

CENTURY ALUMINUM COMPANY: Second Quarter 2012 Earnings

July 24, 2012/2:00 p.m. PDT

SPEAKERS

Enrique De Anda – Corporate Financial Analyst

Michael A. Bless – President and Chief Financial Officer

PRESENTATION

Moderator Welcome to the Second Quarter 2012 Earnings Conference Call. At this time all participants are in a listen-only mode. You will have an opportunity to ask questions after the presentation with instructions being given at that time. As a reminder, the call is being recorded. I would now like to turn the conference over to our host, Enrique De Anda. Please go ahead, sir.

E. De Anda Thank you, Star. 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 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 would now like to introduce Michael Bless, Century Aluminum's President and Chief Executive Officer.

M. Bless

Enrique, thanks very much and thanks to all of you for joining us this afternoon. Enrique and I are here today with Bill Leatherberry and Steve Schneider, our colleagues. Shelly Harrison, our colleague who normally joins us on these calls, we've let her take this one off. Shelly is due to have her first baby here within the next couple days. We figured that wasn't the kind of excitement we needed on this phone call, so Shelly is going to sit this one out. We wish her and her husband, Jon all the very best, and we're looking forward to having her back obviously after she takes a couple of months off.

And with that, let's get started. If you could turn to slide three please, as usual, I'll give you some highlights of the quarter that just ended and give you a sense of some of the things on which we've been working.

First and importantly, Hawesville continued to show a significant improvement during the second quarter. Most importantly, the safety performance has been very good. I think it's worthwhile to note that very soon we will cross an important metric. We'll have gone 12 months at the plant without a lost time accident. That's obviously an admirable performance and something that we're celebrating down at Hawesville.

The team at Hawesville under the leadership of Dave Whitmore and Sean Byrne has done a terrific job across the operations, and we're proud of them. They're targeting further improvements in the quarters to come, and one of the things that we'll be working on significantly, and about which I'll talk here in a moment, is the power situation at Hawesville. At this point in time, to be blunt, the plant is not viable at the current power rate, and we're spending a lot of time and effort to fix that situation.

Moving on down, costs across the company have continued to fall this quarter, coming from a variety of factors. Number one, better operating leverage and higher production volumes at all of the plants, most specifically Hawesville; two, better efficiencies at Hawesville; three, we have seen a reduction in the power rate at Mt. Holly despite the lack of movement at Hawesville. Again, I'll speak about all these things in more

detail in a few moments. And fourth, we've seen carbon costs start to fall across the system. Again, I'll provide more detail.

As you saw us announce in June, we made an acquisition of a carbon anode plant in the Netherlands this quarter. Obviously, that's to supply that key raw material for Nordural's operations at Grundartangi today and Helguvik in the future. It's a good investment for us, it comes at an attractive invested cost, and it's going to produce a good IRR for us. I'll give you some more details here in a couple of slides.

At Mt. Holly, as I've said, we've seen a good reduction in fuel costs translated into our power rate and also, as you saw announced in June, we've come to a contract amendment with the power provider there. Importantly, that will give us some additional flexibility if we had to, to terminate that contract at very low LME prices, and importantly, that will give us some runway as we and Alcoa, obviously our partners there, work on a long-term power solution.

Very importantly, we've made progress on the restart of the Ravenswood plant. A key milestone: we submitted in April our application to the Public Service Commission of West Virginia for an LME-based power rate. Since then, we've engaged in detailed discussions with all of the

major constituencies in West Virginia. We're very focused on this process. We continue to believe that the restart of this plant would be a very good investment for our shareowners.

Lastly, we've advanced our discussions with our power providers in Iceland regarding Helguvik. The number of issues that we need to solve with each of those providers has continued to decrease. I can say that now for the first time, we do see some light at the end of the tunnel here, and we think it will take the balance of the year in order to get to the finish line with the power providers. If we did achieve that, we could begin construction in the spring—that is, the restart of major construction activities. Obviously, our ability to do that will depend heavily on the external environment. Until then, as you have seen, we're holding spending on Helguvik at an absolute minimum level.

If we could turn to slide four please. As usual, I'll give you a couple of comments on the external market environment. As you know, the LME cash price this quarter averaged \$1,980; that's down 9% from the average cash price in Q1. Obviously, and especially since May, we have seen a significant deterioration in the sentiment on commodities and also called risk assets. I don't need to go through in detail what factors are driving that process as everyone on this call is well aware.

