Transcript

CENTURY ALUMINUM COMPANY: 4th Quarter 2007 Earnings

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SPEAKERS

Logan Kruger – President and Chief Executive Officer
Wayne Hale – Executive Vice President and Chief Operating Officer
Mike Bless – Executive Vice President and Chief Financial Officer
Shelly Lair – Vice President and Treasurer

PRESENTATION

Moderator: Ladies and gentlemen, thank you for standing by, and welcome to the 4th Quarter 2007 Earnings conference call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question and answer session with instructions being given at that time. As a reminder, this conference is being recorded. I'd now like to turn the conference over to our host, Miss Shelly Lair. Please go ahead.

S. Lair: Thanks, Rochelle. Good afternoon, everyone, and welcome to the conference call. For those of you joining us by telephone, this presentation is being webcast on the Century Aluminum Web site, www.centuryaluminum.com. Please note that Web site participants have the ability to advance their own slides.

The following presentation, accompanying press release and comments include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to future events and expectations and involve known and unknown risks and uncertainties. Century's actual results or actions may differ materially from those projected in these forward-looking statements.

These forward-looking statements are based on our current expectations, and we assume no obligation to update these statements. Investors are cautioned not to place undue reliance on these forward-looking statements. For risks related to these forward-looking statements, please review Annex A and our periodic SEC filings, including the risk factors in management's discussion and analysis sections of our latest annual reports and quarterly reports.

In addition, throughout this conference call, we will use non-GAAP financial measures. Please refer to the appendix, which contains the reconciliation to the most directly comparable GAAP measures. This presentation, including in the appendix, is available on our Web site.

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

L. Kruger Thank you, Shelly. Welcome, all of you, to the fourth quarter conference call. Joining me today is Wayne Hale and Mike Bless. I also have here in Monterey, Bob Nielsen and Steve Schneider. If you'd like to turn to slide four, we'll get on with the program for the day.

2007 has been a successful year. We've managed through some obstacles. As you all know, the cost pressures, particularly on raw materials and power has been a challenge for the whole of the industry. We set up for the company to take advantage of what we see as favorable mid to long-term environment. The aluminum price market is robust, and we believe these will continue. The LME averaged $2,640 per tonne for 2007, approximately 2.7% over 2006. The increase is due to ongoing robust demand in the Far East, mainly China, but there's ongoing growing demand in other BRIC countries, and particularly of interest is India.

All the plants are operating well. Production has been at or above capacity at all the primary facilities. We've made significant progress in our projects in Iceland, and we'll talk about that in a moment.

We've also advanced our projects in Jamaica, the Republic of the Congo and China. Particularly in Jamaica, we secured bauxite resources to progress the Jamaican refinery project to pre-feasibility study.

Our financial results are strong. Cost pressures remain and we have to deal with it. Record shipments and record free cash flow of $250 million is for the year. Overall, a strong 2007, and we've had a good start to 2008.

If we move on to slide five, the Grundartangi expansion has been a whole-hearted success. We've nearly tripled our capacity over the last three years, and this has been done on-time and on-budget, despite the ongoing cost pressures that we've mentioned. We energized the last pots at the end of November and still produced at nearly design capacity for the fourth quarter. If you do the numbers, you'll see it's about 258,000 tonnes per annualized rate. As you would expect, the plant has additional improvement capacity, and I'm sure you'll look forward to Wayne giving you some details on this.

On slide six, in 2007 for the Helguvik project, we've made good progress as well. The power contracts were signed; the environmental impact assessment was approved. The harbor agreement was completed, the project team has been assembled, and we enjoyed continued strong support from the community. Consistent with our approach to major projects as you have come to know us, we want to make sure that we get this right from the start and confirm our ability to successfully staff, engineer and ultimately execute this very important project for us.

The commercial project execution is about a couple of months later than we would have anticipated, but this is being done in the highlight of continuing to work on advanced engineering, as well as securing our long lead time items. We hope to begin initial construction at or around the end of the first quarter for this year.
We still expect first metal at the fourth quarter of 2010. You will note that it’s still a 30-plus month period. The capital costs we’ll deal with in the next phase, but the likely production range for phase one will be between 150,000 tonness to 180,000 tonnes. The project capital, we’re still working on to confirm, but as we said before, we’re indicating some $5,000 per tonne for a full potline. As you’re aware, we’ve employed technology that will give us at full potline, 360,000 tonnes per year.

This, of course, is front-end loaded because in the phase of the project we do, we still have to purchase rectifiers and other key important equipment. And if you'd like to have a measure of how this $5,000 per tonne will change for the first phase, industry measures will say something increased from about 25% to 30% of the total cost. More detailed spending information to come upon completion of the feasibility study again in this first quarter.

If we move on to slide seven, again, looking at 2008, the market fundamentals remain robust. Despite downturns in the U.S. and slower growth in Europe, we have continued good consistent growth in the BRIC countries. And as you've probably learned in the last few weeks, the supply side remains constrained and susceptible to key events. Our plants have performed well, but we're not immune to the global cost pressures. We have been putting in place structures to address the medium to long-term cost and competitiveness of our plants.

To talk to you about a few of these, we have completed or we are on the process of completing our Big Rivers unwind for Hawesville. We're looking at longer-term power solutions for both Ravenswood and Mt.

Holly. And obviously, we're keenly and clearly looking at strategic raw material investments, particularly in the area of anodes.

Our relative competitiveness of the U.S. facilities we have seen in the last year to 18 months have been improving. The reasons for this are, obviously, as you know, is the weak dollar, the rising costs globally, the U.S. power contract pricing is fairly reasonably estimated, and it doesn't seem to be escalating at the same price as other parts across the world. We obviously had looked at this over the last two years and have made the decision to have a prudent capital program to reduce the long-term risk and make sure that we continue to make high return investments on our capital employed.

