CENTURY ALUMINUM COMPANY: Third Quarter 2012 Earnings

November 1, 2012/2:00 p.m. PDT

SPEAKERS

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PRESENTATION

Moderator: Ladies and gentlemen, thank you for standing by. Welcome to the Third Quarter 2012 Earnings Conference call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Mr. Enrique De Anda. Please go ahead.

E. De Anda: Thank you very much, Cathy. Hello everyone, and welcome to the conference call. Before we begin, I would like to remind you that today's discussion may 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 actual our 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 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 centuryaluminum.com.

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

M. Bless Thanks, Enrique. Thanks everybody for joining us this afternoon, especially those of you in the Northeast who are dealing with the aftermaths of the storm. You've got our very best wishes. I was raised in New England and lived in Manhattan for ten years, and despite that, having like most people watched the images on TV and on the web the last couple of days, can't imagine what you all are dealing with both professionally and personally. So you've got our best wishes that the recovery period is as efficient and as quick as reasonably possible.

Let's go to slide three, please, and let me give you quick update of what we've been working on here at Century over the last couple of months. Most importantly, we continue to make very good progress across the company on our safety initiatives. We made major investments in initiatives like training and behavioral-based safety, and these are showing terrific results. We're right now focusing on making sure our people can recognize the hazards that exist in the tasks that they perform, both everyday tasks, and also--most difficult--the nonrecurring tasks for which procedures are written but obviously not studied every day.

We need to make sure our people understand that it's their responsibility to stop these activities rather than accept inappropriate risk. The performance metrics and safety have been good across the company. I'll review those in a few minutes. It's interesting when we go a couple of months at each of our facilities--and we have at each of them--without a reportable incident, people sort of gain a new attitude. They become convinced that a zero accident environment is indeed possible, and it's success, I suppose, building upon success. So excellent, excellent progress there across the company. In 2013, I'm happy to report that each of our facilities, each of our businesses, has committed to take their safety performance to a new level.

Okay, let's move on. Hawesville, obviously, the plant continues to perform exceptionally well. This is despite the fact that we continue to deal with the aftermath of the upset conditions in the potrooms that we experienced, as you'll remember, in the summer and the fall of 2011. It's a testament to the management team that they are dealing with these issues one by one and that none of them are impacting the bottom line.

As we said, the issue at Hawesville is now an uncompetitive power contract and arrangement. As you know, we've had a lot of discussion and effort on this issue since the beginning of the year, and as we feared towards the end of the summer, we came to the regrettable conclusion that the plant just isn't viable under the current power price and under the current metal price environment. Thus, if there were no change to this environment, we'd regrettably have to close the plant at the end of the notice period in August of 2013. As you'll remember, we put out a press release. We did in fact issue a notice of termination to the power supplier in August of 2013.

We're now working aggressively with all the constituencies including Big Rivers and Kenergy. As you know, those are respectively the wholesale and retail power providers. We've got a long ways to go, but I can report very good progress and a good and cooperative spirit over the last couple of months. I'll detail for you at the end of my comments about what we see over the next couple of months.

Moving on to Grundartangi, our Board has approved the expansion of hot metal capacity at the plant, and thus we've begun the major engineering work and have ordered the major equipment. Just to remind you here, this is an increase in the hot metal capacity at the plant by about 15% over the next couple of years. We're doing this without a change to the footprint of the plant, i.e., no new reduction cells. In order to achieve this, we'll require a modest amount of additional electric power. It's important to note that this will have no impact on the power that we require for Helguvik. As you might imagine, this is an attractive project. It's got a good financial return and very low technical risk, so we're excited about it.

Lastly at Ravenswood, I want to update you on the events of the last couple of months, but I thought it might be useful before doing that to take a step back and remind you about the situations to put it into context. Many of you know this who've been following the company, but I think it bears a repetition. So first and foremost, the tariff, the large user industrial rate in the region right now, i.e., that we would otherwise pay without any kind of special power arrangement, is about $52 per megawatt hour.

As you may remember, going back to the winter of this year, 2012, the state legislature voted $20 million in annual tax credits from coal severance tax to reduce our power bill. This goes over 10 years, so $20 million over 10 years. This legislation was supported very strongly by the governor and other key leaders. In addition, the power company has said that it will continue to divert about $19 million of annual fixed costs--these are its fixed costs--away from Ravenswood's load. Before Ravenswood had shut, these costs were being billed to Ravenswood.