Contrasting that somewhat, we have seen a continued increase in physical premiums around the world. The U.S. Midwest premium is now sitting at \$10.75. European duty paid premium \$250 to \$260 per tonne. Japan \$230 per tonne. In all regions, long queues at the warehouses and ongoing financing transactions continue to give support to those physical premiums. And in the U.S., importantly, the actual market conditions that we are seeing on a daily basis continue to be pretty good. We're still seeing decent demand across our U.S. Midwest customer base, although of course we're watching it very closely.

Taking a step up on a global standpoint, demand is up 3% year-to-date; the U.S. up 9%; China up 8%; Western Europe, no surprise, down 8% year-to-date demand. On the production side, globally we're up 4% in primary aluminum production year-to-date. China represents much more than all of that, up 12% as government power subsidies continue to prop up non-economic smelters. That said, we have seen some delays of startups of Greenfield projects in the northwestern part of China. In the developing region, we have seen some curtailments here starting, but they're still coming at a relatively slow pace.

If we could turn to slide five, we thought we would show you our rendition here of the breakeven global cash cost curve. Just to give you a sense of how we constructed this, we've excluded all the production capacity in China from this chart given the fact that, from a primary production standpoint at least, China is a reasonably closed system, meaning it is balanced over time. We have also excluded just about a million tons of non-economic or social producers as they are sometimes called, small smelters around the world that really produce for social reasons and would be well off at this cost curve to the right hand side, of course.

As you can see in the footnote also, we've reduced the cash cost by the current physical premium, so you're seeing really an LME-equivalent cost here. As you can see just eyeballing it, just picking a price like 1,900 even or even a little bit above, you've got a significant portion of the production capacity on this chart that is making cash losses at those kinds of metal prices. Obviously, the problem would be even more pronounced without the current high premiums in the market place. We believe these data obviously support the case that over time we need significantly higher aluminum prices to gain a market equilibrium.

Compounding this over the longer term, again, we still believed in the case that we have got in the world planned a very small amount of new capacity outside of China. Near term, obviously we have got other forces at play that we've got to deal with. Just a couple of quick comments on the aluminum market before I move on. The market has been relatively flat this quarter, spot prices hanging in about \$300 a tonne. We've seen some recent announcements and also some rumors of closures principally in the Atlantic basin; that's a region in the world that's been over supplied in alumina for some time.

In China, alumina market conditions continued to be somewhat uncertain. You have seen the recent moves in Indonesia to increase taxes on mineral exports there. We don't believe there's been a tangible impact on the marketplace yet in China. We saw reasonable stockpiling ahead of that action, but obviously there's more there to come. Bottom line, we expect the alumina markets to remain in relative surplus for the foreseeable future.

If you could turn to slide six please, and go through the company's operations for the last quarter. Starting at the top there, as you see, safety, we had a generally very good quarter across the company. Hawesville, as I said, the trends continue to be very, very good, both in incident rates and

severity. At Mt. Holly, we are proud to say that they had an incident-free quarter this past quarter, that's obviously an admirable result.

Grundartangi continuing good performance that was consistent with Q1.

Moving down to production, Hawesville was up 2% quarter-to-quarter, this is all Q2 over Q1 now. It produced in Q2 at an annualized rate of 253,000 tonnes. Mt. Holly was stable at 115,000 tonnes, that's obviously our share of the plant; and Grundartangi production up 1% at an annualized rate of 284,000 tonnes. That's another record production quarter for Grundartangi, so terrific performance there.

Moving down to production metrics or KPIs, we've seen as I said earlier, continued improvement at Hawesville. KPIs there now are reflective of a stable operation. I'll give you a couple of examples. Anode defects continue to come down at the plant, impurity levels are decreasing, and we've seen a continued and good decline in cell failures. At Mt. Holly and Grundartangi, both of those plants continue with the excellent performance they've had in prior quarters.

Lastly, down the chart, conversion costs; as you'll see, we are continuing to make very good progress here. As you recall, the big improvements that we saw, the step function changes that we saw in Hawesville as we

predicted, were in Q1 of this year and Q4 of last year, and in that respect I thought it might make sense to just take a little bit of a step back here.

Although it's not on the chart I am going to read you the data and look at the improvement in cash conversion costs that we've seen across the plants. I'll give it to you plant by plant over the last couple of quarters.

So starting with the third quarter of last year, I'm going to give you the aggregate step down or improvement in cash conversion cost that we've seen by smelter. And I will exclude from these data the costs that fall only due to the LME, obviously alumina price or cost in the U.S. and power cost in Iceland, so the true conversion costs that we can control.

