CENTURY ALUMINUM COMPANY: Second Quarter 2011 Earnings Call

August 4, 2011/2:00 p.m. PDT

SPEAKERS

Shelly Harrison, Vice President and Treasurer
Logan W. Kruger, President and Chief Executive Officer
Michael A. Bless – Executive Vice President and Chief Financial Officer

PRESENTATION

Moderator Welcome to the Second Quarter 2011 Earnings Call. As a reminder, this conference is being recorded. I'd now like to turn the conference over to our host, Ms. Shelly Harrison.

S. Harrison Good afternoon, everyone, and welcome to the conference call. Before we begin, I would like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations and financial condition. 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 slides 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 to today's presentation and on our website at www.centuryaluminum.com.

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

L. Kruger Thanks, Shelly. Thank you all for joining us today. Let's move on to slide four to get started. I'll provide detail on the market in a moment, but will make some introductory comments here to set the context for our broader discussion. Obviously, you've all seen what the equity markets have done today.

Otherwise, I would characterize the aluminum market conditions for developed economies as continuing to exhibit steady but slow growth. The pace of economic activity in the developing regions remains strong. The economic data from China, India, Brazil and the other fast growing countries continue to look good. Other than well publicized macro concerns, we see no signals of a pending slowdown from these growing areas.

Physical supply of metal continues to be tight for a variety of reasons. The dialogue around the rules governing the LME warehouses has recently become quite animated. Clearly different types of market participants will continue to have a distinct view. The LME had studied this issue in detail and has made some changes. We don't believe these changes will have a significant impact on prices or premiums. In this environment, physical premiums in most regions have remained at or near all-time high. While this environment may not be attainable over the long-term, we do not see major changes for at least the balance of this year.

I obviously do not need to comment on the global macroeconomic conditions. Suffice it to say that we are managing the company under the assumption that the debt issues in the EU and in the U.S. do not significantly impact the broader economy or markets. The same philosophy applies to China, where if the risk for a hard economic landing, out of control inflation or the popping of potential asset bubbles were to materialize, the world would surely be a different place. We, like others, are closely monitoring the recent global economic data, which have been somewhat sobering.

Overall, we remain generally positive on the aluminum market for the medium term, but some concern for the slowing global economic activity may be more than temporary. Now, I'll give you a few quick comments on the company's operations, again, just to set the scene. Later in my remarks, I'll provide a more detailed review of the situation at Hawesville; what happened, where we stand today and most importantly, what we have learned and where we are going. Suffice it to say that we did not adequately compensate for the relative inexperience of new personnel in the plant.

Who are responsible for the first line operations, including the restart of the previously curtailed line number five. This coupled with the challenges in our plant technical improvements, as well as logistical problems caused by the historic flooding in the region resulted in a situation that you found harder than expected to get back under control. The good news is that, we believe we now have reached stable operations. I will speak further on this in a few moments.

If we look further, the company's other operations turned in a very good quarter. The team at Grundartangi continues to perform well and happily, Mt. Holly, under its new leadership, has largely regained its strong historical performance. We had some milestones on the Helguvik project in Iceland during the quarter, and I will detail those at the end of my remarks.

Let's turn to slide number five. Now turning to an update on the market, in the second quarter, the LME cash price averaged about $2,600 per ton, the highest quarterly level since the third quarter of 2008. Prices remained in the $2,500 per ton range despite macro concerns I discussed earlier. Alumina spot prices have adjusted lower, with the most recent tender quoted about $380 per ton. As there appears to be sufficient material available in this market, it's our expectation that the aluminum market will remain reasonably in balance for the rest of this year.

Chinese aluminum demand remained strong during the second quarter almost across all of the sectors. Annualized production reached a record over about 19.5 million tons, yet demand still outpaced production by over 200,000 tons in the quarter. If you just take a pause on an annualized basis that's near 1 million tons per year. It is our view that China will be in balance by a modest net import of aluminum over the medium term. Aluminum demand outside China continues to recover as Japan continues to ramp up its manufacturing industry after the earthquake and the Tsunami. Western world demand continues to grow driven by demand from transportation and beverage sector.

