CENTURY ALUMINUM COMPANY: Third Quarter 2010 Earnings Call

October 26, 2010/2:00 p.m. PDT

SPEAKERS

Shelly Lair – Vice President and Treasurer
Logan W. Kruger – President and Chief Executive Officer
Wayne R. Hale – Executive Vice President and Chief Operating Officer
Michael A. Bless – Executive Vice President and Chief Financial Officer

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2010 Earnings conference call. At this time all phone lines are in a listen-only mode. Later, we will conduct a question and answer session with instructions given at that time. As a reminder, today's conference call is being recorded.

And with that, I would now like to introduce your opening speaker for today, Shelly Lair. Please go ahead.

S. Lair Thank you, Doug. Good afternoon everyone and welcome to the conference call. Before we begin, I would like to remind you that today's discussion will contain forward-looking statements 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 statement.

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-gap financial measures in our discussion. Reconciliation to the most comparable gap financial measures can be found in the appendix to today's presentation and on our Website at www.centuryaluminum.com.

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

L. Kruger Thanks Shelly. Thank you all for joining us today. We had a busy quarter in an environment of slowly improving market and business condition. I would like to make a few brief introductory comments before speaking in more detail about the market.

Let's turn slide number four. We have now witnessed consistent improvement of the last few quarters in many regions of the world. As I'll detail in the next few slides, the BRIC countries and other regions in Asia are continuing to lead the way.

In the U.S. and Europe, slow growth seems to have settled in with significant disparity and performance amongst end markets. On the supply side, production coming on stream outside of China and India during the next few years is limited, generally, to a few projects, mostly in the Persian Gulf. Marginal smelters in the developed world continue to be at risk to the aluminum price on a short-term basis, but more importantly, to power price and the availability of power over the longer-term.

In China, in particular, the supply side environment has become quite interesting. We believe the central authorities are, this time, quite serious about reining in the growth of primary aluminum business. As you know, the twin issues of the power cost and the availability, on the one hand, and the environmental commitment and concerns on the other, are driving this decisive behavior. In addition to limiting future growth, they have targeted inefficient existing capacity for closure and appear to be intent on forcing these actions through.

Wayne will make detailed comments about operations, so I'll simply hit a few highlights here. We are very pleased to have a tentative four-year labor agreement at Hawesville. It has been agreed by the union leadership and is pending ratification by the membership. This process should be concluded in the next few days.

The fact that this process took several months to complete is evidence of the many significant issues we believe needed to be addressed. The contract gives the plant the foundation, from the perspective of labor costs, to be competitive for the period of this contract. Wayne will provide detail on other significant work ongoing to increase Hawesville's long-term competitiveness.
I would like to take this opportunity to thank the leadership at Hawesville and the entire employee group for the plant's performance during this period.

The Grundartangi smelter continues to perform very well during the extended period of a major repair of one of its transformers. As we reported during the last call, the unit had been repaired and then extensively damaged when it was shipped back to Iceland. It is now, again, under repair. Both Wayne and Mike will update the timing and the financial impact of this situation.

I will speak in greater detail about the status of the new plant at Helguvik at the conclusion of our remarks. This project is taking longer than we would have expected, and we continue working towards a restart of major construction. With that, let's turn to the next slide, number five.

Looking a bit at the market, the LME cash price averaged approximately $2,090 per ton for the third quarter of this year. Prices have rallied strongly from the $1,925 per ton at the start of the third quarter to the mid $2,300 per ton as of today.

Alumina spot prices have firmed to about $360 per ton from about $300 per ton at the end of July. The rising price for alumina was more pronounced in September on the back of the higher aluminum prices. Global aluminum demand continued to improve in the third quarter, with growth in China leading the way. Both India and Brazil have also shown reasonably good growth recently, and there has even been the modest pick-up in the U.S. and Europe, most notably in Europe in the case of Germany.

On the more macro level, China's economic growth in the third quarter of 2010 was 9.6% and industrial production remains in the

13% to 14% range year-over-year. Similarly, GDP in India was 8.8% year-over-year in the second quarter; its highest level since 2007.

