CENTURY ALUMINUM COMPANY: 1st Quarter 2012 Earnings Call

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SPEAKERS

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

PRESENTATION

Moderator

Ladies and gentlemen, thank you for standing by. Welcome to the First Quarter 2012 Earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, and 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, Mr. Enrique De Anda.

E. De Anda

Hello everyone, and welcome to the conference call. Before we begin, I would like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations, and financial conditions. These forward-looking statements involve important known and unknown risks and uncertainties which could cause our actual results to differ materially from those expressed in our forward-looking statements. Please review the forward-looking statements disclosure in today's presentation and press release for a full discussion of these risks and uncertainties.

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

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

M. Bless Thanks very much, Enrique. If we could turn to slide four now, I'd like to make some introductory comments before we move on with the detail. I am going to talk on the next slide about the external environment, so I won't be repetitive here. Suffice it to say, as you all know, that the aluminum price along with the price of other commodities has been held down here recently and quite frankly has performed poorly over the last couple of months due to a variety of factors. Again, I'll mention them in just a moment and most of them will be, if not all, will be well known to you.

Moving along importantly to our operations, at Hawesville, we did indeed reach and maintained stable operations this quarter as we expected with the plant now operating essentially at full capacity. As we predicted, the cost has started to move down nicely, and though we still have a ways to go here, I would say, the team has done a really, really excellent job.

They inherited say about nine months ago-- a reasonably new team-- a pretty seriously difficult situation in the middle of last summer, and they have done an extraordinary job in getting the plant to where it is today.

We still have a ways to go, and I'll talk about that in a moment too, but we are very gratified by the job that has been done by the management team at Hawesville. The biggest issue remaining at Hawesville now is the power cost. It's a complex situation, and I will talk about it in some detail towards the end of my remarks.

Moving on, we had a very busy quarter at Ravenswood as we predicted. Importantly, we reached a key milestone there in reaching an agreement about post-retirement health benefits with our retiree group. That was a complex process that went on for some months, and we are gratified that we did indeed reach that key, key point.

Next, we had a tax bill passed in support of our power price in the West Virginia legislature in the last couple of weeks. We had great support here from a variety of constituencies in West Virginia on this and importantly terrific leadership from Governor Tomblin of West Virginia, and we are very grateful for that leadership.

Next on, in West Virginia, will be the submission of our application to the Public Service Commission for a new contract, and I'll talk about that in some detail again later in my remarks. We've begun discussions with representatives of the steelworkers. Those are going well so far, obviously a key part of getting to a restart.

So, we are moving along well here and developing again, continuing I should say, good traction, and let me just take a step back for a moment and remind everybody what we are trying to accomplish here in Ravenswood and more importantly, why. You may ask the question we seem to be bucking the trend a little bit. Others who own similar capacity in similar markets as you all well know tend to be, at the very best, maintaining that capacity and in many circumstances, curtailing that capacity. So, in essence, what's different about Ravenswood? There are a couple of things here and a couple of reasons why we continue to think that this could be a very good investment for our shareowners, i.e., restarting this plant.

First and foremost, we think the market environment in the U.S., both current and prospective, is conducive to reopening this plant. The supply demand equation in the U.S., the products that this plant will produce-- has produced successfully and will produce-- and the customers for whom it will produce. We think that whole mix is an attractive one.

Second, the physical plant here is in reasonably good shape as you've heard us talk, we've been spending modestly, but spending to maintain the plant in reasonably good order ready for a restart. And though despite the fact that-- as we've told you before-- total cost of a restart here is quite substantial, on the order of $80 million, I might add that about half of that amount is to build the working capital that you need for a restart. A portion of that non-working capital amount that's attributable to capex is relatively modest, so, the plant is reasonably ready to go.

Next on, importantly, we've got great support in the local community from all the constituencies and importantly, we've got a very good workforce in the local area ready to go. We've obviously lost a lot of talent since we curtailed the plant just three years ago with the full curtailment at the beginning of 2009. Obviously, people have moved on and gotten new jobs and regrettably in circumstances have left the region to get new jobs. But we still believe here that we'll get a very good, very talented, very motivated workforce back to work for us when we're able to restart that plant, and we've got great confidence in the senior plant management that we've already got onsite.

Last, of course and most importantly, as you know, we need the power arrangement that is flexible and that will protect the plant in weak LME environments, and I'll talk about that. That's what we’ve been working on. That's what the tax bill that was successfully passed in the state legislature is aimed at, and that's what we'll be working on to supplement that tax bill in the special contract process with the Public Service Commission. Again, I'll provide some more detail.

Let me move on to Mt. Holly. There as well we've been working hard on power. We've been talking obviously with our partners and co-owners at Alcoa with the power provider, Santee Cooper, about a short-term amendment to the power contract. We've been making good progress in those discussions. Here again, we have had great support from the local constituencies and local legislature, and here again we've had excellent, excellent leadership for which, again, we're grateful from Governor Haley of South Carolina.

We hope to be able to conclude these discussions successfully over the next couple of months and have something to talk with you about in detail about the form of the short-term amendment and the economics to Mt. Holly when we release our earnings to you in July. Lastly, before moving on to Helguvik, we've continued to have substantive discussions with all our power suppliers. Again, I'll make some more comments here at the end of my remarks, but bottom line, we are reasonably confident here that before the summer or by the summer, we'll know on what trajectory we are heading here in terms of timing for a restart of that project.

