Final Transcript

CENTURY ALUMINUM COMPANY
Topic: First Quarter 2009 Earnings Call

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SPEAKERS

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Logan Kruger – President and Chief Executive Officer, Century Aluminum
Wayne Hale – Executive Vice President and Chief Operating Officer, Century Aluminum
Mike Bless – Executive Vice President and Chief Financial Officer, Century Aluminum

PRESENTATION

Moderator — Ladies and gentlemen, thank you for standing by and welcome to the Century Aluminum Company First Quarter 2009 Earnings Call. At this time, all lines are in a listen-only mode. Later we'll conduct a question and answer session, and instructions will be given at that time. As a reminder, today's conference is being recorded.

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

S. Lair — Thank you, Art. 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, 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 NSA and our periodic SEC filings, including the risk factors and management's discussion on analysis sections in our latest annual report and quarterly report.

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 have been very busy on many fronts. All of our efforts are focused on preserving the value of your company, and we welcome the opportunity to report to you on our progress. I'd like to start on slide number four.

I will address the market in more detail over the following slides. So let me just provide context here by saying we have not, as yet, seen many concrete signs of improvement in the end markets, either in North America or around the world. There are some signs out there, particularly from China, that could indeed indicate stabilization or at the very least a significant slowing to the decline. Yet, until we see more evidence, it's difficult to gain much confidence at this time. Bottom line, the industry remains in an oversupplied position. We do not believe it's prudent for producers to plan that improving demand will solve the problem any time in the near term.

In the shadow of this very difficult business environment, I could not be more proud of how our employees have performed. It's during such times—as we are experiencing at the moment—that effective performance is even more critical. Most importantly, the safety performance at the smelters has been very good, especially in the face of full curtailment at

Ravenswood and the one line curtailment at Hawesville. It is during these times, such as that, we sometimes forget about the bedrock principles like safety.

These principles should not be trivialized. Our employees have proven their commitment, and I want to thank them all. The curtailments have been handled efficiently and at or near the targeted costs. Wayne will provide more detail when he talks with you and will discuss the remaining operations.

Grundartangi, which is cash flow positive even at today's current metal prices, continues to produce well above its rated capacity. Our near term strategy is straightforward, to strengthen the company's cash flow and thus preserve Century as a survivor when the conditions improve. To that end, we have significantly improved our liquidity during the last quarter. Mike will provide the detail. And as Wayne will discuss, we are all working on the operations to institute significant changes to allow for the long-term value preservation.

Can we now move onto slide number five? The Icelandic economy continues to experience challenging times with unemployment reaching 9% recently. This is a significant change from the base of effectively zero a year ago. With the financing packages from the IMF in individual countries in place, we are seeing some stabilization in the local banking system. General elections are being held this weekend at which point a formal coalition will be formed. Recent polls indicate that the parties which have been leading the government since February may well remain in power. Obviously we shall see on April the 25th.

As Wayne will discuss when he talks about operations, our Grundartangi plant has essentially been unaffected by the political and economic turmoil in Iceland. Efficiencies continue to improve, and operating costs, primarily power, carbon, and labor continue to decline. We have significantly reduced activity and spending commitments on the Helguvik project, as we reassess the path forward for this world-class project. We are refining the project costs based on a small initial phase and recent commodity prices and construction costs. We expect that the analysis will be completed in the second half of 2009.

Just last week, the Investment Agreement was approved by the Parliament in Iceland and is now awaiting ratification by the European Surveillance Authority. This, as you know, is a very positive milestone for the project, as this evidences the government's support for the project and addresses important aspects of the project, such as the fiscal regime.

As you would expect, we are investigating many financing alternatives for this project. At this point in time, we have not made any commitments with respect to financing. Any agreement we would consider entering into in the future, specifically for the project, would be non-recourse to the Century parent and to Grundartangi.

Let me move on to slide number six. When we look at the market, we see that the average LME price for the first quarter was $1,360 per tonne. This is the lowest quarterly average since the first quarter of 2003. The most recent spot alumina price was recorded at $227 per tonne. U.S. demand remains weak. However the Midwest premium continues to be in the $0.04 range.

The LME are where our stocks continue to rise. In quarter one of this year, we saw an increase of roughly 1.2 million tonnes, taking the total LME stock up to 3.5 million tonnes. Inventories are now equal to 67 days of global demand, a level we haven't seen since the early '90's, when the collapse of the Soviet Union drove significant inventories into the warehouses.

Can we move on to slide number seven? As the global economy slowed and the aluminum demand declined, producers implemented production cuts. To date, 6.7 million tonnes of production capacity, representing some 17% of the 2008 global production capacity, have been announced for closure. Additionally, 8.1 million tonnes of alumina production capacity has been announced for closure, as well. We believe a significant portion of the announced closures have been implemented, but there's still a bit of a lag effect.

Shanghai prices have stabilized at somewhat higher levels of the LME aluminum price due to government actions, strategic stockpile taxes, GDP growth targets, to name a few. As a result, new capacity curtailments in China have essentially stopped, and it is believed that some Chinese smelters may have restarted capacity recently and several others are expected to restart in the near term. The rise in the Shanghai metal price has increased the arbitrage for the metal imports on a tolling basis to some $500 per tonne with traders sending metal into China to benefit from the price differential.