As I mentioned in my opening remarks, there has been some interesting supply side developments out of China over the last quarter. In recent history, we have considered comments of the Chinese government concerning programs aimed at reducing production in the energy intensive industry, such as ours, with some skepticism due to the lack of action coming out of these programs.

Unlike past announcements of this nature, we understand that these current initiatives are being acted upon, meaning that significant production has been taken off line in an effort to bring the current five-year plan to target levels for energy savings.

Of course, it remains to be seen what will happen with the curtailed facilities when the current plan period ends, but there will clearly be a near-term impact on production, and longer-term it is expected that some portion of the existing idle capacity will not come back online. Let’s move on to slide number six.

Aluminum stocks have been flat to modestly declining recently. That said, the declines have barely touched the large inventory board, which has declined in early 2009. Inventories remain at historically high levels in warehouses and elsewhere. In this period of rising inventories, we would generally expect to see weakening premiums, but as you can see from the chart, exactly the opposite has occurred. Premiums are now at or near multi-year highs in all areas, U.S., Europe, and Japan.

There are two financial products that have received a lot of press recently that are causing physical market tightness or at least a perception of tightness, and may help explain this unusual relationship. The first is the widely discussed transactions where physical aluminum units are used to collateralize financing arrangements, essentially borrowing against the metal units at today’s low interest rates and planning forward to take advantage of the upward sloping curve of aluminum. As long as we remain in a low interest rate environment and the forward curve of aluminum remains in contango, it is likely that these contracts will be rolled forward and continue to tie up physical units.

The second financial product is anticipation of one or more physically backed aluminum exchange traded funds in the near-term. This speculation continues to draw market interest and removes some of the pressure of the inventory overhang.

As a result, the Midwest premium remains in the mid $0.06 range. The European duty paid premium is approximately $190 per ton, and the premium in Japan is about $120 per ton; again, all at or near multi-year highs and at odds with the significant inventory levels in the market today. Let's move on to slide number seven.

We'll have a look at the relationship between stocks and the aluminum price. With the LME at $2,300 per ton at the end of the quarter and inventories at 57 days of global demand, aluminum pricing has moved even further out of sync with the historical relationships to days inventory.

We believe this is in part due to the financial prospects discussed previously, but it also implies – and I think importantly – a structural shift in commodity pricing in response to global cost pressures. I would note that copper is trading at three and a half times the price of aluminum. This historical relationship is also out of sync with historical norms, and we would expect some substitution, while modest in volume, may be on the horizon.

We continue to expect that LME prices will remain range-bound over the near-term due to existing idle capacity, but are optimistic that prices over the longer-term will benefit from the interest in financial markets, some modest substitution and more importantly, global cost pressures as availability and pricing for power becomes even more challenging.

I'd now like to hand over to Wayne for the operations.

W. Hale Thanks Logan. Let's turn to slide number eight. At Grundartangi, as I reported to you in July, the rectifier, which had been removed from operation and was being returned from repair to the plant, suffered significant damage in transit from Norway.

The cause of the damage was a combination of turbulent seas and the size of the ship being used for transport. The transformer remains on schedule to be back in service towards the end of the first quarter of 2011. All elements to assure a safe return to Iceland have been catered for, including a significantly larger and more robust shipping vessel.

Consistent with our expectations, this event impacted production in the third quarter and will do more of the same during the next several months. Mike will provide detail on the production statistics. As Logan noted earlier, during this period all elements of plant operation have met expectations.

Regarding the agreement with United Steel Workers at Hawesville, the new contract is pending ratification by the membership. We expect the result of the vote at the end of the week. I will not comment on the contract details, other than to say that it's four years in duration and provides a solid labor cost foundation for the plant.

Looking at the bigger picture, the labor contract is only one item of a multi-element program we are progressing at Hawesville. All are targeted to significantly reduce Hawesville's cash operating cost. The programs are focused to increase throughput, improve efficiency, and to reduce costs. Most projects are pure efficiency improvements, while some will require modest capital investment. We will continue to implement this later this quarter and will provide you with details and expected benefits during our next call.