On the macro side, China finished the quarter with 9.5% year-on-year growth in GDP consistent with the last several quarters. Industrial output advanced an amazing 15.1% in June, the most since May 2010 even after the central bank boosted lending rates five times since October and raised bank reserve requirements to a record level. GDP in India grew at 7.8% year-on-year in the fourth quarter, consistent with recent performance.

Shall we move on to slide number six. Inventories decreased slightly in quarter two while quarterly demand increased to 11% year-over-year, noticeably impacting the relationship between global days inventory and price. Days inventory are now at 52 days as compared to 58 days in quarter one, quite a change. The most meaningful indicators of physical demand and market tightness are the local premium. European, U.S. Midwest and Japanese premiums all remain at or near record high levels.

Two key factors are contributing to constraint physical supply at the moment. These are the continuous financing arrangements which we have discussed in previous quarters and the existing logistical challenges of moving metal out of warehouses.

In the second quarter, we saw a push by customers to change the load-out rates from LME warehouses. As a result, as you have read, starting in April 2012, load-out rates will be increased from 1,500 tons to 3,000 tons per day for those operators with more than 900,000 tons in one city. Because of these modest increases in volume and the limitation to only larger locations, for example, Detroit, the net effect of this change is expected to be small. These physical supply constraints coupled with the continued cost pressures are expected to support pricing over the near to medium-term.

We can now move on to the discussion on the operations on slide number seven. Let me first provide additional detail on our Hawesville operation. As we mentioned in our previous earning calls, the restart of the curtailed potline required the hiring of some 130 new people. We had significant interest in the community for new jobs and believe we brought onboard a varied group of new employees. We were aware that most of these people had no prior experience in aluminum smelter and thus would require significant training.

What we failed to adequately appreciate was the impact of the recent demographic changes around the plant. Due to the work rules in our union contract, the more senior and as you would expect the more experienced people have significant latitude in job movement where the job openings occur. Thus we have a significant number of veterans opting to shift out of the potlines into other areas.

With the restart of line five, the vacancies on the potline themselves were filled with a disproportionate number of new hires. This situation was exacerbated for a variety of reasons. We lost several key people including technical and operating management. And I must make note of the effort that people at the plant have put in. Although, the entire group works very hard, those of you who have been around smelters know that it does not take long for one of these plants to develop operational conditions that are challenging.

In addition, some planned technical improvements during this period exacerbated the issues about which I just spoke. In addition to this environment where some significant logistical challenges, caused by the historical floodings in the area, we like many other manufactures by the river were forced to turn to contingency plans to access key materials like alumina, fluoride and other materials. While we successfully addressed these issues, the requirement to focus on them brought a diversion of management stand away from the operational issues confronting the plant.

So now what have we done? Where are we and where are we heading? Our most significant focus has of course been to get the right leadership in place. I'm pleased to report that in late June, we hired a very experienced and able individual named Dave Hensley as our new plant manager at Hawesville. Dave has significant experience in every area of this smelters operation. Perhaps just as important, he is a clear and credible leader and a good communicator. He has thoroughly addressed the plant situation and has put in place a plan to maintain stable operations in the short-term, as they quickly return to the restart process that bring the plant to full capacity. Dave has already addressed the technical changes to which I referred. As you suspect a significant portion of these efforts is aimed and getting the right people in the right places or properly trained to do their job safely.

During the past month, we have filled most of the key roles which I described. We are enthusiastic about this new group of leaders, it goes without saying that additional training has been set as a priority. These efforts have already shown results. We believe we have achieved a stable operating environment in the plant. This is our primary focus and it's requires daily blocking and tackling. These last few months have clearly put behind us where we would like to be and where we would previously thought we would be in achieving full plant operations. Bottom line, we now believe the plant will be operating at rated capacity by the end of this year. Mike of course will provide you with a forecast of what this means for shipments and operating costs in the third quarter.

As I summarize, Grundartangi in Iceland has continued to operate quite well. Production and shipment volume for the quarter were at record levels and controllable cost are all well in check. We continue to look at creep opportunities that this plant as these projects generally have high returns and quick payback periods. Overall, Grundartangi continues to do a good job.

After a period of operating challenges, we believe Mt. Holly has clearly turned the corner and is on track to its formal best in class operating performance. The long-term issues around the plant's power cost remain but we have a first rate management team executing very well. I won't spend much time on the commercial conditions in the U.S. Metal remains tight with the Midwest premium staying close to a record level. Certain products remain a short supply with end markets like automotive continuing to exhibit relative strengths.

