CENTURY ALUMINUM COMPANY: Third Quarter 2011 Earnings Call

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SPEAKERS

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

PRESENTATION

Moderator	Ladies and gentlemen, thank you for standing by. Welcome to the Third Quarter 2011 Earnings call. At this time, all participants will be in a listen-only mode, and then later we'll conduct a question and answer session and the instructions will be given at that time. (Operator's Instructions) As a reminder, this conference is being recorded.
	I'd now like to turn the conference over to our host, Ms. Shelly Harrison. Please go ahead.
S. Harrison	Thank you, Lori. 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 of 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. We had a busy quarter and are pleased to have the time to report our progress. So let's get started on slide number four.

First, let me provide some general comments to set the context for a more detailed review of the external environment and the company's operations. The issues confronting Europe, the U.S., and other developed markets have obviously been well reported and discussed. I can summarize by saying that, in our opinion, it is the risk of a major event having the type of difficult to control impact we saw several years ago that has driven asset prices lower and kept markets so volatile.

China, Brazil, and other developing markets have continued to perform on balance very well. They are, of course, dealing with inflationary pressures and the risk of so-called contagion from Europe and elsewhere. That said, these governments have thus far managed to maintain robust growth. The fact that the rates of growth have declined modestly is mitigated by the growing absolute size of these economies. Despite the obvious macro issues, the business environment remains reasonably good including in developed economies.

Industries such as aerospace, transportation, and packaging have continued to perform well. As you know, physical premiums remain strong, still supported by financing the environment; and the absolute price of the commodity is influenced by cost pressures that are being felt by all of the producers. I will go into more detail on the progress at our Hawesville smelter in a moment.

We now have in place a strong team, who are confronting the issues that have built up over the time at the plant. They continue to stabilize the operation and have identified issues requiring remediation. The effective out-of-production capacity has been reduced by a third and they are working toward a plan to regain full production capacity over the next few months.

Grundartangi had an excellent quarter with record production and conversion costs well in line. I'd like to congratulate Gunnar and his team in Iceland. Mt. Holly's production was consistent with our expectations. The plant, however, continues to struggle with higher power costs. We, and our partners, have brought this issue to the forefront and have communicated clearly with the power supplier and the other important constituencies in South Carolina that the long-term future of this excellent plant is in jeopardy. We will be spending significant effort over the next few months on this process.

On our Helguvik project, the arbitration proceedings with HS have concluded and we are awaiting the decision from the panel. In addition, we continue to have discussions with OR, the other power supplier, about a way forward. This process continues to proceed at a frustratingly slow pace. We remain and maintain our belief that this project will go forward and will be a very good one for Century shareholders and also for the various constituencies in Iceland itself.

Let's move onto slide number five. Let's have a look at the market. In the third quarter, the LME cash price averaged $2,400 a ton, the lowest quarterly average price so far this year. Since then, prices have fallen further, but seem to have found support around the $2,200 per ton range driven by marginal operating costs. Aluminum currently has a strong price support as experts believe that the fourth quarter of the cost curve and possibly some third quarter is producing at a cost above that of the LME prices. As a result, a significant number of smelters are losing money at recent prices, but it’s too soon to expect any meaningful production cutbacks because of the significant costs associated with idling a plant. We have, however, seen some restart projects delayed and if prices stay low for a sustained period of time, we’d expect to see production cuts implemented.

In the third quarter, alumina export price has decreased slightly with the most recent tender in the order of about $360 per ton. Overall, the alumina market is expected to remain reasonably well balanced for the rest of this year.

Chinese aluminum demand remained flat during the third quarter as compared to that of the second. Annualized production reached a record of some 20 million tons, moving the Chinese aluminum market into a roughly balanced position. We continue to believe that China will remain balanced, or a modest net importer, over the longer term.

If you look at the statistics of China, China's third quarter, 9.1 year-over-year growth in GDP, is the lowest since 2009, and the industrial production fell from 15.1% in June to 13.8% in September. As expected, markets reacted to this weaker performance, but we continue to note that these are still very healthy growth rates and are calculated off what is now a very large base. We continue to monitor inflationary pressures and monetary policy actions in China; but at this point, do not anticipate a hard landing. When you look at India, it continues to show healthy growth rates with GDP up 7.7% year-over-year in the second quarter as compared to 7.8% in quarter one.