Okay, if we could turn to slide five please and talk a little bit about the external environment. First and foremost, the cash aluminum price for the quarter on average was $2,180. That was up 4% from Q4, but down 13% from the same period last year. The price reached a high of just over $2,300 a metric ton in late February, and it's come down pretty consistently from then.

Again, the factors that have led to this and the performance of other commodities are well-known to all of you. Amongst them are obviously first and foremost concerns about what's going on in the Eurozone, a lack of new quantitative easing programs in the U.S. and the slowing of China's growth target. As you know they took their economic growth target down from 8% to 7.5%, although we would note that they've consistently beat their targets over years and years and years now. Also in China again I'll make some more comments about this in just a moment, but we have seen continued capacity growth and production growth there, and then around the world you've seen the maintenance of high inventories.

That having been said, the physical market remains reasonably strong in most markets. Metal remains pretty scarce. The contango obviously cash to three month contango has averaged around $40 for some months now. It's been a little bit above, a little bit below, but it's been hanging in that range. In the U.S., the Midwest premium has been above $0.09 a pound. In Europe, the Rotterdam duty paid premium $200 per metric ton obviously. Japan premium $150 a ton. We see nothing out there that tells us that this regime should change over the short- or even medium-term.

On the actual demand side, the picture is a bit mixed. In the U.S., consumption remains pretty good. Primary metal consumption, aluminum consumption, I should say, was up 5% in Q1 versus Q4 with the transportation sector continuing to perform extremely strong. Obviously Europe is quite weak and will be so or certainly is expected to be so at least for the balance of this year. I don't need to elaborate on the situation there.

In China, the picture is somewhat varied. In the first quarter, demand was up 9%, primary aluminum demand again, versus prior year Q1 of 2011. The market for primary metal remains reasonably in balance. On the production side, we have continued to see some pretty heavy growth. Q1 production was up 18% versus the same period in 2011-- versus Q1 2011. The market is expecting around 3 million tons of new capacity to come on in 2012, so quite a substantial amount. At the same time, we just haven't seen the cuts from local producers in older and higher cost facilities. Bottom line, I guess I should say that we are expecting and preparing the company for a range-bound LME price somewhere in the very low $2,000s, about where it is today at least for the next quarter or so.

Just quickly on the alumina side, the market remains reasonably flattish. Spot prices have been trading in the range of $310 to $320 a metric ton. We've seen some minor cuts in developed markets, but again some new capacity coming on in other places like Vietnam and Australia. The consensus in the alumina market is currently around a million tons--consensus for a surplus, I should say, of a million tons in 2012.

If we could move on to slide six please, I'll detail the operational performance for you this quarter. First and foremost on safety, we had a good quarter across the company. Trends at Hawesville have been very good, and we're gratified by the performance there. We had a major peer audit at Hawesville in February. This is a program where we bring safety professionals from across the company to a facility and for several days look at the policies, the practices and the performance of that plant. So it's a good process, and we always learn a lot of things.

So, again the trends there are good. As importantly as the actual performance, we've seen a good increase in the awareness of all the constituents at Hawesville, our employees and others, on the importance in this area, the importance of consistent housekeeping and related areas. So, again, we are glad to see the progress there and proud of the management team for what they are doing there.

Mt. Holly and Grundartangi also had good safety performance for the quarter. At Grundartangi, we had that same peer audit program in April, and we've continued to roll out with much success. You may remember I talked about this last time, the behavioral-based safety program. This is an excellent program in which you look systemically at the root causes of unsafe behavior that can obviously give rise to incidents in the future.

It goes without saying that what you are trying to do is to stop those incidents from happening in the future by getting people to think differently about their behavior and how their behavior could be unsafe. It’s a terrific program. It has had great uptake at Grundartangi, and we are hoping to be in a position to be able to roll that out at Hawesville if not in late 2012 then certainly in early in 2013.

Moving down the charts on the production side, as I said, we are now stable at Hawesville at reasonably full capacity. The plant is operating now at any given time with only about 1% of the reduction cells out of service. That’s quite normal for a plant of this type. We have produced this quarter at an annualized rate of 250,000 tons, that's a bit above the rated capacity of the plant.

Mt. Holly production was essentially flat Q1 versus Q4 with the full plant producing again a little above its rated capacity at an annualized rate of 230,000 tons. Obviously, we own 50% of that capacity. Grundartangi, I would note, had a terrific quarter-- annualized production of 283,000 tons. That's a record and that's despite the serious power outage with which we were faced in January. The team has done a terrific job there.

Moving down to talk quickly about production metrics, or KPIs, as one might suspect the performance at Hawesville was up across all categories this quarter. Let me just give you a couple of examples. Current efficiency, a key measure, was up a point across the plant. Energy efficiency improved by three percentage points. Bath temperatures were down. Anode defects were down significantly. For those of you who know our business, that's real important not only in respect to conversion costs, but in respect of improved environmental compliance. Finally, metal purity was very good.

As I said at the beginning of my comments, we made great progress at Hawesville, but the team there would be the first to point out that we've got a ways to go get this plant where it needs to be and where similar plants are producing.

Mt. Holly and Grundartangi also had good KPIs this quarter, essentially consistent with what they did in Q4, already at good levels.

Lastly, before I finish these remarks, cash conversion costs, obviously critical at Hawesville. As we predicted last time upon attaining full production again the cost has started to come down nicely, and they have come down across all product, cost categories, pardon me, except electric power, and again I'll talk about that at the end of my remarks.

