

CENTURY ALUMINUM COMPANY: Fourth Quarter 2010 Earnings Call

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SPEAKERS

Logan W. Kruger, President and Chief Executive Officer

Wayne R. Hale, Executive Vice President and Chief Operating Officer

Michael A. Bless, Executive Vice President and Chief Financial Officer

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by, and welcome to the Fourth Quarter 2010 Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session with instructions being given at that time.

I would now like to turn the conference over to our host Shelly Lair.

Please go ahead.

S. Lair Thank you, Rocco. Good afternoon, everyone, and welcome to the conference call. Before we begin, I would like to remind you that today's discussion will contain forward-looking statements relating 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 slide and press release for a full discussion of these risks and uncertainties. In

addition, we have included some non-GAAP financial measures in our discussion. Reconciliations to the most comparable GAAP financial measures can be found in the appendix of today's presentation and on our website at www.centuryaluminum.com. I'd now like to introduce Logan Kruger, Century's President and Chief Executive Officer.

L. Kruger

Thanks, Shelly. Thank you all for joining us today. We had a busy quarter in a business environment of improving market conditions. I'd like to make a few brief introductory comments before speaking in more detail about the market, so let's turn to slide four. First I'd like to give you a quick summary of our view of the external environment to set a context as we speak about the company's performance in 2010, and what we see before us for the year of 2011.

Global demand growth continues at a reasonable pace during the last quarter of 2010. Annualized GDP growth grew at 3.2% in the U.S. in fourth quarter and approximately 1.9% in the Euro Zone countries during the third quarter of 2010. Industrial activity has been strong with most sectors barring perhaps commercial and residential construction exhibiting good to robust growth.

As you're well aware most developing economies have continued to produce strong results. In the fourth quarter, China's GDP was 9.8% and industrial production was 13.5% in the month of December. Brazil has

been another excellent performer. As you are aware as well, inflationary pressures in these countries continue to build and governments are taking what will hopefully prove to be action sufficient to avoid severe dislocations. Growth in India has also continued on a strong footing.

In particular, in the metals markets and our sector specifically, commodity prices have found solid support with risks reasonably well balanced, and there seems to be some evidence for potential toward the upside. There are many factors supporting this environment including the macro fundamentals, which I just discussed. In addition, they continue to increase in the cost of power and certain petroleum based raw materials will underpin the aluminum price. Michael will discuss in more detail how we see these trends impacting us at Century in 2011.

You are well aware that investing interest in commodities has continued to grow, and new vehicles are being introduced that provide enhanced flexibility in investing in these assets. On top of the commodity price, regional premium has remained strong due to a variety of factors including the limited availability of material out of the warehouses. We continue to monitor factors that could weigh on the markets. Inventory levels in the absolute continued at historically high levels.

That being said the relationship of these stocks to final demand appears less onerous as the global economy strengthens. Similarly planned

capacity additions could be more than offset by the expected increase in demand. I will provide more details on global balances in a moment. Turning to the company specifically, Century has had a busy last few months of the year.

In December, the representative employees at Hawesville ratified a new five-year labor agreement. The process took the better part of the year and involved significant efforts from multiple parties. I personally believe it is a credit to the plant's leadership and all of the employees that the smelter's operating performance remained strong for the year. With the labor discussions behind us, we have turned our attention to the restart of the potline we idled during the financial crisis. Wayne will explain the process and timing, and Michael will provide detail on the modest restart costs.

This additional capacity will produce a meaningful improvement in the plants cost structure, and will produce incremental cash flow with metal prices well below current levels. At Grundartangi, performance in 2010 was good. Despite a transformer outage continuing for most of the year, the plant produced very close to its pre-incident output. As Wayne will detail, the unit is now back in Iceland and has been commissioned. He will also speak about some high return, low risk investment programs in development for Grundartangi.

By the year-end, Mt. Holly was at current efficiency and production run rate expected for this plant, a welcomed return to operational performance. Wayne will also provide a detail on the status of our efforts to restart the Ravenswood smelter. We have made some progress with the participation of many parties in the process of reaching a long-term power contract that would support the plant's operations. I will speak in more detail about the Helguvik project later in my remarks. We continue to devote substantial efforts to the final items before we can resume major construction activity. While the progress has been slower than we'd wished, the attractiveness of this long-term investment more than justifies these efforts.

Shall we move onto slide number five? We're pleased with the financial strength we've created. We ended the year with over \$300 million in cash with no net debt. In addition, we replaced our expiring revolver with a new four year facility. As Mike had previously explained, we have no plans to draw on this line but this facility provides us with flexibility in managing our contractual requirements.

During the year we have faced some difficult but necessary decisions regarding the long-term employee related liabilities. The purpose was to relieve the company of liabilities it could not responsibly continue to bear. Michael will detail the impact of these actions on our balance sheet. We have followed through with our intent to limit the risks we assume in our

large commercial arrangements, and Wayne will provide a bit of detail later on in his presentation.