With that, I would like to hand over to Mike.

M. Bless Thanks, Logan. If you could turn to slide eight, please. As usual, I'll refer to the financial information that shows the earnings release. So we have that handy, you'll be able to follow on with my comments. And also as usual, I'll compare in my comments the quarter that just ended to the one sequential prior to it obviously here Q2 to Q1.

Before we get into the income statement data, just to remind you about the market Logan referred to it. The cash LME price on average in Q2 was 4% higher than in Q1 and with the one month lag with 7% higher than Q1.

Next our realized unit prices track the market, domestically we were up 7% quarter-to-quarter and an Iceland our realized prices on average grew up 6% quarter-to-quarter. Again before I get to the income statement let me just comment on shipment volumes. You can see these data – if we go to the operating data at the end of the financial information, first, like the last couple of quarters this quarter we had a small amount of our shipments in Iceland that were done on a direct sale basis rather than toll sales, it's about 2350 metric tons this quarter. So when you adjust for those tons, you'll see that domestic shipments were up 7% quarter-to-quarter and in Iceland, we were up 3% quarter-to-quarter.

As Logan noted, Grundartangi shipped at an annualized record rate of 278,000 tons obviously we are extremely pleased with that. That compares as you know to the rated capacity of the plant of 260,000 tons. Okay let's start at the top of the income statement and walk down first putting the pricing and volume results together, you will see that net sales on a dollar basis were up 12% quarter-to-quarter. Of that 12% volume contributed 5 points and pricing remaining 7 points.

Gross profit quarter-to-quarter was up $7 million on a $40 million sales increase. Let me just give you some of the major contributors there. The increase in our realized prices drove gross profit up $24 million quarter-to-quarter and we had a bunch of items going the other way. First costs that are linked directly to the increase metal price of course. Those cost being alumina for a U.S. plants and power in Iceland. Those cost in aggregate were up $7 million quarter-to-quarter.

Raw material costs as you know these are mostly carbon related were up $5 million quarter-to-quarter. And costs related to the situation at Hawesville as Logan described were $6 million higher quarter-to-quarter. Let me just describe that and then I will detail the third quarter just pardon me, the second quarter cost in a movement. As you recall in Q1, we had $6 million of cost related to the restart of the fifth pot line.

In the second quarter, we had $12 million of cost related to the situation of the plant again I will get to that in a moment. So the net difference between Q2 and Q1 related to Hawesville is $6 million. As Logan said, we had good performance across the remainder of the company and so other costs across the company quarter-to-quarter were mostly flat or in many cases favorable.

Each of the $12 million in Hawesville for the second quarter, a couple of buckets it came from. First is very straightforward, we had a cost structure in place for a production volume level higher than we actually got. So those unabsorbed costs, everybody who follows manufacturing companies are familiar with this issue. Those unabsorbed costs flowed through. There was about $5 million of labor and other items.

Second, where actual operating efficiencies in the plant itself and spending required to get the plant back to first stable operations and then as Logan said later in the year to full capacity was another $5 million in aggregate. And then we had an additional $2 million in spending relating to the fifth potline restart, so that's the $12 million for the quarter.

Before I continue to detail the income statement changes for the second quarter, let me just talk a little bit about what we see in Q3 specifically related to Hawesville. Logan gave you a sense of where the plant is and our plan to get the plant back to full production capacity by the end of the year and as we rolled that all and look at the production forecast. We are looking at a shipment forecast quarter-to-quarter, Q3 over Q2 for our whole domestic operations essentially flat, so flat shipments Q2 to Q3.

Let me talk a little bit about the cost side now. And if you go back to February for our custom, we provide an estimate for the year of our cash operating cost and our smelters for the U.S. on the one hand and for Iceland on the other hand. So you can go back and look at those slides and see the costs estimates we gave you for the U.S.

As we told you again at the time, we saw at the beginning of the year, the cost for Hawesville and Mt. Holly to be essentially equal. You get there in very different ways as we've always said but they were to be about equal. Mt. Holly has been on plan this year and it is expected to remain so. So we need to focus obviously on Hawesville now.