Let's move onto slide number six. Days inventory remained relatively flat in the third quarter while the quarter end LME price dropped some 12%. This shifted the price and inventory relationship to a level more consistent with the historical correlation, but still well above the trend line. We continue to believe that this is driven by price support from global cross pressures and financial transactions, although there has been some concern expressed recently that the eurozone debt issues may impact the aluminum financing market.

The physical market itself remains reasonably tight; and European, U.S. Midwest, and Japanese Premia all remain well supported. In Europe, duty paid premiums are about $195 per ton and in the U.S., the Midwest premium remains at the $.08 per pound region. Both of these are off slightly from recent highs, but still are well above the historical levels.

We believe aluminum prices have support at the current levels which are below the marginal cost of production for a substantial portion of the cost curve. Weighing this cost per share impact against the broader economic concerns, we expect that the aluminum prices may be range bound for a short term, but are well supported for outside potential of the medium to longer term. This view is driven by the longer term expectations for a robust aluminum demand growth, limited access globally to affordable and sustainable path to supply new aluminum projects as well as the ongoing global cost pressures, which we have already discussed.

Let’s take a moment and move onto slide number seven. First of all, I’d like to provide an update on the situation at Hawesville. We have largely completed the critical process of filling the plant’s leadership and key technical positions. As we discussed in August, this was our most important short-term objective. We now have an experienced and capable team of management, operations, and technical leaders. In addition, we’ve supplemented the plant leadership with an important hire over the summer. John Hoerner joined us as vice president of North American operations. John brings a long and successful career in the upstream aluminum business. He was most recently the general manager of the Kubal smelter in Sweden. John has a broad range of responsibilities including the oversight on our behalf of Mt. Holly, as well as the restart of the Ravenswood smelter. He will also be lending his skills to the stabilization and improvement programs at Hawesville.

While we still have some way to go, the plant is operating in a reasonably stable manner. Production and shipments were consistent with our expectations for the third quarter. While we would obviously like to get to the finish line as quickly as possible, we are prudently making sure things get done correctly along the way. As I've discussed previously, and as we've all seen in many smelters around the world, when operations become unstable it takes some time and a large amount of determined effort to get them back on track. Based upon our experience and observations, up to a year is not unusual. At this point, we are probably at the two-third mark that will end up being a nine month process.

We told you in August that we expected to reach essentially full capacity by the year end. At this point, due to our preference for maintaining measured and steady progress, our best estimate is that we will reach this state in the middle of the first quarter of 2012. Mike will detail how this will translate into our expectations for fourth quarter costs and volume.

We continue to await the decision of the Public Service Commission in Kentucky on the rate case that was filed by the power company earlier this year. In accordance with Kentucky law, Hawesville was required to begin paying the full amount of the proposed increase on September the 1st, pending the rate case outcome. Any overpayment will be refunded to us when the PSC resolves this rate case. Escalating power costs at our Hawesville plant negatively impact the facility's long-term viability; and we will continue to monitor the situation closely.

Mt. Holly had a good quarter with production in line with expectations. Due to timing issues, shipments were a bit behind and the plant built a small amount of inventory. We expect that this will get flushed through in the current quarter as the demand is there. We continue to see increases in carbon costs at Mt. Holly consistent with what we and others are seeing around the world. This is largely due to the movement in the price of calcined coke as we manufacture our own anodes at Mt. Holly. In the past, these costs have tended to lag downward movement in the aluminum price by approximately six months. So, we will be watching this area closely.

More troubling for Mt. Holly is the continued increase in power costs. This is a major issue for this plant. Due to it being a modern and efficient plant, this plant would be competitive at even an average price paid by U.S. smelters. The power cost here is very high and on the north end of North America and has shown no signs of improvement. We, and Alcoa, have instigated an aggressive campaign to show the relevant constituencies in a transparent manner, the impediments of a long-term viability of this facility caused by the power price. This process will be a major focus over the coming months and in 2012.

Grundartangi had an excellent quarter with record volume of production. The continued focus on safety has produced a good trend of improving results. The team at Grundartangi produced continuing improvement in production efficiencies off an already very good base. The one troubling area is increasing carbon costs. To address this, we are working hard on a longer term anode strategy for this facility. I should also note that the wage portion of the unit contracted to Grundartangi is now complete. This contract now takes us through 2014.

With that, I pass it onto Mike.