So when you add up those two, obviously, you've got about $39 million in annual support to reduce our power bill. When you apply that to the $52 tariff, you get a resultant rate in the high 30s, so high 30s per megawatt, $30 per megawatt hour. Those of you who know our business know that this kind of rate might be acceptable for an operating plant--a plant already operating, obviously--in the kind of long-term, even medium-term metal environment that the forecasters are talking about.

Regrettably it doesn't work for Ravenswood, obviously, given the startup costs we need to incur to get the plant going again. Just to remind you, as we've said before, we need to incur about $90 million of spending in order to get the plant restarted. Again, as a reminder, about half of that is working capital, mostly alumina, of course. Of course you get that back as you sell your product, and about half of that is capital and other so-called sunk costs.

So, at issue now, on top of that $39 million, is the so-called third tier of a power structure that we require to get the plant moving again, and this is a flexible rate that would be referenced to the LME price. This has been in our filing to the PSC since last April. We need this kind of flexible rate in order to support those restart costs about which I just spoke, and importantly going forward in order to provide a bridge for the plant during periods of extreme volatility in our industry.

Going back to 2008 and 2009 if we have had this kind of structure, we believe it's unlikely that the plant would have had to close. So let me give you an update since we talked to you last time. As expected, the Public Service Commission did issue its order in early October. That having been said it did impose some terms on that third tier of the structure--we'll call it the LME tier of the structure--that simply don't work for us. And in that respect, last week we submitted our thoughts about how in fact it could work, and again here at the end of my comments, I'll give you some more detail about what we said and what we see coming over the next couple of months.

If you could turn to slide four please, just a quick review of the company's operations during the last couple of months, during the third quarter. As I said before, safety was good across the company during the quarter. I would note that Grundartangi, in particular, had an incident-free quarter. That's terrific performance in any event and especially noteworthy given that we've got a lot of temporary employees in the plant over the summer holidays.

Turning to production, as you can see Hawesville was about flat to Q3 over Q2. It was up a little bit in absolute terms, but flattish on a per-day basis. There was one less day. That's indicative of a stable operation, as I said. Mt. Holly was about flat again on an absolute basis, but down just a little bit on a per-day basis. This is due to a variety of small factors that have all been worked through by the management team there. Grundartangi was up about 1% in absolute and flattish on a per-day basis—so good production performance across the facilities.

Key production metrics going down the chart here as you see, generally good across the company. No major changes from the second quarter, again good stable operations. At the bottom, importantly, conversion costs falling across all of the facilities as you can see.

If you go back to July and look at what we told you of these, this performance is a bit better than we had forecast even with the updated run rate operations costs that we showed you in July, so we're pleased here. And to remind you, as we showed you before, if you look back over the last 12 months, we've brought the company's cash breakeven point down significantly.

With that, I'll turn it over to Shelly. She'll talk to you little bit about the market environment and then summarize the financial results.

S. Harrison Thanks, Mike. If you could turn to slide five please. During the quarter, LME prices averaged $1,920 per tonne. That's down $50 from Q2. Prices dipped just below $1,800 per tonne in August, which is the lowest level we've seen since late 2009. Aluminum prices rallied in September to a six month high of $2,177 in response to QE3 and expectations of additional Chinese stimulus, but since then, fears of a slowdown in China, the unresolved Eurozone economic crisis and uncertainty around the U.S. fiscal cliff have caused current prices to retreat back to the low $1,900s per tonne.

This illustrates what we've been talking about for the last few quarters where the aluminum market is being driven more by macro concerns rather than the true fundamentals of our industry. During the third quarter, LME stocks increased by about 220,000 tonnes and stand at about 5.1 million tonnes today; however we're still seeing long lines to access metal from warehouses and financing deals remain economically attractive.

This dynamic continues to support regional premiums at record high levels. The Midwest premium continued to rise during Q3 and is now just over $0.11 per pound. European premiums have also increased to around $280 per tonne, and Japanese premiums are up to $255 per tonne.