We continue to expect more cuts outside of China, primarily in the U.S. and Europe, as the majority of the smelters continue to operate with negative cash flows. We believe these further curtailments will be necessary to balance the market.

Can we move on to slide number eight? In February the company announced the full curtailment of its 170,000 tonne per year Ravenswood facility, and in March, we announced the closure of one potline with the capacity of 52,000 tonnes per year at Hawesville. In total, the company has reduced production capacity by 220,000 tonnes per year, which equals 28% of our 2008 production capacity.

As you can see from the slide, this puts us at the high end of curtailments compared to other industry players, but we are prepared to take further steps to reduce production levels if the economics make sense.

If we look at slide number nine, aluminum prices have been range bound for the last three months. Since mid-January, the LME cash prices have been between $1,250 per tonne to $1,475 per tonne, with a current price at around $1,400 per tonne. The majority of the industry experts agree that prices reached a bottom in February, and are unlikely to go much below recent levels. But we could see prices move towards the lower end of the range again in the near term.

The 50th percentile producer is now operating around $1,650 to $1,700 per tonne; about $150 per tonne above the high end of the range of the LME prices we've been seeing this year. We do not believe that the LME prices are sustainable at this level where all but the very lowest costs producers are operating at a loss. But current prices could persist for some time before the economy regains confidence and, particularly, demand picks up.

I'd like to now pass this on to Wayne to talk us through the operations.

W. Hale

Thank you, Logan. Let's turn to slide ten. Looking across the operations, Ravenswood saw a significant change during the quarter. After closing one potline in December, we made the difficult, but necessary decision, to curtail the entire plant in February. The process was completed by mid-month.

Adding my thoughts to Logan's comments, it is during these challenging financial times that unfortunate decisions must be made. Our employees at Ravenswood acted in a safe and professional manner to efficiently curtail the plant. My thanks to Jim Chapman and his entire team for managing the curtailment effectively. We are now operating the plant in a care and maintenance mode with a support staff of around 28 people. This number will be reduced over the next couple of months by another four to five as some of the service and support work concludes.

The contract with the United Steelworkers expires at the end of May, and we are now working with the union leadership to commence the usual formal bargaining process. We look forward to the new contract being an enabler to when it's time to consider restarting the plant.

Moving onto Hawesville, we curtailed line five in early March. The plant is now operating efficiently at an annual capacity of around 200,000 metric tonnes per year. We are in discussions with our customers and suppliers to ascertain if and when the curtailment of additional capacity is feasible and makes economic sense. At this point, I can say there appears to be benefits to curtailing an additional potline. This is being considered for some time in the near future and, if completed, would represent an additional 50,000 tonne reduction.

The new power contract for Hawesville continued to move somewhat circuitously to completion. The parties are in the process of satisfying the conditions of the Kentucky Public Service Commission imposed requirements. In addition, the world has changed significantly, as you all know, since the principle terms and economics of the transaction were agreed over a year ago. In this context, we are carefully analyzing all aspects of the power contract to confirm that it still provides economic benefit to us over both the short and long-term. Insofar as the costs of these curtailments, Mike will be providing the detail later.

Moving on to Gramercy, the plant has been producing smelter grade alumina at half capacity since early February. On an annualized basis, we and our partner are each taking down around 250,000 tonnes of SGA. This reduction in Gramercy throughput, in addition to a reduction in sales of bauxite, has reduced the rate of production at St. Ann’s as well. At the lower production rate, Gramercy is performing well with key operating metrics, such as energy efficiency, being favorable to our expectations. We continue to discuss with our partner the various near and longer-term options for this business.

Turning to the next slide, as we’ve stressed consistently in previous discussions, Mt. Holly operates safely, performs well, and has good productivity. The issue is the power price. Our forecasted power price for 2009 has reduced substantially from what it was predicted just a few months ago, and it looks like it might fall even a bit further. It’s still significantly above the price necessary to achieve profitable operations, even at higher LME prices than today. We and our partner continue to work with the power provider on short and longer-term solutions that could meaningfully change the equation. Such a change has thus far been elusive.

In parallel, we continue to engage with our partner about the options available to us jointly in regard to the operation of the plant. Reviewing Grundartangi, we continue to see improved performance from the plant and operating team. Best ever performances continue to be surpassed. Operating metrics, such as injury reduction, emissions, equipment damage, production, and cost efficiency, continue to improve from an already excellent base. From an external environment perspective, we have seen no real negative impact on our business from the economic and political uncertainties in Iceland.

Turning to a review of our markets, we are seeing weakness in the extrusion and billet market with some limited support in the rod and cable business, due to the present administration's directive to strengthen the transmission grid centered around Texas and the recent ice storms in the Midwest. There has been some recent short-term pricing support due to reduced scrap availability with associated tightening of spreads. Generation of scrap is down in line with industrial production, which has reduced consumption as well.

