CENTURY ALUMINUM COMPANY: First Quarter 2013 Earnings Call

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SPEAKERS

Enrique De Anda – Senior Corporate Financial Analyst
Michael A. Bless – President and Chief Executive Officer
Shelly Harrison – Vice President and Treasurer

PRESENTATION

Moderator Welcome to the First Quarter 2013 Earnings Conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Instructions will be given at that time. As a reminder, today's call is being recorded.

I would now like to turn the conference over to our host, Mr. Enrique De Anda.

E. De Anda Hello 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 related to future events and expectations including our expected future financial performance, results of operations and financial conditions. These forward-looking statements involve important known and unknown risks and uncertainties which could cause our actual results to differ materially from those expressed in our forward-looking statements. Please review the forward-looking statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties.

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

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

M. Bless Thanks, Enrique. Thanks everybody for joining us this afternoon. If we could turn to slide four please—give you a quick review of what we've been working on over the last couple of months. First just to set some context on the macro-environment, it's been reasonably difficult to read recently for us and I think similarly for many of you. End-market demand in our key vertical markets in the U.S. remains decent. We've had a couple of segments off a little bit from a growth perspective over the last couple of months but most remain pretty good. No real change in any other developed markets. Conditions in the eurozone, as you know, remain reasonably poor. Data from China indicate some slowing, though it's difficult at this point to find any real trends there in our opinion.

We've obviously seen a significant sell off in the prices of all commodities. The price action has appeared seemingly indiscriminate with no evidence of most of the normal relationships and correlations to which we are all accustomed. It's difficult in our opinion at this point to call where things are heading here over the next couple of quarters. And, thus, as we execute our strategic plans, about which I'll talk to you in a moment, we're being careful to build in some good flexibility.

Let's move on. We had a very good quarter in the operations. Most importantly our safety performance remains flat to a very good fourth quarter of last year. We remain very focused on programs to identify areas with the potential for serious injury and obviously to prevent those kind of accidents before they occur. The operations have remained stable, production volume/efficiency metrics all remain very good. Costs are also stable, and Shelly will give you some more detail on that in just a moment. This safety and operating performance is especially notable at Hawesville given the uncertainty surrounding the power contract at that plant.

Now let me bring you current on what's being going on in Kentucky over the last couple of months. As you remember, as we told you in February, we had sought a simple legislative solution to the issue there. The legislation would have allowed the two smelters in the state to access power directly from the competitive wholesale markets. As you probably know, the smelters are by far and away the largest consumers of electric power in the state. We weren't seeking any other help; we weren't seeking any subsidies or anything like that. As we've said before and as we'll continue to say, Hawesville remains a viable plant with a market power price.

Regrettably this solution, which we thought was a pragmatic one, failed in the legislature and for that reason over the last month we've resumed direct negotiations with the power supplier. We're trying to reach an arrangement that would accomplish, in essence, the same thing as the legislation would have, at least from an economic perspective for Hawesville. While we are not there yet, I can say the discussions with the power provider have been pragmatic and productive over the last couple weeks.

Given that we didn't have an agreement yet, we recently needed to give a four month termination notice to our largest customer as required under our contract with them. And at the same time, we issued a Conditional WARN Notice to our employees at the plant. I can't overstate that we're doing everything we know how to find a solution to keep this plant open.

As I said before, we've got a safe and increasingly efficient and productive operation in Kentucky. We've got a truly talented and dedicated group of employees committed to that plant and to the communities in which we operate. In my couple of decades in industrial businesses, I can easily say that I haven't seen a group of talent so broad and deep as we have there and that's just one of the reasons that we remain dedicated to keeping this plant running. And with the market base power and the flexibility on how we are able to buy it, we continue to believe this plant will have a long life.

Moving on to Ravenswood, the reopening of which remains a priority for us, we also believe Ravenswood could be a productive plant with a long-term future like Hawesville based on the emerging energy environment in this country. We continue to work on a solution to bridge the remaining gap in the effective energy price. We're very grateful for the support that we received from the governor of West Virginia and other key state leaders, and we want to make sure we're able to prove to them that their efforts were worthwhile.