With respect to our recent hedging activity, I think it's important that you hear from me that our strategy is to buy near term protection to limit the downside risk for our higher cost U.S. plants, but to retain substantially all the upside in metal price for our shareholders.

Let's move onto slide number six. I'd like to give some context of the environment in which we assume we'll be working for this year of 2011. In summary, we do not see any major variations in the trends we have all witnessed during the last six months. For planning purposes, we have generally assumed a slow and steady improvement in the macroeconomic environment in most of the developed economies. In developing regions like China and Brazil, we assume the central planners will be able to put some reasonable controls on inflationary pressures without significantly dampening the recent rates of growth, and more importantly in Iceland we believe that recovery should continue to provide for better growth, lower interest rates, and rising inflation with some strengthening of the currency.

The restart to the Helguvik project for Iceland will be an important contributor to these trends. On balance, we are planning for a relatively benign business environment, and one in which in our sector global

economic growth will begin to underpin a meaningful reduction in the metal inventories.

As this slide indicates, there are several items on which we will be focusing our efforts on over the coming months. The efforts align that progress and our strategy of improving the cost structure across the company as well as growing our robust business in Iceland. Let's have a look at the market and move onto slide number seven. The LME cash price averaged approximately \$2,340 per ton for the fourth quarter of 2010, and \$2,175 per ton for the full year.

Recently, prices have strengthened to more than \$2,500 per ton due to improving demand, a weaker dollar, and a positive investment sentiment towards commodities. Alumina spot prices are trading at \$390 per ton, up from \$360 per ton at the end of September last year. Lack of spot cargos available for near term delivery, higher aluminum prices, commissioning of new aluminum capacity and smelter restarts have supported the alumina prices.

Aluminum prices continue to improve during the fourth quarter as the world market for aluminum fell into a deficit for a three-month period on lower Chinese production and a stronger demand globally. Overall, we expect demand growth to continue but we remain cautious. Inflationary concerns in China and the rest of the world could lead to slow economic

and industrial growth, which in turn could impact demand for industrial materials. This was confirmed by last week's Chinese interest rate hike. We will be assessing how this situation develops as we progress.

The Chinese economy ended the year strong with a 10.3 year-over-year GDP growth versus 9.2 in the previous year. Year-over-year industrial production growth in China has increased from 11% in 2009 to 15.7% in 2010. GDP in India grew at 8.9% year-over-year in the third quarter demonstrating continued strength in the Indian economy.

Let's take a look at slide number eight. Have a look at the market balance versus price. Aluminum demand is expected to increase at a healthy pace in 2011 due to an increase in construction and investment in infrastructure in China and other emerging countries. At the same time, a green field ramp up in the Middle East and India will provide meaningful new supply in 2011. This is in addition to restarts of idled capacity both in China and in the U.S.

Analysts forecast aluminum demand growth to increase by 9% in 2011, and supply also to increase by 9% resulting in a surplus of approximately 600,000 tons for the year of 2011. These equates to less than 1.5% of global market for aluminum. I'd like to make a note that the Chinese imports of aluminum increased to 37,000 tons in January versus 4,000 tons in December. Most analysts anticipate the global aluminum market

will drop into deficit in 2012 and '13 supporting stronger prices over the forward curve.

We can move onto slide number nine. Inventories are currently at 55 days of global demand and we again see prices that defy the historical relationship with days inventory. We continue to believe that this sustained disconnect, which has been occurring somewhat in 2009, demonstrates a structural shift in pricing as a result of global cross-pressures.

Year-to-date the LME cash to three month contango has averaged \$15 per ton, although I would note that the contango roughly doubled from \$15 per ton yesterday to \$30 per ton today, whereas in most of 2009 and 2010 the contango was north of \$30 per ton. This decline will impact the attractiveness of financing arrangements and may draw inventory from off warrant warehousing deals into LME warehouses. The significant inflow into LME warehouses earlier this year may be indicative of these arrangements that are already starting to lose their economic appeal. That said, I would note the U.S. Midwest premium has actually picked up slightly over the last few weeks, and the European premiums remain strong.

Let's move onto slide number ten. As you can see from the chart, until recent times the ratio of copper to aluminum prices remained in a fairly

narrow band of about 1.5 to 2 times. Over the past few years, the gap between copper and aluminum has been growing, and more notably in the last few quarters there has been a massive run-up in the copper price with only a modest increase in aluminum driving the ratio to four times. Historically, industry experts considered substitution a reasonable small contributor to demand given that the investment required to reconfigure operations to accommodate a new material but with the current premium for copper views are changing, and substitution now has the potential to be a real market mover for aluminum.

Recent data has confirmed our long running assessment that the substitution has been in the order of a few hundred thousand tons per year. Although it's too early for us to predict the impact of current copper prices will have on aluminum demand, we do expect to see rate of substitution significantly higher than its historical level over the near-to-medium term. Some market observers suggest that that percentage will be north of 10%.