Just to give you a sense of how these costs are coming down, if you put aside power and alumina, obviously the two largest costs, and take some of the other large conversion costs, for example, pot lining maintenance and supplies and total labor costs. Those cost categories in aggregate came down, decreased by $9 million quarter-over-quarter and that was obviously in the face of increased production. So, you get a sense there of, number one, the leverage obviously of the volume, and number two, the absence of the unusual spending to get the plant back to where we needed to be.

Mt. Holly, as you see also, cost came down nicely. That's largely the result of lower carbon costs. As you see, Grundartangi flattish, just down a little bit, that's obviously in the face of higher power prices driven by the increased LME. I might note, and Shelly will elaborate this on a little bit, for the first time in quite some time across our system, we are seeing some relief on carbon costs both today and predicted for the future. So, that's gratifying.

With that, I will turn it over to Shelly.

S. Harrison Thanks Mike. We can move along to slide seven please. The average cash LME price was up 4% Q1 over Q4, but on a one-month-lag basis, the LME was down 3%. When you look at our realized unit prices in the U.S., they were actually flat quarter-over-quarter, which is due to the improved product mix at both Hawesville and Mt. Holly. In Iceland, our realized unit prices were down 2% in the quarter, which is consistent with the market.

Turning to shipment volumes, as a reminder, a portion of our shipments from Iceland are now in the form of direct shipments rather than tolling. In the past quarter, direct sales from Iceland were 4,200 tons. If you include that volume along with the tolling shipment, you will see that Iceland volumes were flat Q1 over Q4. At Hawesville, we reached full stable production during Q1 and that drove a shipment increase of 8.5% in the quarter. Mt. Holly shipments were essentially flat with Q4. So overall, we had a 3% quarter-over-quarter increase in our global shipment volume.

Moving on to the income statement data, net sales were up 2.5% Q1 over Q4. The decline in LME price drove net sales down by 2%, but the increased volume essentially offset this decline and higher premiums from improved product mix in the U.S. made up the balance of the increase during the quarter. Adjusted operating income increased $12 million from Q4 to Q1. As you can see on slide 14 of the presentation, the few adjustments we made to reported operating income included add back for depreciation and elimination of the lower cost or market inventory adjustment.

The $12 million improvement is on an $8 million sales increase. So, we were able to bring a 100% of the increase in revenues down to the operating income level plus an additional $4 million. Let me take you through a few of the key cost drivers there. In Q1, we saw net favorable LME linked alumina and power costs of $4 million and raw materials were better by $3 million.

As Mike said, the raw material improvement is primarily due to lower carbon costs, especially at Mt. Holly. This is the first time we've seen a decline in carbon cost after several quarters of very large increases. Going the other way, we saw $1 million increase in power prices at Hawesville and a $1 million increase in casting cost at Mt. Holly. At Hawesville, higher costs associated with the additional volume produced in Q1 were primarily offset by efficiency improvements in labor, supplies, maintenance and pot lining as the plant returned to stable operations.

Moving down the income statement, we had a quarterly adjusted loss of $16 million or $0.17 per share on total common and preferred shares. As detailed on slide 13, the adjustments to reported net loss included a deduction for a $17 million credit related to the inventory adjustment I mentioned earlier, and an add back of $5 million for unrealized losses on forward contracts related to marking to market our remaining put options as the LME rose during the quarter.

Our total share count consists of 88.7 million common shares and 8.1 million common share equivalents related to our outstanding preferred stock. During Q1, we repurchased 400,000 shares under our stock repurchase program. That brings the total to 4.8 million through August. At this point, we have approximately $10 million remaining under the original $60 million stock repurchase program.

Lastly on this slide, I'll just make a couple of quick comments on cash flow. As you can see here, capex for the quarter was $3 million. A decrease from Q4 is in line with our expectation; the capital spending will generally be weighted towards the back end of the year. Helguvik capex was $2 million for the quarter, which is consistent with our expectation of approximately $1 million per month. Quarter-over-quarter cash was flat at $183 million. I'll take you through this in more detail on the next slide.

If we could move on to slide eight please, I'll just give a quick explanation of some of the larger or unusual items we saw during the quarter. Similar to recent quarters, we had a withholding tax payments of $10 million in Q1 related to return of cash from Iceland to the U.S. As we mentioned previously, these are temporary tax payments that are refunded to us at the end of the year. We also spent approximately $4 million during the quarter on our share repurchase program. The last item I'd like to call out is a payment of $3 million we received from our joint venture anode facility in China. This represents the final payment on a loan we made as part of the original acquisition.

With that, I'll hand it back to Mike.

M. Bless Thanks, Shelly. If you turn to slide nine please just a couple of last comments, and then we will take your questions. I thought we'd give you a sense of the issues on which we'll be working over the next couple of months and on which we'll hopefully have some progress to report to you when we speak to you again in July to report the second quarter earnings.

So, first Ravenswood, I think I said most of this already, so the application for the special rate and the special contract goes into the-- we'll be submitting that to the Public Service Commission here within the next week or so. As I said, the purpose of this contract is to develop a special rate and a structure that will protect the plant in weak LME environments. We've been told to expect at least a four-month process. It's quite a complex process as you might expect, so sometime during the summer, we should start to get a sense of where we are heading there.