M. Bless Thanks very much, Logan. If we could turn to slide eight, please, and as usual if you could have the financial information that follows the verbiage in the press release handy, I'll be referring to it in my comments and it'll make it easier to follow along. As usual, also, I will refer my comparisons to the quarter that just ended versus the prior quarter sequentially; so here, obviously, Q3 versus Q2.

First, let me talk about the market just very quickly again to remind you that cash LME price on average was down 8% in Q3 versus Q2. As you know, we do much of our business on a one-month lag basis and so the one-month lag price was down 4% quarter-to-quarter. In this context, our realized unit prices both in the U.S. and in Iceland were down as expected; down 5% in each of the U.S.A. and in Iceland.

Turning to shipment volumes, you can see these data if you go to the end of the financial information. Again, that follows the press release. First, as in past quarters, we did a small portion of our business in Iceland on a direct basis versus total this past quarter. In the third quarter it was 2030 tons, 2-0-3-0, so when you make that adjustment you'll see that domestic volumes were down 2% quarter-to-quarter. Just to pull that apart a little bit, as Logan said, we, as expected, were flat at Hawesville quarter-to-quarter; and again, as Logan detailed, Mt. Holly, while production volumes came in exactly as expected, about flat quarter-to-quarter, the plant did build up a little bit of inventory. Again, we expect that to get corrected in Q4; so just a timing issue there.

In Iceland, as you can see, volume is up 2% quarter-to-quarter and again, as Logan said, Grundartangi had a fantastic quarter producing, as you saw on the earnings release, at an annualized rate of 280,000 tons. That's a record for the plant. Again, to remind you, the rated capacity of that plant is 260,000 tons; so great performance there.

So, putting the pricing and volume data together, if you go to the top of the financial information and look at the income statement data, you'll see that net sales Q3 over Q2 were down 6% on a dollar basis. Of that six percent, five percentage points were caused by the decline in realized prices and one percent was the volume impact. So, moving down the income statement; gross profit in Q3 down $41 million from Q2; that's on a $21 million sales decline. Let me just give you some of the big movers in driving gross profit down.

First, a realized price decrease cost $17 million in gross profit. If you've had a chance to look at the earnings release, you'll see that we booked an inventory, non-cash inventory charge to lower cost of market. You'll remember that, that we and other producers, during the last go around when prices were falling, booked similar charges. Those all get reversed when prices increase. That was a $13 million, again, non-cash charge this quarter.

Continued inefficiencies and spending at Hawesville, I'll detail a little bit of this in a moment, cost us $6 million quarter-to-quarter. Global raw material costs, as Logan said, mostly related to carbon, up $3 million quarter-to-quarter. And, again, Logan detailed that both Hawesville and Mt. Holly—Hawesville because of the rate increase that we're still waiting finalization on. U.S. power costs were up $4 million quarter-to-quarter.

Going the other way, costs related to the LME, obviously those are alumina costs in the U.S. and electric power costs in Iceland, those were down $9 million quarter-to-quarter. And on our other controllable costs at Grundartangi and Mt. Holly, those were largely either flat or down a little bit. So, as Logan said, both plants did a great job this quarter of controlling costs.

Let me talk a little bit more about Hawesville. So, as we've said, shipments in Q3 first were flat versus Q2. On the cost side as well, if you go back to August, you'll remember that we predicted that costs at

Hawesville end in translated to total U.S. costs, would be about $300 per metric ton higher in Q3 then those annual averages that we gave you back in February and, in fact, that is where Hawesville came in and the U.S. cost did come in for the quarter.

Let me give you a little sense of what we see in Q4 for Hawesville. So, as Logan said, we'll be near mid full rate of capacity by the end of the year and by the mid of the first quarter of 2012, we expect to be there. Translating that into shipments in the U.S., blending in Mt. Holly shipments as well, we see U.S. shipments up about 6% in Q4 over Q3.

On the cost side, we see about flat costs in the U.S. Again, this is total U.S. now; Q4 versus Q3. Just pulling that apart a little bit, we'll obviously get better fixed cost absorption at Hawesville given the higher tons shipped and produced in Q4. That having been said, we're still producing with reasonably inefficient production metrics important measures like current efficiency and usage of both carbon and electric power, and that'll continue until the plant regains stable full operations. We're also spending somewhat on outside contractors who are helping us regain full production capacity as quickly as possible. So, we expect that $300 excess over that full year average we gave you back at the beginning of the year to continue.