I'll now turn it over to Wayne who will give you expected milestones of the restart of the fifth pipeline at Hawesville and the next steps with some details regarding investment programs at both Grundartangi and Hawesville. Thanks, Wayne.

W. Hale

Thank you, Logan. Let's turn to slide number eleven. In January, the repaired transformer arrived in Iceland. It has been installed, tested, and is now online and operating well. We are taking the month of February to complete some required maintenance on other transformers and will ramp up amperage in line one at the end of the month. We continue to pursue our claim with our insurers to where that portion of the loss volume caused by this sea borne damage during the original return trip.

We continue to work on a variety of programs aimed at creating additional capacity and value within Grudartangi's existing footprint. The additional tons would produce good incremental cash flow and have an attractive payback. The multiyear program would require a modest commitment of capital in stages. We expect to be in position to provide further detail over the coming months.

As you may remember, the multiyear labor agreement we concluded in early 2010 had a wage reopener after the first year. We have engaged with the Unions and are in active discussions with them. Our process is part of a broader set of wage negotiations going on in Iceland between employers and employee groups.

Moving on to Hawesville, after many months of discussions and negotiations, we concluded a multiyear agreement with the steel workers in December. The process went on for a bit longer than we expected, but

we are resolute to do everything possible to put in place a foundation for Hawesville that contributes to a long, productive, and cost effective future. With that process behind us, we are continuing to improve the plant's performance and financial contribution.

We entered into a new supply agreement with Hawesville's major customer to replace the long-term contract that was to expire in March of this year. The terms of the agreement continue to benefit both parties by sharing the natural synergies between the two plants. In regard to improving Hawesville's performance, we are proceeding with a modest investment program. It involves upgrade in the rectification and high voltage areas with some improvements in the inner rodding room.

The restart of line five is under way, and we anticipate returning to full production in Hawesville in the first half of this year. The additional volume from the restart is expected to reduce the average per unit cost of the plant as fixed costs are spread over a larger base. Looking at Mt. Holly, I'll just make a few quick comments. As noted previously, the plant has a very able new general manager, and we are beginning to see improvement in all areas of performance. Recall Mt. Holly is generally an efficient and well run smelter, however, it is burdened by an uncompetitive power rate, and this is the key issue on which we and our partners are continually working.

Now let's move on to slide number twelve. At Ravenswood, Logan mentioned that we have made some difficult decisions about curtailing benefits. The actions were necessary to improve the plants competitive cost position and improve its chance to restart and sustain operations. Michael will provide you with detail on the impact this will have on our financials. In the area of the potential restart, I am pleased to say that we have made progress developing an avenue for the plant to obtain competitively priced power. As noted previously, competitively priced power, a labor contract, and a sustainable LME pricing environment are key elements needed to reopen the smelter.

Now turning to the physical market, scrap is tight due to bad weather conditions. Post-consumer scrap election is down accordingly. Automobile build rates are up resulting in a positive impact on our order book. Aluminum is used in wheels, suspension, cooling and heat transfer, and electronic components. Aluminum usage in automobiles and light trucks continues to increase due to the increased efficiency demand. Government projects in developing regions are driving demand for rod and cable as they build new infrastructure, and we expect this demand to last through 2011.

With that I'll turn it over to Michael to discuss the financials.

M. Bless

Thanks very much, Wayne. If we could turn to slide thirteen please, and as usual I'll refer to the financial information that follows the verbiage in the earnings release so you might want to have that handy. Okay let's talk about, as usual here first I will compare the quarter that just ended to the prior quarter sequentially, so obviously Q4 over Q3 will be all the comparisons we're talking about here on this first slide.

First, before we go to the change in sales let's talk about the factors that drove that change. First, our realized unit prices in the U.S. were up 12% and in Iceland up 13%. Those versus a one month lagged LME price that was up 13% quarter-to-quarter. Turn to shipment volumes, if you've had a chance to look at the operating data at the end of the financial information, I need to note here first that like in the third quarter in the fourth quarter we had about 3,100 metric tonnes of business at Grundartangi that was sold as direct sales rather than as tolls, about the same amount as in Q3.

So when you adjust for those data, you'll see that domestic shipments were up about 2% on both an actual and per day basis and Iceland's up about 1%. I'd note if you've had a chance to look, Grundartangi was producing and shipping at an annualized rate of 274,000 metric tonnes for the quarter. Obviously that was without the transformer in place for the entire quarter, and as you'll remember that's almost the rate at which the plant was producing before the incident in early 2010. So we continue to

get great creep out of Grundartangi. So putting the pricing and volume data together as you'll see, we've got net sales growth on a U.S. dollar basis of 14% Q4 over Q3.

Working down the income statement gross profit you'll see was up \$25 million on a \$38 million sales increase. Talk about some of the factors contributing there. Price alone, the LME price and the premium changes produce a \$34 million increase in gross profit Q4 over Q3. Market base costs increased costs of sales obviously lowering gross profit by \$10 million. Those, as you know, are alumina and power for Grundartangi which are linked directly to the LME. Raw materials this quarter were actually flat quarter-to-quarter but we see some reasonably sized increases coming, and I'll talk about that in a couple slides.