We continue to advance our growth initiatives. Jamaica is moving towards a full prefeasibility study. Guangxi Investment Group is looking at our joint venture agreement in the Guangxi Province. It has good hydro, bauxite and alumina and we as a minor partner are looking forward to taking that to the next step. In the Congo, as you're aware, that's a longer-term project. We also have certain other projects that are maturing to the investment decision, and you will note some of these costs occurring in the SG&A, and Mike will talk to those.

We move on to slide eight; 2007 global consumption increased about 10% to a total of 38 million tonnes in 2007; 38% demand growth was in China, which overall contributed 95% of the global consumption growth. China GDP was about 11.5%, and more importantly for demand, industrial production growth was about 18%. India, very low on a per capita use of aluminum, significant room for growth and now the industrial production growth was nearly 10%.

In 2007, the production increase worldwide was about 12.5% to just over 38 million tonnes. Thirty-five percent growth occurred in China, and China entered at about 12.7 million tonnes of production last year. This seems to be aimed at about 15 million to 16 million tonnes for this year, probably closer to 15 million tonnes.

We must note that efforts by the Chinese government to restrain aluminum production growth has been steadily brought to bear. There's higher taxes. There's been removal of preferential power rates, stricter environmental and project standards have been deployed, and you'll note in the last quarter, unwrought exports are down 55%. There's a lot of talk amongst the industry and the community that China will be a net importer in 2009 and maybe earlier.

Half of the increase in global production was from restarts in 2007. These are one-time events, and they will not occur again in 2008. The industry is operating at full utilization of about 95%, so the risk on the downside remains. And in the last few weeks, China with weather, South Africa with power and Tajikistan with both power and weather have been victims to this. We can add something in Brazil and a few other places as well.

We move on to slide nine. If you look at the aluminum balance and the metal balance for the year, despite the steady 5% production increase from China in 2007, surplus for last year was somewhere between 200,000 to 300,000 tonnes. This is less than 1% of the market.

At the end of 2007, forecasters on average were predicting 400,000 tones surplus for 2008, and this was before supply side disruptions. If we adjust for the power shortages in China, this market surplus can reach a balance. A lot of this does not account for any impact of power shortages in both Southern Africa and other places. If we look at Southern Africa, 10% of 1.5 million tonnes of production would give you a reduction of 150,000 tonnes, and we have no idea how long these power shortages will continue. Are they months or years? There have been other global disruptions.

Overall, from our side, looking at all the information in the market, we see an expected balance to a modest surplus in 2008.

If I move on to slide ten, the "Intensity of Aluminum Use," the per capital aluminum usage in BRIC countries remains low. Significant increase in China's usage has occurred since 1990. But at this stage, it's still one-third of the usage in the USA. If you go to the midpoint between the current Chinese usage and the U.S., China will require 10 million tonnes of new metal each year. So we can see with significant room for growth in Brazil, Russia and India that the forward curve is going to indicate how the market feels.

We turn to slide 11. If we look at the forward curve, and this has changed a bit in the last 24 hours, maybe 36 hours. There's been a significant upward shift and flattening of the forward curve. Forward pricing for 2013 to today was $2,760 per tonne.

What's driving this? Well, we all know that the cost push in capital and operating costs is up globally. Energy, carbon, freight, China's high cost structure, ongoing delays in greenfield and brownfield expansion projects and cost increases for these projects, and not lastly, but also the long lead time to bring new projects to bear.

If we turn to slide 12, again, just looking at what the balance is in terms of inventory, the days in inventory, and this is on a global basis, are still low, and we expect this to continue. The U.S. market remains subdued. Markets are soft with the exception of aerospace, which continues to do well. The Midwest Premium strengthened to $0.039 recently modest producer restocking has occurred, increased freight costs and a premium is still below historical averages.

On the alumina side, spot prices are around the $400 per tonne at the year end and has settled in around this for the moment. Again, the alumina side is seeing the same cost pressures, caustic soda, for example.

Overall, the aluminum market fundamentals remain strong as indicated by the current prices and the forward screen. I'd like to pass you over to Wayne to talk about our operations.

W. Hale Thanks, Logan. Let's turn to slide 13. U.S. smelter operations had an excellent year in 2007, not only did they improve in overall operation, but they also established several safety, production and purity records. In particular, Hawesville continues to produce more high-purity metal than any domestic smelter, providing for additional premium on this metal sold.

Looking at Ravenswood with increased interest and focus, the injury reduction during 2007 set a new standard of performance for the plant. In fact, with continued operational improvement and stability, some of the best metal purity in the past 50 years of its history was produced last year.

Mt. Holly, in addition to its several operational records that they established, they also were awarded the North American Maintenance Excellence Award, which recognizes a plant for outstanding maintenance and reliability implementation.

Progress continues with the Big Rivers unwind to secure long-term power for the Hawesville plant. Essentially, Big Rivers will serve 100% of the current load of the plant until 2023. This transaction is on track to be approved by the Kentucky Public Service Commission during the first half of this year, and I'll talk to more detail later on that.

At Grundartangi, with the completion of phase five, the plant continues to improve, and we work to continue to fine tune the performance to extract additional value and metal.

Let's move on to slide 14, and I'll talk a little bit about the bauxite, alumina and sales. At St. Ann's, they had a good safety performance in 2007. All areas of the mine were impacted by heavy rains during the fourth quarter. However, despite this, ship tonnage for the year was the highest in the history of the plant.

At Gramercy, the performance in all areas improved throughout the year with the fourth quarter performance being above expectation in terms of tonnes and quality.