So stepping through the plants, Hawesville over the last three quarters, we've seen conversion costs down \$190 a tonne. Just to give you a bit of detail, about a third of that improvement has come from labor efficiencies, about \$80 per tonne from better usage of maintenance and supplies, and the rest is spread out amongst various departments throughout the plant.

Mt. Holly next, down \$220 a tonne since Q3 of last year. Power is about two-thirds of that, and carbon is a good chunk of the remainder.

Grundartangi from an already very attractive rate, down \$60 a tonne from

Q3 of 2011; carbon is about two-thirds of that improvement, with pot lining and other departments in the plant representing the rest.

Going forward, obviously, we are going to continue to see improvement in efficiencies across the plants. We also see some good improvement coming in carbon costs in the second half of this year. And again, as I said already and as I will talk to again in some detail, our main focus here is going to be on our power costs in the U.S. and specifically at Hawesville in the near-term.

Okay. If we can go forward here to slide seven, we'll give you a sense of our estimates on cash costs in the U.S. here as you see. If you recall every February, we give you an estimate of average cash costs for the plants both in the U.S. and Iceland for the year. In addition, as you know, we give you various other metrics to use in building your models, cash flow and other earnings metrics.

Given the step down in cash cost that we've seen thus far this year and our confidence in them for the rest of the year, we felt we ought to give you an update here for the second half of the year what we see in terms of conversion costs in the U.S.

As you can see here, we're using the same LME assumption that we used in February just so you can see in isolation the changes, so \$2,200 here obviously we're not there today. Just to remind you, in the U.S., the sensitivity of our cash cost per LME hasn't changed, so for every \$100 change in LME—that's up or down of course--our cash costs go up or down by \$25 a tonne. For example here, if you want to model this out at say \$1,900 LME, you would reduce that bar on the right-hand side of the chart by three times, \$25 or \$75 a tonne.

To remind you again, we state these on a directly LME-comparable basis, so we reduce the cost by the premiums. Obviously, it goes without saying that our U.S. system is making cash losses at the current LME prices; no great surprise there. But obviously that situation has been helped by the step down in conversion cost that we've seen.

It's not on the charts, but let me just give you quickly the data for Iceland. Again, going back to the cash cost estimate that we gave you in February, if you just pull that slide out from the February slide deck. It's obviously still on our website. We've improved \$50 since then, so cash cost \$50 lower than we showed you in February. And just to remind you again on the sensitivity in Iceland, it hasn't changed. For every \$100 a tonne LME,

up or down, our cash cost in Iceland changes by \$50 a tonne, obviously up or down.

Okay, I think we can move on to slide eight please. We just wanted to give you some detail here on the acquisition of the anode plant. This was actually an integrated smelting facility in the Zeeland Province in the Netherlands that went into liquidation in December just before the end of the year. The smelter had a hot metal capacity of 200,000 tonnes a year. Obviously the plant had an anode facility and a casthouse.

We bought the anode facility only. Another company has actually bought the rest of the site and is working to demolish the smelter, and it will run the casthouse, and we have a joint use agreement with this other company. It's important to note that we have bought assets only here so we have been fully indemnified for any and all historical liabilities.

We know this plant and its products very well. Gunnar Gudlaugsson, who is our Plant Manager at Grundartangi, used these products, these anodes from this plant for many years when he was a senior executive at another smelter in Iceland. And we had actually intended to contract to buy from this plant which was then called Zalco in the future. Last fall, we bought a large trial quantity from them that performed very well in Grundartangi.

So obviously given the bankruptcy this was an opportunistic acquisition but one we think has strong strategic rationale. Let me just detail it. From a defensive standpoint, we had heretofore been buying in Europe from two suppliers, but we had gotten to the point where we didn't anymore see a safe future with those two companies given some changes in their businesses.

From an offensive standpoint as well we had come to the conclusion that it would be far preferable to control our own product for the Grundartangi capacity creep and for Helguvik obviously once its running. For both of those projects we will need larger anodes, and it's far preferable for us to control our own anode supply in order to drive those projects.

Over the last couple of years we have looked at several opportunities around the world, frankly quite a few opportunities to invest in captive anode capacity. What we'd like to do here obviously is to complement the significant success we've had with our investment in BHH in China which we made several years ago.

Just to look at the economics here, the total invested cost by the time we are done will be about \$75 million and that will buy us a 150,000 tonnes

of baked anode capacity. That works out to about \$500 a tonne per installed tonne and that compares very favorably to all opportunities at which we have looked and which we are aware, even those in China. The acquisition will produce a very good IRR from a make-versus-buy standpoint.