Just pulling that $300 apart a little bit more and start thinking about going forward, about half of that amount relates to the current situation at Hawesville and the other half is structural costs that have built in over the course of the year. You've heard this same theme from other upstream aluminum producers as well, mostly carbon and power costs; and when we report to you in February on our Q4, we'll obviously give you a look at 2012 as to how we see cost playing out.

Okay, back to the third quarter and continuing down the income statement, you'll see other operating expense of $3 million; that's as expected. To remind you, those are the Ravenswood related costs; SG&A of $8 million this quarter. Gain on the forward contracts, you saw that described in the earnings release, $4 million. Obviously the value of our put options increases as the metal price goes down.

No change in the company's tax posture this quarter, U.S. still providing at a 0% effective rate and Iceland at 18%. Down at the bottom of the income statement data, you'll see that average common shares decreased this quarter to 92 million on average. As we saw in the press release, we repurchased 3.6 million shares over the course of the quarter, so obviously driving that average down. Preferred shares stayed constant this quarter over Q2 at 8.1 million.

If you could just quickly flip to slide 14, take a look at adjusted earnings; reasonably simple this quarter. Again, you saw these couple adjustments in the first paragraph of the earnings release so I won't belabor them. The net loss, as reported, this is on a base of common and preferred shares, $0.07; the non-cash inventory adjustment, which was a $0.13 charge this quarter; and again, on the put options, which was a $0.04 gain.

Turning back to the financial statements, a couple quick points about the balance sheet and cash flow, you'll see we ended the quarter at $216 million in cash; a good result despite the spending of almost $40 million on share repurchase. Going to the cash flow statement, cash from operations of $27 million; again, a good result given the environment we believe. We took some cash out of working capital, as you would expect, in a period of falling LME prices. A couple other points on the cash flow statement, CAPEX of $4 million this quarter brings it to $11 million year-to-date, and Helguvik spending down this quarter to $2 million, brings us to $10 million year-to-date.

If we could flip to slide nine, please, just a quick summary of movements in cash during the quarter. We began, or ended, Q2 with $232 million; $39 million spent on share repurchase; taxes, that's, of course, all in Iceland, $13 million; and then the CAPEX and Helguvik CAPEX about which I just spoke.

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

L. Kruger

Thanks, Mike. Now let me update you on where we are on the Helguvik project. We are dealing with a complex situation in Iceland, a country which is still working its way back from a jarring financial crisis including the collapse of all its major banks and a significant devaluation in their currency. We have been working diligently through the issues with many counterparties and constituencies. As a reminder, we plan to build this plant in four phases of 90,000 tons each.

Two of the power projects necessary to supply the first phase have already been completed, and HS has obtained all licenses and permits necessary to complete and operate the bulk of the remaining power for the phase one. This power from HS, however, remains subject to the arbitration process that we initiated some 15 months ago, which is now drawing to a close. We are hopeful that the arbitration decision will allow us to put in place a process to conclude the discussions with both power supplies and move toward restarting the construction process.

Finally, let's have a look at slide number 11. In summary, we will continue to closely watch external conditions. At this point, the environment for our business remains reasonably good. However, we are certainly aware of the havoc that external shock could bring and are putting in place contingency plans to be used in the event that such a scenario were to play out. While we are by no means at the finish line, we are seeing steady progress at Hawesville. We hope to report to you in February that the plant is back at its full rated capacity. At that point, we will be able to proceed with programs to improve the smelter and thereby extract additional value. Production metrics at all the other plants remain good; this despite the frustrating march upwards we are seeing in U.S. power prices and in carbon costs globally. These will be areas of major focus going forward.

Finally, we are optimistic for a favorable conclusion of the arbitration proceeding with one of our suppliers of electric power for the Helguvik project. We believe the conclusion of this process will be a key step in breaking other log jams. We will report on these events as we are able and with that, I'd like to take questions that come from the callers. Thank you.

Moderator Our first question from the line of Kuni Chen, CRT Capital Group. Please go ahead.

K. Chen Hi, good day, everybody. Hey, just a couple ones here. I guess on Grundartangi, obviously you ran pretty well in the quarter; should we think about 280,000 tons as sort of the right pace for next year, or are there reasons why that may flex up and down as we go through the year?

L. Kruger I think, Kuni, when you're at record levels as they were in the last quarter, you're doing extremely well, but we're confident that the team in Iceland will continue to produce the results that we are seeing; and we continue to work at opportunities to improve the business. So, you're going to have to take your own view of that, obviously. But Mike, obviously, I think in February we give headline numbers for everyone to think about. So, that's a piece that will come out in February as well.