Given the inefficiencies that we are still experiencing in the lower than plant production volume compared to the cost structure, we are looking at Q3 estimate of cash operating costs to be about $300 per metric ton higher than we had estimated back in February, $300 per ton higher for Q3. And so if you apply that over our entire U.S. operations based on the basis of the data that we gave you back in February, we are looking at U.S. cash operating costs on that same basis about $200 per ton higher given that of course Hawesville was about two-thirds of our U.S.

production. So Hawesville about $300 ton higher in Q3 translates to U.S. cash operating costs about $200 per ton higher, so if you want to adjust our models, you simply go back to the data that we gave you back in February, choose your LME of course we gave you the sensitivity and then add $200 per ton cash operating cost for the U.S.

Just to give you a little bit more detail on where that we see that $300 per ton for Hawesville increase in Q3 versus the original estimate coming from. About 60% of it comes from the unabsorbed cost and inefficiencies that I described about 60% of that $300 per ton. The remainder comes from an increase that we've experienced over the year in – it's in structural cost most specifically carbon and power.

The 60% obviously due the inefficiencies should dissipate as we reach or get close to and then reach full production capacity. On the other cost like other producers in our industry were watching very closely, we've actually seen very recently perhaps some release and some of these cost specifically related to carbon but we want to continue to watch this and see if there are any trend lines there.   Okay, that's Q3.

If I could turn back to Q2, turn back to the income statement. We are about halfway down the income statement if you got the data in front of you. Other operating expenses as you recall this is where we account for cost relating to Ravenswood a curtailed plant. As we expected, we had

$9 million of income this quarter related to the changes in retirement benefits from last year at Ravenswood. So this is the final accounting for those. And if you strip those out of that line item, you will see $4 million in expenses as expected for the Ravenswood curtailment.

SG&A, as we detailed in the earnings release, $8 million, just shy of $8 million of the amount on the SG&A line item has to do with changes of the Board from June and some Senior Management severance during the quarter. Loss on forward contracts as you know this is mostly the market-to-market of put options obviously as the LME price drives higher. You take a price at the end of the balance sheet to value those options at the balance sheet date obviously June 30th here and the value of those options decreases, so that's the mark-to-market there. Other income just shy of $1 million on that line is the charge for the earlier redemption of debt as we early redeemed in May the convertible notes before they would have been put to us this month in August.

Just finishing up on the income statement on the tax line, no change in the company's tax structure. In U.S., we still continue to provide 0% tax rate here due to the fully allowed deferred tax assets. In Iceland, we continue to provide at 18% and again related to the retirement benefit changes at Ravenswood as predicted we booked at $2 million discrete tax benefit, so that's part of the tax line there.

Lastly, on the income statement, average diluted shares for the quarter common and equivalent shares came in at 93.6 million average, preferred shares 8.1 million average. Okay, and if you could just turn forward to slide 14 for a moment where as our norm we've given you a reconciliation slide for the various items and in earnings.

The items that we described in the first paragraph of the earnings release just to a put it all together here as you can see reported EPS of $0.24 plus loss on forward contracts again mostly the market-to-market of the puts to $0.02 of it was $0.02 of expense, debt early retirement was a penny, accruals related to board changes and the severance was $0.08, reversal of an insurance claim, $0.03 a share, the Ravenswood retirement benefits a changes accounting therefore was $0.09 of income and the tax benefit related to those changes $0.02 of income. All of this of course is net of the $12 million in spending or $0.12 a share related to the situation in Hawesville this quarter that we've talked about.

Quickly go back to the financial statements then please a couple of comments on the balance sheet and the cash flow statement. Cash ended the quarter at $232 million I will detail the changes during the quarter and the cash balance in a moment. As you'll see on the face of the income statement, pardon me, the balance sheet, the convertible notes gone. Overall in the cash flow statement, you will note that the CapEx year-to-date is $7 million that excludes Hawesville – pardon me, Helguvik that was $4 million for Q2. So $4 million of CapEx for Q2, $7 million year-to-date. And lastly for Helguvik $4 million for the quarter as we've said pending the restart of major construction we will be spending at the rate there a little over $1 million a month that's why it came in $4 million for the quarter.