In addition, we will obviously be meeting again with the steel workers to make progress on the labor agreement, and we'll be doing some modest, modest work on the site to prepare for the eventual restart of the plant. As I said, we'd like to be in a position to conclude these processes, the PSC contract process and the labor contract process by the end of the summer, at which point, we'd require about four months to prepare the plant for restart. There'd be a lot of hard work done during that four month time.

Ultimately, as I said, we've got to get the power situation right in order to put ourselves in a position to be able to restart that plant. But it also goes without saying that along with the power, we need an economic environment and a commodity price environment that will be conducive to the restart of that plant. So, we'll obviously be watching the market carefully here as we go forward over the next couple of months.

On Mt. Holly, as I said, we are going to be working with the various constituencies on this short-term power amendment here over the next couple of months. This arrangement would give the plant some relief here over the next couple of years while we work on longer-term solutions, and again we hope to have some success to report to you at or before the next earnings call.

At Hawesville, as I said, the power issue here is a very significant one. To our knowledge Hawesville, along with Rio's plant Sebree, which takes power under essentially the same contract from the same generation system, those two plants are again, to our knowledge, the only two smelters in the U.S. that continue to face either rising or certainly not decreasing power prices. So, we've got a lot of work here to do.

The situation that produces this is quite a complex one. It has to do with a variety of factors amongst which are, number one, the size of the generation system; it's a reasonable small system in Western Kentucky. And two, the position of the smelters in that system, the two smelters, Hawesville and Sebree combined take 70% of the power generated by the system. So, it's a reasonably unique situation there.

As I said, we are undertaking now a significant effort to change the equation here, and we'll again hope to have something to report to you over the next couple of months. The importance here is quite simple: that at the power prices-- price forecast-- that we have been given by the power supplier, we have a smelter that's not economically viable. It is very simple. So there is a lot of hard work here to be done, and it’s critical work.

At Helguvik, we have continued to work with the vendors here and to look at where we can make reductions and improvements in the capital cost.

As I said, over the next 60 days, we are going to have some meaningful discussions with the power suppliers here. By the beginning of the summer, we think we'll have a good sense on the timing for a restart of the major project activities there.

With that, I think we can take your questions.

Moderator The first question comes from the line of Brett Levy with Jefferies.

B. Levy Can you talk a little bit about kind of the political environment in Iceland if there is-- I guess I am trying to figure out-- you said kind of in the next 60 days-- what do you think kind of some of the key gating issues are politically, economically to kind of getting yourself to the point that you can actually restart construction here?

M. Bless I can talk at length obviously about the political environment, but there is nothing specific in the political environment either today or perspectively over the next couple of months that will push this process either way. It's just unique to these discussions where we have got some processes with both power companies with whom we have contracted. Remember these contracts go back to their signing in 2007, where we'll be able to determine where we are.

Just to remind you, two very different power companies; one HS, that's the one with whom we did the arbitration, the result of which we got just before the end of the year. And so after that over the last couple of months, we have had some discussions with them on the basis of that arbitration result and those discussions I would say are sort of in the 7th or 8th inning. I am a Red Sox fan, so I probably shouldn't go there at this point in time. But we are getting close to discerning whether we can make an agreement there in the near term.

Then with OR, the other power company, Reykjavik Energy as they are really known. Again, there has been a process ongoing there that should be winding its way to conclusion here over the next couple of months. So I don't want anybody to believe that just we sort of successfully conclude these discussions here over the next 60 days and we're going. I mean that would be the successful conclusion of those two processes would be a pre-cursor to a lot of additional work that would have to be done to memorialize agreements and then get the project ready to be restarted later in the year. But I think the next 60 days, Brett, will be telling.

B. Levy — Based on the way their bullpen has been performing so far you don't really want to be a Red Sox fan.

M. Bless — I know where you are a resident, so I thought I might at least get a friendly voice there, but maybe not.

B. Levy It is what it is, they have no ….

M. Bless It is what it is.

B. Levy In terms of the short position, you have sort of versus U.S. production, can you talk about the current quarter and sort of how you positioned yourself in aluminum for in terms of hedging for the balance of the year?

M. Bless Yes, Shelly, you want to go ahead and answer this? When you say short, I think you mean just the puts or what do you--?

B. Levy Yes, essentially puts.

M. Bless Yes, Yes, where we have not sold forward any metal obviously, so okay.

S. Harrison Yes, so as we mentioned in previous quarters, what we have got in place, as Mike says right now is simply puts-- just downside protection, and it covers roughly 25% of our un-priced domestic production through the first half of this year.

B. Levy Anything for the second half?

M. Bless — No, that's where we are right now. As we said, we've been looking at it carefully. We think sort of where the market is now our view of the-- it's our view-- but our view of the potential downside from here, upside from here, and obviously the cost of protecting that downside, we just don't think it's a good trade right now for our share- . . . investment right now for our shareowners. So, we are watching it carefully, but that's where we are right now.

B. Levy — Then lastly-- and I know I'll get a diplomatic answer to this-- the capital markets are relatively open, you guys are posting decent numbers here. Any thoughts with respect to call prices in refinancing the 8% notes?

M. Bless — Sure.

S. Harrison — Yes, Brett, as you would expect them, as you know those notes have about 24 months left to run. There is another call date approaching in a couple of weeks here. So, we'll be taking a very hard look at this over the next 12 months. We certainly wouldn't want to get very close to that one-year maturity mark, so we'll definitely be watching those markets.

M. Bless — As you know Brett, your market there has, as you say, it's generally been pretty good. It has had some, I don't have to tell you, some fits and starts here over the last couple of weeks for all the obvious reasons, but as Shelly said, we are looking at it hard.