As you have seen us announce, we have a capital project and other restart activities that will require pretty much of full year to get through. The largest item and the gating one is the requirement that we put in a stand-alone environmental treatment system; that's given the fact that the smelter will no longer be operating so we can't use the fume treatment system that's currently in the smelter.

It's important for everybody to note that we have good flexibility to defer or slow this capital program if the economic environment in the world so warrants, and in that case if we chose to do that we could simply increase our supply from BHH in the interim.

Okay. I think we can move to slide nine now and go through the financials. As usual, I will detail the financial results in the just-completed quarter and compare them to the quarter just prior sequentially, so here obviously Q2 versus Q1. Take a look at the market before we dive into

the numbers. The cash LME price, as I said earlier at the beginning of my remarks, was down 9% quarter-to-quarter. If you look at the one month lag price though upon which much of our commercial activity is based, it was only down 2%. So that drop in June obviously we'll see the impact of it in our Q3 results.

Looking at realized unit prices in the U.S., down 1.6% so a bit better than the market due to the rising premiums; Iceland down 1%. If you've had a chance to look at the shipment volumes, yet again this quarter a portion of what we reported as direct shipments occurred in Iceland. This quarter that number was 3,450 tonnes. Just to remind you the reason for that, the plant, now this is obviously Grundartangi, is producing at a level well above the contractual volumes in our towing contract, so we make the rest of those sales as direct shipments. So if you adjust for those 3,450 tonnes, you'll see that the U.S. was up 0.6% quarter-to-quarter in shipment volumes, Iceland up 0.5%.

Turning back to the slide now—on slide nine we are on—to the income statement data. You will see that net sales on a dollar basis went down just under 1%, Q2 over Q1; pricing drove net sales down quarter-to-quarter by 2 percentage points; volume gave us back one of those 2 percentage points, so net down 1%.

Walking down the income statement, if you look at gross profit and if you were to exclude in both quarters the adjustment for the lower of costs or market inventory, you would see that gross profit was up \$8 million quarter-to-quarter on that \$2 million revenue decrease.

Let me just give you a couple of the movers there, up or down. The LME price decline took gross profit down by \$5 million, incremental gross margin in Iceland caused the gross profit to go up by \$2 million, LME-based costs—that's obviously alumina in the U.S. and power in Iceland—were down \$4 million, raw materials across the system down \$2 million, and power at Mt. Holly down \$2 million.

Walking further down the income statement, you see the unrealized gain on the forward contracts, obviously as the LME fell. At the bottom of the income statement you can see diluted shares for the quarter 88.5 million common shares, 8.1 million preferred shares.

If I could ask you to just turn quickly to slide 15, as usual we calculated it here for you our calculation per our custom of adjusted loss. This quarter it was \$0.09, as you see the adjusted loss there. Just to build up for you, you can see it's pretty straightforward this quarter. The net loss as

reported: \$0.13 per share; that's important to note that's on all of the shares, both common and preferred; and then the two items this quarter, if you were to add back the LCM charge—non-cash obviously—\$0.06 a share and the gain on forward contracts, \$0.02 a share, that works out to an adjusted loss of \$0.09 a share.

If you could just move back to slide nine, quickly a couple comments before I move on, on the cash flow statement. You see here we're managing capital pretty tightly in these times; capex of \$3 million for the quarter and Helguvik spending up \$2 million for the quarter.

With that, I think we can move onto slide 10. As usual, we've just given you a bit of detail on the movements of cash during the quarter. We think we had a pretty good cash flow quarter despite the external environment. You see the spending obviously on the anode plant acquisition and some related spending.

Everything else on this chart is reasonably straightforward. The one other thing I would like to point out to you is, as you see over on the right there, we have a very good customer in the U.S. whose large payment is scheduled towards the end of every month, and this month it happened to be scheduled to be paid on Friday the 30th; obviously, the balance sheet

date. Due to some systems issues, the payment actually wasn't received. We didn't actually receive it until the morning of Monday, which would have been the 3rd of July.

So technically, obviously that cash wasn't in the house during the second quarter, and therefore you don't see it on the June 30th balance sheet. You will see the result and buildup of receivables on that June 30th balance sheet if you had chance to look and obviously that will reverse itself in Q3. As I said, we had the cash on the 3rd of June so it's just a systems issue there.