Taking a look at the aluminum industry fundamentals, global consumption is up about 3.5% year-to-date. This is being driven primarily by demand growth of 8% in China and 9% in the U.S. In Japan, consumption is up about 5.5% this year, while demand in Europe is down a little over 6%. Global production is also up around 3.5%, primarily due to Greenfield projects in China where aluminum supply is up 11.5% year-to-date.

Moving on to alumina, prices edged up during the third quarter and are currently trading in the range of $320 to $330 per tonne. The most recent NALCO contract for 2013 priced it just over 16% of the LME. This would be equivalent to about $305 per tonne today due to the recent decline in the LME.

If we can move along to slide six please, I'll take you through the company's financial performance for the quarter. The average cash LME price was down 3% Q3 over Q2, but on a one month lag basis, which is the basis for most of our sales, the LME price was down a little over 10%. When you look at our realized unit prices in the U.S., they were down only 6% quarter-over-quarter. This is due to improved premiums for Midwest deliveries and value added products. In Iceland, our realized unit prices were down 8%, which reflects the increase in European premiums.

Turning to shipment volumes, in Q3 we had direct sales from Iceland of approximately 3,500 tonnes. If you include that amount along with the tolling volumes, you'll see that Iceland shipments were up 1% Q3 over Q2. Shipments at Mt. Holly were down 1% in the quarter, while Hawesville volumes were up 3.5%. The increased shipments at Hawesville were due to some high-purity metal sales that we held back at the end of Q2 in order to take advantage of stronger markets for that product in early Q3. Overall, global shipments for the company were up 1.5% in the quarter.

Moving on to the income statement data, net sales were down 6% Q3 over Q2. The decline in the LME price drove net sales down by 9%, but higher premiums as well as slightly higher shipments offset a portion of this impact during the quarter. Adjusted operating income decreased $18 million from Q2 to Q3, primarily due to lower LME prices.

So let me take you through a few of the key cost drivers during the quarter. In Q3, we saw lower LME linked alumina and power costs of $7 million, and raw materials were better by $4 million. The raw material improvement was primarily due to lower carbon costs at our Hawesville facility. As we've discussed on previous calls, we have seen declining carbon costs at Grundartangi and Mt. Holly over the last couple of quarters, and now Hawesville is seeing that reduction as well.

Power costs at Mt. Holly were down $2 million during the quarter due to the amended power agreement that was put in place last quarter. This agreement became effective on June 1, so Q3 was the first full quarter to reflect the benefit of the new arrangement. Partially offsetting these cost improvements, SG&A was up $2 million quarter-over-quarter. The increase consisted primarily of ongoing expenses to maintain our new anode facility in the Netherlands until the plant begins production.

You can expect to see this increase in SG&A continued for the next several quarters until the restart is complete. Once the facility is up and running, most of these expenses will be reflected in cost of goods sold. Moving down the income statement, we had a quarterly adjusted loss of $24 million, or $0.25 per share on total common and preferred shares.

Our adjustments to reported net loss in Q3 include the elimination of $8.2 million lowered cost of market inventory adjustment, as well as the elimination of a net $4.1 million credit related to a couple of litigation items. Lastly on this slide, I'll just make a couple of comments on cash flow.

As you can see here, capex for the quarter was $4 million. As is normal, we expect capital spending in the fourth quarter will be significantly higher than the average of the first three quarters of the year. Helguvik capex was $2 million during the quarter, but starting in 2013 we expect the spending to drop down to about $1 million per quarter until we're able to restart major construction efforts. The quarter-over-quarter cash was up $17 million, and we ended September with a $173 million on the balance sheet.

Let's go on to the next slide, and I will take you through the changes in cash in a bit more detail. So on slide seven, we show our normal cash flow waterfall bridging Q2 to Q3. I'll just focus on a few of the more unusual items here. During the third quarter, we had a withholding tax payment of $13 million; it's related to the return of cash from Iceland to the U.S. As was mentioned previously, these are temporary tax payments that are refunded to us at the end of the year.

In fact, just today we received a refund of approximately $28 million from our withholding taxes paid in late 2011 and early 2012. In addition to the withholding tax payments, we had another $4 million during the quarter which consisted of income tax payments for Iceland as well as the modest tax payments in the U.S., due to limitations on NOL usage in certain states.