Aerospace is falling off, centered around Boeing and Air Bus. Boeing is aggressively destocking inventories. Automotive looks slightly stronger in May due to destocking and winding down a bit. Sheet mill orders and coil flat sheet remain very depressed. This will not improve until the transportation market recovers. There are signs that China's stimulus package is gaining traction. The World Bank predicts their recovery in the second half of the year and an annualized economic growth rate of around 6.5%, yielding a potential impact on aluminum demand. Unfortunately, there is little similar evidence in other international markets, suggesting continued challenges in 2009.

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

M. Bless Thanks very much, Wayne. If everybody can please turn to slide 12, and also as usual I'd ask you to have handy the earnings release and the financial information that comes right after it. As I will refer to it in my comments, it will make it easier to follow along.

First, before diving into the financial results, I'll just talk about the market movements quarter to quarter. As usual, I'll make all of my comments comparing the quarter just ended to the prior quarter, so Q1 over Q4. In that period, the average cash LME price declined 26%, Q4 to Q1. On a one-month lag, the cash price was up 35%, and as you know, many of our revenues and some of our cost price on a one-month lag. So one month lag, LME down 35%. Our realized average price is a weighted average global result for us was down 32% in that context.

Turning to shipment volumes, you can see the data at the end of the financial information after the earnings release. Domestic volumes were obviously down significantly. Wayne has described that; obviously, due to the curtailments. The volumes in Iceland are down 2% sequentially on a reported basis, but on a per day basis are flat. There were two less days in Q1 than there were in Q4. And as you've had a chance to look at the numbers, Grundartangi again shipped at an average annualized rate of 276,000 tonnes. Obviously compared to the 260,000 tonne rated capacity, that's a terrific result, and we continue to be very, very gratified with it.

So based on those data, the change in price and in volume, net sales, as you can see on the slide here, quarter to quarter, are off 44%. Now if you go back to the financial information, let's walk down the income statement. I'll call out the major items here.

Gross profit, as you can see, up $10 million sequentially on a sales change or decrease sequentially of $178 million. A couple comments on that result: It might look a little strange out of context. Price alone dropped gross profit by $100 million quarter-to-quarter. You might remember that in Q4, we took an inventory charge to reflect our inventory at lower cost of market as required. And that charge is $56 million. In effect, that $56 million would have rolled through cost of sales this quarter, had we not taken it last quarter. So, obviously, gross profit is $56 million higher than it would have been if we wouldn't have taken that LCM charge last quarter, or in the fourth quarter as required.

A couple other comments on gross profit. Aluminum costs were offset, were down $17 million quarter-to-quarter. Most of that was based on the fallen metal price, but a couple million dollars of it was based on lower alumina cost into Hawesville, mostly from Gramercy, as you know.

Nordural power is up $5 million up quarter-to-quarter, obviously LME linked, and raw materials continuing a trend we've seen over the last couple of quarters, up $4 million quarter-to-quarter, mostly carbon-based products.

Continuing down the income statement, a new line item that you haven't seen before called other operating expense. This is where all the Ravenswood curtailment related costs will go. Basically, the accounting principles say that if you don't have revenues attached to a cost, you can take it and put it on this line, and that's where we put it. We, obviously, believe that it will be helpful to investors to see it isolated, and it's the right accounting treatment.

You see $24 million on this line. It's actually the result of a $35 million charge, that I'll detail in a moment, reduced by an $11 million curtailment gain related to employee benefits at Ravenswood. So a $35 million gross expense this quarter. Of that $35 million, only $6 million of it was cash. The rest are accruals and reserves, obviously, that will be paid out in cash in future quarters, and I will detail our estimates for future spending at Ravenswood here in a couple slides.

I have one more item to note in that $35 million. We have just today finalized the settlement of our alumina long position related to Ravenswood over the next 12 months. That's a beneficial settlement for us. Six million dollars is the cost of the settlement to us. It compares favorably to the size of the liability that we believe we had there, and as we finalize this agreement here over the next day or two, we'll be putting out an 8-K to detail the terms of the settlement. Again, I'll cover the cash impact of this charge in a couple slides.

Continuing down the income statement, SG&A, as reported. GAAP basis is $10 million this quarter. Obviously, that includes some non-cash accruals. We continue to believe per expectations that we told you about last call that at or around $2 million a month cash SG&A is a good estimate for 2009. Equity earnings, you see a slight loss this quarter. The majority of that is due to an inventory adjustment of about $3 million at BHH, which as you know is our 40%-owned anode plant in China. Also lower is third-party sales at both Gramercy and St. Ann’s bauxite contributed to lower sales and therefore lower profits there.

Just a quick comment on the effective tax rate. You’re going to see largely a result centering around zero for the foreseeable future. We are paying no taxes in the U.S., obviously, given our huge NOL’s here, and we don’t provide a benefit on the income statement for losses. So the effective tax rate in the U.S. is effectively zero, other than small changes like FIN 48 reserves and interest and things like that.

Iceland, as you know, we report to provide 15% in taxes and pay them on our income there. So you’re going to see an effective tax rate until things improve pretty close to zero on a quarterly basis.

Shares outstanding at the bottom of the income statement data, you can see 65 million average outstanding during the quarter, obviously impacted by the closing of the common stock offering in early February. To get a sense of where we are at the end of the quarter, if you look at the balance sheet data, you can see down in the shareowner's equity section, common shares at March 31, are 74 million. Preferred shares are convertible into another 15.4 million common shares.