If I could ask you just turn to slide nine then we'll go through quickly the changes in cash during the quarter. Talking about the redemption of the convertible notes, again that's would have been put to us in August anyway. We decided to early redeem and save a little bit of interest expense that was $47 million. Again the change in the company's Board required a certain non-qualified benefit plan to be funded, that was $17 million in cash, that cash is sitting in the trust account now.

As you know our bonds, like most pay cash on a semi, pay interest on a semiannual basis that you see it during this quarter. We talked about the CapEx in the Helguvik spending already and as you can see we had a little bit of working capital build this quarter by half of that amount that you see there relates to inventory and receivables for the new capacity coming on for line five at Hawesville.

With that I'll turn back to Logan.

L. Kruger

Thanks, Mike. Let's have a look at slide 10. We continue to make modest progress at the construction side as you can see from these updated photographs. As we have discussed for some time, we believe we need to achieve good certainty on both power for the plant and the sequence and timing of that power before we can proceed. We must lock on to key items including specific pricing and delivery commitments before moving ahead. This requirement makes the discussions of the power providers more complex than they would be if we were willing to move forward with lesser commitments. Some news on this front, the arbitration was one of the two power companies took place as scheduled in May. We were pleased in how it went.

The findings of the panels are due in September. At that time, we will assess the decision and then most likely sit down with the power provider, HS to talk about the way forward. We have also seen some progress of the other power provider – OR – we hope to be in a position to report some developments and I will be speaking with you after the third quarter. We believe that we can arrive at a mutually and satisfactory outcome by the end of the year with a restart to begin soon after that. Let me move onto the final slide number 11.

In summary, the alumina market conditions are stable and demand growths from the BRIC countries remained encouraging. We will be closely monitoring the impact of the slowing global economic activity on trading conditions in our markets. Grundartangi and Mt. Holly both produce method at record levels during the quarter and operating performance has been good.

At Hawesville, we have putting place to plan to maintain stable operations in the near term and then return to the restart process to bring the plant of full production capacity by the end of the year. As I mentioned in the previous slide, we continue to make modest progress at Helguvik in our discussion with a power providers.

We will now take your questions. Thank you.

Moderator Our first question comes from the line of Brett Levy with Jefferies & Company.

B. Levy First question is, I always ask which is as you guys look at how you are set up in terms of puts against the U.S. production, how you guys set up this year and what are your plans for kind for subsequent years?

M. Bless No changes in our put position during this quarter, so it will be the same as you can go back and look at the last 10-Q or the new 10-Q that we'll be filing early next week Monday, Tuesday and you see the position has unchanged. So we are at 9,000 tons a month for the balance of this year and 5,500 tons a month for the first half of next year, that's the current book.

B. Levy And the thought is still 30% is about your target?

M. Bless Yeah I mean it depends, Brett, upon what basis you're defining target. We look at the denominator if you will. I think we've talked about this before in unpriced tons, so we take our total production and then back off the tons that are priced and that are hedged partly and implicitly through the linkage of the alumina contracts to the metal price that is roughly 30% of the production right there is naturally hedged. And then you ask yourself what part of that residual do I want to hedge. And that's no know fast target, what we've been somewhere in that range, the third to a half of the unpriced and we'll kind of continue to assess that as we see market conditions in the cost of the protection and the cost structure in the U.S. and bunch of other factors.

B. Levy And then one more question and then I will get back in queue. In terms of timetable at Helguvik sounds like you have a lot more clarity hopefully not with by the end of the year and then obviously that makes some key decisions. You need clarity on Helguvik before you start thinking about capital markets options by addressing the 8% notes or could you go earlier than that? I mean my sense is you probably want to know what's going on in Helguvik before you start making some decisions on your bonds?

S. Harrison I think there is about three questions in that Brett, so let me try and answer some of it. Just clearly on Helguvik obviously we've gone to first arbitration with HS and we are pleased about how that went and we will hear at the end of September and we've also have made some progress with discussion with OR. But clarity for Helguvik is, we've got all the permits, we've got all permissions, we've got all the contracts in place, we basically have to bring to a conclusion the power provider discussion so that's the clarity on Helguvik. And I will ask Mike may be to pick up the other two.

M. Bless Sure, Brett, the 8s as you know are callable at 104 today and then they step down to 102 in May and the maturity is two and three quarters as from now would have in May of 2014 and so we look at it other time. I mean I guess I would answer your question by saying in one respect, there are two separate decisions. From an IRR standpoint does it make sense and when does it make sense to look at paying the premium or to look at it price to the step down date in May of 2012.