Looking at sales and marketing, high purity remains strong due to the aerospace market, and billet, the construction sector was reduced about 20% from the 2007 average. We back-filled that with sales to the automotive sector. Scrap spreads have tightened from reduced import of off-grade. And as we saw last year, consumers dropped inventories; however, we've seen some restocking and some emergency just-in-time buying, and certainly this early part of this year, all of which are supportive of the present Midwest Premium. Our finished goods inventories at all facilities are very low to take advantage of the strong markets.

Moving on to slide 15, we'd like to say a few words about our key priorities for this year. Foremost is improving the safe operations of our facilities. This fundamental value sets the foundation for all areas of execution in all our facilities. We will continue to extract incremental production from all our plants, and we'll be doing this through transfer of best practice and extracting additional production through focused and targeted capital investments.

Certainly specific to the domestic smelters, we believe the medium to long-term fundamentals for the U.S. primary smelting is improving. And in fact, with focused and modest capital investment, these plants will continue to be long-term contributors to Century.

Looking across the portfolio and the capital investment area, Hawesville, over the 2008 and 2010 investment period, we're going to be targeting $68 million for the upgrade and improvement of transformers and the modification of cell components. With improved operation, this will increase the metal production from the 2007 base by three to five kilotonnes in 2009 and another eight to ten kilotonnes in 2010. Now, Hawesville is the last Kaiser P69 plant that has made this move to this upgrade, and having worked in several P69 plants in my past, I know this to be a proven technology, and it sets a firm foundation base for future improvement.

Looking at Ravenswood and their capital program over the next three years, we have $10 million focused for replacement of some transformers that have reached the end of their useful life and the installation of an automated sow caster. Of course, with the improvement in operation, we expect an additional three kilotonnes of metal in 2010 and a subsequent reduction in costs.

Now, both Hawesville and Ravenswood have continuing development programs that will further improve the operations, and we expect further cost reduction in those areas as well.

Of course, as one might expect, Grundartangi has also a capital investment program over the next three years. Here, we have $17 million targeted, and with the expected improvement in production, we would see an additional from the 260 kiloton base, we will see 6 kilotonnes in 2008 and another 2 kilotonnes in both 2009 and 2010.

Now, supporting these operation and capital improvements is the implementation of a maintenance excellence and reliability program. Now, the value to Century of this program is that with the improved implementation of systems, and the additional training and upgrading of the skills to our employees, we'll see obviously increase in our equipment availability and reliability and subsequently reduced costs.

Now, as I spoke earlier, we continue to see progress with the Big Rivers unwind that will secure long-term power for the Hawesville facility. Now, we require long-term available, affordable and predictable power, so that we can make the necessary capital investments to this facility in order to maintain and improve it in the longer-term. Now, this transaction, it provides, and we expect it to provide, a power supply that is lower cost, less volatile and more predictable than the market priced power.

And, of course, reaching this agreement now, instead of waiting for the existing agreements to transpire and end, we have achieved sufficient certainty to make the financial commitments that I spoke about earlier. In total, these programs set an excellent foundation for our business operations and improvement.

Now, I'll turn it over to Mike who'll discuss the financials.

M. Bless — Thanks very much, Wayne. And if everybody could please turn over to slide 16, as I normally do, in addition to the slides themselves that we'll be going through, I'm going to refer to both the appendices in the slide deck itself, that's the reconciliation charts, when we talk about adjusted earnings and cash flow and such measures. In addition, I'm going to be referring to the financial statements, which come right after the earnings release in the press release itself. So if you could have all those things in front of you, it might make following along with my comments a bit easier.

So, again, page 16, this is the sequential comparison Q3 to Q4 and just starting at the top of the income statement. As you can see, revenues Q3 to Q4 were down about 5%, or $22 million. Breaking that 5% decline out, our realized price was down about 6%, volume was up 1%. And just ticking through that volume with a little bit more detail, total volume, again, up 1% in shipments, direct volume, i.e. U.S. smelters shipments down 1%.

As Wayne said, the smelters are all producing above their rated capacity. The slight decline quarter to quarter is simply a matter of timing of shipments and no indication as to production. Total shipments, up 7%, obviously due to the continuing expansion of the Grundartangi plant where the 40,000 tonne expansion capacity came on line in the fourth quarter.

So, again, putting those two together, revenue is down 5% sequentially, or $22 million. More than all of that decline in revenues came from a decline in price. Twenty-seven, if you will, of that twenty-two million dollars was due to the decline in our realized prices. And continuing down the income statement, obviously, that $27 million ran right to the gross profit line. Obliviously, pricing falls right to profit. And if you’re looking at the financial statements, you see gross profit decreased $25 million. So, again, just to help you understand what happened there, more than all of that gross profit decline is explained by the price decline.

A couple other items, as I normally talk about that impacted gross profit are cost of sales, obviously. U.S. power costs were actually favorable this quarter versus Q3. They were about $2 million favorable.

As Wayne said, Gramercy had a real good quarter, its best of the year, and therefore, its costs obviously reflected in Hawesville's alumina costs were a few million dollars favorable Q4 over Q3. And total raw materials, mostly carbon here, fluoride and other such key raw materials were unfavorable again this quarter, but at a slower rate, only $1 million unfavorable Q4 over Q3.

Continuing down the income statement, you see SG&A was up quarter to quarter. Let me break that out for you. First, Helguvik project spending continued. We spent $1 million more in Q4 than in Q3. We're up to the rate of $4 million a quarter now in Q4 Helguvik project spending, so that's a million of the variance there. Another million comes from normal Q4 comp-related items versus Q3.