Just one accounting item to note because it impacts the presentation on the balance sheet and the income statement. I just want to point it out to you to clear up any confusion. This standard is APB 14-1. You've probably seen it in other companies that you've followed that have reported. This has to do with the reporting of convertible securities like the one that we have, and it impacts both the balance sheet and income statement.

What it basically requires at a high level is that you bust up the debt and equity features of that convert and show them separately. So if you look at the impact of it, just look at the balance sheet to start in the 3.31 column. You'll see that despite the fact, of course, that the convert continues to have $175 million face amount, it's now stated at $155 million, with the balance in shareowners' equity.

The APB also requires you to restate prior periods, so you'll see actually in the December period, it had a slightly couple million dollar lower balance, and that balance will continue to accrete up through the put date to its full face amount.

If you go back to the income statement, just to conclude on this, you'll see interest expense about $2 million in the year ago period higher than it was reported. That $2 million is the same amount in this current quarter is non-cash, of course. All of these changes, of course, are non-cash. That $2 million basically is the result of the requirement in this accounting standard that requires you to accrue interest on the debt as if the debt were non-convertible or straight debt, higher interest rate. The important thing here, of course, is there are no changes to any of the terms and conditions of the converted. It's just the way you account for it.

Before we move on the slides, there are two items on the cash flow statement. CapEx you'll see is at non-Helguvik CapEx on that line, $9 million in the quarter. Detail on that; $3 million of that was new spending this year. Six million dollars of that was spending for commitments that were made and liabilities that were incurred last year when we were obviously shutting off all of those capital programs last fall. Those amounts were in accounts payable at the end of the year, and they were paid out early this year. Lastly, Helguvik, $6.5 million of spending, is up per our expectations.

If you could turn to slide 13, please. Due to the changes in the cash balance quarter to quarter, we thought it might be helpful if we just detail these for you very quickly, here. So obviously we began the quarter at 12/31, cash balance of $143 million. Two capital items during the quarter, obviously the equity offering $104 million net proceeds, and as you know, we repaid our outstanding revolver balance, $25 million, during the quarter.

We've talked about two tax refunds totaling $90 million that you see. About $40 million was from the liquidation of working capital. That's largely from the curtailment of Ravenswood, obviously. That's as expected. Again, as expected, the actual cash loss from operations, as Logan said, the LME cash averaged $1,360 during the quarter. As we predicted on that basis, the cash flow loss after tax was in the low $20 million, as you see it there. Ending cash as you see on the balance sheet and on the slide of $267 million.

If you just turn to page 14 before I turn it back to Logan, we thought it would be helpful to lay out some forecasting items to help people build their financial models and such. Two important assumptions for this page, the first is the LME assumption, of course. The assumed LME, when you start talking about cash costs at smelters and such, is impacted by the LME. It, obviously, prices our alumina at Mt. Holly and our power costs in Iceland. These assumptions assume metal prices around where we've been, around the $1,400 level, give or take.

Second is importantly these data, especially the cash costs blended estimate in the U.S., assumes the current power contracted Hawesville. As Wayne detailed, we still expect the new power contract to move forward. It's very complex, and it's taken some time. But we believe for prudence sake, it's right to plan our liquidity and to show you these numbers, given the current power contract.

The only changes when the new power contract closes—there are really only two, it's pretty straight forward—the first would be, as we've detailed for you before, that we would receive on the date of the closing of the new power contract a cash payment of $45 million.

Second, as we've said, our proforma, our future power cost, will go up. Based on where we are today and the estimate that we've seen from the power company, which we are assuming will decline based on movements in coal markets and such things, but as we see the data right now, our power costs going forward would increase on a quarterly basis about $8 million from the current run rate. That's assuming four lines running at Hawesville, obviously, as they are today.

So with those assumptions, you see our estimates here are a weighted average cash cost in the U.S. of about $1,800 per metric tonne, obviously. Iceland, $1,350. That's obviously an alumina equivalent number, given that we don't pay for alumina in Iceland, due to the tolling arrangement. Our true cash cost is obviously much lower than that. But to equate it, we've assumed basically current world alumina prices and grossed up our cash cost there, $1,350.

I'll say the obvious here. These estimates are always moving. They're moving every day. There's a myriad of factors that are moving these up and down every day. At these estimates, the margin of error on these estimates are at least a couple percentage points on either side of these numbers.

Just very quickly, curtailment costs for Ravenswood, this is consistent with what we put out before, so balance of '09, $30 million to $35 million, in 2010, $25 million to $30 million. Thereafter, as we told you before, they fall off quite significantly.

SG&A, again, about $2 million a month cash. CapEx under $10 million, balance of the year. This is excluding Helguvik, obviously, and we've got $15 million in for a budgetary placeholder for 2010. Helguvik, again, is consistent with what we told you before. Incrementally, the balance for this year is $15 million. That's mostly deferred supplier payments in addition to costs of the minimal site activity.

In 2010, $5 million are all here deferred supplier payments. Site activity will increase these numbers. Cash interest expense hasn't changed, about $22 million a year for the two bonds that are outstanding.
With that, I'd like to turn it back to Logan.