Moderator We'll go to the line of David Gagliano with Barclays.

D. Gagliano I just have a few. First on the cost improvement during the quarter, obviously, very nice improvement relative to Q4, some of which was expected. I am just wondering looking forward I didn't hear much specific commentary with regards to Q2. Any reasons we should expect the cost savings realized in the first quarter to reverse in Q2?

S. Harrison I think our expectation at this point is that we will continue to see those cost improvements, the main area being carbon, which if you look at what we anticipated back at Q4 we thought we would see those sort of flat with 2011. We actually saw some pretty good improvement in Q1. We are looking forward to that continuing in Q2 and we expect that if that does continue, and hopefully we'll have some power pricing update as well, we'll come back to you in July at our earnings date then and give you some new guidance.

M. Bless Yes. As Shelly said, we are not going to-- those improvements are here to stay and hopefully will continue and as it relates to other positive trends, we see them. We are not quite ready to call it yet, but as it relates to the cost guidance and whatnot we gave you just I guess what Shelly? Two months ago now? If these trends are to continue the way we have been seeing them, you could expect us to come back over this in July and update that positively.

D. Gagliano My next question: in your Ravenswood negotiations, I am curious-- what is your sort of downside aluminum price assumption embedded in that weak LME environment commentary that you made on the call?

M. Bless Yes. I mean, there are two answers to that question, and I am speculating now because we haven't submitted this application yet and then it becomes a pretty complex process, where a lot of constituencies are looking at this. But in a perfect world, David, you would have a power price that is so flexible that it protects the plant almost at any LME; that world obviously doesn't exist. A) Because it just gets too, the support you would need just gets too onerous at some point in time, and B) because if things got really ugly you wouldn't be restarting the plant anyway. It goes without saying, and so it's a hard question to answer.

If you look back-- I think one way to approach it is, if you look back at where we put all our economic analyses in place and began the substantive discussions with the retiree group and then with active labor. It was around kind of the end of the year and it really accelerated in January/February, and at that point in time as you well know, the LME was kind of $200 or so ahead of where it is today. If you look at, as you well know, people who forecast, nominal-- forecast for the nominal price over the long-term, they are in that range or a little bit better, sort of 2,300, 2,400 or so. That's a longwinded answer to your question. Our base case was probably a little bit higher than we are today, 10% or so, but again depending upon what kind of power accommodation we could get, one could confidently reopen the plant at lower levels in that kind of longer term rate. So, was that responsive?

D. Gagliano: Actually yes, it was. It was actually very helpful. Then just have one more quick one, and this is along the lines of asking the obvious question I guess, but with regards to Hawesville, obviously nice sequential cost improvement, but also commentary that it's not economic. So, the obvious question is why not just shut it down until a reasonable power agreement is reached?

M. Bless: Yes. So, a good question let me and I am glad you, let me make sure, and perhaps I didn't say it clearly enough. So, when I said that, I said that the forecast for the future for the next couple of years that that power provider has given to us, the plant is not a viable one from an economic standpoint. So, it's not necessarily today, but it's prospective. If everything else held the same, the LME was frozen and those power places were perfect forecast and came to be, that wouldn't be a good equation. And so that's why we are pulling the fire alarm now and saying something has got to give.

The second half, I think, the second answer to your question as you saw, or as you're seeing now at Ravenswood, is that it's neither easy nor costless; I guess those are both understatements, to shut and reopen these plants. I take that back. Shutting them is reasonably easy. Restarting them, as you are seeing now in Ravenswood, takes some time. You are starting with essentially nothing-- without a power contract, without a labor force. And even though working capital tends to largely finance itself you are dealing with a reasonable investment, $80 million, to get Ravenswood back to producing hot metal. So, I think that's the two-part answer to your question.

Moderator We'll go to the line of Kuni Chen with CRT Capital Group.

K. Chen Thanks for all the detail here. Just one more question on Ravenswood. Obviously on the power side of the equation that's undetermined at this point and could go many ways, but I guess as you see things right now, and if the plant does restart over the next few months, where do you see Ravenswood on the let's say North American cost curve?

M. Bless Yes, that's a good question. You want to do North America or U.S.? In North America, obviously you've got all the Canadian on the-- if I may answer on the U.S., because it's an easier, it's a more discrete set. I would say it's still, Shelly, a solid third quartile, high third quartile. Would that be your guess? Again, it depends on the power. It's such a, in answering that question I kind of used an average U.S. power price, but as you said at the beginning of your question, Kuni, it depends so heavily on where that power comes in. Shelly, do you have a--?

S. Harrison Yes, I would say it is very dependent on metal price and also depends very much on the negotiations that we are having now. So, a bit hard to pinpoint that, but probably somewhere in the third quartile is the right place to put it.

K. Chen Is the idea when and if that restarts that the metal would be sold at market prices or would you do something to sell that forward and kind of lock in your spread there?

M. Bless That's a very good question, and we've thought a lot about that and done some modeling on that. And it really, I am not trying to duck it, but it really depends upon again how flexible that power price is, because again in the perfect world if you had the power price that was perfectly linked to the LME like we do in Iceland, you've got a natural hedge there and you buy your alumina largely, if not wholly, on an LME-linked basis. You've got a pretty large hedge right there naturally between those two items. And thus you might, depending upon your view of the market, might be able to, might be willing to, or think it's the best alternative for your shareowners to take advantage of the market price. So, it really depends, but I can tell you it's something that we'll look very hard at and already have that in place, the analysis that is.