At Mount Holly, we continue to make progress, including the appointment of a very experienced new plant manager. He has focused a critical eye on the operations that lead to these significant operational issues over the last 12 months. Mount Holly's operations are improving with continued focus from plant leadership and both partners.

We, and our partner, concluded an agreement with the power supplier at Mount Holly earlier this quarter. While the new agreement will not significantly change the challenging energy cost environment at this smelter, it provides for increased flexibility to curtail operations in low LME environments.

Let's turn to slide number nine, and I'll provide a brief update on the situation at Ravenswood. In regards to the ongoing costs, the curtailment activities continue at or below forecast. On the point of recommencing operations, we're devoting substantial effort to create the conditions in which we could restart. In the present market environment, a restart would most likely make sense. This, however, assumes we have an enabling labor contract and a power contract flexible enough to protect the plants profitability during times of weak market conditions.

As we have mentioned previously, the state legislature, under the leadership of Governor Manchin, passed legislation earlier this year permitting this type of energy contract. We remain in discussions with the power supplier to achieve our objectives. On the labor front, we continue to meet with the union leadership regarding a new multi-year contract.

Now, turning to markets, a shortage of scrap coupled with a general scarcity of available primary metal has continued to support premiums in the U.S., Europe, and Japan. We have seen certain sectors begin to show consistent but slow improvement in the U.S., as an example in automotive. Aerospace continues to look strong, and we some signs of life in rod and cable, though we continue to be concerned about the construction markets.

With that, I'll turn it over to Mike.

M. Bless Thanks very much Wayne, if we could turn to slide 10 please. Before I go into our results for the quarter, let me just make some comments on the markets. As usual, my comments will compare the quarter that just ended to the prior one sequentially, so obviously this quarter Q3 versus Q2.

Logan made some comments about the markets. Quickly, the cash LME for the quarter on average, Q3 was flat to Q2. However, on a one-month lag basis, the cash LME price was down 8%. As you know, most of our sales globally are priced off of a one-month lag basis, but we do have this one contract here in the U.S. that is priced off a prompt month basis and that contract goes for the remainder of this year.

So when you put those two together and you look at our realized unit prices, our realized price of our shipments per metric ton, in the U.S. they were down 4%, less than the market down 8% on a lag basis due to that contract. In Iceland, realized unit prices per metric ton down 7%, so consistent with the market.

Turning to volumes, if you had a chance to look at the operating data at the end of the earnings release, you need to make a small adjustment this quarter to compare Iceland versus domestic shipments. For the first time this quarter, we had some sales, a minor portion of our sales, about 5% of the sales of shipments in Iceland reported as direct sales instead of total sales. It's about 3,100 metric tons.

So when you do the math, you'll see from a volume standpoint that domestic shipments were up about 3% on an actual basis. That equates to about up 2% on a per day basis; that was one more day this quarter. In Iceland, we were up 1% actual but flat per day.

Wayne talked about the Grundartangi rectifier transformer being out. From a production and shipment standpoint, that situation cost us slightly over 1,000 metric tons a quarter. That's about 400 metric tons a month. As Wayne said, that situation will continue until the unit is back in place and in service during the first quarter of 2011.

So, if you look at the math on an actual basis, Grundartangi shipped at an annualized rate of about 272,000 metric tons in the quarter due to the transformer outage. If you adjusted for the transformer outage and the volume that we lost, production would have been at about 277,000 tons, so at or above where we were in the winter before the incident with the transformer. Putting the sales and the volume and the pricing data together, as you'll see net sales on a U.S. dollar reported basis were down 3% Q3 over Q2.

Now, walking down the income statement, a couple items to point out to you. As usual, gross profit was down $6 million quarter-to-quarter. Of this price alone, the LME price change quarter-to-quarter accounted for $16 million of a reduction in gross profits, so more than the entire reduction.

A couple of other items; as you may have noticed in the first paragraph of the earnings release, we released the remaining lower cost-of-market inventory reserves we had this quarter. That's obviously solely due to the aluminum price at the end of the quarter, and that accounted for a $7 million reduction in cost of sales and then, obviously, a $7 million increase in gross profit, Q3 over Q2.