Lastly at Grundartangi in Iceland, we continued to work on our two major investment projects there. Both of these projects will create long-term value at this already excellent plant and thus we're continuing to execute these projects, as I said a moment ago, despite the current difficult macro-environment.

I'll just remind you what the two projects are. The first is the expansion of the plant's hot metal capacity. It will increase it about 15% from where it was when we started this project. Project will take another three maybe four years and as we've told you before, these new tons will come on at a very attractive invested cost. We're already seeing good benefit from this project. This past quarter, the Q1, Grundartangi produced at an annualized rate of 288,000 metric tons.

The other project, as you remember, is the restart of the anode plant in Netherlands that we bought out of bankruptcy. This will balance the anode supply we receive from our 40% owned affiliate in China called BHH. And in addition, it will improve Grundartangi's cost structure.

If we could turn to slide five please, I'll just make a couple of comments as normal about the market. The cash LME price in the quarter averaged about $2,000 per metric ton—that was flat to Q4. During the first couple of months of the quarter, the price traded in a reasonably tight range—about $2,000 to $2,100 is where it look liked it had settled in. And then, of course, we saw the rapid drop in March below that $2,000 support level. Regionally the price looks like it's settled in again at least in the near-term at a range of about $1,850 to $1,900 a ton and sitting here this afternoon, we're trading a little bit above the high-end of that range.

This price action has occurred consistent with all other industrial metals, as you know, and most other commodities. This in the face of fundamental data, as I said a moment ago, in most regions that remain stable if not robust. Therefore, we believe that speculative activity and other forces are at work in driving the prices of these commodities, in addition, of course, to legitimate concerns about global fundamentals.

LME stocks were relatively flat during the quarter. They were up only 27,000 metric tons, however, we do know that other stocking did take place around the world. For example, China State Reserve Bureau bought a couple hundred thousand metric tons this past quarter.

Premiums have remained at historically high levels. The U.S. Midwest Premium still trading just shy of 11.5 cents a pound. The duty paid European premiums softened a bit this quarter but it is still at $280 a metric ton, obviously very high in historical context. Japanese demand remains strong as reflected in a very strong premium of about $250 a metric ton.

Couple of quick comments on alumina before we move forward, the average spot price during the quarter was up a bit—averaged about $330 a metric ton. It's come off just recently just a little bit. It's now trading in the low to mid $320 per metric ton and on a global basis, we believe this market remains balanced to in modest surplus, but as you know, there is significant regional variances.

If we can move on to slide six please, we've updated this cost curve for you. Just as a reminder, we state these costs adjusted for all premiums thus the data at which you're looking are directly comparable to LME prices. So, if you take a look there at the chart, you'll see about 45% of global capacity is now operating at a cash loss. A significant portion of those fourth quartile producers continue to be in China. We are seeing some cutbacks around the world. Some of the higher cost regions in China have cutback some capacity, a little bit in Europe, and RUSAL, within the last month or two, has announced some capacity curtailments. But having said those actions aren't offsetting the new capacity that's coming on in Western China, where the power prices are lower, and in the Persian Gulf.

If we can move along to slide seven please—a couple of quick comments about the operations. As you can see here, operating metrics remain evident of a stable operation, as I said before. Safety performance is generally flat across the operations, as I said, versus a very good performance in the fourth quarter. We did see a little bit of a pick up in incidents at Hawesville in January, and we're focusing on that and managing it very closely again given the environment of the plant.

Production volumes were good across all the plants. Hawesville was down just about 0.5% on a per day basis quarter-to-quarter. Shelly will give you some more information on that. Mt. Holly, as you remember, was down slightly in Q4 and as we predicted, came back with a very good performance in the first quarter. Production metrics and efficiencies are good across all the plants and also as you can see, conversion costs, good performance across the board, and Shelly will give you some more detail there.