Moving to the right, you can see we had an $8 million cash inflow from an insurance settlement during the quarter. This claim is related to the Grundartangi transformer that was damaged during transport back in 2010. The last thing I'd like to point out on this slide is the $21 million benefit from a late customer payment. As you may recall from last quarter, we had a large payment that was due at the end of Q2, but not received until the first business day of Q3. As a result, the quarterly change in cash was positively impacted by this payment which normally would have been a Q2 receipt.

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

M. Bless Thanks Shelly. If we could go to slide eight, please, just like to give you some detail on some of the major things on which we'll be working over the next couple of months. First and foremost, Hawesville, as I talked about before. Again, just to state, the plant isn't viable--we've determined-- under the power contract so we now need to work and change that situation, and we're focused on the steps required so that we can purchase power from the competitive wholesale markets.

We obviously also need to be able to bring this power across the grid to this Hawesville smelter itself. In this respect, we've confirmed that there are no major physical impediments to doing this, so we're now working with Big Rivers and Kenergy on the contractual and regulatory requirements necessary to wheel that power into the region. As I said, the process is going quite well. It's a good cooperative spirit. All parties are working together. We've got some significant issues to overcome, but we're becoming increasingly optimistic that we're going to find a solution that fits the needs of all the constituencies to solve this problem.

Moving onto Ravenswood, again, as I said a few moments ago, we did file a so-called request for reconsideration late last week. That was in response to the PSC's Order in early October, as I described. In that filing that we made last week, we essentially provided the Public Service Commission with two alternatives. In the first, we accepted the key premises in their Order from early October, i.e., those things related to that third tier of the structure that simply don't work for us. We said that under that construct, however, we couldn't restart the plant. We wouldn't be able to restart the plant in the current economic conditions. In essence, we'd have to wait for better days in order to restart the plant under those conditions.

We also submitted an alternative proposal; that being a rate for the next five years at which we would be able to restart the plant even in the current market conditions. We expect to hear back from the PSC within the next week or two and then we'll assess where to go from there.

We still believe strongly that a pathway should exist that makes sense for all constituencies to get this plant restarted. It's one of the major goals in our company both this year and going into 2013. We remain committed to get this plant restarted. We continue to believe that it's a good investment case for our shareowners and it goes without saying, it will be a great thing for the community of Ravenswood and the nearby communities when this plant restarts.

Moving onto Helguvik, we met with one of our two power suppliers this week in an attempt to close off the remaining issues between us. As we've told you before, we've essentially agreed in headline terms with this particular supplier, and we're hopeful that we can be in the same position with the other supplier before the end of the calendar year.

We're also encouraged by the progress we're seeing on other work that has to take place to support the smelter, the restart of our construction project, and of course--over the longer term--the operation of the smelter itself. For example, the grid operator, the national grid company, continues to finalize agreements with the communities through which the high voltage lines will go. We believe we continue to have support from all the key important constituencies here, both inside the government and otherwise, and we're committed to be in a position to restart the major project activities during the first half of 2013.

Couple of other items, Shelly talked about our new anode plant in the Netherlands. Just to remind you the rationale for this acquisition. We talked about it last time, basically three parts. The first I could characterize as relatively defensive. We came to the conclusion based on the fact that our former European suppliers were going in different directions with their businesses that we needed to make captive our European supply of this increasingly important strategic material. This is to balance and complement, of course, the supply we get from our 40% owned company in China, BHH.

Second was a more strategic rationale. Given that we now will control all of our anode supply, we'll be able to drive more aggressively. For example, procuring larger anodes that are required for both the Grundartangi hot metal expansion and then the production at Helguvik as we go forward.

And then third, the project, i.e. the acquisition and the related capital spending, has a good financial return when you compare the cost at which we believe we'll be able to produce these anodes in Europe versus the price at which we believe we'd be paying third party suppliers over time. We see a good financial IRR there.

So now we're finalizing the engineering work for the capital projects that are required for a restart. To remind you, we expect to spend between $30 million and $35 million over the next 9 to 12 months or so in getting that plant back ready for operations.

One last item that's new, we've recently informed our folks here that we plan to move our headquarters' corporate office from Monterey to Chicago. For those of you who've been following the company for some time, you know that the company's office, the corporate office, has been out here in Monterey, California since the company's founding back in the early and mid '90s.

