Final Transcript

CENTURY ALUMINUM COMPANY
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SPEAKERS

Shelly Lair – Vice President and Treasurer, Century Aluminum
Logan Kruger – President and Chief Executive Officer, Century Aluminum
Wayne Hale – Executive Vice President and Chief Operating Officer, Century Aluminum
Michael Bless – Executive Vice President and Chief Financial Officer, Century Aluminum

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Second Quarter 2009 Earnings call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Ms. Shelly Lair. Please go ahead.

S. Lair Thank you, Linda. 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 website, www.centuryaluminum.com. Please note that website participants have the ability to advance their own slides.

The following presentation and discussion may 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. For a summary of the risk factors that could cause actual results to differ from those expressed in these forward-looking statements, please review Annex A and refer to Century's Form 10-K for the year ended December 31, 2008, Form 10-Q for the quarter ended March 31, 2009, and other reports filed to the Securities and Exchange Commission.

Information provided in this presentation and discussion is based on information available as of July 23, 2009. Century undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, actual events, future events or otherwise.

In addition, throughout this conference call, we will use non-GAAP financial measures. Reconciliations to the most comparable GAAP financial measures can be in found in the appendix for today's presentation and on our website at www.centuryaluminum.com.

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

L. Kruger Thank you, Shelly. Good afternoon everyone and thank you for joining us. We continue to focus our efforts on preserving the company's value and welcome the opportunity to report on our progress. So let's get started and let's move on to slide number four.

I'll speak about the marketing in some detail in a moment and Wayne will also make a few comments. Suffice to say that we do believe the situation has stabilized over the last few months in most regions of the world and in certain end-use sectors. I need to emphasize that apart from China, we cannot point to any data that show a dependable reduction in growth. Consistent with what you have heard from others in our sector and in the global industrial world generally, we have witnessed a decelerating rate of decline and in certain areas what appears to be a bottom.

That said, we do not believe the industry supply response has been sufficient to match the current rate of global demand and this situation has been exacerbated recently by restarts in China and even some delayed curtailments in Europe. I will provide more detail in a moment.

Against this backdrop, Century has had a busy and successful quarter. Most importantly and not to be taken for granted, especially in times of stress in general, all our plants performed admirably. Safety metrics were excellent and the operations ran efficiently. These results, as you would expect, are a real credit to our management teams and to the employees at our plants. Even more impressive, our teams at Hawesville and Grundartangi in Iceland have reduced the ongoing cost of the operations. They have demonstrated their performance consistently over the last few months and proven that they can run the plant safely and reliably at these lower cost levels.

As you would understand, certain actions that they have taken are somewhat temporary and that is that the plants cannot be run in perpetuity at the lowest spending levels in certain areas, such as cap ex and maintenance. But critically in this environment which we find ourselves in, we believe these operating levels can be achieved for at least the next 12 to 18 months. Wayne and Mike will provide some more detail for you.

After a significant effort, we concluded the new long term power contract for Hawesville on which we had been working for the last several years. The contract provides cost based power to Hawesville through 2023. Importantly, in the near term, the agreement mitigates Century's financial risk in today's environment. Wayne will speak to this matter in more detail.

We have made good progress on the Helguvik project during the quarter. Modest construction and engineering activity continued. On visiting the site, one can now see a modern smelter taking shape. We have also advanced other facets of this project, including discussions with key suppliers, such as the Icelandic power companies. We continue to believe that Helguvik will be a world class smelter and an excellent investment for our shareholders in the future.

In this way, we are pushing forward with determination, but I must remind you only in line with our requirement that we will not jeopardize the well-being of the company as a whole. Mike will provide more detail, but you will note, the cash flow performance during the quarter was favorable to our expectations. This result stems from the hard work of our operating teams, and we continue to work on strategic initiatives, which will put the company on an even firmer foundation. We hope to be in a position to report on some of these to you during the coming months.

Let's move on to slide number five. The LME cash price averaged from $1,488 per ton for the second quarter of 2009 and has recently increased to above $1,700 per ton. This is up from the low of $1,250 per ton in just February of this year. The most recent spot the alumina price in the Pacific basin was quoted at $241 per ton of alumina up from the less than $200 per ton in the first quarter.

In the U.S. and Europe, we are seeing signs of stabilization as we believe de-stocking has reached the bottom, but demand has yet to show any meaningful indications of growth. Recent economic data out of China demonstrated that its stimulus plan, which focuses heavily on investment and infrastructure is having the desired effect. Chinese GDP grew at the pace of 7.9% for the second quarter and industrial production was up by 10.7% last month. These growth levels are lower than we had seen from China in recent years, but impressive in the lack of the global economic recession.

So we move on to slide number six, with the rising metal prices over the second quarter, new capacity curtailments have essentially come to a halt.

In fact, as indicated by the dotted boxes in the slide, significant restarts are occurring in China where producers continue to enjoy a $300 plus premium per ton to metal sold elsewhere in the world. Curtailments now stand at approximately five million tons of production as compared to about 6.7 million tons of production at the end of quarter one, 2009.