Raw materials globally were up $4 million, so disadvantageous $4 million dollars Q3 over Q2. Most of that was carbon, obviously related to the manufacture of anodes and the price of anodes themselves in Iceland.

And again, as we noted in the first paragraph of the earnings release, $16 million of our cost-of-sales this quarter related to power cost at Hawesville or a portion of it, obviously, that we don't actually pay for the remainder of this year. The former power supplier contributes to our power cost at Hawesville. This fourth quarter of this year is the last quarter in which that relationship is still on and then beginning in the first quarter of 2011, as we briefed you extensively, we're on the hook for the entire power cost at Hawesville, so $16 million this quarter.

Moving down the income statement, SG&A expense $12 million for the quarter. Of that amount, less than $11 million of it was cash SG&A, the rest non-cash.

One item to point out to you this quarter, we had a franchise tax accrual of over $1 million this quarter, about $1 million than we would normally have in a quarter. It's simply due to a change in the calculation methodology for franchise taxes. That was a one-time catch-up, if you will, about $1 million versus a normal quarter. And Helguvik spending in the quarter that runs through SG&A was a little over $1 million.

Moving down, loss on forward contracts, that's almost entirely the mark-to-market of our aluminum put contracts for the quarter, obviously, simply due to the aluminum price at the end of the quarter, so $12 million of an unrealized, or obviously, non-cash loss.

No change in our tax provision this quarter. We still provide 0% effective tax rate in the U.S. That's obviously due to our significant deferred tax assets in the U.S. that are fully allowed for. Iceland's statutory rate still 18%.

One item in taxes of this quarter that you will see in the first paragraph of the earnings release, $1.4 million of tax reserves no longer required due to the expiration of the relevant statutes of limitations, and therefore, we've released those reserves resulting in a tax benefit of $1.4 million for the quarter.

Average diluted shares for the quarter, 93.3 million with the total for common shares and common share equivalence, preferred shares no change at 8.3 million shares.

If we could just look quickly at slide 16, we've given you the normal detail and the reconciliation of the EPS and some of the items. Starting at the top, or actually not on the chart, but back on the earnings release data itself, actual reported results on common shares alone was a loss of $0.18. We report common shares alone due to the anti-dilutive nature of the preferred shares this quarter due to the loss.

Now I'm back on slide 16. As you know, the preferred shares are generally common stock equivalents in their rights, so we think the right way to look at the company's results, profit or loss, is to look at it on the entire share base. So that's the 101.6 you see there. So on that basis, the same loss is $0.17 a share.

Let me just take you through these items. I've talked about most of them. So, the unrealized loss on the puts is $0.12 a share; the amount of payment that the former supplier at Hawesville for the power made for us this quarter $0.16 share; cash reserves, again, resulted in a benefit of a penny a share, and the inventory adjustment, lower cost of market, was a $0.07 per share benefit this quarter.

Turning back to the financial statements, in slide 10 – before I get off of slide 10, let me just make a couple comments on the balance sheet, the data isn't on the slide obviously, if you've had a quick chance to look at the balance sheet data.

Total cash this quarter, including restricted cash was $288 million dollars, so up nicely from the end of Q2. As you may have noticed, we had an increase in restricted cash this quarter. That's solely due to the fact that we're still getting our letter of credit facility up and running from an administrative standpoint during the quarter. Therefore, we had to put some cash, where before we had some LCs outstanding.

Just to pick up on that revolver again, as you may recall, we finalized our new revolver just a couple days into the third quarter, so after the last balance sheet date in the early days of July, $100 million revolver just like the old one, four years in duration this time, largely the same terms as the old revolver. As you know, we use this facility only for letters of credit. We don't draw on it from a cash perspective.

So, this quarter, or at the end of Q4 when we report to you in February, you'll see that most of that restricted cash go back into regular cash and equivalence, as we'll post those LCs under our new facility.

No other change in debt in the quarter. Let me just take a moment to comment on the debt financing for Helguvik, a nonrecourse financing. We've made great progress there during the quarter with the banks who are leading that process for us. Just to remind you, those institutions are three: BNP Paribas, number one, Societe Generale, number two, and ING, number three.