And the biggest chunk there, about $3 million of the difference between Q3 and Q4 SG&A are professional fees largely around the business development projects about which Logan spoke. Obviously, as those projects come closer to a go, no-go decision, you start employing experts like attorneys and accountants and other such experts to help with detailed due diligence, and so that throws spending up a little bit this quarter.

Continuing down, loss on forward contracts, obviously $229 million that Logan addressed the continuing increase in largely the forward end of the screen. EPS, on an adjusted basis, if you go to the charts in the back of the slide deck, we pull out two items there to calculate adjusted EPS. The first, as we normally do, is the after-tax mark-to-market or charge or loss on forward contracts.

The other item this quarter, if you go back to Q2, you'll remember that we had a tax benefit, due to a state law tax change and its impact on our deferred tax assets. To remind you, it was $4.3 million in Q2, and we had a similar benefit from the same item in Q4, another $4 million in Q4. So if you pull both of those items out, i.e. add back the mark-to-market charge after tax and subtract out the benefit from the deferred tax increase, which we count as a one-time item, the adjusted earnings as you'll see, $0.77 basic and $0.72 diluted.

If you'll flip now to the next slide, 17, this is year-over-year, '07 over '06. Again, same treatment, I'll go through. Revenues, as you can see at the top of the income statement, up 15% year-over-year. Breaking out that 15%, our realized price up 2%, volume up 13%. And again, detail on that 13% in volume, direct volume up 2% year-over-year, 531,000 tonnes. As Wayne said, we're very pleased with the production at the plants. Toll volumes, again, the continuing expansion of the Grundartangi plant increased 50% year-over-year, and you see all these data in the financial information that comes right after the cash flow information that is attached to the earnings release.

So back to revenues, up 15%, or $240 million year-over-year. About 30% of that is price and 70% of that is volume-related.

Talk about gross profit and some of the major items that affected that, the largest of which is our alumina costs were up $60 million year-over-year. Of that, about two-thirds relates to the increased contract price that came into effect in January 1 of this year for Mt. Holly and Ravenswood. We've been talking about that for the past two years since we signed those new contracts in February of '06. They started in January of '07, and increased freight costs. So freight and the new contract price contributed about two-thirds of that $60 million step-up in alumina cost. And the rest was, obviously, just the impact of the LME itself, higher LME prices, higher contract prices for the alumina.

A couple other items, U.S. power costs up $14 million year-over-year. Raw materials, again, principally anodes and carbon-related materials going into making the anodes and fluoride, debt up $15 million year-over-year, and lastly, depreciation, foreign exchange $15 million unfavorable variance year-over-year.

Again, continuing down, SG&A, up $20 million year-over-year. Largest component there, obviously, is the Helguvik project expenses, $12 million for the year - obviously, none in '06. Professional fees, again, the business development projects about which Logan spoke, $4 million, and then a variety of other items, mostly payroll and benefits-related, about $2 million as we've modestly grown the staff to accommodate the growth of the company.

Loss in forward contracts over $500 million for the year, again, just shows tangible evidence on our financial statements of the increase in the forward end of the screen, far end of the forward screen. A couple other items quickly to note, interest expense, net, down from $35 million to $22 million. You'll see we went into the year with our Icelandic debt at $309 million and ended the year at zero.

Effective tax rate for the year, if you pull out that $8.3 million in state tax benefit, one-time items that we talked about, effective tax rate on the adjusted earnings, 26%. That's pulling out the mark-to-market as well. And again, EPS on that same basis, $5.89 basic and $5.52 diluted.

And if you'll flip, please, to slide 18, just a couple comments on the cash flow. As you'll see, free cash flow, $250 million, or 114% of adjusted net income. We're very pleased with that result.

To remind you - and again, the reconciliation is in the back – we define free cash flow as cash from operations minus capex, but capex excluding the expansion capex for Grundartangi. I need to remind you too, when you go to cash flow data, that in order to calculate cash from operations - and again, this is in the reconciliation – you need to add back the net increase and the short-term investments, which is shown on the cash flow statement as a use of cash.

A couple other items to note, if you take a look at the cash flow statement, Grundartangi expansion was $89 million for the year. Our budget for that project remains $95 million, so there'll be some carryover spending in 2008, and I'll get to 2008 capex in a moment.

Other capex, both sustaining and what we call our small ROI projects, $25 million for the year within the range of $20 million to $35 million about which we've been talking. Settlement, cash settlement of our derivative, forward fixed price sales contracts, $20 million for the quarter Q4 and $98 million for the entire year '07.

And then just lastly, on the balance sheet, I would note cash ended the year at $342 million. That's an increase from the end of Q3 after continuing to spend on the Grundartangi expansion and paying off our remaining $20 million of debt in Iceland.

If you'll flip to slide 19, please, just a couple items here to help people on their modeling of 2008. Starting at the top, a couple comments about volume. We've gone through some of this before. '07, again, Wayne commented about the current rate of production of the U.S. smelters. We think we'll be about flat year-over-year as those plants are already producing above their design capacity.

At Grundartangi, as Wayne explained, we think we'll get some early returns from the capital improvement project there, and so we're looking for another 6,000 tonnes at Grundartangi.

Back on the domestic smelters, as Wayne explained also, we'll see the incremental tonnage from those investment programs coming in 2009 and 2010 incrementally, as he detailed.

A couple comments on price, obviously, we don't forecast the LME, but a couple of comments on the major components that go into our price. In Iceland on our toll sales, as you'll recall, the EU duty, was halved last May from 6% to 3%, so we'll have a residual impact on '08 versus '07 comps.

On the domestic side, obviously, besides the LME price and the Midwest premium, the major impact to our domestic realized prices is obviously our fixed-price forward sales. And if I could ask everybody to just turn one page forward now, on slide 20, I'll just provide a bit more detail on those.