And I need to note for the last quarter here that in our cost of sales there's \$16 million that we recorded there that we actually aren't responsible for, or weren't responsible for, in the fourth quarter. Those cash costs, that \$16 million, was paid by E.ON, the former power supplier for our Hawesville smelter under an agreement we reached a couple of years ago, and that arrangement, as we've been saying for some time, came to an end in the fourth quarter 2010.

Moving our way down the income statement, you see obviously the large amount on other operating expense. I'll remind you, the items on that line

all relate to Ravenswood. If you've had a chance to look at the earnings release, you saw the major items in there. Let me talk about them for a moment here. The smaller item was a \$5 million charge for pension benefits at Ravenswood due to the fact that the plant has been curtailed now for a period of two years.

The larger item, as you saw in the earnings release, a \$57 million gain relating to changes in the Ravenswood retiree medical benefits program as Wayne discussed. On that same score, we'll have additional gains in the first half of this year, 2011, for the same item. We're looking at about \$19 million in additional gains, reasonably evenly split between Q1 and Q2 that you'll see come through. And in addition to that, we'll be booking a \$4 million associated tax benefit, again reasonably evenly split between Q1 and Q2.

Just to finish up the income statement, loss on forward contracts, obviously those are our hedge contracts, put options, to which Logan referred. No great surprise there, as the aluminum price goes up the value of those puts goes down.

No changes on the tax line. We continue to provide taxes in the U.S. at a 0% rate, given our fully allowed forward-deferred tax assets in the U.S. Iceland at 18%, that's a statutory rate. And as you saw in the earnings release, that \$2 million discrete item, again directly related to the

Ravenswood benefit changes. At the very bottom of the income statement data, you can see common share and common equivalents diluted for the quarter average 93.4 million. You need to remember there are 8.3 million preferred shares still outstanding.

Talk about EPS. If you would just move to slide 24 please, so you can see some of the detail in and out of the EPS. I'll give you a minute to get there. So you see the \$0.64 at the top of that chart, that's the as reported number, obviously. And then you see some of the items that are one-time items and some extraordinary items about which we've talked.

I've talked about most of these items, so I won't belabor them here. I'll move through them quickly. You see the noncash loss on the hedge contracts, the tax benefit related to the Ravenswood retiree benefit action, the pension benefits charge, and the medical benefits changes at Ravenswood, the accounting for that itself.

Lastly, you see the E.ON contribution, again, to the power bill, \$0.16 a share here. Those expenses that E.ON paid on our behalf. Let me just make a couple points here. If you'll remember when we entered into this transaction and announced it, it would have been in the third quarter of 2009. We detailed the circumstances under which, and the assumptions under which, E.ON would provide that support. And we also detailed that the support program had a maximum contribution over its life, over the

approximate six-quarter life ending in December that we just concluded, of around \$80 million.

Based on the various factors and calculations, the support actually came in in excess of that - you'll see it in the footnote on this page - by about \$13 million. And that \$13 million is now a contingent obligation that we owe E.ON back if a couple circumstances occur. It's relatively straightforward. Two things have to occur for us to owe them back that contingent obligation.

First, is that Hawesville has to be producing at about 80% of its capacity. It's about four of the five potlines. Obviously it will be producing at all five potlines here shortly. And also the LME price has to be at a certain limit, which is above what the price is today. In any month, in which both of those two factors are true, we owe them that contingent obligation back over a 60-month amortization period, so a couple hundred thousand dollars a month. And we also have the right, as you would expect, to repay it in whole at any time we choose.

If you go back to the financial information, please, I'd just like to make a couple comments on the balance sheet and the cash flow before we move on. So if you've got the balance sheet data in front of you, just a couple comments. First, under current assets, Logan mentioned we ended the year at \$308 million in cash. You'll see a significant amount of

restricted cash came back into I'll call it regular cash and equivalents, as we predicted. That was due to the fact that we posted a letter of credit to backstop our obligations under the Hawesville power contract and thus received our cash security deposit back.

Moving down, under current liabilities, I'll remind you of the convertible notes. The holders of those notes have a put option for cash in August of this year, and we're assuming that those notes are indeed put to us, and that will satisfy that obligation with cash obviously further deleveraging the balance sheet.

Lastly, down under long-term liabilities, on the OPEB liability, we talked about the changes there. You see a major change, and just to put it into context, the total companywide OPEB liability at December 31, both long-term and current, stood at about \$110 million. So obviously a significant decrease.

A couple of items to note on cash flow before we move on, quickly. Maintenance cap ex for the quarter at \$7 million, Helguvik spending at \$4 million, both in line with our expectations. If you've had a chance to look at the cash flow data in the few minutes before this call, you'll see that we've built a little bit of inventory this quarter. Working capital, but principally inventory. Two factors there. One is just the metal price itself,

but more important we did put some raw materials into inventory this quarter.