With that, I'd like to turn it over to her.

S. Harrison Thanks Mike. You can turn to slide eight please. I'll take you through the company's financial performance for the quarter. Average daily shipments were flat Q-over-Q but because Q1 had two less days total shipments were down 2% in the quarter. Shipments at Mt. Holly were up along with production, but Helguvik experienced a reduction in shipments due to higher pot failures in the quarter as well as timing of shipments.

In Iceland, we had direct shipments of approximately 5,800 tons in Q1, which is higher than we’ve seen in recent quarters. We expect that total and direct shipments will balance out over the course of the year to be in line with the forecast that we provided in Q4.

The average cash LME price was essentially flat Q1 over Q4 but on a one month lag basis, the LME price was up about 3.5%. When you look at our realized unit prices in the U.S., they were up just under 3% quarter-over-quarter so pretty much in line with the change in LME. In Iceland, our realized unit prices were up 5%, which reflects the impact of higher direct shipments during the quarter.

Moving on to the income statement data, net sales were up 1% Q1-over-Q4. The increase in the aluminum price drove net sales up by $9 million or 3%, but lower shipments offset a portion of this impact during the quarter.

Turning to costs, in our last earnings report, we put out an estimate of our U.S. and Iceland net cash costs for 2013. As you may recall, the format we use takes cash cost on a per ton basis and deducts premiums so that they're truly comparable to the LME price. On this same basis, our U.S. net cash costs were up about $40 per ton from 1,976 in Q4 to 2,015 per ton in Q1. This reflects the impact of higher LME linked alumina costs as well as the impact of spreading fixed cost over the lower shipment volume in Q1. This impact was partially offset by improved carbon costs in the quarter.

On LME adjusted basis, Q1 actual results were about $35 per ton higher than our forecast of $1,979 per ton primarily due to higher than anticipated labor cost at Hawesville as well as cost associated with the power contract negotiation. In Iceland, net cash costs were basically flat quarter-over-quarter at about $1,580 per ton. The LME linked power cost for Grundartangi are based on current month LME, which is also essentially flat compared to last quarter. Q1 actual results for Grundartangi were almost $40 per ton favorable to our forecast of 1,619 per tonne due primarily to lower carbon cost and higher total shipment.

In the first quarter, we saw SG&A up $6 million over Q4. This increase relates primarily to severance and other costs associated with the corporate headquarters relocation to Chicago as well as an increase in legal fees. In Q2, we expect legal fees to remain elevated due to some outstanding litigation and other items. For the relocation, we expect to incur additional charges of approximately $5 million over the next two quarters for a total of just over $7 million in 2013. By Q4 of this year, the relocation should be essentially complete.

Moving on to adjusted operating income, we had a couple of adjustments in Q1 in addition to our normal adjustments for depreciation and lower cost or market inventory adjustments. Let me take you through those. In March, we reached final settlement on a legal claim related to the Ravenswood plant for $2.2 million less than the amount reserved on our balance sheet. As a result, we removed the benefit from this adjustment when calculating adjusted operating income. As I touched on before, we had a $2.2 million charge in the quarter related to the corporate headquarters relocation, which we also excluded from the calculation. So on this basis; you can see that adjusted operating income increased $3 million from Q4 to Q1.

Continuing down the income statement, we had a quarterly adjusted loss of $2 million or $0.02 per share on total common and preferred shares. In addition to the adjustments I just mentioned, we also exclude a $15.7

million gain related to a write-down in the value of a contingent obligation. As you may recall, when we unwound the Hawesville power agreement in 2009, we entered into a contingent obligation with the former power supplier, and this amount is only payable to the extent the LME exceeds a specified threshold. Based on the forward screen at quarter end, no payments will be required for life of the agreement, and the contingent obligation in our balance sheet was reduced to zero.