Most of the decrease is a result of the Chinese restarts, as well as some modest restarts in Germany and New Zealand. The Chinese government has announced that it will no longer be stockpiling additional metal. Accordingly, this temporary source of demand has disappeared and any real growth going forward in aluminum demand from China will likely be satisfied with increased local production. We continue to believe the market is oversupplied and further capacity curtailments most likely in the western world are required to bring supply in line with current demand. Moving onto slide number seven, LME stocks have continued to rise, but as you can see from the slide not as rapidly as in recent months. We believe this is indicative of some stabilization in demand and the end of producer destocking. However, I would note the inventory levels are at 4.5 million tons. A meaningful portion of these inventories are believed to be tied up in financing transactions causing some local tightness and in particular driving the U.S. metals premiums to $0.05 per pound range, the highest level since late 2006. We believe these significant warehouse inventory levels will be an overhang on the market for some time to come.

Moving on to slide number eight, inventory levels on a global basis are now 69 days of global demand, a level we haven't seen since the early '90s when the collapse of the Soviet Union drove significant inventories into the warehouses and the market was in a deep trough. This chart indicates that current prices are somewhat above the level justified by current inventory levels based on their historical relationship. Given our view of the continued oversupply status of the market absent further capacity curtailment, we also believe that the current price levels are not supported by the fundamentals and pricing risk remains to the downside.

Wayne will now produce some details on the operations.

W. Hale — Let's move on to the next slide, thanks, Logan. As he noted, we had a good quarter from the operations perspective and made excellent progress on several fronts. Looking first at Ravenswood, there really has been no change. The small group of employees on-site continue to keep the plant safe, secure and in good order. Based on a situation at the plant, we have agreed with United Steel Workers to extend the existing labor contract, which we had already extended 90 days to August 31, 2010. As you no doubt saw in our press release, the new power contract for Hawesville is complete. Given the importance of the agreement and its long-term nature, we think it is important for investors to understand the details of the key areas of supply and term, near-term risk protection and operational flexibility.

First, the power supply contract itself is with Big Rivers Electric Corporation. The power is generated at the same facilities that have been producing it historically. These plants had until the completion of this new arrangement been operated by E.ON U.S. under long term leases with Big Rivers. Our new contract with Big Rivers expires in 2023. The rate we pay is based on their cost of production. The contract requires Big Rivers to sell on our behalf any power that we do not take if we are not operating Hawesville at full capacity. We are generally entitled to any profit on those power sales, but are on the hook to Big Rivers if the power cannot be sold and/or if the selling price of the power is below cost.

Secondly, we have also entered into an agreement with E.ON, which has two parts. Under the first, E.ON has committed approximately $80 million, which they will contribute over the next 18 months to reduce our power bill to Big Rivers. Assuming we run Hawesville at the current production rate, which is approximately 3.5 production lines, essentially all of this $80 million in production credits will be used in our power cost per megawatt hour will be about the same as it has averaged this year's date, which is a very attractive rate.

To the extent we run Hawesville at a lower production rate and the entire $80 million is not spent, then at the end of 18 months, E.ON will contribute half of the remaining amount into an account, which will be used to reduce the fuel portion of the power cost thereafter. So this part of the E.ON agreement encourages us to produce at Hawesville in the near term by keeping our power cost low.

The other part of the agreement with E.ON covers the risk from the Big Rivers contract over at least the next 18 months. As with most power contracts, our deal with Big Rivers is a take or pay for Hawesville's entire power requirements at full capacity. As I said, they have an obligation to attempt to sell power we do not require and we are entitled to the profit. However, in the current market environment, the market price of power in this region is below Big Rivers' estimated cost, and we would thus have a financial obligation to Big Rivers to make up that difference.

Under this agreement, E.ON will assume our position in this regard and pay the deficiency if the price received for the unused power is less than the cost. They are also entitled to the profit if the markets swing back the other way. We have a limited requirement to repay E.ON funds, which they advance under their production credit or this backstop arrangement; we would have a contingent obligation to repay to them any amount in access of $80 million. Repayment obligation would begin after the protection period ends, generally after the end of 2010. We would only have an obligation to make a repayment in any month during which we are operating and the average LME price is above an agreed level. This floor level is more than 50% higher than the current LME price.

Moving on, as Logan summarized, we have had excellent performance from the plants. Mike will detail our new cost estimates. At Hawesville, the reduced cost have come from a number of fronts, including lower alumina costs from Gramercy and more efficient power usage and improvements in most other areas of plant consumption and operation including raw materials, maintenance and supplies.

As Logan noted, some of these actions, such as the deferral of maintenance activities have limited lives, but we are convinced we can run the plant in this manner for at least the balance of 2009 and ‘10. We continue to analyze the pros and cons of curtailing additional capacity at Hawesville and expect to form some conclusions in the reasonably near term. As I said, we have had good performance at Gramercy and St. Ann, bringing the cost of alumina delivered to Hawesville down by almost 20% since earlier this year. We continue to talk to our partner about the long term status of this business.