We've got a very detailed, almost 50 page term sheet, largely agreed now, just a couple of points left outstanding. We think we can quickly turn that into a full set of documentation. The banks still, obviously, need to take the final product through their credit process. Bottom line, we're confident that we'll have the financing ready to go when the project is ready to restart in earnest, and Logan will have some comments on that for you in just a couple of moments.

If you could please turn to slide 11, just a couple of comments on cash flow. Good cash flow from operations for the quarter, if you add back that $4 million of cash we spent on put options for the quarter – I'll comment on those in a moment – so you look at the true cash flow production of the operations, $32 million for the quarter that was above our expectations based on the average LME for the quarter.

Quickly, on slide 12, I've touched on most of these items. As usual, we walk you through the change in the cash for the quarter. I talked about the movement out of cash and equivalents into restricted cash. Number two, we did as I said, spend $4 million on put options for the quarter, downside price protection, so we're not giving up any upside there.

Just to give you a sense of where we are right now, if you look at our current rate of production for 2011 and you take that rate of production, excluding the amount of production that's naturally hedged through the linkage of the aluminum price to the LME price, what we call unpriced production, we're about 50% hedged based on that unpriced production during the first half of 2011 and about 40% during the latter half.

Other items you see there, CapEx $2 million for the quarter, and consistent with our expectations; Helguvik spending of $5 million for the quarter. With that, I'd like to turn it back to Logan.

L. Kruger Thanks Mike. I think just one comment before I say a few things on Helguvik. Overall, we're encouraged by the improvement in the market conditions, but as you know and you saw in our press release, we're all going to continue to manage the potential on the downside. We obviously want to make sure everyone understands that is our strategy, but when you look at the market and what's going on in the market, we remain somewhat encouraged.

We have made progress on the Helguvik project during the last few months. We continue to analyze and update the capital expenditures estimate for the phase one and have confidence in our ability to deliver the project at that level or better. While outside activity is at a modest level, we continue to talk with our suppliers and make progress in engineering and other activities. As Mike has explained, the debt financing is close to completion pending the finalization of the power arrangements.

The power situation continues to be complex, and frankly, the progress has been slower than we would have expected. As you know, in 2007, we signed power contracts with two principal geothermal power providers in Iceland. These people also, and these companies also, supply power to the Grundartangi facility. It goes without saying that in Iceland, in general, and the power suppliers in particular, have experienced significant change since that time. And in that context, we are negotiating certain amendments to the contract. All parties, ourselves and the power suppliers, have made significant investments in this project, and thus, we believe it is only a matter of time until we reach agreement. However, these are decades of long contracts of power, the plant's largest operating cost, so we believe it is worth the delay in our preferred schedule to get them right.

Lastly, I would note, that the economic activity of this project and the operating smelter it will bring is a key to Iceland's economic recovery and community and the public support for this project is increasing. With that, I would like to take some questions. Thanks Doug.

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

B. Levy Hey guys. At Mount Holly, I think, up until this point you've talked about major business issues, performance issues, etc. and now you've got a new management team in there addressing a lot of these issues, I've never really gotten a sense as to what exactly the issue has been. Can you talk about what the problem was and what the fix is going to be?

W. Hale Certainly. Basically the problem started with a failure of cathodes and an inability to replace those cells in the appropriate time frame with additional stock of cathode blocks. As a result, the management and others worked hard to find additional supply, but were unable to. As a result, there were significant times where there were cells out that could not be put back in, so as a result, the tonnage at the smelter was not as expected.

However, as a result of the increased work and dedication at the facility, there are sufficient cathode blocks now in supply and they are running at full capacity. As you would expect, the operational performance is now nearing expectation.

L. Kruger Thanks Brett. Any others?

B. Levy Yes, for this whole transformer issue at Grundartangi, is there any business interruption insurance? Is there any way of recapturing any of the lost EBITDA here?