I would like to remind you of one thing cash flow wise before we move on. We've talked about this in the past. We've made some substantial withholding tax payments over the last couple quarters as we moved cash out of Iceland for other uses, and so we'll get a large slug of that back during the fourth quarter of this year. We've got just about \$30 million of cash coming back in terms of refunds from the Icelandic Government that will be flown back in the fourth quarter of this year.

I think that's all there. If we can just move to slide 11 now, I'll give you a sense of some of the major things on which we're working here over the next couple months. First and foremost, as I said, we've got a situation

that needs to be fixed at Hawesville relating to the power price there.

We've not seen any relief in our power rate at Hawesville despite the fall in fuel costs across the U.S. and despite the market price of power in that region.

As I said, the situation here must change for the plant to be competitive in the near and long term. This is really important because there are long-term investments that we would like to make in Hawesville to make it even more competitive to further lower the structural conversion costs there, but until we have a long-term power rate in which we have confidence, obviously those investments don't make sense.

We're working very hard with all the constituencies in Kentucky, including the political leadership both locally near the plant and statewide. We really believe this plant should have a bright future, so we're very focused on succeeding here. The plant's got a great leadership team we got in place now as I told you over the past couple of quarters. We've got a terrific, terrific employee group there.

Second, we've got excellent and strong customers that are in good growth markets in the U.S. Midwest, and third everybody is well aware of the structural changes that have taken place in fuel costs and in the power

markets in the U.S. For all those reasons, we are convinced this plant should have a bright future, but we need to get through this difficult period and fix this power rate.

In that respect, the current contract with the current power supplier does have a termination provision. It does require a 12-month-notice period, so we will be looking closely at that over the next couple of months as we move forward to try to fix the situation there.

A couple of other items, obviously, at Helgøvik, as I said, we are moving forward there. We hope to see some good intangible progress this quarter in our talks with the power companies there. Importantly, we're also spending a lot of time looking at the capital costs there. We were engineering that plant back in the 2007/2008 timeframe and a lot has obviously changed that we need to take advantage of, including importantly some significant advances in reduction technologies around the world, so we are looking hard at all of that.

I talked about the project that we have now renamed Century Anodes in the Netherlands. Again, we'll be assessing very carefully the external environment before making any kind of significant capital commitments there.

Ravenswood, again, we're continuing to spend significant time and effort on creating the conditions in which we could responsibly restart the plant. The most significant part of the process is now the pending application before the Public Service Commission (about which I've talked) for the special power arrangement.

Just to remind you, what we are looking for there is an arrangement that would smooth the power price over time and in effect protect the plant in periods of weak commodity prices just like the one we are seeing right now. The PSC's ruling is due in mid-September so we'll have a good sense here over the next couple of weeks of where we may be heading.

Obviously, we would need to have a labor agreement as well with the United Steelworkers and upon attaining those two agreements—power and labor—the plant would require about four months of preparation before we would be ready to start energizing the pots and producing hot metal. For the same reasons about which I spoke at Hawesville, we think this plant ought to have a bright future, and we are very focused on what we think again would be a good investment here for our shareowners to get this plant reopened.

Lastly, as you would expect, we spend a lot of time especially in environments like this looking at our liquidity and contingency planning for various economic scenarios. A couple of points here, as you know, we have unused capacity on our revolver. It's currently standing just shy of \$60 million of unused and available capacity there.

We have many other financing options at which we've looked and which we could take advantage of if we deem the situation appropriate. And as you would also suspect again, especially in environments like this, we've got a strict control of spending; if you look at the SG&A results you've seen evidence of that.

And with that, I think that's it for our prepared remarks, but we would love to take your questions. Enrique?

E. De Anda Yes. Star, we're ready for questions.

Moderator And our first question comes from the line of Kuni Chen with CRT Capital Group. Please go ahead.

K. Chen Yeah I think that's me; it's Kuni Chen. Just a couple of quick ones. As you've noted on the SG&A front, that's come down pretty sharply; were

there some one-time items in there or that's kind of a sustainable level going forward?

M. Bless No one time items in there, and while it will go up or down at times when we account for incentive comp and things like that, that should be around a sustainable level going forward, yes.

K. Chen Great, good job on that. And then just as far as Hawesville goes, can you sort of lay out for us how under the current arrangement, the power costs step up from here—I think as it stands today that plant still may be running near breakeven levels, but what point does that really go into the red for you if aluminum prices stay at these levels, and can you talk about your timeframe as far as trying to renegotiate a new agreement?