Lastly on this slide, I'll just make a couple of quick comments on cash flow. As you can see here, cap ex for the quarter was $9 million. This includes $7 million for Grundartangi of which $6 million related to the expansion project. We also spent just under $2 million on Helguvik capex during the quarter. We expect Helguvik spending for the rest of the year to be less than $1 million per quarter unless there is a change in the status of the project. So, quarter-over-quarter, cash was up $11 million, and we ended March with $195 million on the balance sheet. Let's go on to the next slide, and I'll take you through the changes in cash in a bit more detail.

On slide nine, we show our normal cash flow waterfall bridging Q4 to Q1. We paid $11 million in taxes in Q1 most of which relates to an $8 million withholding tax payment that will be refunded to us in November. The remaining $3 million is primarily related to estimated payments of income tax for Iceland. The last thing I wanted to point out in this slide is the significant inflow from working capital. As I noted during our Q4 call, we expected this inflow in Q1 due to timing of metal deliveries right around year end.

With that, I'll send it back to Mike to talk about priorities for Q2.

M. Bless

Thanks, Shelly. If we could just turn to slide 10 as Shelly said, we just want to give you a quick sense of some of the things on which we'll be working here over the next couple of months. As you would expect, reaching an agreement with the power supplier in Kentucky is our most urgent near-term priority. Any preliminary agreement that we would reach would be subject to the completion of detailed documents. It would also require the approval of the Kentucky Public Service Commission and numerous other entities.

Time is getting reasonably short so we are very, very focused on finding a solution here. Upon reaching even a tentative agreement, even one that would require all the approvals and other work that I just mentioned upon reaching a tentative agreement, we would, of course, make the public announcement. So you would know it as soon as we got there.

At Ravenswood, we'd like to be in a position by the end of the quarter to know exactly what we have. On the one hand, we have the arrangement as approved by the Public Service Commission last fall. And on the other hand, we have the alternative on which we've been working. Once that is completed, we'd have all the information that's required to make a decision as to whether a restart of this plant is feasible in the current environment.

Discussions with the existing power suppliers in Helguvik have continued over the last couple of months but at a reasonably slow pace. As a reminder, the problem continues to be the weak financial condition of those two companies. The national elections in Iceland are this coming Saturday, the day after tomorrow, with the polls indicating a strong preference for the two political parties who are in government for most of the last decade. That said, as you may remember that's when we more than tripled the size of Grundartangi and signed all the agreements with the government and other entities for Helguvik.

As a reminder, this project is ready to recommence, the only requirement so the completion of those power contracts and an assurance that the transmission will be in place when this smelter is ready to produce. We're hopeful that the environment post elections will be conducive to getting this great project going again. And lastly, Shelly mentioned the corporate office relocation—obviously we'll be working on that, and we believe it will come in on time and under budget so that when we talk to you in July to report the second quarter we'll be talking to you from our new offices in Chicago.

With that Enrique, why don't we turn it over for Q&A?

E. De Anda — Aretha, we're ready for questions.

Moderator — Our first question comes from Dave Gagliano from Barclays.

D. Gagliano — My first question—I just wanted to verify it looks like obviously the cash cost for the first quarter in the U.S. were above the full year targeted range. Are you sticking with the full year targeted range—that $1,970 to $2,020 for U.S. operations or is that still a reasonable range for the year?

S. Harrison — We are, and one thing I would point out Dave, is that that's actually through August for the U.S. That does not include any change in the power contracts for Hawesville. We'll update that later in the year once we have a better understanding of what that contract will look like.

M. Bless — I'll just add to that, Shelly mentioned some of the reasons that we were a little bit above that forecast and she mentioned labor costs. And the one of the reasons we're, as you say, sticking with that forecast—I'd say still comfortable with the forecast—is that the labor cost, the reason it was up, was a temporary situation. As Shelly noted, production volumes at Hawesville during the quarter were a little bit under what we expected. We had a few more pot failures—maybe six or seven more pot failures—than we had planned for and expected. We're through that now. We're back to a full pot complement and so for that reason, we remain comfortable that we'll get back to where we need to be.