M. Bless We'll give you, as Logan said, Kuni, we'll give you a 2012 forecast. We're in the middle of our business planning process right now. It runs for the next month and a half or so and we present it to our board; and so when we talk to you in February, we'll give you an annual estimate for

Grundartangi. As Logan said, quarterly it can blip up or blip down a little bit, but we've seen a nice progression this year.

K. Chen Okay, good, good. Just quickly, can you walk me through the tax rate again. Just assuming the U.S. operations are at a loss for any upcoming quarter here, are we just using the zero effective tax rate on that or should we be booking some kind of tax benefit?

M. Bless Yes, the answer is 0%. As you know, we've got a large deferred tax asset that's fully allowed for from a financial statement presentation standpoint. So, the short answer is, Kuni, 0% effective rate in the U.S. whether we're making losses in the U.S. or making taxable income in the U.S.

K. Chen Okay, all right, that's fine. And then just one last one and I'll turn it over. Potentially you may see some assets coming on the market here in North America. Can you just comment on your appetite there and whether there's any benefit to potentially owning another smelter that's nearby to an existing one?

L. Kruger That's quite a pointed question, I might say. I think, Kuni, you know that what we've said before is we don't really comment specifically, but you know that we would, as everyone else would, look at things as they come available and that's as far we'd comment.

K. Chen All right; fair enough. Thanks.

L. Kruger Thanks, Kuni.

Moderator And our next question is from the line of Brett Levy, Jefferies & Company. Please go ahead.

B. Levy Hey, Logan. Hey, Mike.

L. Kruger Hi, Brett.

B. Levy We saw Alcoa pull out of an Iceland project. You guys must have been at least fairly familiar with what succeeded and what failed there. If you can sort of talk about what didn't go right there and what you hope goes right for you and maybe just do a little bit of a compare and a contrast to give people comfort that where Alcoa might've--.

Moderator I'm sorry. This is the operator. He may have disconnected accidentally from the call. If he queues back up, we'll open his line.

M. Bless — We can answer that.

L. Kruger — Yes, I think I understood Brett's question. Maybe I should answer it now. It's really trying to make a contrast. What I'd rather do is just tell you what we have in place at Helguvik. I think these contrasts are somewhat subjective.

We have all the permits and permissions in place already at Helguvik. We have, as you know, early 2008 started the construction effort. We have existing contracts, although we are in some power projects that are in dispute with one of our providers. We have, as we have mentioned in presentation today, a portion of the power is already built and online and the next portion from HS is available. So, I think from an effective point of view, our project is significantly different in terms of where it is in advance.

The last piece I would suggest is that the availability of power in that area, the southwest of Iceland, is very well understood and significantly more developed than may have been the case in the northwest where the Bakki smelter was going to be. I don't know, Mike, anything you want to add or comment?

M. Bless — No, I think, Logan, you hit the nail on the head. We have power contracts that have been in place for years; they were signed in 2007 as we've talked about often. Again, I think Logan's point is right; we don't like to comment on others, but it's noteworthy that there are no power contracts related to that other project. Brett asked about the other project, it was in a very different stage than ours, I guess.

Moderator — He is back on the line with us, so I'm going to just open up his line again. There we go.

L. Kruger — Thank you. Brett, hopefully you heard that.

B. Levy — Yes, I heard the last part of it. I thought maybe it was too tough a question.

M. Bless — You dropped us, so. I mean, the bottom line was we have power contracts, as Logan started off saying. All the elements are ready to go.

L. Kruger — The engineering is done; the project has started. I think that in summary you're comparing two different, or trying to compare, two different items. I think from our side, we'd rather focus on what we have in hand.

B. Levy All right, and then the second one is a question I always ask which is sort of what is your plan for, your puts position going forward, especially where LME is and then where cost has gone, and so what percent of production as you look into the fourth quarter in 2012 is at target level of hedging that you want to do for North American production?

M. Bless Yes, I can answer the last question first and then I'll give you the facts, which is, as we've consistently said, that there's no magical target here and nor do we believe there can be in a commodity business like this where facts and circumstances in the external environment change and our own internal environment changes and I won't go on and on; but I think you understand what I'm saying.