M. Bless Absolutely, Brett. It's Mike. There is most definitely business interruption insurance under our policies. It's got a small deductible, $500,000 or so. It, obviously, only kicks in due to the maritime accident so the first chunk, I'll say, when the unit failed and we sent it to Norway, that's for our account. The second chunk, we are in the process of working on a claim. Obviously, the carrier was notified the minute the incident took place at sea. So, that's a long-winded answer to your question, yes, absolutely,

B. Levy Alright. And this is admittedly a lazy question--

M. Bless Those are the best kind.

B. Levy Do the math for me, what's the total impact of this transformer problem and how much of that are you going to get back in insurance?

M. Bless	Well, you have to; obviously, BI replaces lost profits, so here's the way to attack it. From the time of the incident, which was, Wayne, over the summer in July was it?

W. Hale	Right.

M. Bless	July. As I told you, it's just about 400 tons a month of lost production. Then to calculate your claim, multiply that by the cash operating profit or gross profit in the plant of those lost tonnes. It's a bit of a difficult one. We don't provide you sort of marginal costs, but you can take a swipe at it by going back to the data that we showed you in February. It's still on the Website there back from the earnings back in February looking at the--

B. Levy	That's $0.50 a pound?

M. Bless	Sorry?

B. Levy	Fifty cents a pound of margin?

M. Bless — Brett, you've got calculate what the aluminum price was for the time, so I got to ask you to be a little less lazy, but I've given you the building blocks.

B. Levy — Okay, appreciate that.

M. Bless — No sweat.

L. Kruger — Thanks Brett.

B. Levy — Alright. And then, in terms of the situation at Ravenswood, how close are you guys to the finish line? Would you describe yourself as, at this point, optimistic? Is there still a lot of gap between where you guys are with the power supplier or in the union? Just if you could give a little bit sort of sense as to how close to the finish line you might be there?

L. Kruger — Yes – it's Logan -- before I ask Wayne to comment, Brett, I think really we're working on two major pieces, and both of them require a lot of negotiation and agreement of these two parts.

One is the power enabling or encouraging contract, and that, obviously, requires a lot of input from a number of various different parties. The second part is obviously, as you are aware, we're in contract negotiations and that's with the steel workers. Wayne, anything else?

W. Hale	Thank you. You hit the major points Logan. Certainly, we are in active discussions with both the power supplier and the union leadership to progress those major issues. I think we can be optimistic that we'll get these both concluded.

L. Kruger	I think in terms of timing, which is the other part of your question, it's difficult to plot a path past that. I think once we get closer to a sense that we can achieve those two objectives, then I think we can put some timing around it.

B. Levy	Thanks very much guys.

W. Hale	Thanks Brett.

Moderator	Our next question is from the line of Mark Liinamaa with Morgan Stanley.

M. Liinamaa Good evening everybody. Logan, listening to your comments, you sound a little more constructive that inventory financing deals and potentially an ETF can provide sustainable support to prices relative to the comments I've heard you make in the past. Is that a fair characterization and what changed your view?

L. Kruger Yes, I think it's a number of things Mark. Thanks for the question. I think we are seeing a bit more constructive, as you used, optimism in the market. I think it's a whole number of things; businesses are starting to move forward, people are starting to make more demands.

I think Wayne mentioned about cable and rod. We've seen that market as well. The financing deals continue to roll forward from what we can see and what we know, and now I've got the potential of an ETF. There's a lot of debate about ETFs, which you're aware, but at least we see that will perhaps put in one side or one pocket a fair amount of commodity material aluminum.

As you see the aluminum inventory they've not grown and they've come off of it, maybe 150,000 tons over the last while, and China and India now continue to grow. So, you add in also the restrictions in China, some of what seem to be quite serious now, and you've seen that as well. I saw a number of China's production from this year of 50 million tons. I think it's a bit low, but all of that adds up to a changing kaleidoscope or picture, if you wish to use that, in the market.

So, I'm a bit more constructive encouraged than I may have been six months ago. From a management of the company, obviously, we will manage to look at the downside, but I think from the market point of view, Mark, it's certainly a different light in the room.