D. Gagliano — So, just to clarify the average for January through August for the U.S., you're still expecting to come in at $1,970 to $2,020 per ton?

M. Bless — At that LME range, you got it.

Moderator — Our next question comes from David Olkovetsky from Jefferies.

D. Olkovetsky — So first I'll get Brett's usual question out of the way. Can you give us a little sense for what's going on in the put market for aluminum right now?

M. Bless Nothing; nothing in our book right now. We're unhedged.

D. Olkovetsky Then I apologize; I hopped into the call just a few minutes late so I'm not sure if you mentioned it, but can you just give me a better understanding of the $15.7 million adjustment? What exactly is that and is there still liability on the balance sheet for the E.ON contingent liability?

S. Harrison The net impact on the balance sheet is zero at this point in time. I won't get into the detailed accounting but to put it simply, the net impact is zero and that is because at the current forward screen there would be no payments required under that obligation.

M. Bless So it's a non-cash charge, just so everybody knows, and it was as Shelly said a contingent obligation that was on the balance sheet. It's pretty simple. You just take the forward curve and you discount what the payments would be under that forward curve back to the present like you'd value any asset or liability I suppose. Based on where the forward curve is today there is no liability when you calculate that, so we wrote off a liability which results in income.

D. Olkovetsky Can that liability then reappear?

M. Bless — Absolutely; great question. We hope it does because that would mean that the metal price has gone back up. It's not unlike accounting for—although you don't fair value it exactly the same way, but it's not unlike accounting for a put option. For the same reason, we hope that liability goes back on the books because it will mean that the curve is shifted upwards.

S. Harrison — And just as a reminder, if it does go back on the books, then it would only pay out in periods when the LME does exceed the specified threshold, and it's payable over a period of six years. So the cash impact is spread out over quite a long period of time.

Moderator — Our next question comes from Timna Tanners from Bank of America.

T. Tanners — So a lot of this conference call sounds like last quarter's conference call except that Hawesville is getting closer to a decision. And it seems to us like either way it could be good. If you have to shut it down, although regrettable, it's been loss-making and if you can get a power price that's viable, then that's positive. But I guess I want to see if that's a fair assessment and then also how far can the aluminum price for that assessment of viable with market power prices still be reasonable?

M. Bless Yeah.

T. Tanners Does that make sense? So how far—?

M. Bless No, actually it all made sense. No it made perfect sense. So kind of two parts to your question if I got it right—the first I would agree with other than I'm sure you would expect I would sort of characterize differently. I wouldn't say either would be good. It would be devastating to us if we had to close that plant for a whole host of reasons. That having been said, your assessment is correct. If we couldn't get a power deal representative of a market power price, we would indeed close the plant, and that as you say Timna, would indeed close off an asset right now that's making cash losses. So your points are exactly right.

On the second part of your question, aluminum prices would have to go below where they are today. Just to remind you, we cited this figure before. The difference right now between the price we're paying the power provider under the contract that expires on August 20th and the market power price—the sort of fully delivered market power price; if you just went out to the marketplace and looked at your screen and then added the transmission tariffs and the other sort of ancillary fees—equals something shy of between \$200 and \$250—probably between \$225 and

$250 per tonne of aluminum. You multiply that by 250,000 tons of production capacity at Hawesville, and you get a sense of how sensitive that cash flow is to that power price. So it's hard to answer your question because you'd be assuming, obviously, that the power prices would remain constant if aluminum prices would be to fall, but certainly in the current environment and even below the current environment, the plant makes cash flow at a market kind of power price.

T. Tanners — I guess again just making the comment that some of these things are moving fairly slowly. So, on the July call we should expect to hear from you from Chicago. We should expect to have a decision on Hawesville, and we may or may not have a decision on Helguvik or Ravenswood. Is that what we should see?

M. Bless — I think you nailed it, so yes Chicago, obviously. Hawesville, yes if by July when we report— I guess Shelly and Enrique we report towards the end of July, so that we would at that point in time have a decision one way or another and your characterizations of the others are correct.