Just to give you our current position, it's an ever changing, not even a target, but an ever changing analysis, I guess I'd say. Just to remind you where we are today; so for the balance of this year for the fourth quarter--again, to remind you how we look at it. We look at it as a percentage of what we call un-priced production in the U.S; and un-priced is our total production minus the value of the alumina, which by the nature at which our contracts are still priced, provides a natural hedge. So, on that basis, we're hedged at about 45% for Q4; and then for the first--again, there's no change here from where we've been in the last couple of quarters. For the first two quarters of 2012, that number goes down to about 25% and then the book is clear for the remainder of the year, and we'll keep looking at it as the situation is fluid.

B. Levy It could go up from 25%?

M. Bless Sure, absolutely.

B. Levy Okay, thanks very much, guys.

M. Bless Thanks, Brett.

L. Kruger Thanks, Brett.

Moderator And we have a question from the line of Peter Ehret, Invesco. Please go ahead.

P. Ehret Hi, good afternoon. Thanks for taking the call. A question about balance sheet and at some point here, the company is going to need to recapitalize, refinance. Can you talk a little bit about a timeline for that and what some of the trigger points are for that?

M. Bless — Sure. So, you're referring to the senior secured notes that are outstanding, which we exchanged a couple of years ago for the old notes.

P. Ehret — I mean, obviously, there are some big points here when you get kind of released, as it were, in Iceland and maybe, as the other caller, about some of the questions of North America, so there's a lot there; but what are you looking at for recapitalizing?

M. Bless — Okay, so there are two I guess, now that you add that, there are perhaps two points to your question now, if I'm understanding it correctly, and then two quick answers. So, the first is just if one were to look at it, of course one can, steady state, the current notes mature in 2014. They're currently callable with a four point premium at 104 of face; and that steps down to 102 in May of this coming year. That's something that we'll watch and as you've seen in the past, we've been, at least tried to have been, opportunistic when market opportunities present themselves. So, those bonds will most likely be refinanced at the right time; can't guess now at the medium through which we would refinance them but, as you would hope, we look at the bond market as one likely source carefully over time.

From a Helguvik standpoint, I guess was the second part of your question if I'm understanding it, just to remind everyone, we've talked about this at length. For the first phase, which is the 90,000 tons, there is about give or take $500 million of CAPEX to go once we restart full construction. We will debt finance a good portion of that. We have a structure in place, a non-recourse structure that could be utilized. That was put in place and finalized upwards of a year ago; Shelly? A year ago. And so, if there's a more efficient manner, i.e. lower costs, a more flexible manner in which to finance the debt portion of the CAPEX remaining for phase one, obviously, we'll look at that when it's time to go. It's premature at this point in time until we've got at least an agreement in principle with the power providers. But we think that given the nature of the project, and the banks agree, a good portion of that can be, should be, on behalf of our equity holders and can be debt financed.

P. Ehret: Okay, so it's no real trigger out of there.

M. Bless: No trigger at all. We've got a structure in place. We've talked about this in the past. It was finalized. We've got a term sheet that's done. We've got a common terms agreement that's sitting there on the base of that terms sheet. It's a very detailed terms sheet; it's five dozen pages if I recall, Shelly, and so we chose with the banks to really get the negotiations on the terms sheet rather than wait for the documentation. It's pretty much ready to go. It could be implemented very quickly. Now, obviously, one might note that the European bank market has changed, there's an understatement for you, over the last couple of months. So, again, all of this needs to be looked at when we get a bit closer to the time at which we can see a restart taking place. Logan.

L. Kruger — Yes, I think, Mike, I think what you're saying is we've got options available to us, and we will examine those more closely as we move forward.

P. Ehret — Okay, and maybe just one quick follow up. Once you get power resolved, what's the timeframe to restart after that?

L. Kruger — We would be up on full field operations in three, four months and in twenty-four months, once notice to proceed, we'd be producing first metal, Peter.

P. Ehret — Great, excellent. Thanks.

L. Kruger — Thank you.

Moderator And a question from the line of Paretosh Misra, Morgan Stanley. Please go ahead.

P. Misra Hi, good afternoon. In your press release, you talked a bit about higher macro risks over the last two months. So, just related to that, do you sense any improvement in your customer sentiment or order book in October versus what you saw in maybe September or late August? Just trying to figure out if things seem to be improving or still at the slow like August-type demand trend.