M. Bless Sure, let me just correct one thing you said or perhaps with apologies I misheard you, Kuni. The plant is not breakeven today; it's making cash losses today at the current power rate and the current LME price. So it's an acute situation, and I suppose that leads into the answer to the second part of your question. We're looking for some success here over the next couple of months at most. We've been working hard on this for the last couple of months. But as I said, the plant right now is in jeopardy given that power rate.

- K. Chen Right and it only continues to step up from here, right?
- M. Bless Correct.
- Moderator Next we go to the line of David Gagliano with Barclays.
- D. Gagliano Just a follow-up on that Hawesville question. Did I hear you correctly in terms of the — what exactly did you mean by the 12 month termination notice? Does that impede you from shutting down capacity at Hawesville within the next 12 months, or did I miss that?
- M. Bless We could—no, no, we would certainly shut down capacity, but we have a 12 month notice period to cancel the power contract. What would happen, David, perhaps to answer that, what your follow-up might be is if we chose, if we had to we could certainly close down the plant, but we would have to pay a base demand charge. Nothing approaching the full cost of the power, but a base demand charge during the pendency of the contracts during that 12 month period.
- D. Gagliano Okay. And then just unrelated—or somewhat unrelated—slide seven, I just have a couple of questions related to that slide. It's very helpful. I

appreciate it. The U.S. second half 2012 cash cost of \$2,095 per metric tonne, what were the cash cost equivalent numbers for Q1 and Q2 for the U.S. assets?

M. Bless They were pretty close to that estimate, David, that you see on the left-hand part of the chart. We came in, as we said in those quarters, within spitting distance of our expectations.

D. Gagliano Of the \$2,095 number, correct?

M. Bless You got it.

D. Gagliano Okay, and then—

M. Bless No, no, no. I am sorry. Of the number at the left-hand part of the chart, so again, before the step down here, right.

D. Gagliano Okay, so the move from \$2,240 to \$2,095 is all second half, right? Just want to make sure.

M. Bless Oh, I see what you are saying here. No, no, no, pardon me. Part of that step down was realized in Q1 and Q2, so what you would have to do—

now I understand your question, pardon me. The best way to get at that, my recommendation would be is to look at the footnotes in the financial statements. As you know in the guarantor statements in the back there, you get a pretty good sense of the results in the U.S. versus non-U.S. (in essence Iceland) and you can crank that number that you are looking for.

D. Gagliano

Okay and then just somewhat related. In terms of the Hawesville timeline and just the U.S .assets in general, obviously you mentioned even with the revised numbers here, making money, how should we expect this to unfold if aluminum prices stay where they are? Potlines being shut down and/or full asset closures and what would be the pecking order and when should we expect these to start happening?

M. Bless

I mean, that's— I'm not trying to duck it, David. As you know, that's a hard question to answer because you have to when you do that analysis there is a bunch of inputs. One, obviously is sort of the average price that you expect over the next quarter or two, and then how long you expect this current weak period to pervade or if you expect it to get worse, and that's why you don't see, as you know, a lot of capacity shutting down now because as we all know—you can use our own example at Ravenswood—

these plants are not inexpensive to restart here. As we've said, it's going to cost us \$80 million to \$90 million to restart Ravenswood. Now about half of that, as we've said, is working capital, so in essence you get that back out of the system, but half of that is, if you will, sunk. I don't like to use that term but that's really what it is here, sunk restart cost. Again not trying to duck, but there is a lot of things that go in there. I can say there are no planned closures right now at Century, but we're watching this thing very, very closely like all of our peers are here and will be over the next couple of months.

D. Gagliano Okay and then just one last question. If aluminum prices stay flat versus current, will you continue with restarting Ravenswood and would that restart be profitable on an ongoing basis?

M. Bless David, it all depends. It's a great question, thank you. Based on the application that we've submitted to the PSC, to the Public Service Commission, the answer is yes because with the floating rate there, with a variable rate in that application, the special power contract that we've submitted, that would allow the plant to operate at LME prices like this. So, it will all depend upon what we hear back from the PSC.

D. Gagliano Okay. Thanks very much.

Operator We go to the line of Lloyd O'Carroll with Davenport & Company.

L. O'Carroll Yes, talk a little more about Hawesville power. It looks from the press releases from the power provider that you are paying roughly \$50 a megawatt hour. We know that in '14 the EPA for all the coal fired plants that we're probably going to see operating costs go up in the 25% range. So if you do nothing, there's a big problem. What are your options if you just bought power off the grid and wield it, if you build your own turbines or if you had a contract with an independent power provider that had gas powered power? Can you talk about any kind of numbers with those options? Another way to look at it is, what LME price do you need with your current power contract to get an acceptable return, something that you would be prepared to run the smelter on an ongoing basis?