Let's move on to next slide. We have not seen much change at Mt. Holly. Discussions with the power supplier have not yielded any tangible results. In addition, unlike Hawesville and Grundartangi, we have disappointedly have not seen any cost reduction at Mt. Holly. We are discussing the situation with our co-owner, who is the operator of this plant. At Grundartangi and as at Hawesville, the team has done an outstanding job in improving safety and bringing down costs to what was already a world class facility.

In regards to markets, Logan covered the highlights. Looking a little more closely, there are signs of encouragement in some of the markets with better trends in data, such as housing starts and new car purchases. However, we have a long way to go and are running the company in that vein. Producer inventories remain low and this fact will obviously improve conditions further once demand actually begins to pick up. On the physical side, metal availability remains tight in many markets, due to a variety factors, including the commitment of a large portion of LME warehouse inventories to financing transactions. We've seen the evidence of this situation in rising physical premiums.

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

M. Bless Thanks, Wayne, very much. We are on slide 11 now. And as usual if you could have in front of you, the earnings information, the financial information that's attached to the earnings release, that will be helpful because I'll be referring to it as I go through my comments.

So starting at top with the income statement with net sales, first let's talk about the components of the change in net sales, and in that context talk about the market for a second. Logan gave some of these data. If you look at the cash LME price Q1 to Q2, all of my comments as usual and as you can see on the slide will be a sequential comparison of Q2 to Q1.

The actual cash LME price improved on average by 9% Q2 over Q1. With a one month lag it, was about flat. And as you know, most of our sales and costs are priced on a one month lag. We do have one sales contract in the U.S. that's priced on a one quarter lag. And obviously as we've taken capacity out of the U.S., that contract has become a larger percentage of our sales. To give you a sense, it represented about 15% of our unit sales volume in the second quarter.

If you look at the LME price on a one quarter lag, obviously you're looking at Q1 versus Q4 of '08. The average price was down 26%. So when you put that all together, if you look at our unit average realized prices in the U.S., they were down about 3% and that's the reason, is that one contract. If you look at Iceland, unit average realized prices are flat as you would expect.

Turning to volume domestic, you can see these data by the way at the end of the financial information at the very last section, Operations Data, it's called. Domestic, obviously, shipments down significantly due to the capacity we took out in Q1. If you adjust for that capacity on a pot for pot basis, we were flat on a per day basis shipping Q2 versus Q1.

In Iceland, as you can see, shipment volumes were up one percent as reported, but flat per day. The second quarter had one more shipping day than did the first quarter. And as Wayne said, we remain really pleased with the performance of Grundartangi. They shipped again at an average annualized rate of 276,000 tons, which as you know is well above the rate of capacity of that plant. So if you put the pricing and shipping volume data together, you look at net sales again – I'm back on the slide and you can see it on the financial information, net sales down 16% in dollar terms on those lower shipping volumes in a relatively flattish pricing environment.

Walking down the income statement to gross profit, you can see gross profit Q2 over Q1 improved by $67 million. That's on the sales decline during the same comparison of $35 million. So let's talk about the major components. The largest components of that delta, if you've had a chance to read the earnings release, you saw in the first paragraph there, we had a lower cost or market credit this quarter of $27 million roughly. As you may recall last quarter, we had a charge for LCM of $2 million. So you put those two together and that produced a $29 million swing in gross profit Q2 over Q1.

Let's talk about some of the operational items that added to that gross profit improvement, as Wayne said, Gramercy had a terrific quarter and the cost of our alumina delivered to Hawesville obviously improved by $6 million Q2 over Q1. U.S. power costs improved by $3 million. The only cost that went the other way as Wayne said was at Mt. Holly, where the cost was unfavorable by $1 million Q2 over Q1.

Raw materials across the company were favorable by $3 million. And again as Wayne said, we had terrific operations performance out of Hawesville and Grundartangi for which the operating costs in aggregate improved $12 million quarter to quarter.

Moving down to income statement, other operating expense of $9 million just to remind you, the costs on this line are the curtailment costs related to Ravenswood. They'll go here from now on instead of costs of goods sold as long as the plant is curtailed. Six of that $9 million relates to the expense that we booked for the payments that we're going to be making to St. Anne's for the settlement of the alumina contract volumes for '09 obviously that were meant for Ravenswood.

Loss in forward contracts as you can see, $3 million there. That item is primarily the result of the market to market of the unpriced portion of the power for Hawesville under the old power contract. We're studying right now specifically how we will be accounting for the new power contract at Hawesville. But what we have determined today that the series of contracts will indeed be accounted for as a derivative and thus will have amounts flowing through this line as we mark those arrangements to market. Obviously more on that when we report Q3 earnings.