You are asking sort of a broader questions in terms of capital requirements over the next couple of years when you start talking about Helguvik, that's a valid question as well, but given that financing that we have locked in place and ready to go is as we've discussed many, many times, is a non-recourse financing. It really is kind of this is a simplistic way of looking at and of course compartmentalize, so you can really in my opinion anyway you can look at those is to a very separate and distinct decision sets.

Moderator — Next we will go to Sal Tharani's line with Goldman Sachs.

S. Tharani — Can you I just want to get some clarity on your volume guidance, how really is obviously has trying to, Hawesville, you ramping it up, yet you saying that you are going to have a flattish volume, it means that some other units or facilities may have a lower volume?

M. Bless — No, no. You are assuming that's a good question. No absolutely not, I think conclusion assume that Hawesville volume would have been, production volume would have been flat during the quarter that was not it's started high and then went low and then came back and so that's what you're seeing there. So what you are seeing the average for Q3 at Hawesville is going to be per our forecast equal to the average of Q2 and same with Mt. Holly.

S. Tharani — Also on the cost side, you gave a good detailed guidance of what to expect, but how about from Q3 to Q2. Do you pay more electricity cost during the Q3 in your – is your electricity all tied to the LME?

M. Bless — No, no the electricity at Hawesville is not tied at all to the LME. It obviously it has some correlations given coal prices and such, but the utility much of it is coal and advance as you are familiar with and so now there is no correlation there. As I said we are seeing some step up this year in both power costs part of that was scheduled or expected part of it as we have announced and discussed in the past the provider has filed for a rate case and that is supposed to be completed in the third quarter so they could be a little bit of a step up there. The major increases that we've been seeing quarter-to-quarter have been carbon related like many other I should probably say most other producers.

Moderator — Our next question comes from the line of John Tumazos

Tumazos — There was a lot of confusion with news reports about managers moving on and all different things and it's a relief that all that went on was 12 million of extra cost which in the grand scheme of things is not much. Which year should we put the first 90,000 ton potline into our spreadsheets for Helguvik and how should we treat the long term future at Ravenswood?

L. Kruger — Yeah, good question, John. I will try and having some of that and Mike will add to it. I think obviously what we said in our remarks about Helguvik effect, obviously, we're waiting for the arbitration in the

September and then will be a discussing with power providers going forward from there. And I think … the end of this year to bring to conclusion the power provider discussions, subject to what goes on of course, and so as to answer your question, I would suggest in 2012 is the first 90,000 tons. Obviously—

M. Bless — Restart of construction.

L. Kruger — Restart of construction apologies plus 24 months from this 12, 13, so early 2014 for the first 90,000 tons. And I think those are the two parts of your question, was it?

M. Bless — Yes.

J. Tumazos — The second part was about Ravenswood but if I can follow up, what's going on as we recall Alcoa had their smelter build and waited six to 12 months for the power that will get built and arrive?

M. Bless — Yeah.

J. Tumazos — But you're doing has been very meticulous do not have the same thing happen to you, so no other problems around year end with financing or anything like that?

M. Bless — No, John, its Mike, John, thanks, that's a good comment, I mean we've said we want to be very careful here that I think we've said in the past if there is no good to have as smelter ready to go with the power isn't there. And so as Logan has continually said here as important as getting the pricing finalized is getting the delivery commitments of these two power providers finalized. Because we said before, some of the power for Phase I, Phase I of our smelter, the first 90,000 tons, sorry that's our nomenclature there, isn't yet in the ground. It's there, but the final work has to be done, the pipes have to be sunk, the turbine has to be connected, the transmission lines have to be built.

The financing as we've said as Shelly told you since, boy, almost this time last year couple of months later since let's say November of 2010 has been completed. We've got and agreed to sign, I think it ran to almost five dozen page, term sheet and now have a several hundred page, common terms agreement that's ready to go and so that project financing if Logan gave us that's to go ahead could be finalized within say a month or two.