Moderator — Our next question comes from Sal Tharani from Goldman Sachs and Company.

S. Tharani — At Hawesville, your largest customer I believe is Southwire. Is that correct?

M. Bless — That's correct.

S. Tharani — Are you having discussions with them in case you have to shut it down?

M. Bless — Yes. As I said in my comments, and we actually—let's see this would have been a week before last, we did need to issue them, as we've said before our contract with them gives us the right to terminate at our sole option but with a four month notice, therefore August 20th you back up four months. So we did issue to them that formal termination notice. I think it was either last week or the week before last perhaps.

As you would expect, we talk to them every day and so they knew it was coming. We continue to talk to them, and we would continue to like to supply them hot metal assuming the plant runs post August and based on what they said to us, we believe they'd continue to like to take hot metal at their Rod Mill next to our plant, assuming Hawesville continues to make hot metal after August 20th.

S. Tharani They also knew that they had made some contingency plans and have invested some money as this thing was known for almost a year and brought some equipment to have alternative source. Is that correct?

M. Bless As you would expect, I would never make any comments for any third-party especially a very good customer so you have to ask them.

S. Tharani I was just wondering if that's the case and even if you get the electricity contract, would you lose any of your business or you think your business will be same as before in terms of volume you ship over there?

M. Bless Fair question. We were very confident Sal that irrespective of whether we were to sell to or the full volume or any volume but let's say the full volume to Southwire or not, we'll sell every ton we produce at Hawesville. And as I said before, we're reasonably confident based on discussions we've had with them that they'd like to continue to buy from us. So, this will all be discussed as we move forward, and hopefully as we can report sometime soon, that if we get to the finish line that we have an agreement here.

S. Tharani — Switching to Ravenswood, are you looking for a similar pricing arrangement as Hawesville? You're asking on sort of based on the futures curve of the spot market or the forward market?

M. Bless — Yes that's an excellent question and an intuitive one. So, yes there is a potential there though the solution as you may remember—you can go look at it. It's filed on the West Virginia Public Services Commissions website, but the solution that they approved last September and then finally confirmed in December doesn't contemplate Ravenswood purchasing from the competitive wholesale markets. That having been said—and we talked about this during the February call, Sal, there is a potential when we talk about bridging that gap i.e., getting what we have on the table today and kind of getting it to what we would need to have in order to reopen that plant. There is the potential to access, in whole or in part, the wholesale market, competitive markets to do that so that's a longwinded yes to your question.

S. Tharani — Is power contract the only thing left for making the decision? Is labor settled?

M. Bless — No, it's not. No, no, no. That's a very good question. Labor is not settled. Not because there is any conflict, just because we haven't sat down with the union to sort of finalize that. We've had a lot of preliminary discussions, but both sides have said to the other kind of, look until there is a power contract—unfortunately, you can't really parallel this one. It's really a serial process. So, unless and until there is a power deal that works for us to sit down and finalize that labor contract just doesn't make any sense. But we're reasonably confident that could be done in a reasonably quick period of time once we got to a power arrangement that we thought would work.

S. Tharani So, is it fair to imply that electricity contract is a bigger hurdle than the labor contract at Ravenswood?

M. Bless Much.

Moderator Our next question comes from Richard Garchitorena from Credit Suisse.

R. Garchitorena My first question, I just wanted to touch on the cash costs. Can you remind us your exposure to nat gas—I believe the power contract in Mt. Holly has some tie to that and then what's the exposure there?

M. Bless Yeah. It is tied to that mostly now. There are periods in which it's less tied than others, but mostly it is through, at least December 2015, while the current amendment is in place, it is tied. Just to give you a sense the power cost quarter-to-quarter at Mt. Holly were about flat Q4 to Q1. And Rich, we haven't published—perhaps we will next quarter if it's something that people are interested in—sort of sensitivity like we've done in the past. For example, you may remember—although it may have been before your time before you were covering the company back when we owned half of the Gramercy refinery and were thus a big buyer of natural gas. We used to publish a sensitivity—i.e. so many millions of dollars of cost or cash cost or cash flow per dollar of MMBtu. We haven't done that yet, but it's something that we could certainly do, and we'll take that on board and do that.