L. Kruger It's an interesting question. In fact, we have seen a strong continuing and consistent demand from our customer's right through the summer period. So, we didn't see any summer lull at all. It's not what we see very often and in fact, I was speaking with our sales teams this morning and they, it's consistent demand from our customer base. So, we've got the demand; we're fully utilizing our potential sales. So, the reverse is true, and we tried to sketch it out in our presentation today to show that the underlying demand that we see in our business consistently remains good. With all these macro issues going on, the underlying demand, automotive, aircraft, whatever, infrastructure-type materials like Southwire, that business continues to be very good.

P. Misra Got it. Thanks. And then just other real quick, if you could just comment on what you're seeing in the spot pitch and coke market?

L. Kruger Yes. I think the coke prices have escalated over the last 18 months. You can follow that pretty easily yourself; there's enough literature out there. What we've seen, and a lot of it is influenced by what coke's trading in other places like China and maybe the Middle East, is that it seems to flatten a bit in the last month. Its early days though, because we're in the middle of, obviously, pricing for our next year. Pitch is slightly up from what you see, but its early days. We'll take that all through our planning process in the next couple of weeks, as Mike had mentioned.

P. Misra Thanks so much, guys.

L. Kruger Thank you.

Moderator We have a question from the line Richard Garchitorena, Credit Suisse. Please go ahead.

R. Garchitorena Thanks and good afternoon.

L. Kruger Hi, Richard.

R. Garchitorena First question, just on Helguvik, the power contracts that you already have in place and the ones you're waiting for, are those basically for all four phases? In terms of, I know in the past you've said that to go forward you wanted to ensure that you had low cost power going forward, not just for phase one but for all of them. Is that correct?

L. Kruger I think we try and limit our comments, particularly while we're in this stage of arbitration or a litigation process. We have contracts that envision the supply for the four phases. Obviously, those were spread over a number of years with different conditions. Our focus is really to get the first phase up and going and so that we can move onto the subsequent phases similar to what we did at Grundartangi.

R. Garchitorena Okay, great, that's helpful. Another question, you put a press release out in October saying that you had bought some shares back, I just wanted if you could give us an update as of that time if you've bought any shares since October 1st?

M. Bless Yes, no, as you know, the security laws dictate companies that are in an, I guess, quiet period, is the jargon that's often used; prescribe how that can be done and so we chose not, when we went into our so-called quiet period, to put in a plan that would have taken discretion away from management during that period to be consistent with the law. So, we've been out of the market now since the end of the quarter.

R. Garchitorena Thanks.

M. Bless Sure.

L. Kruger Thanks, Richard.

Moderator We have a question from the line of Sal Tharani, Goldman Sachs. Please go ahead.

S. Tharani Hi, how are you? I wanted to ask you about the costs over the next couple of quarters. You said there is a lag in the carbon prices. When do you start to see some relief? Would it be first quarter or fourth quarter?

L. Kruger We didn't predict it. I think what you are making a note that if you follow alumina prices and carbon costs, there seems to be a correlation of six month's delay. So, we are watching that. We haven't gone forward and made a prediction on that. We're just saying if you're interested, you could look at that detail; but it seems to be a reasonable correlation and in six months you're looking into the end of the first quarter next year more or less, in that sort of order.

S. Tharani — And aside from the material costs at your end, aluminum prices are under pressure. Have you done or are you doing anything more to cut costs? I know Helguvik will give you some relief or at least some lower costs once it's fully running; but other operations, is there anything you can do further?

L. Kruger — I think the division, really, if you look at our two business operations in the U.S., is power and you're fully aware of what we've talked about the work we're doing with our partner in Mt. Holly. Similarly, we are working in Kentucky on the power aspect because those are the big drivers. Obviously, with all these units' denominators, units produced, as you mentioned, are the key ones and Grundartangi shining, leading the way. We've obviously seen a pretty good performance and with all these units, including Grundartangi, we look to how can we each year add another incremental couple of percent of throughput.

S. Tharani — Great, thank you very much.

L. Kruger — Thank you.

Moderator We have a question from the line Tim Hayes, Davenport & Company. Please go ahead.

T. Hayes Hello, everyone.

L. Kruger Hi, Tim.

T. Hayes Two questions: Back on Helguvik and the different stages; is there a scenario where you may only do the first stage of 90,000 and then not do the rest given the power situation?

L. Kruger You know, Tim, I think you're asking a hypothetical question; but you have to look at what the power availability is in that area and it's pretty well researched and available and quoted by, including the head of one of the largest power producers in Iceland, is that in the order of about 15 months out in 500 megawatts of available reasonably easily developed power in that area. So, I think you have to just make your own decisions on that. We're obviously planning to develop this whole project over time, similar to the way we've done Grundartangi.