J. Tumazos — It's all done?

M. Bless — The debt as we told you before the debt financing, we see, let me think we take a step back and … told you before, so the senior debt financing was on the order of $200 million. So that's the project financing to which I just referred non-recourse and then underneath that would be a layer of obviously also non-recourse junior financing mezzanine or whatever you want to call it, up to another $100 million or so. So that's $300 million. As we've said, the cost to complete Phase I it's about another $500 million that includes for working capital and such some of which can be borrowed anyway and so that's kind of the that's where we're today versus the cost complete Phase I.

J. Tumazos — And the longer this takes, the more cash you build up in self-finance anyway?

M. Bless — That's true, no doubt about it.

L. Kruger — You're correct in an observation. I think the other part was on Ravenswood.

J. Tumazos — Right.

L. Kruger — Obviously we continue on to look at Ravenswood. I think the single condition that we need to have in place is obviously a suitable competitive power contract and we continue to have discussions around that, obviously enabling labor contract and obviously then some view of what this market will look for a period of three to five years. I think actually, that's all we really want to say on this point.

Moderator Our next question comes from the line of Richard Garchitorena representing Credit Suisse.

R. Garchitorena A lot of my questions have been answered, but just I want you to touch on alumina cost, you said you mentioned that spot prices are coming down and what's your view on that going forward versus a year into 2012?

L. Kruger I think what we're trying to do just talk a bit about what we see in the market rather than give you a view of what pricing may be, but it seems to us that there is a fairly balanced supply of alumina for the demand at this point in time. And it seems to us from what we hear and see is that alumina that was destined to go into China is now staying out of China is one way of describing it.

So, I think there has been a bit of pressure certainly in the last couple of weeks or month on the down side of the so called spot price that is being published. So that's probably come out from around about $400 to around $380 and so if you do a conversion on some percentage of LME versus – you have actual cash price or spot price you're getting pretty close to the same sort of number. So, I think at this stage the market seem to be fairly balanced maybe some pressure on the downside.

R. Garchitorena Then just on Mt. Holly, you had mentioned that it's operating basically at peak levels. Can you just remind us what the name plate capacity is there and is, I guess, sustainable going forward?

L. Kruger 220 I think thousand tons per year of which we get half.

M. Bless Okay, so it's running a good couple of percent or it ran I should say in Q2 a good couple of percent above that main plate capacity.

L. Kruger Very pleased about the way, Mike and the team have done at Mt. Holly have done a good job and they are now operating at a very good level.

R. Garchitorena Okay. And my last question is on the SG&A, you have mentioned it was higher this quarter, is that a onetime event? Is that going to reverse, I guess, back to more normalized level in Q3?

M. Bless Yes, that was a onetime event, due to the changes that we saw in the composition of the board during the quarter and this is necessitated by the terms of those plans and so that doesn't repeat.

Moderator Next question is from the line of Sean Gosh from Millennium Partners.

S. Gosh Sorry my apology that I jumped on to the call a little late, but I just wanted to get an update on your thinking on the raw materials strategy going forward. If there was anything new, I mean on previous conference, I think you've articulated, but I think you probably look at some options to potentially get back some raw material integration if that made sense. Now, I just wondering if there was any update on that, especially given obviously the deal that you had with Noranda where you kind of sold your interest back to them? Sometime back.

L. Kruger — As I think that as we've talked many time, we'd like the upstream area and we continue to look at that in terms of material supply alumina particularly we've pretty well set up for the next three or four years. So, we don't have an immediate exposure on that but in terms of our interest on the upstream on a suitable basis of course.

Moderator — Our next question comes from the line of Sal Tharani with Goldman Sachs.

S. Tharani — Just housekeeping: the five or six special items you mentioned in the front I think the three charges and two credits, of these all – or how many of these are above the operating line?

M. Bless — When you say above the operate – let me just tell you and say where exactly where each one was, so the mark-to-market of puts is on its own line it's called loss of forward contracts. Right in the face of the income statement. Debt early retirement is other income, the changes related to the board change, the board change in the severance, that's in SG&A as I said. The insurance claim would be in cost of sales. The Ravenswood benefits accounting are on that line item, other operating expense and the tax item of course is on tax provision line.

Moderator Gentlemen, there are no further questions at this time.

L. Kruger Thank you very much for you all. For listening to our call today. We look forward to seeing you again after the third quarter.

M. Bless Thanks Tom.