These are the same data that we've provided every quarter and in all of our investor presentations. We just did it in graphical form here to try to make sure everybody understands what's going on here. So here's the total fixed price forward sales. As you can see, they've been reasonably consistent on a tonnes basis over the last couple years, roughly 200,000 tonnes, a bit more in '06 and '07.

And as you can see in '08, they're down, but just by a little bit, 11,000 tonnes. What's markedly different, of course, is the accounting treatment for those. So if you look, going forward, other than 9,000 tonnes in '08, all of the fixed-priced forward sales are accounted for as derivatives.

Just to remind you from an economic standpoint, there's no difference between the cash flow hedges and the derivatives. We settle them all in cash, the difference between the market price and the contract price, obviously. There is, however, a major difference, as we've discussed before, in the accounting treatment. Just to review it one more time, the cash flow hedges settle through the P&L, if you will, so the net settlement value is reflected as a reduction in net sales revenues every quarter. That obviously flows directly through to profits.

The derivatives, on the other hand, as you know, that's the large loss on forward contracts line, we mark those to market every quarter. The whole remaining tonnage out through 2015 we mark to market as the net present value of that liability. And the change in that liability is what runs through largely that loss in forward contracts line. Obviously, the liability is going up. That means metal prices are going up, and we book a loss on that loss in forward contracts line. When they settle in cash every month, or for public reporting every quarter, that obviously results in a reduction of that liability, what you see going through the cash flow statement, but it does not affect revenue. I just wanted to make sure people understood that.

So if you'll go back to slide 19 now, we'll just finish out with '08, and then turn it over – back to Logan. A couple other major cost items, just to make you aware of, alumina costs, these are our contract rates for Ravenswood and Mt. Holly. As you know, we've talked about this before. That rate starts to come down here, so it's about 1 percentage point, that's 1% of the LME, the way these contracts are obviously priced lower.

Regrettably, right now, based on our estimates, we will give all of that benefit back in increased freight, ’08 over ’07. We’ve done some really good work over the last couple months reducing freight costs for ’08, and we’re continuing to do that good work, but regrettably right now, given where freight costs are, you’re all aware of those, it looks like we’ll give all of the alumina benefit back. So our delivered costs will be about the same at those two plants year-over-year.

Quickly, U.S. power costs, just tick through the three smelters - Ravenswood, as you’ll recall, we had a low double-digit percent rate increase, tariff rate increase, last summer, in July, so that’ll carry over for this year, say 5% to 6% for the half of the year comparison.

Mt. Holly, we’re looking at about flat to maybe up a little bit. Mt. Holly power costs were actually favorable in ’07 by $4 million versus ’06. And our plan shows ’08 going back to the ’06 rates, so maybe as much – a couple million dollars increase ’08 versus ’07.

Hawesville – Wayne gave you all the detail on the Big Rivers on line. I won’t belabor that. But just right now for the first half of the year, we’re assuming it closes towards the end of the second quarter. For the first half of the year, our weighted average rate is about the same as it was in ’07. And what we’re seeing right now in terms of the estimated costs under the new contract, they’re estimated, of course, to be the cost base contract as it looks like that rate will be about the same as we’re paying in the first half of this year and the same as we paid in ’07 anyway, so about flattish power costs at Hawesville ’08.

SG&A, if you look at what we spent in ’07 on a quarterly basis, excluding the Helguvik project costs, we were on the rate of about $12 million a quarter, and we think that’s a good number to use for ’08 with continued spending on the projects.

On Helguvik itself, we’re assuming that those costs begin to be capitalized this quarter as the project reaches that level of certainty, and therefore, you won’t see those costs in the P&L this quarter. They’ll go into the capital base.

Quickly, capex – Wayne talked about the three-year programs. Let me give you what those will be from an ’08 standpoint. Hawesville, as he said, three-year program, $68 million total over the three years. We’re looking to spend about 25 to 30 in Hawesville against that program in ’08, Grundartangi about $10 million against the 17 total that he talked about. And Ravenswood about five of the ten total.

In addition to that, we'll have our normal sustaining capex and small ROI projects of another 30, same range as we've always had. So when you add all that up for '08, we have about a $75 million capex budget for '08, obviously exclusive of Helguvik.

Helguvik project – Logan talked about the timing, so again, I won't detail that anymore, but our current project plans that our project team has obviously been working on in detail shows spending up about $200 million to $250 million for Helguvik this year.

Quickly, depreciation – the fixed asset depreciation about $70 million. Amortization, full-year run rate $15 million. As most of you know, that amortization relates to the intangible for the power contract in Kentucky. And obviously, the day that we cancel the old agreement and sign the new, we'll write off that amount and that amortization will cease. So if we do it at about midyear, we may have $7 million to $8 million of amortization for this year instead of $15 million.

Just a couple of last items that aren't on the chart to help you out with '08, interest expense ticked through domestic versus international. Our domestic cash interest expense based on our two bond issues outstanding and our small amount of IRB's is about $22 million. Our plan calls for no debt this year drawn down in Iceland, so there's none there. And obviously, netting against that gross interest expense cash is interest income. Obviously, that'll depend on the cash balance that we run on average over the year.

Effective tax rate, up in the 27% to 28% range is our current projection. And lastly, outstanding shares, you have 41 million outstanding today. And then, obviously, need to continue to remind you the diluted shares always depend on whatever the average stock price was for the quarter.

And with that, I'll turn it back to Logan.

L. Kruger

Thanks, Mike, that's great. For the 2007 year, another strong year even with the challenges. We've achieved all of our major growth objectives, and our plants continue to perform well. A special mention is obviously Grundartangi. Over three years, it's nearly three times the capacity. And once we've finished the first phase, or phase two of Helguvik, 50% of our production will be coming out of Iceland.