Let me just comment, before we move on, about a reasonably large cash flow item you'll see in the first quarter of this current year. So when we report results in April or early May. We've been doing some good tax planning in Iceland, and as a consequence of that or in execution of that, I guess I should say, have paid some intercompany dividends in the various Icelandic companies.

Iceland law requires that in concert with that we pay a withholding tax to the taxing authorities, which we'll do in Q1. It will be quite large, about \$27 million. So you'll see that go out of cash into working capital in Q1. That gets repaid right back to us at the end of the year, either late in Q3 or early in Q4, so you'll see it come right back, but just wanted to give you a heads up that you'll see that item in our first quarter results.

Okay, if we could move to slide 14 please, just make some very quick comments about the year-over-year results. First, start with the market. The cash LME was up 30%, 2010 over 2009. On that basis our average realized prices were up 34%, that's the average across the company. Shipment volumes, again, if you've looked at the information at the end of the earnings release financial data you'll see that U.S. shipment volumes were down 5% 2010 over 2009. That's obviously due to the fact that we

curtailed capacity in early 2009, in our first quarter. Grundartangi was down less than 1%. Again, despite the transformer being out for most of the year. Put those two factors together, you'll see net sales on the U.S. dollar basis up 30% '09 to 2010.

Couple more comments, gross profit movement of \$178 million, up obviously, on a \$270 million sales gain. The price of the metal and premiums pushed up gross profit by \$297 million year-over-year. Market based costs increased the cost of sales by \$61 million, obviously again alumina and Grundartangi power. And U.S. power on an as reported basis, this is obviously primarily Hawesville, increased cost of sales by \$28 million.

Lastly, on cash flow, for the full year, maintenance cap ex came in for the year at \$12 million. That was versus our full year estimate of \$15 million, and Helguvik spending of \$19 million in total. That's, again, within our expectations of \$1 million to \$2 million a month of spending on Helguvik pending a major restart of construction activity.

Turn to slide 15 please. Just a quick look at the movement in cash over the quarter. We've talked about most of these items, so I'll go through it quickly. You see the cash coming in again from restricted cash from the security deposit at Hawesville for Big Rivers. We did purchase some additional put options in the fourth quarter. As Logan says, we believe

we're in good shape in terms of downside protection for 2011. And working capital, I spoke about those items.

I think we can move on to slide 16. Just thought we'd show you the movements of cash for the full year. Remind you about a couple things. First, the tax refund that we received in the second quarter. Maintenance capital and Helgøyvik spending I've already talked about, and you can see here the cash that we've spent on downside protection for the full year. I should note that here in the last week or two we've begun to layer in some downside protection under the same philosophy that Logan noted for the first half of 2012, taking advantage of the market conditions.

If we could move on to slide 17 please. Show you the cash flow as we usually do. Q4 comparable to Q3, despite the movement or the buildup in inventory that I talked about. Okay. If we could turn to slide 18 before I turn it back to Logan. I'd just like to give you some items for 2011 to help with your modeling as we've done in the last couple of years. First, volume you see the estimates there. In the U.S. as Wayne detailed, this assumes that Hawesville's line five is back producing fully in the first half. And again, as he also noted, this assumes that the transformer is back and the operations are back at full amperage in the first quarter of this year.

Cash costs for the smelters, let me just make a couple notes, mostly on the footnotes here, but just so there's no confusion. So these data include all the plant operating costs including plant SG&A. We've aggregated maintenance cap ex for all the smelters. I'll get to that on the next slide. Just a couple notes here. Plant SG&A in addition to the corporate SG&A that I'll show on the next slide is about \$1 million a quarter for the current operating plans. And on top of that in any given quarter we'll have some additional amounts for Helguvik depending upon the G&A activity at Helguvik.

In addition, as Logan noted, the Hawesville restart costs are already embedded in these numbers. These costs are our stated net of premiums that we receive in the U.S. and as you can see here we've stated the Grundartangi costs. We've put in our market-based alumina costs for comparability purposes. We've run these data at an LME assumption of \$2,300 to \$2,500, but you can easily calculate the sensitivity here and run these costs at whatever price tag you choose.

We've included some additional cost detail just to give you a sense of what's pushing things up and down. Obviously all these costs are embedded in the smelter costs, about which I just spoke. Just a couple quick comments: alumina, as you can see, no big change there, same with U.S. power on an as reported basis. But as we've been talking about

for some time now, we have a major step up in cash costs at Hawesville due to the termination of the E.ON support.

And as you've probably heard from our peers and many other industrial companies, we're looking at some reasonably sizable increases in carbon related costs. For us that would be coke in the U.S. where we manufacture our own anodes and finished anode blocks in Iceland.