Moderator We'll go to the line of Sal Tharani with Goldman Sachs.

S. Tharani Quickly on Mt. Holly, you mentioned about a short-term amendment with Santee Cooper. When is that contract renewing or come for renewal, and what does short-term amendment mean?

M. Bless Yes, so the contract is almost an evergreen one, but in 2015, is the new rate schedule that basically gets published. So, the practical answer to your question is 2015. The answer to the second part of your question is it's still under discussion, but several years. It's not one or two years, but it's not five years. Sorry to be so cute about that answer.

S. Tharani So, you are looking for an amendment after 2015 it doesn't change or you're looking at--?

M. Bless Yes, this would, I am sorry to cut you off. This amendment as it's being discussed would supersede that 2015 date about which I just spoke.

S. Tharani The next question is on the premium you mentioned which obviously has gone up. I was just wondering if the premium has to do with also the load out rates at the LME warehouses and with the rules changing, I believe this month or next month, do you think that might mean some decline in the premiums going forward?

S. Harrison — Yes, I would absolutely say, Sal, that that is part of it. I think the bigger driver is probably the financing transactions tying up the metal units that we've talked about a bunch of times, but the load out rates are important as well, but talking about the changes that actually came into effect this month and the talk has been so far that the impact is very, very modest. So we don't expect that to have a major impact on the premiums.

Moderator — We'll go to line of Tim Hayes with Davenport & Company.

T. Hayes — Several questions, just to clarify on Hawesville that it's not economic under this new power contract. Is that at current LME price, or is that on the forward curve for the LME?

M. Bless — Three responses there, Tim, with apologies. First, it’s not a new power contract; it’s a power contract into which we entered in 2009 when the old one was terminated with E.ON. It’s just a current price deck or forward forecast . . . that’s redundant. The current forecast for future prices coming from the power supplier. And yes, embedded in that comment, thanks for the clarification, was at and around current LME. So, if the future price that they’ve given us were to be applied to current LMEs, then you've got an economic equation that doesn’t work.

T. Hayes Then at today's aluminum price, do you have a sense of how much of the industry is losing money?

M. Bless Depends on regional premiums but-- and regional prices, obviously, when you look at China-- but Shelly you want to take a stab at that?

S. Harrison I think between a third and maybe even a little more than that.

M. Bless Yes, I don't think it's half, but it's-- I think Enrique is pointing thumbs up, as well. We have got a consensus here of 35% to 40%.

T. Hayes That sounds about right, okay. And the SG&A of 8.5, is that something that's now sustainable or should that maybe be a little higher going forward?

M. Bless No, we think it's going to always bump around based on whether you are working on some things, it goes up and down based on legal fees for a variety of things and other consultants' fees and things like that, but that as kind of, Shelly, an average number should be, and a portion of that is non-cash as we've talked about before, a small portion. I think that's a pretty good number.

S. Harrison We say about 10 million including the non-cash fees plus a little bit, for Helguvik. So Q1 was little bit better than that, but it's in the ballpark.

M. Bless That's a very good point that Shelly makes is that when we gave you the guidance items in February, or whatever we called them, embedded in there was an average number for SG&A spending as distinct from of course what we report on the cash flow statement, project spending, at Helguvik. And that has been while the project is in a relatively dormant phase, we're spending capex now as you've seen well under $1 million a month by design. The related SG&A is going to be relatively small. Until and unless, or I should say ,hopefully until we reach accommodation with power companies, at which point we'll start revving up the engine again on the financing discussions and on other things around that obviously getting the documents with the power companies memorialize will take some time and effort and dollars.

T. Hayes Moving to the LCM benefit, how does that split between the U.S. smelters and Iceland?

M. Bless Yes.

S. Harrison All U.S.

T. Hayes — Last question, in the press release you mention how customers are wary about signing long-term contracts. Is that a comment for Century or is that industry wide?

M. Bless — The comment was meant specifically on our customers and the other people in the marketplace, of the U.S. market, to whom we speak. So, I can't comment more generally than that. But I can tell you with good certainty that that's what our customers are telling us at this point in time.

Moderator — We'll go to line of John Tumazos with John Tumazos.

J. Tumazos — With tongue in cheek, Mike, I was going to ask if the U.N. has asked to send you to Syria or to fix the Iran-- or South Korean/North Korean nuclear issues. In all seriousness, could you give us a little background on how the steel workers' issues, how the progress was made toward resolving those and the legislative support and the public utilities, etcetera. It sounds like an interesting novel but may be you could give us a ….

M. Bless — Well, I appreciate your comments, John. My son is hoping that I get the call to replace Valentine, but that hasn't come quite yet. Look, this was a, I know it sounds like a lot of words, it was a complex process with the retiree group. At the end of the day, like in all good negotiations, both sides didn't like it, and so that's, as we all know, that's a signal of a good negotiation when everybody is equally as unhappy. But we came to an accommodation, I can only speak on our side, that we thought made sense. The reason it make sense for us is that A) it's conditioned on the plant restarting successfully, and B) it takes into account the support that we are going to be getting on the power side.

So it, in essence, uses that in order to fund a VEBA Trust for the retiree group. We said from the outset, and obviously people didn't like hearing this, but we were quite serious about it, we said that we are not-- we can't get back on behalf of our shareowners into a situation in which we are rebuilding a long-term fixed liability. We can't do it. It's got to be something that we can pay, but pay out of the plant cash flow as long as the plant is operating.