Couple of other items on P&L, equity earnings, you can see $4 million profit this quarter versus the loss quarter. To remind you that the loss last quarter was primarily produced by an inventory adjustment debt of $3 million at the BHH. As you know, the BHH is our 40% owned carbon anode plant in China. They had no inventory adjustment this quarter. A big portion of the $4 million in profit this quarter was again our share of that $6 million payment we made to St. Ann. So obviously we own 50% of that. We get $3 million back in our equity earnings.

Effective tax rate as you can see was close to zero as we have been telling you. In the U.S., our tax rate will be zero, even though we have booked losses in the U.S. We can't provide a tax benefit in the U.S. because we have full valuation allowance on all our differed tax assets in the U.S. So that will be zero for the time foreseeable. In Iceland, we provide our taxes at 15% and so again on the reasonably modest base of taxable income in Iceland, we're providing it at 15%. So all that boils down to a relatively small effective tax rate as you can see.

Couple of other items before we move on, average shares for the quarter as you can see 74 million common, 15.4 million preferred. Those are consistent with the balances at the end of Q1, so no movement appreciable on the share count over the quarter. As you can see, the preferred shares this quarter again are not included in the calculation of EPS because doing so would be anti-dilutive.

Before we move to the next slide, just look towards the end of the financial statement data at the cash flow information. Just a couple of items of note, cap ex for the quarter came in at $3 million as expected and spending on the Helguvik project again consistent with our expectations came in at $6 million.

We can move on to slide 12 please. Just a quick look at the changes in cash over the quarter, we exited Q1 with $267 million of cash on the balance sheet. As I just said aggregate, Helguvik spending and sustaining CapEx was $9 million. We had another source of capital for working capital during the quarter. That was due primarily to the sale of the last volumes of alumina that were originally intended to be used at Ravenswood. And as you can see importantly on the chart, cash loss from operations slightly under $40 million this quarter. If you go back to last quarter, that same number was $61 million. I would note that we made no interest payments during this quarter. Our roughly $11 million semi-annual interest payment on the two bonds are due in February and August. So obviously you'll see that $11 million amount in Q3.

Moving on to slide 13, just a quick update on our operating costs and some of the other forecast items to help you in your modeling. First, the smelter cost in the U.S., these estimates now include the net price of the power bill that we will be paying under the new contract at Hawesville. So at a range of recent LME prices in the U.S., our cash costs are in the range of 1,750 to 1,800 and then Iceland, Grundartangi, of course, 1,350 to 1,450.

Curtailment costs at Ravenswood consistent with the forecast we've given you before, about $15 million for the balance of this year, something under $30 million next year and then as you know and as we've said before, they come down significantly thereafter. SG&A costs, $6 million of cash costs continue to be a good estimate for the base cost of running the company. Obviously the P&L will show a larger amount, due to some non-cash items that we accrued like pension cost and others.

In Q2 and in the current quarter Q3, and for the next quarter or two at least, we'll be incurring some amounts above this, largely due to professional fees as we work on our various restructuring activities. And those could be a couple of million dollars a quarter for the next couple of quarters.

Just a couple of last items, cap ex, no change to the estimates we've given you previously, something under $10 million for the balance of this year and about $15 million in 2010. And lastly, Helguvik again, no change in the estimates, about $10 million left to go this year, $5 million the next year for the balance of the differed payments to suppliers. I would note importantly and Logan made some comments on the status of Helguvik, that these amounts don't include actual construction activities after 2009. And we will be continuing to work that and formulate that, and we'll hope to have something for you to update you on those here maybe as early as next quarter.

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

L. Kruger — Thanks, Mike. We are on slide 14. We have covered most of the points already today. However, I think it's important to emphasize that while we note the improving industry trends about which we have spoken, we remain unconvinced that the path forward will simply be up and to the right. So we are operating this company and contemplating various strategic actions in that context. The cost of getting this critical assumption wrong is just too hard for our shareholders to bear. We've made real progress in improving the company's liquidity profile through cash raising activities earlier this year and now by a real reduction in our operating costs. We remaine hard at work on our restructuring efforts aimed at further lowering the cost base and taking risk out of the company. We hope we will have some items to communicate with you in the near term on this area.

Lastly and most importantly, we are absolutely committed to developing the Helguvik project, and restarting major construction activities as soon as it is practical. On the next slide for your interest, you can find the recent picture of the construction site at the Helguvik smelter.

With that I'll turn over to your questions. Operator, we are ready to take questions.

Moderator Our first question comes from the line of Kuni Chen with Bank of America Securities. Please go ahead.

K. Chen Hi, good afternoon everybody.

L. Kruger Hi.

K. Chen A couple of questions here, I guess just first of all on the cost side, obviously some of the cost reductions are not sustainable and capital spending and maintenance and whatnot need to ramp up back to normal levels over time. But can you talk about what cost improvements you have been able to get that you think are sustainable? Others in the industry are changing specs on carbon anodes and things like that. Are those the type of projects that you've been looking into?

L. Kruger — Kuni, thanks, it's Logan for the question. I'll ask Wayne to dig into some more detail for you. But as we've said, we believe that the position of our cost performance is sustainable from the next 12 to 18 months. Obviously after that, you have to review your position. Wayne, do you want to add color to this?