Looking forward to 2008, we see sound market conditions. On the inventory side, we see a balanced to slightly modest surplus, continued cost pressures, and we're working on those, as Wayne and Mike have pointed out. We're doing some modest capital investment program in the U.S. in our plants. We believe is the appropriate. We've been studying this for the last two years, and the time, we believe, is correct.

On Helguvik, ground breaking and start of project execution is at or about the end of the first quarter. And I must make note that we've taken the additional time to make sure that we got our engineering, our long lead on items and all the other conditions, including a very experienced project team in place before we make the jump off. We continue to build our global project pipeline, Congo, Jamaica and China.

Thanks very much for listening, and we'd like to invite your questions.

Rochelle.

Moderator Are you ready for questions?

L. Kruger — Thank you.

Moderator — Okay. One moment. First question comes from the line of Brett Levy of Jefferies & Company. Please go ahead.

B. Levy — Hey, guys. First off, have to, on behalf of the East Coast guys, ask that you not do conference calls this late on Valentine's Day in the future.

L. Kruger — Give us your home address, please, and we'll send the flowers.

B. Levy — Okay, thank you, that's very kind. As you guys kind of go through the numbers, and I have most of the deltas. But if I look at 3Q, and I look at this quarter on an EBITDA basis, you guys are down almost $30 million. As I look forward into the first and second quarter, can you talk a little bit to why or why not I should expect the quarters of 2008 to kind of rebound a little bit from the fourth quarter number?

M. Bless — We don't – it's Mike, but we don't, obviously, give guidance on earnings, or cash flow, or certainly EBITDA, so I'm not going to touch your '08, other than to just reiterate the discreet items that we gave to try to help people out with the modeling. The only thing I would point out is what I tried to stress on Q4 versus Q3 is that the major difference there, of course, was just the LME price as it impacted our shipment volume. And you have your own estimates for the other major items. We've detailed the power and the alumina contract rates, so you should be able to come to your own estimates. Again, we'd rather not comment on forward-looking earnings.

B. Levy	And again, I know it depends based on your hedges and that sort of thing, but given how you are currently set up for 2008, one penny movement in LME is worth, per pound, is worth what per, I don't know, quarter or year in EBITDA?

M. Bless	On an EBITDA basis, I don't have that handy. I can give you, on a reported EPS basis, it's just shy of $0.20. It's about $0.18, $0.19. And I can, if you give me a calculator here, or give me a minute, I could translate that into EBITDA for you.

B. Levy	I can work my way from that.

M. Bless	Alright, fair enough.

L. Kruger Thanks very much for the question.

B. Levy I beg your pardon.

L. Kruger I said thank you very much. Is there any additional questions you have?

B. Levy No. I'll get back in the queue. Thanks, guys.

Moderator Okay, thank you.

L. Kruger Great, thank you.

Moderator The next question comes from the line of David Silverstein of Merrill Lynch. Please go ahead.

D. Silverstein Good evening. Just a quick question, I know we have to ask these silly questions. Last time, the question was how much of your short-term investments were subprime. And then the great thing to hear was that nothing was there. The next question now is what's the nature of the short-term investments? Any – just – any auction preferreds at all that are in there?

M. Bless — No, none at all. Logan asked Shelly and me the exact same question long ago, and happy to report the answer was and is no.

D. Silverstein — Okay, great, for auction rate secure – what's the nature of the short-term investments then that you have?

M. Bless — Those are mostly municipals. It's all invested with – BlackRock manages it for us, but no auction rates, no subprime.

D. Silverstein — Excellent. Thank you, guys. I apologize for having to ask the question.

M. Bless — Sure. No, no, don't apologize. It's a very appropriate question.

L. Kruger — That's a good question. Thanks, David. That's great.

Moderator — Okay, thank you. And the next question comes from the line of Lloyd O'Carroll of Davenport & Company. Please go ahead.

L. O'Carroll — Good afternoon, or morning with you guys. Several things – were there any unusual costs in the quarter? I'm thinking about startup costs at Nordural?

L. Kruger I think – Lloyd, it's Logan, and Wayne can also comment. I think in Nordural, the operations are stable, and there weren't any unusual startup costs. Good question, but we'd had a lot of practice as we started up the various phases, so the last phase had gone particularly well.

W. Hale And, in fact, just to add to that, just to emphasize, this startup was the best we've seen on record and sets a good standard for us going forward.

L. O'Carroll Was the profit at Nordural up or down, sequentially?

M. Bless We don't comment, Lloyd. Wait for the K. You can read in the back, as everybody likes to do in the guarantor statements.

L. O'Carroll Okay. And one of the cost pressures is carbon, linked to oil.

M. Bless Correct.

L. O'Carroll Can you talk a little bit about what that's done over the last year and going into anode and cathode lining?

L. Kruger I think, Lloyd, our exposure is two-fold. One, we make our own anodes in our U.S. facilities, so it's the raw materials. And I think if you just track the price of oil, you get a good idea of what's happening with carbon, and you can look up coke prices as well. And so, off the top here, I think doubled or more. Wayne, any comments?

W. Hale Yes. Just on this point, we've seen year-on-year increase in coke and pitch are used to produce the anodes. And just for an example, in the Helguvik anodes, or excuse me, the Grundartangi anodes, which we buy, and we've seen, obviously, significant increases as well.

L. Kruger I think, Lloyd, that raises another subject as one of the reasons why we're looking strategically for the sourcing of particularly anodes, and you're aware of that as everyone else as we've been talking to it for a while because our exposure grows in Iceland because we don't have anode facilities, as you know.