L. Kruger Thank you, Mike. We, like all industry participants, continue to look at the data as carefully as we can, both daily movements and any trends we can discern. There are some hopeful signs; chief perhaps among them is the recent level of activity in the broad economy in China. However, we do not believe the industry is yet in balance, and risks remain, even on the supply side. As for instance, capacity is rumored to be poised to restart in China.

We continue to believe the industry cannot declare itself finished with its supply response. Despite the fact that our participation has been amongst the most aggressive of any industry participant, we will continue to do our part. We are working diligently with the appropriate parties to find ways to meaningfully lower the company's near-term cash burn and thus preserve value for the longer term.

None of these discussions are easy, as they all involve other parties with their own interest and requirements. We have added significantly to our cash position, as Mike has described, and we will continue to analyze ways to enhance the company's liquidity profile in a way that benefits our shareholders.

With that, we will return to your questions. Operator, we are ready now to take questions.

Moderator Thank you. Our first question comes from Kuni Chen with Bank of America. Please go ahead.

K. Chen Hello. Good day, everybody.

M. Bless Hello, Kuni.

K. Chen — I guess just the first question is on working capital. How much more do you think you can wring out going forward through the balance of this year?

M. Bless — Kuni, this is Mike. That's really, assuming the metal price stays where it is, obviously working capitals can go up and down based at a steady state, production capacity based on the metal price, but assuming it stays where it is, it's basically out. The line came down at the Hawesville toward the end of the quarter, maybe two thirds of the way through the quarter, Wayne, and that provided maybe a very small bump. But the real nut there was Ravenswood, and that's happened.

L. Kruger — Kuni, it comes out pretty quickly, as you know, because we take these pots offline, and we get the metal balance and obviously the alumina being recovered, etc.

K. Chen — Okay. Got you. Basically that Ravenswood curtailment, $30 million to $35 million, that flows through that other operating cost line through the balance of the year, correct?

M. Bless — Yes and no. That line there, what you saw in that line this quarter, again, was a $35 million charge of which only $6 million was in cash. So, we've already recognized, again, a residual, all those things being equal, $29 million of expense. You won't see those come through. Those are already on the balance sheet. So when we pay the cash, you'll just see the reduction in those balance sheet liabilities, and you'll see the cash going out on cash flow statement, if you will.

K. Chen — I got you. Okay. Then just a last question. On Helguvik, it looks like a couple things are percolating there. I was just hoping you could give us some color on what's happening there. It looks like you're working on some non-recourse financing. Maybe you could just give us a sense as to sort of what the investment in a smaller phase one might look like. Do you retain basically 100% equity stake in the project going forward? If you could just kind of talk to some of those issues.

L. Kruger — Yes. Can you let me just take it. I think first of all just to make sure that we all understand the major work on the project was curtailed, and we've reviewed the project. That full review will be ready in the second half. As you would expect, we all continue to look at ways of financing this project, and I don't think it's appropriate to need to comment now on what that may or may not bring, other than the comment we said right at the beginning that it would be a non-recourse type of funding.

Secondly, we've split the project into four phases, each one about 90,000 tonnes. Until we've done the sufficient work, I don't believe that we should comment on what the capital estimates are, but we should note that obviously with commodity prices and construction costs coming down, that we are seeing and we expect to see some reduction in there.
So I think I've covered all of your points. In terms of the others on ownership and that sort of thing, that's a matter of policy. We wouldn't comment on that. Mike?

M. Bless Yes. Let me just say one further thing before we let Kuni go here. Steve Schneider, our chief accounting officer, is here in the room with us. He reminds me that the ongoing costs at Ravenswood for the curtailment, those that we didn't reserve this quarter, will indeed float through those lines. The costs that we've already recognized that have already been recognized on those lines, you won't see those again, of course, on the income statement. But new costs every quarter, those that we can't recognize now under accounting rules as liability recognition or whatever, those will every quarter flow through those lines. But you'll see them every quarter on that line.

L. Kruger Last piece on Helguvik, Kuni, is just that we've got an engineering team that's very small working on relooking at this project and a very limited onsite work. I think Wayne commented on it, and Mike commented on it as well. Very low level. Very low cost. The good news, of course, was the investment agreement being approved by the Icelandic Parliament just pre the election week. Obviously that is subject to the European Surveillance Authority's approval. We think that will come through. It will just take some time.

K. Chen I'm sorry. Last question. Do you think, potentially, you could be in a position to move forward with this project at some point, let's say, over the next 12 months if a financing package gets put together, here?

L. Kruger I think, Kuni, it's a good project. We know that it's competitive. It's in the right spot. It's got competitive setup. We'd be, I think, somewhat adventurous to comment at this point in time. We have to do our homework, and you know what we're like. We'll spend the right time on this thing, and it's hard to forecast it in today's world. We see the world as being pretty tough, but we recognize the value of this project. We recognize the importance of it, and so it's important for us to continue to work on this at the right level to see what opportunities there are. And the world may or may not change. We will see as we go forward.

K. Chen Okay. Thank you.

M. Bless Thank you, Kuni.

Moderator Next we have the line of David Gagliano with Credit Suisse. Please go ahead. You're open.