W. Hale — I'll just use an example of Hawesville of the cost reductions that have been made there. Maintenance and supplies which in some cases may not be sustainable only makes up 14% of that overall cost reduction. So the rest of those are in line with material cost reductions and the hard work that the guys are doing at the plant.

L. Kruger — And certainly we've obviously looked at the specifications of the supplies. You use an example on carbon. That's an area that we continue to work on. Obviously we have to be somewhat careful about the end product that we deliver to our key customers.

W. Hale Just on that point, Nordural again has reduced their costs as well and in their cost profile of reduction, they've made some changes and reductions in the maintenance area, but not significant. There have been major reductions in carbon and bath and indirect costs and, of course, labor as well.

K. Chen Okay. And then on Helguvik, there is some language in the release that says that you may contemplate a restart of major construction work there. Can you just give us maybe some sense as to what sort of financing structures you're looking at to get that going again and perhaps some views on how the ownership structure may look down the road?

L. Kruger I think, Kuni, we're very pleased about a number of things on Helguvik. First of all, we can tell you that today it was confirmed by the European Surveillance Authority that the investment agreement has now been agreed to by them and both ourselves, and the government of Iceland will be signing that. And that I think significantly reduces any risk in any new project anywhere in the world.

The second part, Wayne and the team on the project side have reconfigured the project into four phases of 90,000 tons each. And we've taken advantage in our review of obviously, the capital investment costs that are required now. And we've seen the benefit of having those lower costs, as well as obviously the lack of new projects been developed in the rest of the world. So on the potential structuring or financing side, I think Mike can add some comments on that if you'd like.

M. Bless Sure, Logan. Kuni, it's premature yet. Although we're working diligently on it to say the least to talk specifics on things like ownership structure that you're asking about. But I can reiterate what we've said previously is that the financing package will have a couple of key elements to it. One is that the debt component of it won't have a recourse to the rest of the company's assets. That's the path we're pursuing. And two, the additional cash, any additional cash that Century would have to contribute certainly to the first phase that Logan addressed, would be minimal. That's kind of the context of the package that we' re pursuing. As I've said, maybe as early as the next earnings' call, we'll be able to have some more detail for you on both that and the capital cost.

K. Chen Okay, great. And then – yeah- I'm sorry, go ahead.

L. Kruger Sorry, last comment, Kuni. As you would expect, we're working on this very carefully, and we're making sure we've got all our ducks in a row.

We will let you guys know as we see these things develop. Sorry, your next question?

K. Chen — Just one last and I'll turn it over, you mentioned sort of a need to take more risk out of the company going forward, given your skeptical views on the business climate and whatnot.   Can you dig into that a little bit more? Is that just more capacity curtailments or are there other ways that you can look at creatively taking risk out of the company?

L. Kruger — I think, Kuni, first of all, I think our views for the market are not skeptical. I think we're fairly balanced in our views; we've noted some improvements, but we've also noticed that demand is full subdued and is fairly large inventory holding hanging over the market. We are not unhappy to see the higher prices, but you have to look at where the risk may remain, and we believe that it still remains on the downside. In terms of taking risk out of the company, we're looking at all ways of taking risk out of the company. And maybe Mike wants to add any additional to that.

M. Bless — No, I mean Kuni got the obvious one. As we've said, we are still looking at whether taking additional capacity out of that makes economic sense given the balance of risks and upside and such. And so that we've come to no conclusions there. The fact that we haven't taken additional capacity out since the time at Hawesville that we curtailed in March, shouldn't mean to anybody that that's the final decision. And then we're continuing to look at all the other assets. We own the joint ventures in which we participate as we've said we're talking to our partners in both of those. So, I would say, Logan's comment is right on. We're looking at the panoply things that we can do. But you're right, capacity curtailment, additional, is right at the forefront.

K. Chen All right, thanks guys.

M. Bless Thanks, Kuni.

L. Kruger Thanks, Kuni. Good questions.

Moderator Thanks. Next we will go to the line of Brett Levy with Jefferies & Company. Please go ahead.

B. Levy Hi, guys.

L. Kruger Hi.

B. Levy Can you guys talk a little bit about sustainability? What can you shut down in 2010? What can shut down in 2011, and where is your liquidity? Talk about like the worst case scenario liquidity option.

M. Bless I'm not sure, Brett, your question is a pretty broad one. Let's try to parse through it. It's Mike. The first is, you asked what additional capacity we can take out. And let's just review what we said before in 2010 and 2011. So as we said about 60% of Hawesville right now is required basically three of the five lines to supply an important customer that we have there, which contract expires at the end of the first quarter in 2011. And so I think that's our major answer there.

As we've said at the other plant in the U.S, we don't have the unilateral ability economically there to, we've talked about this before, to curtail. It's got to be if it were to ever come, a joint decision by ourselves and our partner there. So that I think is the answer on that one.