It goes without saying that in the U.S. all of our operations, all of our customers, our suppliers, our communities are in the Midwestern and Southeastern part of this country. So the rationale for this move is pretty straightforward. We want to drive closer integration between our corporate staff and our businesses. We'll also obviously make it more efficient for our people to travel to our international operations. We'll be in a better time zone. We'll be closer to a major airport. It's pretty straightforward. We plan to have the move completed by the middle of 2013, and we will have some costs that will roll through the income statement here over the next couple of quarters related to the move.

With that, Shelly and Enrique, I think we can move to take questions.

E. De Anda — Cathy, we're ready for questions.

Moderator — We'll go to the line of Kuni Chen from CRT Capital Group. Your line is open.

K. Chen — I guess just to start off on Ravenswood. Can you just remind us structurally during, let's say, a period of low aluminum prices, how you'd like to see part of the economics there transfer to the rest of the rate base?

M. Bless — Sure. Kuni, it's pretty straightforward. So again the first two tiers--the tax credit and we'll call it the fixed costs--are fixed. So those don't change based on the metal price. Then the third tier, per your comment, would basically float; it's not unlike the arrangements that we have with the power suppliers in Iceland. So it would be flexible up and down based on the metal price and it's engineered to, in so many words, to protect the plant's cash flow, in simple English. It's engineered to ensure that at even the kind of metal prices that we saw--maybe not at the very, very depth that we saw in the spring of 2009, but it's something right up to there, hundreds of dollars below where we are right now--that the plant would be at worst breakeven from a cash standpoint.

K. Chen — Basically the gist of that is at a lower metal price you pay less and other folks might pay a little bit more?

M. Bless — That's precisely it.

K. Chen — I saw some commentary out there in some of the media sources, I think talking as far as Ravenswood goes, kind of the longer term viability of Century as a company. I just wanted to get your take on what that was all about, and I guess what's the downside to West Virginia if you decide to invest $90 million to restart this plant, and why are they looking at kind of the longer term credit picture of the company?

M. Bless — I don't think, to answer the perhaps the penultimate part of your question first, that there is certainly no downside. There's only a huge upside as we see it, as I said, to Ravenswood and the surrounding communities. I don't know, I do think I know what you're referring to, there was a reference in and I can't remember which media it was in.

There are a lot of constituents out there. I don't know. I can't precisely guess as to why some of them would be saying something like that. Just to get a bit more specific—and this is all of course a matter of public record—the PSC's Orders and our filings and other constituencies' filings are all a matter of public record. One of the things that the PSC did put in its order that came out in early October was that to the extent, in that tier three structure, that there was any deficiency, so any amounts that we would pay because of a low metal price that were below its tariff, tariff obviously reduced by the support, the $39 million of support. The PSC's idea is that that would be kept in sort of an account and that their concept is that Century would repay that at the end of the 10-year period.

So I think there was some discussion there about what entity in the Century corporate structure would guarantee that amount. We have obviously said that that part of their proposal makes no sense to us, and that's what I referred to when I said that there were parts of it that we just couldn't accept. To us, it's frankly borrowing our losses, and on behalf of our shareowners, that makes no sense at all. So just speculating, my best guess is that's the kind of thing to which those comments are referring.

Moderator Our next question comes from the line of David Gagliano from Barclays.

D. Gagliano I wanted to just ask on Hawesville. I know you've talked about this in the past, but I was wondering if we can just quantify the potential cost savings in tens of millions of dollars, if, for example, you renegotiate Hawesville, and you reset the power rate at sort of the current power rate, prevailing power rates. If you're successful in reaching out and resetting that power rate, what's the total dollar impact?

M. Bless: No problems, David. It's a great question, obviously, and so a rough order of magnitude, if you compare the current power price under the Big Rivers contract to not even the current market power price, but given that it's upward sloping, the average price we could get if we fixed it for a three to five year period. So that's even a little bit higher than the current price, again because the curve in that region, the forward power price in that region, is upward sloping.

You're talking about a per tonne production cost difference to the smelter of over $200 per tonne, well over $200 per tonne in delta there. And then just simply multiplied by the plants 250,000 tonne capacity, you get a sense right there that's its sort of at a minimum of $50 million EBITDA kind of delta.