Lastly, on slide 19 please, just a couple other quick points. We've shown you SG&A; again, you need to add, as I said, to this number, about \$1 million a quarter for the plant level and then a little bit more for Helguvik. That will vary a little bit. Interest expense, \$22 million in cash. That's based on the current debt balance and also assumes, as I noted earlier, that we satisfy the put of the convertible notes in cash in August of this year.

Couple other comments. Pension funding, you've noted over the last couple of years that we've made only very minor contributions to our pension plans. As you would expect, the assets in those plans have come back with the market, but we plan to make about \$17 million in cash contributions to the pension plans in 2011 to increase their funding status. Taxes, no change U.S., no book or cash taxes. Iceland, booking at 18% statutory rate. Based on our current calculations, in the latter half of the

year, we'll be making a cash tax payment in the range of \$10 to \$15 million.

Helguvik, Logan will talk about in a moment. But from a financial standpoint, our assumption is pending a major restart we'll continue to spend in the range where we've been spending. Maintenance cap ex, again, around \$15 million, and the investment programs, about which Wayne spoke, at Grundartangi and Hawesville, something on the order of \$15 million maybe a bit less.

And with that, I'd like to hand it back to Logan.

L. Kruger Thanks Mike. Let's move on to slide number 20. We have made measured progress at the Helguvik construction site and on the project generally through the year of 2010. Importantly, we continue to assess the project's attractiveness over the longer term.

On the prospect of both the capital cost and the plant's projected cost structure, we remain highly confident that Helguvik can be an attractive long-term investment. We continue to monitor very closely inflationary pressures around the globe and any impact that could have on the project's economics. Thus far, we have been able to maintain the original capital estimates.

The environment in Iceland remains complex on a number of fronts. That said, the progress of the Icelanders that has been made is encouraging. The financial system is returning to some normalcy and economic activity is looking a bit brighter, although unemployment remains high. We remain as convinced as ever that Helguvik will bring meaningful benefit to the country and a good majority of Icelanders continue to agree with that point of view.

At this point, the one remaining task is to come to final agreement with the power companies on the amendments to the power contracts signed in 2007. To ensure the projects long-term potential, we believe it is necessary to agree now on terms and the execution for the entire plant and not just for the first 90,000 ton phase. We are hopeful that these various issues will be resolved over the coming months, and that we will be preparing to resume major construction activity this year. We will obviously keep you informed of any significant developments.

Moving on to the final slide on the summary, slide 21. In summary, as evidenced in the data and the market conditions we are seeing, the environment looks reasonably attractive over the short-to-medium term. We are, of course, mindful of the very quick changes which can be brought about by geopolitical and similar factors. These positive contributions and conditions translate to our industry in the most respect.

The commercial activity and general sense of optimism we see amongst our customers, suppliers, and partners bodes well.

We cannot see how the increases in power and major raw material costs will abate any time soon. This cost push, coupled with the anticipated demand versus supply growth over the coming years, is providing support for the commodity price. Of course, the anticipated excess demand must begin to eat into inventory levels that have remained stubbornly high for the last period. The business is performing well. Grundartangi and Hawesville each had a very good fourth quarter, and that performance has continued into the New Year.

We don't take these results for granted, and I've been very pleased with our team's execution. We are also finally seeing some improvement in performance at Mt. Holly. And with that I'd like to thank you and move on to questions.

Moderator Our first question comes from the line of Brett Levy with Jefferies & Company. Please go ahead.

B. Levy Your 8% notes are coming up on a call price and a call date in May. Obviously the capital markets are much changed. Your financial performance is in a different place right now. What do you think the likelihood is that you take those notes out of their first call date?

- M. Bless Brett, no comment on that at this point in time. We're looking at that but no decisions and no comment.
- B. Levy Okay. I know you guys said for the Helguvik restart that everything seems to be kind of on the same cost for the phase one and the phase two. Assuming that you guys hit your target of restarting major construction this year, can you refresh everybody on sort of what the timing and amount necessary to be spent on phase one and phase two would be? Just sort of dollars per year and amount of production achieved.
- L. Kruger This is Logan, and I'll ask Wayne to chip in with any other comments if he'd like. I think phase one, just to remind everyone, it's a capital investment of about \$600 million, and it's about a 24 month construction period. We've got a good start on that, both engineering and being in the field. The next phases are approximately for 90,000 tons each about \$300 million to \$350 million each in total of about \$1.65 billion to \$1.7 billion over the full four phases, and that will be spread over some six years, approximately. You can use about 15 to 18 months between phases.
- We obviously update on a regular basis our contracts and quotes and bids, and so we are at this point in time still very positive and certain on our capital investment. Particularly on phase one for the first 90,000 tons, which is at a higher level because you have to put in the infrastructure,

particularly electrical rectification. Both Mike and Wayne may want to comment.

M. Bless Just one comment for clarification. As Logan said, total capital costs for the first phase of \$600 million, of which at the end of 2010 we've spent about \$130 million. So the estimate to complete is somewhere in the high \$400s.