M. Bless Yeah, that's a good question. Well, let me take it in the order in which you asked and your last question was a great one or part of it, Lloyd. But let me go through in the order that you asked it. So, not to be pedantic here but in answer to your question we are looking at all of those things, and all of those are—some short-term, some longer term—potentially things that could benefit and flow through to us.

Right now, we have a contract, we have a supplier, a power provider there, and we are working with that power provider to see what options are available and thus far those discussions remain constructive, and so that's what we are very focused on, and we'll remain focused on here until they don't make sense anymore but we are optimistic.

But all those things, one thing you didn't mention is that, as we all know, coal prices in the U.S., depending upon where, over the last nine months have fallen pretty significantly, and we yet haven't seen any flow through of that movement. And so you know your analysis was we are where we are plus we are going up based on environmental spending, but we think there should be some relief, all else being equal, nothing else happening structurally just due to the coal prices coming off. That's an answer I think, Lloyd, to the first part of your question which is as of right now, we are working, we think, constructively with the power provider there.

To answer your second question, we need to get the structure changed irrespective of what our long-term view of the aluminum price is. Even if you look at the consensus view in the market I would say whatever it is today \$2,300, \$2,400 long-term nominal price, we still think that we need to find some structural changes in that power price a) to generate good

return for the shareowners and b) in order to perpetuate that to be able to have the longevity of view to invest in the plant.

If you are asking about a breakeven, you know it is a couple of hundred bucks now, \$200 plus from where we are, it may be a little bit less than that. We brought the breakeven in the company down a couple of hundred dollars here over the last year and a half, but we are a ways away from that plant even breaking even at this point in time and at this power price.

L. O'Carroll And you are not in the business of breaking even?

M. Bless Not the last time I checked, no.

L. O'Carroll Okay. Thank you.

M. Bless Thanks, Lloyd.

Moderator Next we go to the line of Richard Garchitorena with Credit Suisse.

R. Garchitorena So, yes, my first question, I'm just wondering if you could remind us what your current budget is for CapEx. I know in the past you've highlighted maintenance CapEx of about \$20 million, and that the Nordural expansion

if there's additional CapEx for the rest of the year. If metal prices stay the same and we assume no restarts this year, what should we expect for run rate?

M. Bless Yes, that's a good question. So, our budget right now for the second half of the year is looking at an additional say \$25-ish million of capex, and that includes, and this is all excluding Helguvik now, a substantial portion of that is for the hot metal expansion program at Grundartangi, which of course is our best plant and one that's still making good cash flow even at the current LMEs.

We could ratchet that number back significantly, and in fact have already done the work as you would hope we have done to identify exactly what we would do and so we've got that under pretty tight control. Right now I would say balance of the year \$20 million to \$25 million for total capex excluding Helguvik, but we've got some leeway there to decrease that by a good amount if we had to.

R. Garchitorena Great. Thanks, that's helpful. I just wanted to touch on Century Anodes I guess. You mentioned that you are monitoring the current situation, I guess, globally and with prices where they are. How should we think about, where, what level of pricing or is it more just a function of how the

global economy is progressing in terms of a restart or not? And then if you don't have restart right away, I guess, are there costs associated with maintaining that facility?

M. Bless

Last question first is no, none at all that. All the activity going on at that facility now is attendant to the restart, and if the world were in a position by the end of the summer, it's by the end of the summer based on our engineering pert charts that we're going to have to make decision as to whether it cuts some reasonably large capital commitments or not. If the world isn't looking better then, we're going to have to make a sound decision. So no, no further costs because there is no activity other than the restart at the plant.

In answer to the first part of your question, it's difficult to answer. Long term, that's going to be a very good investment, and as I've said, we've got the ability to crank up production or take from our investee, BHH in China if we decide to go a bit slower on the Century Anodes restart. So it's going to be a bit of a judgment call here, say, towards the end of August going into September.

R. Garchitorena Okay, then my last question, just on the 150,000 tonnes of initial production how should we think about the potential cost savings from that, and how much of anode I guess needs does that cover for Grundartangi?

