capacity of approximately 229,000 tonnes. The Mt. Holly facility is currently operating at approximately 50% of capacity while CASC pursues a long-term power solution. See "Key Production Costs — Electrical Power Supply Agreements" below for further discussion of our power arrangements at Mt. Holly.

Mt. Holly produces standard-grade aluminum that is cast into tee bars as well as several value-added products, including billet and foundry products. These value-added primary aluminum products are sold at a premium to standard-grade aluminum.

Primary Aluminum Production Capacity

Our primary aluminum smelters and their respective capacities are shown in the following table:

Facility	Ownership Percentage	Operational	Annual Production Capacity (tpy) ⁽¹⁾	Actual 2018 Annual Production (tpy)
Grundartangi, Iceland	100%	1998	317,000	317,000
Hawesville, Kentucky USA	100%	1970	250,000	117,000
Sebree, Kentucky, USA	100%	1973	220,000	204,000
Mt. Holly, South Carolina USA	100%	1980	229,000	115,000
			1,016,000	753,000

The tonnes per year (tpy) figures in this column reflect an estimate of the facility's total production capacity based ⁽¹⁾ on plant design, historical operating results and operating efficiencies and does not necessarily represent each facility's maximum production capability.

Primary Aluminum Shipment Volume

The following table shows our primary aluminum shipment volumes since 2014⁽¹⁾.

Shipment volumes reflect (i) our acquisition of the remaining interest in Mt. Holly in December 2014; (ii) the ⁽¹⁾ partial curtailment of our Hawesville and Mt. Holly operations during the fourth quarter of 2015; and (iii) increases from the Hawesville restart in 2018, offset by lower production due to the temporary potline outage at Sebree.

Primary Aluminum Projects

Helguvik project

The Helguvik project is a greenfield project for an aluminum reduction facility in Helguvik, Iceland ("Helguvik" or the "Helguvik project"), owned by our wholly-owned subsidiary Nordural Helguvik ehf ("Nordural Helguvik"). The Helguvik project site is located approximately 30 miles from the city of Reykjavik, Iceland. Construction activity and spending on the project have remained curtailed since 2008 pending our ability to secure power delivery for the project at competitive prices. See "Key Production Costs — Electrical Power Supply Agreements" below for further discussion of our power arrangements at Helguvik.

Carbon Products Facilities

In addition to our primary aluminum assets, we also own a carbon anode production facility located in Vlissingen, the Netherlands, and a 40% interest in BHH, a joint venture that owns and operates a carbon anode and cathode facility located in the Guangxi Zhuang Autonomous Region of south China.

Vlissingen

Vlissingen is a carbon anode production facility owned and operated by Century Aluminum Vlissingen B.V. Vlissingen has an annual carbon anode production capacity of 145,000 tonnes. We acquired Vlissingen in 2012 and restarted the facility in late 2013 with an initial carbon anode production capacity of 75,000 tonnes. In 2015, we completed our project to expand its annual production capacity to 145,000 tonnes and we have begun a project to rebuild one of the baking furnaces at Vlissingen which is expected to increase annual carbon anode production capacity by an additional 12,000 tonnes per year. The rebuilt baking furnace is expected to be operational before the end of 2019. Vlissingen currently supplies carbon anodes to our smelter in Grundartangi, Iceland. Each of our smelters in the United States sources anodes from on-site carbon anode production facilities.

Baise Haohai Carbon Company, Ltd.

BHH is a carbon anode and cathode facility which commenced operations in 2008. BHH is operated as a joint venture between one of our wholly-owned subsidiaries, which owns a 40% stake in the company, and Guangxi Qiangqiang Carbon Co., Ltd., which holds the remaining 60% ownership interest and is the operator of this facility. The BHH facility has an annual carbon anode production capacity of 180,000 tonnes and an annual cathode baking and graphitization capacity of 20,000 tonnes. Following the completion of the construction of our second furnace at our carbon anode facility in Vlissingen, Netherlands, we made the decision to pursue an exit from this investment. There is no assurance that we will be successful in exiting this investment on terms that are acceptable to us or at all.