Worst case, I'm not even sure how to address that question. But maybe you can ask it again to tell us what you're really looking for.

B. Levy I guess my thought is if in 2011, aluminum is still $0.75, is this company still viable? And my thought is that you can actually close everything and just run Iceland and still run it cash flow positive.

M. Bless As I think picking that number, your numbers, 1650, it does portray a continued cash requirement for the U.S. operations. But as you know, from the numbers that you run yourself, obviously Iceland is self-sustainable. You have to look at that as you go forward. I think we've made significant improvements. So again, you have to look at each environment, test what you think is the future, both near term and press a little bit longer term and decide how you'd run. We're pleased with the progress we've made, but your option is not out of our range of thinking. It depends on where you want to place the LME price.

B. Levy And then there is some financial adjustments in 1Q that are positive, and 2Q that are negative. Can you take me through the adjustments, what's recurring and what's non-recurring and just get me to a normalized number?

M. Bless I'm not sure as to whether other than the inventory items, there really wasn't anything. So it's just, it's LCM. You're familiar with inventory accounting, of course, and why you have an LCM reserve and when you have to release an LCM reserve. That's all non-cash stuff, of course. Those are the only items that we reference.

B. Levy — Got it. If you guys at some point - the LME is like it's $0.79 right now. If you guys at some point wanted to buy back your bonds, could you?

M. Bless — If we wanted to buy back our bonds, could we? There's nothing that precludes us contractually, if that's what you're asking, from buying back our bonds.

B. Levy — Right. It's not something you'd remotely think about though right now?

M. Bless — Right now I would never say remotely. We think about everything. But we believe, right now given the balance of risks and opportunities and liquidity and whatnot, it's not something we're doing.

B. Levy — Okay, thanks guys.

M. Bless — Thanks.

L. Kruger — Thanks, Brett.

Moderator And next we will go to the line of Justine Fisher with Goldman Sachs. Please go ahead.

J. Fisher My first question, I know you've addressed these issues before and certainly in public forums, but I just wanted to double check whether your thinking has changed on them. And the first is the convert put in 2011. By the way I'm running my numbers, again, it's clearly dependent on aluminum prices, you guys may have enough cash at the end of 2010 to potentially meet that put with cash, but what type of refinancing options might you look at? Would you look at high yields that are to refinance in the convert market? Or you're not thinking that far ahead yet?

M. Bless We're thinking about it hard and because two years goes by as we all have seen over the last couple of years reasonably quickly. And the answer not to give you the easy answer, because you said it, Justine, it's any of the above. I think just looking at the options, the financing markets are open right now, unclear what they are going to look like in time in the future. But the convertible markets are open and the common stock markets are open. We have the ability and through our indenture to raise additional debt that could be done in the current market. As you know all of our assets are unencumbered other than the first lien that the revolver banks have on the U.S. receivables and inventory. So we've got a lot of options at which we're looking. And to answer part of your question, we're looking at it hard right now. As to whether we would have actual liquidity on the balance sheet to do it, again as Logan just said, it's entirely dependent on one's view of the metal price. But under some reasonable scenarios what you said could be true.

J. Fisher Okay. And then as far as the Grundartangi smelter was concerned, I know you guys have said previously that issuing no debt potentially encumbered by that asset is kind of a last resort. Is that still the case?

M. Bless Yes, I think it's clearly there and our advisors believe that something reasonably attractive or relatively attractive one always sees those qualifiers in these markets could be done. Last resorts is the superlative, but it's something that we would probably leave until we tick through a bunch of other options.

J. Fisher Okay. And then the last question. I'm going to throw this out; you may not be able to answer, but I know that aluminum prices are clearly the big movers, but in the second quarter, the operating loss was down in the single digits, I guess. So barring changes in aluminum prices, are there any other cost items that could drive your operating loss lower than that or at current batten down the hatches voted the U.S. operations and steady in your Iceland operations, it's really going to be the aluminum prices that would drive operating profit up or down?

L. Kruger — I'm going to ask Wayne to comment as well, this is Logan, Justine. I think the answer is we've driven the cost benefit we can through, and we continue to look at them. But obviously, that is a less available option, but it doesn't mean we're not looking at that. And I think we will continue to look at it. I think there's also LCM, Mike—

M. Bless — Justine, if I could just reorient your question and maybe Wayne could answer it. I would prefer to look at, rather than the operating loss, the cash flow. Because, for example, the operating loss was made $27 million less this quarter by the release of that LCM reserve and that's a non-cash item. The cash impact of it flows through this based on cash, which actually paid for that inventory and what you actually get for it for the finished product. So I would just maybe reorient you little bit to the actual cash flow. And Wayne, you want to—

W. Hale — I think the important point here is that all the teams at the plants continue to look at cost reductions in some of the work that's being done now is time dependent, which we won't see the true results for, for a month or so. So again, it's just impressive to see the idea generation being done.

J. Fisher — Thanks so much. I appreciate it.

Moderator — The next question comes from the line of Tim Hayes with Davenport & Company. Please go ahead.