T. Hayes — Right, and the capital cost for the first stage, I believe, is $6,300 a ton? Is that correct? And then, this reminded me, what would be the capital cost if all four stages are completed?

L. Kruger — Yes, Tim, good question. The $6,300 is about right; and for the fully developed facility, it's somewhere around $5,100 to $5,200 per ton which, by any means, you will see is pretty competitive.

T. Hayes — Okay, would the second smelter that Alcoa was thinking about, was that maybe hydro-driven power and maybe some of the push back was because it was hydro rather than geothermal?

L. Kruger — My understanding, Tim, is that the predominant source of power for that was going to be geothermal.

T. Hayes — Okay, so it's not hydro all right. And last question on slide five, you showed that cost curve. Do you have the LME cash price that is embedded in that cost curve?

S. Harrison — Yeah. It was recently put out, so I would say low to mid 2,000, but I don't have the exact number, but it shouldn't be too far off where we are today.

T. Hayes Okay, thank you.

L. Kruger Thanks, Tim.

Moderator And we have a question from the line of John Tumazos, John Tumazos Very Independent Research. Please go ahead.

J. Tumazos Hello. You made reference to the Hawesville startup and productivity inventory cost issues, etc. Could you describe in a little more granular nature the lagging issues in the startup? Is there a portion of the aluminum that's not meeting the high purity standards Hawesville was famous for? Are the impurities iron or something else? Are there issues of amperage or current efficiency or operating practice the new workers are getting familiar with? I would think you wouldn't have pot failures starting up because the linings are brand new; or are you, if they're restarting with old linings. Can you just give us a flavor as to your trials and tribulations behind the scenes?

L. Kruger I think, John, you've probably described a good slice of the whole lot. But I think if you really think about it, it's operating practices and obviously having up on the floor an operating team that are very experienced in dealing with the challenges of running a pot line. Obviously, all those parameters seem to be improving going forward and we've, as you say, we're one-third better than we were maybe three or four months ago and continue to work on the case with a very good management and leadership team and a very good team at the facility. Obviously, the restart process was a challenge and obviously, we're working our way through that.

J. Tumazos Thank you.

L. Kruger Thanks, John.

Moderator Our last question is from the line of Frank Duplak, Prudential. Please go ahead.

F. Duplak Hi, I think just two quick ones. Do you have revolver availability at 9/30, could you give that to us?

M. Bless We do indeed. As we've said before, we don't draw our—we have nothing drawing cash on our revolver. We use it to backstop letters of credit. The major use of those LCs is to backstop our obligations under the Hawesville power agreements; so that's the biggest chunk there.

To answer your question, you asked it as of September 30th, the answer is yes, we would have availability above that; obviously it's dependent upon metal price because we have a borrowing base of inventories and receivables. But, yes, there is availability above there. No plans, you didn't ask; but no plans to draw on it.

F. Duplak Can you tell us what the availability was at 9/30?

M. Bless It'll be in the Q.

S. Harrison It's about $45 million.

F. Duplak Okay, and then 2011 CAPEX, it seems like from earlier calls, maybe I got your number more in the $40 million to $45 million area. You've got about $21 million year-to-date, can you give us an update on that full year number?

M. Bless Sure, two pieces. So the first piece—let's put Helguvik to the side for a moment and talk about just domestically. What we've said before is maintenance CAPEX of around $15 million and then, in addition to that, discretionary or ROI driven CAPEX in the $10 million to $15 million. I think if you put those two together right now as you see on the face of the cash flow statement, putting those two together, obviously all non-Helguvik CAPEX, we're just a smidge above $10 million right now. I think we'll obviously come in at the low end of the range at which we were talking before; sort of $10 million to $15 million plus another $10 million or $20 million to $25 million. As you know, from watching other companies, generally CAPEX can be reasonably backend loaded from a calendarization standpoint; but that's where we are there.

From a Helguvik standpoint, we spent $11 million year-to-date. We're spending now around $2 million to $3 million a quarter, so I think around $15 million there. For the full year it's probably a pretty good estimate.

F. Duplak — Maybe 35 to 40-ish is not a bad range.

M. Bless — Not a bad range.

F. Duplak — Thanks.

M. Bless — Sure, thanks.

Moderator — I'll turn it back to our speakers for any closing remarks.

L. Kruger — Just thank you very much for joining us on this call today. Thank you and good-bye .