So, that's how we came together, I mean, again it sounds like words, but we had just tremendous help here, not only from Governor Tomblin, from the mayor of Ravenswood, Lucy Harbert who did a great job, and directly and personally from Senators Rockefeller and Manchin who spent their own time, I got to say, and energy on this and so, it kind of took all of that to wrestle this over the goal line. We are very hopeful that it will come to pass i.e. that we can get this plant reopened.

J. Tumazos — If you solve this Gordian knot, the issues in Kentucky or in South Carolina that Alcoa is managing, all those things looks less challenging.

M. Bless Well, I don't know, John, I mean, every as I've learned in spades here over the last six months, every state is different-- that's obviously a throw away comment, but they look at these situations differently based on economics and the importance of the industry and a lot of other factors. And so, we have our own set of facts and circumstances in Kentucky that is going to take a lot of work. But we think the result of the work, it goes without saying, is worth it, and we think there is a solution that makes sense for everybody. It took a while and a lot of effort to get there in West Virginia and the same will be true, we're sure, in Kentucky. But we've got great support in Kentucky as well, and it's just working through the issues with people and being transparent. Again, it sounds like a lot of words, but this is just what it simply comes down to: making sure everybody understands what the situation is and what we need.

Moderator We'll go to the line of Richard Garchitorena with Credit Suisse.

R. Garchitorena Just a couple of quick questions. One, you are talking about carbon cost coming down and that they're likely going to remain at those levels. I guess my question is there any way that you can lock that in other for Q2 or the rest of the year, given the possibility that we get some improvement in the global economy in the second half of the year? I guess what's your comfort that things don't start to move higher again?

M. Bless That's a good question so, the answer regrettably is no. Our carbon contracts, they all work a little bit differently. Obviously, as you know, when we say carbon, so, we are talking principally about calcined coke and then pitch as well. We buy our own stuff, if you will, in the U.S. and then for Grundartangi, we buy finished anodes, which obviously are just the same materials.

But generally speaking they all trade, or the prices are fixed, there’s a fixed component of all the prices, but they go up and down basically based on the cost of calcined coke, which is not, as you know, a tradable or hedgeable commodity, and it's got lots of factors that go into; it's not just simply the price of oil, although the coincidence factor between oil and calcined coke is generally pretty high. But coke is its own market, and in addition to that, within the coke market, we need, depending upon where we are manufacturing, for example for Iceland, we need high quality or low sulfur coke, so that's its own little specialized market as well.

So, that's a very long winded answer to your question regrettably that there isn't a way to kind of fix this or hedge this out. I guess one could always try to do a coke deal with a supplier, go to the supplier and say “hey, do you want to move away from the index and fix a price out?” But my guess is they’re going to be very reluctant to do it as well because their profitability is similar. They're purchasing raw materials that they're using to make their finished product that they sell to us.

R. Garchitorena My other question just on Helguvik: I guess obviously you're looking to secure some low-cost power going forward. I guess my question, in regards to Ravenswood you mentioned that you'd like to see not just the power, but also a commodity price environment that warrants the restart. Is there any scenario where Helguvik may not be pushed forward to give us …?

M. Bless I mean the strict answer is yes, of course. Excellent question, and there again because of the framework of the power agreements that we have in place for Grundartangi and the framework of these that we're looking to finalize for Helguvik, you've got very flexible power there. It's not necessarily low cost at higher LMEs, but it's always flexible as we've talked about before. And so you might be willing to sort of in reasonably somber environment restart that project, but eventually you got to be able to finance it. You've got to be able to look with some confidence about the way the world is heading. So again, longwinded answer to your question, but answer is yes. There is a level at which we would say it doesn't make sense to move forward at a point in time.

Moderator We'll go to line of Timna Tanners with Bank of America Merrill Lynch.

T. Tanners Just two hopefully quick ones. I wanted to know, just taking a step back, given that there are so many moving parts here and so many things that we'll have to wait for your updates on, or I guess the local media maybe, what would you look at if you were us to try to get a sense of will Grundartangi, will Helguvik go ahead, or will the power arrangements and union negotiations go ahead? What would you be looking for? Is there anything externally we can watch?

M. Bless Yes, that's a good question. Regrettably, I think you've got two places there you talked about. So, in Iceland it really is just those unique counterparty to counterparty discussions between ourselves and each of those two power companies. So, there is really no, there is no macro trend, there is no political things as was asked before. It really is just, I mean, a good old fashioned negotiation with each of those guys.

On Ravenswood you mentioned union. There, again, I can't, I assume that when we reach agreement with the steel workers-- just trying to think in real time-- we would say something at that time. So, you could certainly look for that. But again, as I said, that process on the labor negotiations will run in parallel here with the Public Service Commission process over the next couple of months. So, regrettably, there is not a lot we can point to say “look for this on the tape” and that will mean we're getting close.

T. Tanners Then if you could comment a little bit about the share buybacks and how that fits into kind of the way you're looking at your business and your uses of cash just in general.

S. Harrison Yes. This is a decision that was made for our third quarter last year looking at our balance sheet seeing a fairly large amount of cash that we wanted to put to work, and knowing that there would some delay in the Helguvik project. So we thought that was a good opportunity given the share price in the market. So we've continued to work towards that. As I mentioned, we're $50 million into the $60 million program, so about done with it but we still have a little ways to go.