R. Garchitorena Well, yeah, I do recall that. I guess the question is if it's it going to be a material impact for the second half cash cost given where current spot prices are.

M. Bless Yeah, I mean power cost could be up given where the spot is right now. We're not hedged there by design. We didn't want to hedge that and obviously the price has done what it's done here over the last six to eight weeks so we'll see where it comes. But that could give rise to some increase power cost at Mt. Holly, no doubt about it.

R. Garchitorena Then my second question is you had some commentary about the coming elections in Iceland. Can you just talk about what you're currently working on there, what you think may occur and how that's going to impact the project?

M. Bless Sure. We're not working on anything. We're sitting patiently waiting but as you may remember just some quick history. So the political parties that formed a government in Iceland during most of the last decade and frankly through almost all of Iceland's post World War II history was a combination of parties that are reasonably pro-business. They're called the Independence Party and the Progressive Party. And those parties left the government—were voted out of the government—as a result of the financial crisis and the crash through which Iceland went in 2008 and 2009.

And then this new government came in 2009 that was comprised of— they have a parliamentary system there—I'm sure you're familiar with how that works—comprised of two parties, the Social Democrats and the Left Green parties. As you can guess, their platforms and philosophy are less friendly towards heavy industry for a whole variety of reasons than the others.

And so and all the polling have said, continue to say that, that those two parties that have generally been in government—the Progressives and the Independents—will be the two winning parties on Saturday. And thus we just believe that perhaps the environment there has been conducive.

The existing government has done some positive things no doubt, but we believe that perhaps in this post-election environment we may get the momentum we need to sort of push a few things over the goal line. I mean the project really is ready to go, and it really is in our view. We're biased, of course, but when you read Independent people's view like the IMF and others, the project really is an important one for Iceland. So we've got some optimism here going forward.

R. Garchitorena Then in terms of the financing that you have secured, is there any deadline or any expiring for that where we had to negotiate or?

S. Harrison Richard, as we had mentioned before it's not a committed financing. It's something we worked on for a significant period of time. We have a 50+ page term sheet. We've negotiated all the details, but it's sitting on a shelf for this period of time, so it's not committed. There are no deadlines.

Moderator Our next question comes from Dave Gagliano from Barclays.

D. Gagliano

Sorry to drag on a little bit, just a quick follow up. On the Hawesville, I was wondering if there was a way for you to frame the EBITDA contribution in a $1.09 realized price environment like we had in Q1 from Hawesville?

M. Bless

The realized price or the delta, if this is where you're heading Dave, in the current power price we're paying versus a market price is insensitive. There is no sensitivity to the ally price because it's a reasonably fixed tariff we're paying today. Of course it changes based on the power providers cost of operations, but it's reasonably fixed. And then market power prices in the U.S.—energy prices—are certainly not fixed. They trade up and down every day but they have no formal of course correlation or relation to the ally price.

And so there is no sensitivity there. The math is pretty simple. It's just that $15 delta about which I talked, times the utilization rate at Hawesville. So it gets you up to maybe let's call it $225-ish per tonne of aluminum and then you multiply that by 250,000 tonne. So as we said, its $50 million plus in EBITDA on an annualized basis, pardon me.

D. Gagliano — Actually what I was trying to get at was really what is the cash cost at Hawesville right now. I'm just trying to frame what might change if it's shutdown and in terms of the financial impact ….

M. Bless — We've given you obviously U.S. and Iceland distinct costs—both actual and forecast. We haven't broken out, David, Mt. Holly and Hawesville in the U.S. That's getting on some reasonably competitive data there, and we just haven't done it and would prefer not to.