M. Bless And, Lloyd, lastly, sorry to pepper you, all three of us here. Just to restate the statistic I gave about '07 versus '06, total raw material costs were up $15 million. And of that, carbon anodes for Grundartangi and pitch and coke for the domestic smelters constituted about three-quarters of that. The rest was largely fluoride and other stuff.

L. O'Carroll Okay. Your purchase anodes are produced in Europe.

L. Kruger Some in Europe, some out of China.

Moderator Okay, thank you. And you have a question from the line of Mark Liinamaa of Morgan Stanley. Please go ahead.

M. Liinamaa Hello. More of a big picture question. One of the concerns that some people have when they think about the aluminum industry is overcapitalization in these so-called areas of low-cost power. Clearly, the energy picture is changing rapidly. Are you seeing any change in regional governments, what have you, willingness to give low-cost long-term power contracts that would make some of these very expensive smelters viable?

L. Kruger I think the answer is the pressure on energy worldwide continues to be on the upside. And specifically to your question, I'm not seeing too much willingness, Mark, to reduce the ongoing power costs. I think it's, by nature, becoming more competitive anyway. And I think that's what we've seen. So you've got the precious two-fold, and I'll ask Mike to comment as well. One, you have the capitalized costs, the capital investment that you're looking at.

And on Helguvik, as we spoke earlier, we've taken an extra two months or so just to make sure we've got this right because the number we're looking at for the full pipeline is about $5,000 a tonne without an anode plant. Well, obviously, because we're doing it in phases, as we said, it'll be 25% to 30% higher for the first two phases.

But if you look around what's reported on other capital projects in relatively competitive power markets elsewhere in the world, they're pretty much higher than us, so I think the challenge remains, there are some examples, perhaps – I saw a note today and someone's suggesting power's being offered in South Africa for the Coega project, but with what's gone on with power in Southern Africa in the last six months, you wonder how that project is going to get going in the time frame they had and what the stages of that may well be.

So in short answer, I don't see easily. Mike may have a comment.

M. Bless — Mark, maybe where you might be going with the question - and help me out if I'm going in the wrong direction – some of the regions, let's take the Persian Gulf, for example, where the power is being offered at "advantageous" – that's a subjective word, of course, but "advantageous" long-term prices. As Logan correctly stated, the capital costs are going way up there, but if you look at the root of those projects and why they're occurring, those governments have made sovereign decisions to try to diversify their economies. And so I wouldn't think that the changes that you're correctly alluding to would affect their desire to – they're taking sort of 50 year views of their economies. Is that where you were kind of heading?

M. Liinamaa — That's – I have a view that I think it's not going to be as bad as some people think.

M. Bless — I think we would probably agree. I think bottom line, we think those get done, but boy, the capital costs are going to make them tricky to pull off on an economic basis.

L. Kruger — I think, Mark, if I step back, and I just look at the forward screen, you have to say the market, in some ways, is trying to indicate what the cost push, be it capital, power, operating costs is going to do to what is an expectation of pricing for the commodity going forward.

M. Liinamaa — Yes. And just quickly, on your supply/demand summary, you were calling for a balanced market without any impact of the 10% curtailments in South Africa. Is that correct?

L. Kruger — What we've done is we looked at all the industry information, and we came up with an average around about a 400,000-tonne surplus. But with the ice storms and delays and impacts in China, that's basically, that's 1.5 million tonnes for a quarter, knocks that number also. Again, we'll still leave it as balanced to a modest surplus, and we haven't taken into account any other impacts in Southern Africa, or Tajikistan or Brazil or where else there have been impacts.

M. Liinamaa — So it would be, based on your analysis, within the realm of possibilities that we have a deficit market in 2008.

M. Kruger — We're not calling that, Mark. We're just saying balanced to modest surplus. I think this is the game that was played last year, if you remember, in the beginning of the year, and we just took a middle road position on the information available and said, "Here are some thoughts. Let's see how the year progresses." We're actually only in month two, so it's a bit of a game that's going on, and we'll see how it develops. Let's see what happens in China in the next two to three months. Let's see what happens in Southern Africa.

M. Liinamaa — Well, thanks, and good luck with all the projects this year.

Moderator — Okay, thank you. And the next question comes from the line of David Rosenburg of Oak Tree Capital Management. Please go ahead.

D. Rosenberg — My question is, you guys did a good job comparing sequentially Q3 to Q4, but if you look year-over-year, Q4 to Q4, it looks like it's more of a cost issue that's kind of driving your EBITDA down. I see that it looks – yes, the LME is down, but volume is up, and revenue is still up. And I was wondering if you can kind of do the same breakout you did sequentially as far as what are the major cost drivers. It looks like costs are up about $40 million.

M. Bless — Sure, absolutely, David, good question. I'm happy to do it. If you look Q4 '07 versus Q4 '06, gross profit, which is what we look at principally, obviously, the SG&A is a separate analysis, but the gross profit indicative of the operations is down a little over, about $33 million. Of that, price constituted $26 million, so just the fall on the LME average, or I should say, our realized price is the right way to say it, quarter over quarter of Q4 '07 over '06 was $26 million.

In addition, I'm just picking out some larger items here. Alumina, again, the same impact that I talked about year-over-year, the new contract rate where we are in '07 versus '06 hit us for another $10 million '07/'06 in the fourth quarter. And then, other items here, I'll just – I'm getting down to small items here. Domestic power was up unfavorable by three, raw materials, unfavorable by four.

Going the other way, as Wayne said in response to a question that was asked earlier, Nordural operations costs were actually favorable by $4 million as Wayne detailed. Gramercy was favorable by $2 million. So that gives you a mix, but you can see it's really, again, the LME, our realized price based on the market, and the alumina contract rate drove most of that gross profit decline.