B. Levy By the end of completion the total capacity of the plant will be what?

L. Kruger Three hundred and sixty thousand tons. It's the AP36 technology. So 360,000 tons per year.

B. Levy And that will be in year seven?

L. Kruger That's taking you to year seven. Again, it's dependent on power delivery over those various phases. Shelly may want to add some comments.
Shelly?

S. Lair Yes, I would say the seven years would assume continuous construction. It would be obviously our preference, but as Logan mentioned, it is contingent on the power availability.

L. Kruger And just as a reminder to everyone, although some years have moved on this is no different to the approach that we took at Grundartangi, which has worked pretty successfully.

B. Levy All right last question and I'll get back in queue. Is there kind of a target cash cost that you guys are aiming at in order to consider restarting Ravenswood? You have to get to, I don't know, \$0.90 or \$0.95 or whatever it would be.

M. Bless I'll just make one quick comment. It's hard to answer that question, Brett, because remember what we've said as we've gone through not only the analysis of this over the last 18 months, but negotiations with the power company and discussions with the political infrastructure in West Virginia. The contract that we need here needs to protect the plant at lower LME's, and so it's not just a—you can obviously read between the lines here—it's not that we just need a fixed cost at a reasonable long-term LME, whatever the analyst say it is today, would result in a reasonable cash margin. It's that we need something that will be flexible enough to protect the plant invariably when commodity prices fluctuate.

Wayne I don't know if you have—

W. Hale I think you hit it pretty well Mike. I think the key important points here are that we are in active discussions to conclude a power contract. And that,

in addition to, finalizing the labor negotiations of which we have put aside until we conclude the power contract, those two together will help us understand what the price point in the LME environment in which we are living whether or not we proceed.

B. Levy All right. One easier one. Puts for 2011, percent of total production in the United States that you've got puts on and the average put price that you've put into place at this point.

M. Bless We're going to start charging you there, Brett, for excess.

B. Levy I'm done after this I promise.

M. Bless It's alright. Good question. So the way we look at it is not on a total full production basis. We look at it as what we call unpriced production just to remind you, and to remind you what that is, that's total production minus the natural hedge embedded in the alumina linkage. So, on an unpriced basis averaged through the year now we're at about 40% of the unpriced total U.S. volume and that includes the incremental volume that we have coming from line 5. That's the volume we showed you on the 2011 modeling items page.

B. Levy And the price?

- M. Bless We don't disclose that.
- B. Levy Thanks very much.
- L. Kruger If you're looking at the screen you'll get the number.
- B. Levy Thank you sir.
- Moderator Our next question comes from the line of Dave Gagliano with Credit Suisse. Please go ahead.
- D. Gagliano Hi. Just a quick question on slide eighteen. Should be an easy one. Just the cash cost figures for 2011, that's very helpful. Could you give us the actual average cash cost in the U.S. and in Iceland for 2010?
- M. Bless David, I think we've tended not historically to give those data. I think, as you know, people have become pretty adept at sifting through the financials, the so called guarantor financials, which breakout pretty well Iceland versus non and getting a pretty good approximation for that. So I think we'd just rather keep it at that.
- L. Kruger David, it's Logan. Just a reminder, you could—the change that you have noted from 2010 to 2011 for the power costs at Hawesville, so— and I think we have indicated what that impact will be in previous discussions.

- D. Gagliano Right. Okay, and so in the Q4 '09 earnings presentation, i.e. a year ago, you provided the cash cost targets for 2010 of 1825 in the U.S. and 1700 per ton in Iceland.
- M. Bless Remember, to be comparable to that, look at the LME price at which both of those ranges are given. So to be comparable there plugin that same LME range into the costs that we've just given you on slide 18, and then you'll be able to calculate perfectly what the increase is.
- D. Gagliano And did those numbers— once we adjust it—did they actually come in as expected in 2010?
- M. Bless Yes pretty darn close. They're very close as Logan said.
- D. Gagliano All right. Perfect. Thanks.
- Moderator Thank you sir. Our next question comes from Paretoosh Misra with Morgan Stanley. Please go ahead.
- P. Misra Hi, guys. Two questions. Number one, could you talk a bit more about you're alumina purchase for Iceland in 2011? Are they going to be linked to aluminum or are they — there might be some from the spot market itself. And related to that, at the end of 3Q you had about 35% of

production that was hedged because of the alumina and electrical power contract, so what's the right way to think about that number as we look into 2011?

L. Kruger I'll ask Mike ... to give you the answers to that. ... Mike?

M. Bless Yeah, sure. So for Iceland alumina, obviously other than the small amount of direct volume on which I've commented in the last two quarters, that's a tolling arrangement there. And so the tolling price that you get is, as we've disclosed many times, a percentage of the LME. And the right way to look at that is that it's reflective of receiving 100% of the metal price minus the alumina content. We note that those totals were entered into some time ago. You can get all the detail on the 10-K. So they would be reflective of a tolling environment or an alumina environment at that point in time.