T. Hayes — Hey, good afternoon, everyone.

M. Bless — Hi, Tim.

L. Kruger — Hi, Tim.

T. Hayes — I just have one question. When you said that 15% of your sales are on a one quarter lag, the LME price, was that 15% adjusted of your U.S. production?

M. Bless — Yes, 15% of the U.S. production this past quarter and that percentage will change. The numerator is the same, but the denominator will change based on what our shipments are during each individual quarter, obviously. But, yes, this past quarter, 15% of our U.S. shipments for that one contract, that price is on a one quarter lag.

T. Hayes — Very good. That's all I have, thanks.

M. Bless Thanks, Tim.

L. Kruger Thanks, Tim.

Moderator Next question comes from the line of Don Noel with Barings. Please go ahead.

D. Noel Yes, hi. Just two quick questions. One is, can you give us the tons shipped in the quarter? And the second question is, in terms of the inventory adjustment, was there an inventory? I mean, I guess you have a lower cost of goods because you released this valuation allowance. When was that allowance taken in the first place? Was that in the prior quarter?

M. Bless Yes, it was in two quarters ago, fourth quarter of last year. And you're right, that's what it obviously results in as a lower cost to sales. In answer to your first question, I'll give you U.S. and Iceland, and we can add them up or you can add them up. It's at the end of the earnings release, but the tons shipped during the quarter in the U.S was 76,817 and in Iceland, 68,876.

D. Noel Thank you.

M. Bless Sure, thank you.

L. Kruger Thanks Don.

Moderator The next question comes from the line of John Mazo with John Mazo's Very Independent Questions. Thank you.

J. Mazo Thank you. In terms of the market outlook you have, which is realistic and cautious, what are the better ways to mitigate risks as you continue to operate the company? Would you go back to hedging, which was the strategy of the past, issue more equity or try to sell assets stakes to mitigate risk in the current climate?

L. Kruger I think John you've covered the field. I don't think there is anything that we particularly will zone in on and we look at the pricing. I like your words, realistic and cautious. I think we're pleased that the price has moved, but realistic about it. In terms of how we deal with our cash flow liquidity requirements, Mike pointed out our cash position is about $230 million, so it does give us some runway. I don't know if my colleagues will agree with me, but the runway is locked from 18 months plus, so we've got some time on our hands. And we continue, as Wayne has pointed out, to work on our cost side and our throughput side and other strategic options. I don't want to be too general, but I think that's the best way of answering your question.

J. Mazo Thank you.

L. Kruger Thanks, John.

Moderator The next question comes from the line of Mark Liinamaa with Morgan Stanley. Please go ahead.

M. Liinamaa In your comments, you referred to some of these short-term financing deals that are linked to some of the LME inventories. Can you comment on the duration of those things and how you think that may play out over the next six months or so?

L. Kruger Mark, it's Logan. It's unclear how much is tied up in these spaces, but we really do have up-to-date information, although it's been somewhat difficult for people to liberate part of the warehouse's metal on a short duration basis. So we hear that some people are tied up for a year taking advantage of the contango. We have less period than that so, we haven't got access to a warehouse by warehouse financing basis. But we've realized that if you look at the Midwest premium, and if you have a look across the ocean to the Japanese premiums as well, I think you've seen both go up somewhat in that period of time.

M. Liinamaa Would you have any sense of how much is actually unfettered with financing?

L. Kruger No, we don't know. Mark, I'd like to give you a number or a percentage, but I don't know. But the evidence is that it's been difficult to get metal out of the warehouses at a short notice. Part of what's exacerbating the problem or maybe I'll just add this in is obviously everyone's run down their own stocks and so they wanted access to metal at a shorter term, so that's also driving the present situation. I don't know how much. But as you saw in our remarks, Mark, we believe there will be an overhang. For how long, it's difficult to say, but that overhang will be there for some period.

M. Liinamaa Okay. Thanks for that. And then just quickly, you talked about China restarts as being a problem. How are you thinking about China? Are they ultimately a long-term exporter neutral? And can you comment on what has to happen to get the rest of the world to get it into balance?

L. Kruger I think just if we split China into two periods, I think short and medium-term, I think China's ability to generate enough metal for its own demand is more likely. They're producing at around 11.5, 12 million tons I think at this time is the estimate and has capacity up to somewhere between 17 and 18 million tons. So any growth in China, should by nature of the business, but again, costs will also determine that part and a number of other things which we saw just a year ago. So you've got to think perhaps short-term, Mark, that China is a bit of a closed loop. Then you get into the rest of the world, and you obviously see the buildup of inventories in the LME warehouse. I don't know what the number is, but I suspect people are talking around maybe a million tons plus of excess to demand/supply at this point of time. I don't know. Shelly, do you have any comments on it?