D. Gagliano Great. Thank you. On Hawesville, I was wondering if you could remind us again, given the off take agreement there, how much capacity, theoretically, could you shut in at this point? I know you mentioned one additional potline. Is that it?

W. Hale This is Wayne. Basically, we have four lines operating now to supply sufficient metal to Southwire where we can take an additional line down. So three lines will supply Southwire.

D. Gagliano Okay. All right, perfect. Then, just as a follow-up, on the cash flow information on page 14, first of all, the smelter cast cost, is that $1,800 per tonne, that's basically for Mt. Holly and Hawesville. Is that right? That excludes Ravenswood, right?

M. Bless Correct. You bet, David. Absolutely.

D. Gagliano Okay. So sort of back at the envelope, that looks to me like it gives you enough—if you kind of do the math and assume $0.66 aluminum forever—is my math right in saying that liquidity extends basically to year end 2010?

M. Bless You've got a lot of assumptions there. Again, you've heard what we've said in the past in the written materials. I think we'd say clearly, based on these data, that it extends into 2010 nicely. As to when in 2010, whether it's year-end or something otherwise, everybody's going to have their own interpretation.

L. Kruger I would say it's well into 2010. To try and pick a particular period in 2010 is difficult, David. But you've done the right arithmetic, I think.

D. Gagliano Okay.

M. Bless Another statistic I could give to help out, we've talked about in the past and I should have updated it, quite frankly, is I was just doing your $0.66, David, to get around $1,450. That's based on where we are today, today's production capacity. So four lines at Hawesville, Mt. Holly going, Grundartangi, and our tax position, which is basically a non-taxpayer. Every hundred dollars in the LME up or down increases or decreases, of course. Bottom line, free cash flow by somewhere in the $40 million to $45 million range. So you can play with your sensitivities in that respect.

D. Gagliano All right. Great. Thank you.

L. Kruger Thank you, David.

M. Bless Thank you, David.

Moderator Next we go to the line of Tony Rizzuto with Dahlman Rose. Please go ahead.

T. Rizzuto Thank you very much. Great job on reshaping the company in this difficult environment. The primary realization on your direct shipments at $0.72 a pound would seem to reflect more than just the Midwest premium.

Has it been accentuated by the greater shift towards high purity metal as you guys shut down Ravenswood?

L. Kruger There's a bit of that, Tony. I don't know if my colleagues here, Wayne, do you want to add to that?

W. Hale There's certainly been a shift of opportunistic developments in the plant to take advantage of the high purity.

M. Bless But I think Tony's got it—sorry—on a weighted average basis. Tony, it's Mike. You've got it right, which is we haven't changed our high purity, and the denominator is lower. So all the stuff we've taken out, obviously, is standard grade. So I think the math result that you're looking at, I think you've got the right explanation for it.

T. Rizzuto Okay. And then at Mt. Holly, guys, what is the time frame? Can you give us an idea of the timeframe for a possible decision there, and can you give us an idea of what the current power price is that you're paying right now?

L. Kruger Yes. Tony, it's Logan. I think to be honest, to try to give you a timeframe on Mt. Holly is very difficult. You have two partners. Both are operating companies. Both come, perhaps, from different directions. We're in very extensive discussions with Alcoa. We like the facility. It's just how do you see that facility in this period of time, and what do you do with it?

So I would be wrong to put a timing on this, because it will just put everyone in a box, which we don't need. It's receptive that parties do have different views.

In terms of the power prices, I'm not sure what we've said before, but you could look it up, I think, from CRU. That would probably give you some reasonable idea of where it is.

M. Bless Yes. As we've said before, we can't state the exact price due to the agreements with the power supplier. But as we've said before, it's not the least attractive power tariffs in the electric power tariffs smelters in the U.S., but it's probably weighing in the back half of the third, maybe fourth, quartile for power tariffs. It's not a good situation.

L. Kruger Tony, in summary, you've got a good facility, well run, with, as Wayne said earlier, an unattractive power price. And the discussions are ongoing. They're not cursory. They're run in a very professional manner. And we'll keep you up to date as things happen if it's significant.

T. Rizzuto Okay, because that is a good facility. I know I think it was one of the most recent vintages of smelter.

L. Kruger It is.

M. Bless It is.

L. Kruger You know, it's very well run. I think if you look at it from an operating statistics, from a safety point of view, I think Wayne also indicated that, you know, when we looked at power prices going into this year from Santee Cooper you know is the supplier, they were somewhat higher than we've seen so far. But even with that improvement, it's still, as I think Mike and Wayne have described, somewhere in the third quarter of power prices. So you can go to CRU and kind of see how they may give you an indicator. I don't have that in front of me at this time.

T. Rizzuto Got you. In Grundartangi, when you guys gross up the cost on alumina, do you essentially take the average for purposes of a presentation like this, you look at the average in the quarter, the LME, and you kind of use that index there to kind of utilize what the alumina cost would be?

M. Bless — Yes. What we did, Tony, to keep it very simple and very vanilla is just, as I said, we ran these estimates around $1,400 metal, which is not the mathematic mean or anything, but it's just kind of where the metal is you're well aware it has been recently. Then we looked at where we believe, based on our market intelligence, sort of long-term, meaning a year plus, contract alumina prices are trading today. On that basis, we grossed up the actual cash cost at Grundartangi.