D. Gagliano — Just a follow-up then just on the cash cost between Iceland and the U.S. - can you give us the volume split between Iceland and the U.S in the first quarter?

M. Bless — Sure.

S. Harrison — Yeah so shipments for the U.S in the first quarter were 88,000 tons; for Iceland 71,000 tons.

Moderator — We have a question from David Olkovetsky from Jefferies.

D. Olkovetsky — Just a couple of quick follow ups here—housekeeping, income statement stuff. So in the first paragraph you have a $2.2 million litigation reserve, the $15.7 million contingent obligation, and the $2.2 million severance. I just wanted to know what line items in the income statement those three were in.

S. Harrison Let me go one by one. So the severance and relocation costs are going to be in SG&A. The litigation reserve adjustment is going to be in other operating and what was the third one you mentioned?

D. Olkovetsky The E.ON contingents.

S. Harrison E.ON is going to be —you'll see it. It's clear on the income statement.

D. Olkovetsky That's the $15 million and change one?

M. Bless It's a discrete caption on the income statement.

S. Harrison Yeah, it will pop out at you.

D. Olkovetsky Yeah, okay, that's what I thought. I just wanted to make sure that's the right one. Okay that's it, thanks.

Moderator Next we have John Tumazos - a private investor (John Tumazos Very Independent Research).

J. Tumazos I may not understand the accounting right but I just wanted to run through this exercise to show how many degrees of freedom we have. My understanding is that auditors look for enough liquidity to get through the next year. The exercise would be nine or ten months from now in closing the 2013 books. And you probably have enough liquidity to get through the next three or four years, but could you run through first your liquidity and debt maturities, which I think are the principle tests for certain accounting tests? And then, second, would the Grundartangi smelter operating alone be enough to carry your company?

M. Bless Sure. So, let me have Shelly take the liquidity. That's pretty straight forward answer.

S. Harrison Yeah so as I mentioned, we ended the quarter with $195 million of cash on the balance sheet. In addition to that, we have our revolving credit facility. We don’t have any borrowings against that facility at this time but we do have letters of credit. So our net availability on that is about $50 million, so that would be our general liquidity position.

M. Bless On the second question John— I'm not quite sure how to when you say carry. Certainly from a…

J. Tumazos Would you have positive cash flow running just that smelter?

M. Bless Oh, sure absolutely; that's an easy one.

J. Tumazos And with the other ones idle?

M. Bless Sure, absolutely.

J. Tumazos So it would pay for the front office.

M. Bless It doesn't take much but yes sir it would indeed.

J. Tumazos And would pay for your interest expense too.

M. Bless Yes, sir.

J. Tumazos So if the aluminum price fell a couple of pennies and you idled some smelters, you're able to get over that bump in the road?

M. Bless — Absolutely. From a liquidity standpoint, yes John.

J. Tumazos — Thank you. I just wanted to – everybody’s probably thinking this and not asking it, I just thought I’d ask the tough question. Thank you.

M. Bless — Thank you.

Moderator — We have a question from Paretosh Misra from Morgan Stanley.

P. Misra — One quick question on your power costs in Iceland at Helguvik. I know it's linked to LME aluminum price but does that link to the current month LME or is that maybe a three month lag aluminum price?

S. Harrison — Yeah, at Grundartangi it's current month LME.

P. Misra — And your pricing is also based on current month LME not one month lag, right?

S. Harrison — The total is one month. The total one month lag; power contract current month.

Moderator — We have a question from Paul Massoud from Stifel.

P. Massoud — I mean you touched on South, the contract with Southwire but I was curious about the contract with Glencore from Hawesville. I mean if Hawesville were to shut down are there obligations that you'd have to fill from Mt. Holly or would that also be canceled with the shutdown at Hawesville as well?

M. Bless — That's just a sweep contract. So they take whatever free metal is there. So - but definitionally, if there were no metal there, there's no obligation.

Moderator — We have no further questions in queue.

M. Bless — We appreciate everybody's time this afternoon and look forward to talking with you in a couple of months.