Moderator: Okay, thank you. And the next net question comes from the line of David Lipschitz of Merrill Lynch. Please go ahead.

D. Lipschitz: Just a quick question. What did you say the tax rate was going to be for 2008?

M. Bless: Twenty-seven to twenty-eight, David, on the same basis. So we came in at twenty-six in ’07, if you strip out the after-tax loss on forward contracts, mark-to-market charges we call it for shorthand, and you strip out that $8.3 million tax benefit from the West Virginia state law change. And on that same basis, apples to apples, on adjusted earnings as we term it, we’re looking for 27% to 28%.

D. Lipschitz: Okay, great, thanks.

M. Bless: It’s very – I guess just to add one more thing, and I should have said before, it’s really heavily dependent on the mix of pretax income between Iceland and the U.S. Obviously, our statutory rates in the U.S., federal plus state, are something above 35, obviously, in the 36 to 37 kind of range. And Iceland is 18, so in any given quarter, depending on the metal price, obviously, the mix of those two items can really drive it up or down.

Moderator Okay, thank you. And the next question comes from the line of Sam Martini of Cobalt Capital. Please go ahead.

S. Martini Hey, guys, I have two quick questions. Not to belabor this, but, Mike, you said $15 million in raw materials. That was year-over-year. That’s total ’07, correct?

M. Bless You got it, Sam, year-over-year, total ’07 over total ’06.

S. Martini And there’s been a dramatic – can you guys just speak briefly to the anode move in the back half of ’07? Can you help me just put some numbers around it? Have we gone from $300 a ton to $600 a tonne? What are we thinking for anodes in the market to fill Grundartangi right now, what do we have to pay right now?

M. Bless Sure.

L. Kruger Well, I think, Sam, I’ll give you some range to talk about, and Wayne may want to comment, but I think if you just look at the oil price, you’d probably seen 50% or more. And I think looking at us going in for anode prices, you're looking in the range somewhere around $700 a ton, and the pressure is still on the upside.

M. Bless That's delivered.

S. Martini August/September type levels were $350?

L. Kruger No, no, not as low as that.

M. Bless Just to make it apples to apples, you may not have heard because we were both talking at the same time, Sam, that 700 is delivered, not FOB. I think you're quoting probably plant-received, i.e. FOB-type prices. So depending on where the material's coming from, you can add to the FOB - if you come from China of 150-plus, if it's coming from Europe to Iceland, maybe as little as 50, so let's make sure we get our apples to apples. I guess the spot prices, Wayne, have probably been up at least 50% year-over-year.

W. Hale Absolutely. We've seen spot prices at 800.

M. Bless Yes.

S. Martini Okay.

L. Kruger And above that. And I prefer the delivered price because that gives you the mix of our sources, I think, Sam.

S. Martini Okay. And just secondly, Logan, back to the aluminum balance chart, the first bar, the 41.4, I know it's an industry analyst's estimate, but do you have a breakdown, just your own opinions of, of that supply, what's your – the company's best guess of the mix of that incremental? That's modeling north of 3 million tonnes coming on. Where do you think that's coming from for 2008?

L. Kruger I think that most of that's coming – probably 80% of that is coming out of China. I think there's a lot of installed capacity that's coming on stream in China; although, there's less being bought now for the reasons we spoke about earlier. So I would say 80%, Sam, unless I go project by project, and you never know if these are being completed, particularly in China. But I would say 80%, 85%. You've then have some increase coming out of us in Iceland. You've got the Fjaardal project for – in East Iceland from Alcoa and perhaps something out of Russia, so that gives you some idea of what we see, some marginal increases out of other producers. So the majority of that is driven out of China but out of India. We know of one or two smelters that have come on stream in India.

I have Shelly here. She may want to comment. Shelly.

S. Lair — Yes, I would agree. A significant portion of that is coming out of China, and as we all know, the data there is not as detailed as it is in the rest of the world, so you have to make some sort of assumption as to what is coming in, in these smaller, more unknown smelters. So there's a lot of estimation that goes in the China capacity.

L. Kruger — I think, Sam, China was about 12.5 million tonnes of production in 2007, 12.7, depends on whose numbers you accept. You could add somewhere between 2.5 and 3, depending again, from China. So you could have about 15 million. As I said earlier to Mark, it's a bit early to start calling all these things. I think we'll develop a better picture in the next couple of months.

S. Martini — But it's your assumption that a big chunk of this growth and supply is coming from China throughout 2008.

L. Kruger Absolutely.

S. Martini Okay, thanks so much, guys.

L. Kruger And the only people that can bring those projects on time in the next 12 months. Thanks, Sam.

Moderator Thank you. And the next question comes from the line of Matthew Moen of Seneca Capital. Please go ahead.

M. Moen I just wanted to make sure I was thinking about the change in hedge accounting correctly. So it looks like, on page 20, you've had 120,000 tonnes hedged with cash flow hedges in 2007and only 9,000 tonnes in 2008.

M. Bless That's right.

M. Moen So just to walk through a quick example, if we were using, let's say, 2007 average LME of $2,700 a tonne and estimated that the hedge price on those cash flow hedges was about $1,700 a tonne, based on the time when you signed them up, that would be a $1,000 a tonne difference on about 111,000 tonnes. So like $111 million of additional revenue in ’08, is that right?

M. Bless — Yes, 100 based on your 1,000. I’m just doing your math. Yes, you got it.

Moderator — Okay, thank you. And there are no further questions in queue. Please continue.

L. Kruger — Well, we’d like to thank everyone for listening to our fourth quarter call today, and we look forward to having the next call with you. And thank you very much for listening. Thanks, Rochelle.

Moderator — Thank you. And that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.