M. Bless Good question. So let me maybe tweak a little bit of what you said at the beginning. Perhaps I misunderstood you. The final capacity will be 150,000 tonnes. The first stage here about which we're talking—the \$45 million—is to put in the environmental treatment system, do a bunch of other things, and then just bring back one of the two furnaces. It's got two furnaces, each of which produce 75,000 tonnes of baked anode, so that first part would be 75,000 and then eventually, we spend another \$15 million to refurbish the second furnace which would give us 150,000 tonnes.

Just to give you a sense, a 150,000 would just about satisfy today Grundartangi's requirements, but of course we have a significant portion of our supply, we get from BHH as well. The way you ought to think about it right now is that the supply that we get from BHH in conjunction with that first furnace restart at Century Anodes will basically take care of Grundartangi, and then the restart of the second furnace at Century Anodes is most likely linked to Helguvik.

R. Garchitorena Okay. Great. Thank you.

Moderator Next we go to Tim Hayes with Davenport.

T. Hayes Two quick ones; the LCM impact, is that just in the U.S. or would some of that go into Iceland?

M. Bless No, that would be strictly in the U.S.

T. Hayes Okay, and then the conversion costs that are shown on slide six; I am assuming that's ex the impact of the LCM?

M. Bless Yes, because whenever we show conversion cost, it's always only cash.

T. Hayes Right. Okay. Very good. Thank you.

Moderator We go to the line of John Tumazos with Very Independent Research.

J. Tumazos It may be a little bit academic, thank you, but Mr. Mittal of Mittal Steel is asking the steel workers for his company to roll back \$28 an hour, and it may be the end of retiree medical in the USWA contract or the start of it,

and I don't know how those negotiations end up; it could be the end of defined benefit pension for new employees.

Could you just review when your labor contracts expire and if there is any applicability of that strategy? It would seem like the aluminum price is relatively low and the aluminum inventories are high, and workers might prefer to make concessions than have someone— Alcoa just shut smelters in Tennessee and Texas without trying to get cheap shale gas or labor concessions or things like that. Maybe the workers think half of their compensation is better than no compensation, and they should be given a chance.

M. Bless

Yes sure, John very reasonable questions. So just the factual answer to your question, you're really just talking about Hawesville here given that there is no labor contract at Ravenswood and, as you know, Mt. Holly is not represented. At Hawesville, as you remember, we signed a five year agreement with the USW last time; that goes through April of 2015, so we've got a long ways to run there.

We did negotiate last time the kind of things that you are talking about.

Not to get into the detail, but given that we've got a contract right now that

runs a couple of years, and given the import of the cost here we are very focused on power at Hawesville.

J. Tumazos It would seem like metal is one-sixth or so of the steel industry and one-third or so of the unionized steel industry in round numbers. Do you think the potential exists to leverage off of that for the aluminum industry to completely change its labor?

M. Bless John, I'll answer it as straight as I can, I have absolutely no idea.

J. Tumazos I am just wishing and hoping for something to go right.

M. Bless I hear you. We'll take the support, but I honestly don't know. I would rather take a pass at that one.

J. Tumazos I know I am putting you on the spot. Thank you

M. Bless That's okay, that's your job.

Moderator Next we go to the Sal Tharani with Goldman Sachs & Company.

S. Tharani Mike, your cash cost—the one you gave in February or the current one—can you just stack up your different plans, where they stand in terms of Mt. Holly and Hawesville, and where the balance would be, I mean highest to the lowest?

M. Bless I am sorry Sal, I may not—so you're asking the rest of the cash costs?

S. Tharani No I am just saying which is the highest and the lowest in those three operations?

M. Bless Oh of our operations on the cost curves?

S. Tharani Yes.

M. Bless Yes of course. Well, Grundartangi of course, as you know Grundartangi floats based on power price, but certainly Grundartangi today at the current metal price and even at higher metal prices would be furthest to the left, and then would come Mt. Holly, and then would come Hawesville. Then, Ravenswood is difficult to say because we don't have power rate right now, but certainly at the old power rate it would be furthest to the right. What we are hoping to do is obviously have it slide like Grundartangi, but that remains to be seen.

S.Tharani You mentioned at Hawesville if you decide to shut it down you need a 12-month notice, and you may end up paying the electricity cost on the base load. Are you losing more money than what you have to pay per pound if that were the case?

M. Bless No. Not now, no.

S. Tharani Okay. Great. Thank you very much.

Moderator We don't have any additional questions at this time. Please continue.

M. Bless I think that's it for now. We again appreciate everybody joining us, and we look forward to speaking with you again if not before in October.

Take care.

Moderator Ladies and gentlemen that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference.

You may now disconnect.