Pricing

Pricing for primary aluminum products is typically comprised of three components: (i) the base commodity price which is based on quoted prices on the LME and other exchanges, (ii) any regional premium (e.g., the Midwest premium for metal sold in the United States and the European Duty Paid premium for metal sold into Europe) and (iii) any product premium. Our operating results are highly sensitive to changes in the LME price of primary aluminum and the amount of regional delivery and product premiums. As a result, from time to time, we assess the appropriateness of mitigating the effects of fluctuations in the aluminum price through the use of fixed-price commitments, LME-linked supply contracts and financial instruments. See [Item 7A. Quantitative and Qualitative Disclosures about Market Risk](#) for further discussion of how we manage our exposure to market risk.

Customer Base

We have historically derived substantially all of our consolidated net sales from a small number of customers. For the year ended December 31, 2018, we derived approximately 64% of our consolidated sales from Glencore plc and its affiliates (together, "Glencore") and approximately 11% of our consolidated sales from Southwire Company ("Southwire"). We currently have agreements in place to sell a substantial portion of our 2019 production to these customers. We expect that the rest of our 2019 customer base will remain fairly concentrated among a small number of customers under short-term contracts.

Both Glencore and Southwire purchase aluminum produced at our North American smelters at prices based on the LME price for primary aluminum plus the Midwest regional premium and any additional market based product premiums. Glencore also purchases aluminum produced at our Grundartangi, Iceland smelter at prices based on the LME plus the European Duty Paid premium and any applicable product premiums. Glencore beneficially owns 42.9% of our outstanding common stock (47.2% on a fully diluted basis) and purchases the aluminum we produce for resale.

Key Production Costs

Alumina, electrical power, calcined petroleum coke and liquid pitch (the key raw materials for carbon anodes), and labor are the principal components of our cost of production. These components together represented over 75% of our cost of goods sold for the year ended December 31, 2018. For a description of certain risks related to our raw materials, supplies and labor, see [Item 1A. Risk Factors](#) in this Annual Report on Form 10-K.

Alumina Supply Agreements

While Century may enter into other purchases of alumina as market conditions change, a summary of our principal alumina supply agreements is provided below:

Supplier	Quantity	Term	Pricing ⁽²⁾
Gramercy Alumina	Approximately 600,000 tpy	Through December 2019	Variable, API-based
Concord Resources Ltd.	Approximately 120,000 tpy	Through December 2020	LME-linked
Concord Resources Ltd.	Approximately 600,000 tpy	January 2020 through December 2024	Fixed, LME-linked, and API-linked components
Glencore ⁽¹⁾	Variable	Through December 2017	Variable, API-based

Both parties are continuing to operate under the terms of this agreement while we negotiate a new agreement.

⁽¹⁾ Under the terms of this agreement, Glencore provides alumina supply for all of Century's requirements net of other contractual commitments.

⁽²⁾ "API" refers to a published alumina price index ("API").

Electrical Power Supply Agreements

The table below summarizes our long-term power supply agreements:

Facility	Supplier	Term	Pricing
Grundartangi	Landsvirkjun	Through 2023 - 2036	Variable rate linked to (i) the LME price for primary aluminum or (ii) the Nord Pool power market
	Orkuveita Reykjavíkur ("OR")		
Hawesville	HS Orka hf ("HS")	Through December 31, 2023	Variable rate based on market prices
Sebree	Kenergy Corporation ("Kenergy")	Through December 31, 2023	Variable rate based on market prices
Mt. Holly	South Carolina Public Service Authority	Through December 31, 2020	Variable rate based in part on a cost of service charge and in part on natural gas prices
		Approximately 25 years from the dates of each phase of power delivery	Variable rate based on the LME price for primary aluminum
Helguvik	OR		

Electrical power represents one of the largest components of our cost of goods sold. From time to time, we may enter into forward contracts or other hedging arrangements to mitigate our electrical power or natural gas price risk. The paragraphs below summarize the sources of power and the long-term power arrangements for each of our operations. Grundartangi. Power is currently supplied to Grundartangi from hydroelectric and geothermal sources under long-term power purchase agreements with HS, Landsvirkjun and OR at prices indexed to the price of primary aluminum, which provides a natural hedge for one of our largest production costs. Beginning in November of 2019, our contract with Landsvirkjun (covering approximately 30% of our current power requirements at Grundartangi) will be priced linked to the market price for power in the Nord Pool power market, the trading market for power in the Nordic countries and certain other areas of Europe.