D. Gagliano: That's very helpful. Now on another subject again, it comes up a lot with a lot of companies, so nothing personal, and like you said, a lot of us doing this remotely, so I would have normally worked this out. Can you just help me understand the liquidity situation? I believe it's a $175 million now. I am doing some quick back of the envelope. I think your capex is call it $50 million a quarter but then there's—I'm sorry, $50 million a year I think. Instead of me guessing here with everybody on the line, can you just walk me through the cash flow situation, sort of the sources and uses for next year?

M. Bless Sure. I'll ask Shelly to dive into it. You can't offend us David; so no offense taken. It's a very reasonable question. So Shelly, you want to kind try to attack that?

S. Harrison Sure. I'll take a stab at it; Mike, you can add on to it. So as you said, we're right around $175 million in cash at this quarter end, and we also have $42 million of availability on our revolver. At this point, it's only being used for letters of credit, so we have almost full availability there on the remaining piece. Obviously cash flow is going to be highly, highly dependent on your metal price, but kind of taking that aside and looking at some of the major cash outflows and inflows. We did have the large refund that I mentioned that we received today in Iceland. That was $28 million, so that will a Q4 inflow.

As we said we've got our normal maintenance capex. We've got the Grundartangi expansion that Mike mentioned. We've got the Vlissingen project. I don't think we put any numbers on that, but just to give you a sense for the restart of the first furnace there, that's going to be about $30 million to $35 million over the next several quarters.

Mike, what are some other major items you can think of?

M. Bless I think Shelly has got it right, David. The only thing I would mention—she has got it right, and you had right, David, about the maintenance capex is kind of here at Century $10 million to $15 million, although I would note, and you'll remember, that during the financial crisis in the latter quarters of '08 and then going into '09, we held it at levels much, much below that, which you can do for a year or two but don't want to do it for very long because you start impacting reliability. Of course, we wouldn't scrimp a penny in terms of anything directed towards safety or environmental.

So you got kind of $10 million to $15 million in a sort of normal run rate here on maintenance capex. And the only thing I would note, Shelly talked about the two major projects this coming year that are in the plan: number one the first year at the Grundartangi hot metal expansion, which we have some large capital items that need to get procured and paid for; and number two, the Vlissingen, the anode plant restart capex. Those are highly variable projects. So that while we will make some commitments here probably in the next couple of months for some big ticket items, if the world gets much, much worse, those can be stopped and started.

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

S. Tharani First of all, hopefully you'll move to Chicago, and we can see you a little more often. You mentioned all of the constituencies you're going to be closer to, and you didn't mentioned that you're going to be closer to lot of analysts who cover you.

M. Bless No comment.

S. Tharani I was wondering a couple of things, couple of housekeeping and then I have some more questions on electricity. The insurance settlement of $8 million, does this goes through the P&L?

S. Harrison Yes, it did. It went through the P&L. It was in other income down at the bottom of the P&L.

S. Tharani Did you give the number for the Grundartangi hot metal expansion?

M. Bless Yes, we've talked about that one before, but thanks for catching us, Sal. I don't think I restated it now, so it's a couple year project. The spending is and the activity goes on for about the next four years, 2013 through 2016, and the aggregate spending is about $65 million.

S. Tharani That's their total spending?

M. Bless That's total spending, yes.

S. Tharani Most of it is going to be in the front end when you're going to buy the equipment?

M. Bless Yes, there is a good chunk of it, especially this coming year. One of the big ticket and long lead time items is some upgraded high voltage equipment and that will be in 2013. So roughly maybe a third of that number could be in 2013.

S. Tharani Now on the electricity, the contract you have at Hawesville, do you know what region it is? Is it utility in MISO or PJM?

M. Bless It's MISO, right.

S. Tharani Also with the new contract is for the power and delivery separate, or is it part of one contract?

M. Bless Well there is no contract yet, of course, but what would probably happen, and I underscore probably because we're talking about all of this, but we would probably continue to be served by Kenergy, which is the retail supplier today and, by statute, the power supplier in that region that serves Hawesville. So the way it could work, it will probably work, is that we would purchase power on the wholesale market and then it would be brought in, and we'd obviously pay Kenergy to physically supply it to us. I guess a short-winded rather than the long-winded answer I just gave you is two separate contracts, but again this is all sort of subject to the next couple months worth of discussion.