Your second question, again not to duck it, is a tough one because it's a combination of two things. One is the implicit alumina price that I just described. Sort of one minus the tolling fee, if you will. That's the first component to it, and the second component to it is of course the power price. Two issues there. One is its hugely variable, obviously, because it's linked directly to the LME. So it's going to be obviously at higher LME there's going to be a higher percentage of your cost of sales and the reciprocal at lower LMEs. And second is something that we have chosen,

and I think rightly so, it's highly competitive not to disclose in the past.

And in addition, we're precluded from doing so under the contracts themselves. Logan, I don't know if I've missed anything?

L. Kruger I don't think so. I think just you've got to think there's a small amount of tonnage, that Michael remarked, at Grundartangi, which was direct sales, and that's just outside of the towing arrangement, and I think there's about 3,100 tons —

M. Bless It's a little less than 5% exactly.

L. Kruger The business in Iceland is tolling so I think Mike's description takes it down the right path.

S. Lair And, Paretosh, I believe you're at 35%. That was a blended number for the U.S. and Iceland. Is that right?

P. Misra That is correct.

M. Bless It's tough—it's a number but I'm not sure how helpful it is, frankly.

L. Kruger You've got a number of moving parts, and the parts obviously decides the alumina pricing is also the power price in Iceland. So I think Mike's given you guidance on this for you to think about.

- P. Misra That's fair enough actually. Thanks and good quarter. I thank you.
- Moderator Our next question comes from the line of John Tumazos with Tumazos Independent. Please go ahead.
- J. Tumazos John Tumazos here. In the second half, when Chinese output fell 16% from June to November there were no large inflows of imports into China. Do you understand how their consumption or apparent consumption fell so much where they use plastic or steel in building materials, etcetera? And secondly, with the deliveries into the warehouses in January and February global apparent demand, it appears down 1% to 2% for the first quarter. How do you interpret that?
- L. Kruger John, I'm not sure I'm going to be able to answer it in any way that's going to be of great help to you, but if you look at Chinese IP growth in last year was about 15%, 2010, but the year before, China had ramped up its total production to around capacity of about 18 to 20 million tons. There's some debate about that. So two things happened in China in the last six months of 2010.
- One, there was a restriction on power consumption to achieve certain environmental targets, and secondly, there was a bit of a requirement for people to turn off the use of power intensive industries, and there were a number of provinces in China that were affected. All in all, I think that

drew on stocks that were already available in China. In fact, there is some indication that the Chinese sold out of their strategic reserve of metal as well.

So I think the demand physically and what China was producing, plus the stocks that were liberated, kept China about whole last year. I think what we're debating now is how quickly in 2011 the curtailed capacity comes back, and there's some debate about that both from a weather, economics, and a power cost and availability discussion, and how much demand, or apparent demand as you describe it, grows. The last number we had was about 15% to 16% of IP growth.

So I think that's the equation, and you saw in our notes of our discussion, John, that we saw some higher imports in China in January versus December of metal. So hopefully that helps you. The second question, would you like to just repeat it, and I'll see if I can give you an answer?

J. Tumazos The inventory deliveries to exchanges was about 325,000 tons so far in the first quarter combined with world output below the June levels that work out to something like a 1% to 2% apparent demand decline, and I was wondering how you—

L. Kruger I'm not sure can interpret it like that. I think you have to take into account some of my remarks earlier, which said that inventories came onto the

LME because people perhaps reassessed their financial activities of these metal stocks. Mike?

M. Bless Yes. I think actually I was going to say the same thing as Logan just in a different way. I can't see your math, John, but it sounds like what the implicit assumption in your math is that those inventories additions into the warehouses were new production. Whereas I think most market participants believe that they were simply stocks that were sitting in one place going into an LME warehouse where it's counted in a different way, and so I don't know if that's what you're doing but—

L. Kruger I agree. I think that's what most people seem to think, John.

J. Tumazos Right. All I'm doing is taking production that is less plus inventories that are rising.

M. Bless Yes. So I think—

J. Tumazos Mike, if I could be a pest on one more item. The U.S. Aluminum Association reported a 2% decline in wire and cable shipments last year for the North American region. Is that at all in any way an indicator of a lack of substitution for copper, and do you know of anybody in the wire and cable business building new wire mills to help aluminum take share?

L. Kruger I really can't make an observation on that —

J. Tumazos Southwire is a customer of yours.

L. Kruger But I can tell you that demand for cable sourced wherever, including the U.S.A., is high, and I think I've tried to do it in the speaking notes, John. We think the numbers support that substitution was in the hundred thousands of tons traditionally and those are what the numbers indicate. What we are questioning and a lot of people are trying to think through is that four tons multiple of copper to aluminum. Does that substitution number change greatly?

J. Tumazos Thank you.

Moderator At this time speakers, we have no one else in the queue.

L. Kruger Thanks very much to everyone for joining us on the call today. We look forward to speaking to you again at the end of the next quarter. Thank you.