T. Rizzuto — Got you. What are some of the cost reduction efforts that you still see in opportunities there?

L. Kruger — Specifically at Grundartangi?

T. Rizzuto — Yes.

L. Kruger — Obviously capacity throughput. I think, you know, Wayne and the team there, David Kjos and the guys have done a fantastic job. I think obviously we'll work on the other key elements. Wayne?

W. Hale — Yes. I think the keys ones, as you've hit upon, certainly the denominator is production, but certainly we look at the labor cost, the overtime, and specifically contractor costs. As Logan hit it, carbon costs are now even more sustained than energy costs, so we're looking at that and working with our suppliers diligently.

L. Kruger: On the carbon side, Tony, our decision to take an equity position in China has worked out well for two reasons. One, from a competitive position, but also to give us strategic protection for that asset. We don't want to be exposed to a market that may change significantly one way or the other, even from having producing facilities for anodes available in the future.

So we've positioned ourselves quite well for that. The currency has some impact, as you are aware, as well. Last I looked, the currency was at about 129 krona to the dollar. That has an impact on some maintenance costs and labor.

T. Rizzuto: Great. Excellent. I've just got one more question left. Logan, I'd like you to take a shot at this and your thoughts on this UC Rusal. There's been a lot of mixed reports about what the Russians are doing and what they said they would do. What are you guys seeing here? Do you really believe that they've taken out what they've said they were going to do?

L. Kruger: Tony, you know what my answer is going to be, if I don't comment on my colleagues, other than, yes, they run a large company that's well run. The reports have been 500,000 tonnes of metal taken off. More visible than that is the alumina side, which, Tony, you know particularly in Jamaica you can see that Eurallumina and Auginish. So you can look at those things.

So you can make your own extrapolation from that information which is visible through to the metal side. But the report is 500,000 tonnes. Somewhere in that area, maybe a bit more.

T. Rizzuto: Okay. I appreciate your thoughts on that. Thank you.

M. Bless: Thank you, Tony.

Moderator: Next we have David Rosenberg of Oaktree Capital. Please go ahead.

D. Rosenberg: Hello, guys.

M. Bless: Hello, David.

W. Hale: Hello, David.

D. Rosenberg: The question I had was, historically you guys have always said that you’re about 23% hedged to aluminum due to natural hedges in all of your smelters. Can you refresh that number, given now that Ravenswood is curtailed?

M. Bless — Yes. I don't have it right now, David. We're all agreeing here. It's obviously lower. That's a throwaway statement. We'll have to provide that sort of in maybe the next sales side conference that we go to or something like that. I wouldn't even want to; it would be a pure guess on my part. I'd just prefer not to do it. If we can get ourselves together quickly here to give you a reasonable estimate before the questions run out, we'll do it, but I kind of doubt it. Otherwise, we'll put that out there—it's a very fair question—at the next public format that we have.

D. Rosenberg — Okay, and could you also tell us what the availability was on the revolver at quarter end?

M. Bless — Yes. A couple answers to that question. First is, as you know, we continue to have eleven, well, take a step back. It's $100 million revolver. We continue to have $11 million of the capacity used to back up letters of credit. Those L.C.'s mostly are used for the $8 million plus to back up the $8 million plus of industrial revenue funds we still have out.

Given where the inventory is priced today, we still are doing the month end calculations. But there's not a lot of availability left on it. There may be another, say, $20-ish million, maybe as much as $25 million, but I prefer to say $20 million now, of actual cash drawdown availability left on it.

As we've said before—you didn't ask, David—but the obvious question is why aren't you drawing on; if you go below a certain amount—you can look at the document online, it's $25 million of availability—you end up in a $15 million. Shelly Lair, our Treasurer, just corrected me. You end up in a dominion cash situation. You're quite familiar with that term.

Given our liquidity today, it wouldn't make any sense—I would assume you would agree—to do that. But that's kind of the availability at current metal prices.

D. Rosenberg Okay. Thank you.

M. Bless Sure, David.

Moderator Next we have the line of Mark Liinamaa with Morgan Stanley. Please go ahead.

M. Liinamaa Hello, all.

M. Bless Hello, Mark.

L. Kruger Hello, Mark.

M. Liinamaa I think I know the answer to this as well, but just to be clear, there have been some press reports about Glencore force majeure and alumina supply agreements to competitors. Are there any risks or potential disruptions, either in the U.S. or Iceland?

L. Kruger Not that we can see, Mark. We wouldn't comment on the discussions that are ongoing publicly, but we don't see that. We've actually just dealt—I think Mike mentioned it—with a long alumina situation out of that at our Ravenswood facility. And the supplier there was Glencore, so we don't see it. I have no visibility or any concerns on that.

M. Liinamaa Okay. And can you comment at all about maybe your long-term view on Gramercy?

L. Kruger The Gramercy facility, our partners and ourselves have agreed to take the facility down to about 500,000 tonnes per year of SGA. We've always said the Gramercy facility came to Century by way of a situation at an opportune time. When the LME price is quite favorable above levels we hear, Gramercy has been sort of a third quartile producer as well. In today's terms, obviously, it's whatever percentage LME used for traded alumina—if you can get it, which it seems to be on the market—is going to be substantially less than the Gramercy operating cost.