S. Lair You're saying outside of China.

L. Kruger Outside of China.

S. Lair Now, one to even two million tons.

L. Kruger It's difficult to gauge, because there are indications of some demand pickup in certain areas, Mark.

M. Liinamaa Great. Thanks for that and good luck.

L. Kruger Thank you.

Moderator Next question comes from the line of Tony Rizzuto with Dahlman Rose. Please go ahead

A. Rizzuto I had a question about the Helguvik. Is there anything in or stipulation in the contract you have or in your discussions that would preclude you guys from bringing in a JV partner?

L. Kruger Tony, like anything else, I don't think we're restricted and it's one of the things that you have to think about as you go forward. We know the project is good, it's well established. It's there. We know their working environment and the capital hurdle is reduced obviously as you would expect, but there's no restrictions.

A. Rizzuto All right. Thank you very much, Logan.

L. Kruger Thanks, Tony

Moderator — Next question comes from the line of Karitosh Mizra with Morgan Stanley. Please go ahead

K. Mizra — Thanks for taking my questions. First on the sensitivity to LME price on the cost side, I just wanted to confirm the only thing that's still linked to aluminum price is power and alumina in Iceland and alumina in Mt. Holly and that the new contract at Hawesville won't have any linkage to aluminum price. Is that right?

L. Kruger — You're incorrect. In Iceland, it's just power. It's a tolling facility, so there is a natural offset or a hedge against it, but it's not one that's probably fixed. Obviously, Mt. Holly is alumina, comments on the—

M. Bless — No, you're absolutely correct. As Logan said, the implicit alumina cost in the toll fee in Iceland, that's power in Iceland and alumina Mt. Holly. And as you correctly said, or I think it was a question, there is no linkage in the new power contract at Hawesville to the metal price. It's a cost based contract, so we pay the cost of the power producers. So there's obviously linkage to their cost of coal and their cost of production and materials and all the other things, but no LME linkage.

K. Mizra — Got it. And than second on the premium, is the Midwest premium still the relevant number for your U.S. operations or?

M. Bless Yes

K. Mizra Okay. So you're not sending say, part of your materials directly to LME, in which case it might not get any premium?

L. Kruger The metals premium is the relevant part for our business.

M. Bless We're not sending any material to the warehouses.

K. Mizra Thank you very much.

M. Bless Thank you.

L. Kruger Thanks for the question.

Moderator Next question comes from the line of Sayan Ghosh with Citadel Group. Please go ahead.

S. Ghosh Hi. Mark Liinamaa actually asked part of my question on the financing things, but if I can ask you one more question on that. At this, let's say 5, $0.055 Midwest premium, just the math would suggest that that is enough to incentivize someone to break this Contango deal, which is, call it $50,

$60 per ton minus the cost of financing that and the cost of storing it in the warehouse. Obviously, subject to the condition that the metal is not restricted, so the financing term is not fixed, so are you actually seeing any evidence of that, which is these high premiums incentivizing metal coming off these financing deals, and becoming freely available again, so in effect kind of a natural flattening of the Contango?

L. Kruger We're not seeing that. We don't play in that market as Mike has pointed out. We don't put metal into the warehouse. We just have noticed the dynamics around the premium. But to answer your question, we're not close enough or have not seen that at this point in time.

M. Bless We're reading the same rumors or speculations that you probably are. There is some speculation out there that yes, indeed, the fiscal premiums are to the point where it might pay to break a financing deal. But as Logan said, the answer is no. We don't have any evidence of it.

S. Ghosh Okay, thank you.

M. Bless Thank you.

L. Kruger Thank you for the question. Operator, any more questions?

Moderator We have a question from the line of David Rosenberg with Oaktree Capital Management. Please go ahead.

D. Rosenberg Hi, guys.

L. Kruger Hi, David.

M. Bless Hi, David.

D. Rosenberg I guess the question I have for you guys is somewhat related to a question that was just asked. Historically you've always said the natural hedge is about 23%, and now that we've had some curtailments in the Hawesville contract, it's no longer tied to aluminum prices. Can you refresh that percentage for us?

L. Kruger We all look at that David. So you've asked a good question.

S. Lair I don't think it really has moved all that much. You've lost Ravenswood, which had a percentage, but then Hawesville, which doesn't have a percentage linkage is a bigger percentage, so I think net-net, you're probably around the same area.

M. Bless There was no linkage to Hawesville. There is no change. You may be thinking that there was a derivative or second stage linkage in the Ravenswood power contact to the LME. But at Hawesville, the power there was fixed before and now it's cost base.

D. Rosenberg So if we still think about it about 23% naturally hedged, that's about right?

M. Bless Yes, a quarter, give or take. Shelly is nodding her head up and down.

S. Lair You are right.

M. Bless Yes.

D. Rosenberg That's all I have. Thanks guys.

L. Kruger Good question David. Thank you.

Moderator There are no additional questions in queue. Please go ahead.

L. Kruger Thank you very much, everyone, for taking the time to listen to us today. We certainly are pleased with the operating performance and cash situation and looking at our liquidity. We continue to work very hard at improving the situation on all levels in the company, and I look forward to talking with you again soon. Thank you.

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