M. Bless And we'll look-- as you would expect and hope I would expect-- we'll look at it again so to the extent that we finish this authorization it's something that we'll always look at from a return of capital-- deployment of capital-- standpoint.

Moderator We do have a question from the line of Paul Massoud with Stifel Nicolaus.

P. Massoud First is on the above spec operating rates at Hawesville, Mt. Holly and Grundartangi. Is there any reason we should expect those rates to come down, or are those rates something like you could expect to extend through the rest of the year?

M. Bless — Those should be reasonably consistent. You can always in a quarter be up or down a percent or so. Number one you'll have just statistically some quarters have more days than others, and as you know these plants run 24 hours a day and so that will drive the actual results. But from a per day standpoint, you can always be up or down a little bit, but generally the answer to your question is no. There is no reason to expect that we should backtrack on any of those.

P. Massoud — On the direct shipments from Grundartangi in the first quarter, it looked at least I think last year the first quarter was also, the first quarter was a big quarter for direct shipments. I mean is there a seasonality to the direct shipments, or are you starting to see some of the tolling arrangements pushing back on when they take delivery?

S. Harrison — No real seasonality, so as we continue to increase production capacity you're going see more and more direct shipments as we anticipated on our last earnings call. But nothing seasonal that I can think of.

P. Massoud — Then finally I think you had made a comment about the client base for Ravenswood being one of the reasons why you'd want to open it back up. I mean, can you talk a little bit about the customer base? Is there a special product coming out of Ravenswood, or just talk a little bit, maybe you could just elaborate on that?

M. Bless

Yes sure. I mean, the strict answer is we've got a customer onsite or next door. So, the rolling mill which this company used to own until 1999 or 2001 was sold to Alcan. It's now owned by a combination of a private equity firm and major industry player. So it would make sense, we believe, for us and for them and as you would expect we've had discussions with them to reinstitute that relationship from an economic standpoint, a production standpoint, delivery and logistics. That would make a lot of sense. That plant produces many products but it's sort of core product base is in the aerospace business and so that's the broader answer to your question is that really we believe going forward here, and this answer now broadens it out to not just Ravenswood but to Hawesville, which does produce specialty products, high purity metal and high conductivity metal that customers in the U.S. are going to want local supplied. It sounds a bit ethnocentric, but as you talk to the customers they really believe they don't want to be bringing, especially high purity product, in from overseas. Hawesville is the only domestic producer, and so as we see more and more capacity in the U.S. either shut or at risk of being shut, we think that there-- and this you may be seeing in the premiums and you see this in our product premiums above the Midwest that we get on, for example, high purity product. We believe there is a case made now-- it's probably not a, it doesn't give rise to a digital decision i.e., making a plant economic or not, but the plant that's running, it makes it that much more profitable.

Moderator Last question comes from the line of Paretosh Misra with Morgan Stanley.

P. Misra Just I guess two questions. One: on this proposed power contract at Hawesville, is that still expected to be linked to LME price?

M. Bless No. The current one at Hawesville is not linked to LME price. It's linked to-- I will say function of, I should say, not linked to-- the power providers cost of production. It's a cooperative, the power provider is a cooperative, so they basically to their customers-- including ourselves and to the other smelter and to their retail customers-- they basically pass along their costs and we would expect any change, amendment, accommodation in that to be, not unlikely to be based on LME linkage, but one never knows. That's certainly one of things that we'll be looking at.

P. Misra Are there, at least across your portfolio, any opportunities from cheap natural gas for you?

M. Bless Yes. It's an excellent question, and I can't go into much more detail now but as you would suspect, the answer is yes. As you would suspect, that's something that we are looking at very hard and we're excited about that trend both in terms of the supply and the price, it goes without saying, and we're not ready to say it's something that's going change the equation of U.S. smelting, but we think its something that could be very exciting for us here going forward. So, please watch this space. It's an excellent question.

P. Misra — Actually maybe just last one, on this amendment in South Carolina at Mt. Holly, a similar question as I had for Hawesville. Is that going be LME linked or not really?

M. Bless — No, I can't comment. Yes, I would say again the current arrangement is on a fixed price basis, and so I wouldn't expect, though it's too early to tell, we wouldn't expect sort of a wholesale change in the structure of that arrangement.

Moderator — Do we have time for an additional question?

M. Bless — Sure.

Moderator — Okay, going to the line of Tony Rizzuto with Dahlman Rose.

T. Rizzuto — I've just got one question just to follow-up on the premiums over the Midwest from the high purity metal you sell out of Hawesville. Where is it now? Obviously we track it on some other products, but could you tell us how it's changed over the past one to two years?

M. Bless — You're talking about the purity premium?

T. Rizzuto Yes.

M. Bless Yes. So over Midwest it's been a high of in some very sort of thin markets in times a couple of dimes, Tony, and as low as sort of the mid single-digits. If you ask me for, I wish I had Kip Price, our sales head here with me, but if you ask me for sort of the general level I'd say a dime give or take, Steve? Steve Schneider is nodding his head up and down. Ten cents, give or take.

T. Rizzuto Is that about where it is right now, or would you say it's a little bit tighter than that given the …

M. Bless I'd say it’s around that level now.

Moderator Thank you. Seeing no additional questions at this time.

M. Bless Thanks very much everybody. We look forward to talking with you in a couple of months if not before.

Moderator Ladies and gentlemen that does conclude our conference for today.