So both partners have started to recognize that, and obviously we continue to review the situation there, including what the impact of St. Ann's bauxite mine will be. Wayne, any other comments?

W. Hale I think you hit it, Logan.

L. Kruger As you know, Wayne and his team look after our interest in Gramercy. Both partners have recognized the need to certainly reduce the output at Gramercy. The plant is running pretty efficiently from an energy concern, as well, at these lower levels. But it's certainly not a market producer, at this point in time, as you would guess.

M. Liinamaa Sure. And just finally, as you look at the supply/demand balance—and you and others have commented that we need to see more smelter capacity come off online, to get things in balance—is there enough cost differential that you have some level of confidence that there are some logical people to step up, or is this going to be a bit of a waiting game, do you think?

L. Kruger — I don't think, Mark, that it's deliberately a waiting game. I think it's each individual industry participant company operation has different sets of circumstances. We've just gone through discussions with Mt. Holly and discussions at Gramercy. So there you've got two different sets of partnerships, which may give you a different result or different discussion.

I think that certainly from a North American/European and perhaps even into parts of Asia, there are significant levels of production that is above, in costs, what you've seen on the LME. And I think most producers have to face up to the decision to continue to run or to curtail in some form.

You've even seen some level of curtailment coming out the Middle East, which I think as somewhat of a surprise to most of us. So it's a modest one, but it also sort of tells you that even at that level for certain levels of production, it's perhaps wiser to curtail.

M. Liinamaa — On China you mentioned some startups. And this will be my last one.

L. Kruger Yes, Mark. As the China ones have happened. Some of them already have happened.

M. Liinamaa The central government, though, I understand has been taking a little bit harder line view on this than the provincial government operation. Is that your view that the central government still wants to show some discipline?

L. Kruger I think the answer is yes, balanced against unemployment and other social political demands. You're talking of a very large country with 1.2 billion people and a lot of interested parties. So I think it's very localized, but overall the central government wishes to curtail in power-intensive industries. But power isn't as much a problem as maybe it was a year ago, because other industries have come off.

So it's a moving feast. But obviously there have been curtailments, but there have also been some restarts, put out by what happened with the Shanghai price, Mark.

M. Liinamaa Very good. Thank you, and good luck with that.

L. Kruger Thank you very much, Mark.

M. Liinamaa Goodbye for now.

Moderator We have a question from the Brett Levy with Jefferies & Company. Please go ahead.

B. Levy Hello, guys.

M. Bless Hello, Brett.

B. Levy Hello. How are you?

M. Bless How are you?

B. Levy Can you talk a little bit about kind of a scenario where essentially you take Hawesville down, you take Mt. Holly down. Let's assume we're out a couple of years. Some of the customer contracts have gone away. Is there a viable plan to basically be an Iceland producer so long as Iceland is the only production facility that's cash flow positive?

M. Bless Brett, it's Mike. You're asking a pretty loaded question, there, with assumption on assumption. I don't know, to be honest, even how to answer that other than to tell you what you would already hope we would say, which is we're studying hard all of those potential scenarios. It's a throwaway answer, but it happens to be the truth.

I wouldn't even want to start speculating about an Iceland only company or an Iceland only plus this or plus that. Everything is in the mix at this point in time, and we're talking, as Wayne said, to suppliers, as you say correctly customers, partners have a big equation here. And that one, I think, just defies an answer at this point in time.

L. Kruger — Yes, exactly. I think you've got so many moving parts in your question. As Mike has said, we're looking at all of those scenarios, and those scenarios move around as you go.

B. Levy — And then, we've seen some flexibility. Obviously you probably saw the agreement Teraminco reached with their banks. It looks like the credit markets are opening up a little bit. Is there a possibility of taking your existing bank agreement and maybe finding a better agreement?

M. Bless — Sure. We're, again, on the capital structure side looking at all of that stuff, too, opening capital markets, fixed income markets, what opportunities could be there if and when the time is right. On the bank route, we've had good discussions with the bank group. We've got a really good group there. B of A has been a terrific agent. They are very current on what's going on with the company. We keep good contact with them.

So we're talking to them. There's nothing advanced in any way, in terms of the kind of thing you're talking, about right now. The last couple of months haven't been a great time—this is an understatement, as you well know, Brett—to start renegotiating unsecured credit agreements. But that discussion is absolutely ongoing.

B. Levy — Alright. Those are actually both very good answers.

M. Bless — Okay. Fair enough.

L. Kruger — Thank you very much for the great questions.

B. Levy — Alright. Thank you very much, guys.

M. Bless — See you later.

Moderator — We have a question from Brandon Senese with Cobalt Capital. Please go ahead.

B. Senese — Hello. My question has been answered. Thank you.

M. Bless Thank you, Brandon.

L. Kruger Thank you, Brandon.

Moderator At this time, there are no further questions in queue.

L. Kruger Thank you very much, Operator. Thank you to everyone for taking the time to be on our call today. We look forward to talking to you again soon. Thank you.