M. Liinamaa — Thanks for that. Just quickly on the Helguvik project, can you put any more color? Sounds like you're going to hold out for the best power contract, or what you feel you need. Can you put any more detail around what you think you need?

L. Kruger — I think we clearly have ideas and there are contractual arrangements to bring this to some sort of conclusion, as you know. I wouldn't like to get ahead of ourselves in these discussions with our partners.

What I was trying to do at the end was say that all the partners have significant interests in this project going ahead, and we believe we will get to an end point and a settlement.

Secondly, I think there's a growing knowledge and support of this project in Iceland from a large number of areas, local communities, and the public in general. I'll give you a trusted statistic you can bear in mind when you think about this. This project over a period of phased development of five to six years would add somewhere between 1.5% to 2% points of GDP growth to Iceland per year.

So, if you think about it, it's quite a significant impact. I can't give you the details, but certainly we're working very strongly on this, and we have to bear in mind that there have been a lot of challenges in Iceland, both politically and commercially for everyone.

M. Linnamaa Thanks. Good luck.

L. Kruger Thanks Mark.

Moderator Our next question is from John Tumazos with John Tumazos Very Independent Research.

J. Tumazos Good evening. Congratulations on keeping everything together through a couple tough years. It's a little remarkable that the new arrangements have been made smoothly at Hawesville and the Ravenswood issues are still playing out in a sense that times are hard and you would think that the employees in West Virginia, the union, the power officials would be doing their best to straighten things out, to clear the deck so to speak. Are you able to shed any light on the last remaining points on the table?

L. Kruger I think it's early days. There's a lot of discussion going on, there's continuous meetings – John, it's Logan – and if Wayne wants to comment, that works at Ravenswood for both the power and the labor and discussion, so we don't generally comment about these, even at Hawesville. Wayne was clear that we would only comment there was a four-year contract. There's a vote coming up at the end of the week. Wayne, is there anything else you want to add to that?

W. Hale: No, you've hit again Logan. We're working diligently on both these issues and would expect to bring them to conclusion.

J. Tumazos: It just seems like times are hard and the people ought to be thankful to preserve a business.

L. Kruger: John, really, we don't take any comment on that. We hear your comments, and--

J. Tumazos: Good luck. Thank you.

Moderator: Our next question is from Tim Hayes with Davenport and Company.

T. Hayes: Hey, good afternoon.

M. Bless: Hi, Tim.

L. Kruger: Hi, Tim.

T. Hayes: Just a couple of questions. On the one contract that's out on a prompt month and that you said is going to end at the end of the year, when that gets renewed or how do you replace that, is that going to still be on a prompt month basis, on 11, or might that be on a one month lag?

M. Bless It could, Tim, it could be either of those, we don't know yet. We're not concerned about the sales volume, that's the easy part. As to how it's priced, that's yet unknown. We'll let you know, obviously, once it gets finalized. It's hard to tell at this point. It's a detail item. It's one of those last minute negotiation items.

T. Hayes Okay. And then, the 5% of sales out of Iceland, that's now a direct sale, is that something that is going to be; are we going to have direct sales going forward even if it's a small percentage?

L. Kruger I think it's part of the contractual arrangements on the tolling, and one of the options in some of the tolling contracts is a negative option, but we obviously want to use the opportunity to continue to maximize the value of the plant. We purchase some alumina and, obviously, had direct metal sales. It worked very well. Slightly different, but it's a small portion of our business. It's hard to say whether that option will continue. We'll see.

T. Hayes — As an extreme end point, what would be the possibility or what's possible in terms of the upside for direct sales, could they reach 10% to 20% in a real extreme part of that contract?

M. Bless — No – the level—I said about 5% Tim, that's the option, the level, so it's not going to get much higher than that.

T. Hayes — Okay. Thank you, that helps.

M. Bless — Sure. Thanks.

Moderator — Speakers, we have no additional questions in our queue. Please continue.

L. Kruger — Thanks, Doug. Thanks very much to everyone for your time, and we appreciate you listening to our call. Thank you.

Moderator — And ladies and gentlemen, that does then conclude our earnings call for today. Thank you for participating. You may now disconnect.