S. Tharani My last question on the power is, are you negotiating a fixed power contract or a floating contract?

M. Bless Well the way, again, I'm sorry to give you the weasel words, but the way it would probably work is that you would go out to a party—or parties, I should say, given that it's a large load here--and contract to physically buy the physical power. And then either with that same party or parties and/or with financial parties you could make a decision to fix out some or all of that physical power. So there are two, I guess the simple way to look at it, separate decisions.

Moderator: Our next question comes from the line of Brett Levy from Jefferies & Company.

B. Levy: Did Sal ask if your conference calls are going to get earlier when you move to Chicago?

M. Bless: We can talk about that. We'll put it on the list, but thank you.

B. Levy: Also, as you guys look at kind of the political environment and everything else going on in Iceland, was there something that kind of stopped you from doing what you're doing now in terms of the expansion at Grundartangi and that you've reached headline agreement with one of your two suppliers at Helguvik. Is there something that's changing that sort of should make us more optimistic that things move forward faster there?

M. Bless: No, I don't— I mean, Brett, we're getting more optimistic. Obviously Grundartangi is done. I would note on Grundartangi that there is a requirement, as I know we've talked about the past, the current operating permit is for 300,000 tonnes. We're now scraping 280,000. So we'll have to apply for, we think it's a reasonably straightforward process, but we take these processes seriously, so we'll have to apply for an increase in the operating permit because, as I said, we're going to expand the plant's hot metal capacity by 15%, so that will put us well above 300,000, it goes without saying.

I wouldn't make anything—it's interesting you asked that. I never thought about those two items sort of related before, and so I guess trying to answer your question with as much brevity as possible. There has been really no change in the political or external environment there other than I think people, and my colleagues in Iceland would say this more strongly than I could possibly say it, would say that the relevant constituencies in Iceland continue to acknowledge that—and I am talking about Helguvik specifically now, that the project is critical for Iceland, especially Southwestern Iceland, the Reykjanes peninsula.

So I think these things have taken time. They take time in any project. I think they've taken longer here just because of the complex situation post-financial crisis in Iceland that you're well aware of. So that again, long and rambling answer, but I think briefly no real change in the external environment.

B. Levy: Then given the outlook for the two and a half potential operations in the United States, what are your thoughts on hedging a certain portion of production going into the next several quarters. I think I ask this most quarters, but—

M. Bless: Yes, no it's a great question and believe me, we think about it not quarterly, we think about it daily, weekly. And as you know, because we have done some hedging in the recent past, "we are open to it" is not the right term. We think that at the right time and in the right context it's the right thing for a company with our profile, our balance sheet, our cost structure, etc. Given our cost structure, our plants' breakeven points and all of that and the current metal price, it's kind of difficult to envision doing anything. I mean, you've got to go out of couple of years out on the curve, out on the screen, to see prices that would be at all conducive to locking something down.

As you know, especially with an environment with this kind of volatility, the price of just sort of standard protection puts and callers and such is reasonably high. So we look at it. We like it as part of our strategy at the right time. Right now, I would say Shelly, in the current metal price environment, it would be—I'd be surprised to see us do anything.

B. Levy — And shame on me for not asking this as a bond guy, but obviously your core prices have gotten fairly low, your maturities are relatively close. Is there a particular event, whether it's clarity on Helguvik or any of the U.S. situations that sort of are the lynchpin to wanting to kind of push out your maturities?

M. Bless — No, that's a great question, and as you would hope, and I hope expect, we've been looking at this very carefully with advisors and such. I think you're asking it in the right way in my opinion, Brett. I think when you look at where we are right now, if I were to be presumptuous and sit on your side of the table as a credit analyst, the uncertainty at Hawesville, though we're confident I think in a month or two when our level of confidence hopefully we can report to you has gone up even further and we've kind of checked a couple critical boxes. That would be something we would hope that investors would look at and say that's a key risk off the table, and to David Gagliano's question, I can start looking at that kind of pro forma profitability with a lot more confidence.

Moderator — Our next question is from the line of Richard Garchitorena from Credit Suisse.

R. Garchitorena So my first question is more of an overall broader based question, but I guess when you look at the issues with the contracts at Hawesville and Ravenswood and you weigh that against capex for new restart projects, what's the IRR, what's the cost to capital that you target when you are in discussions to try and work to a favorable power agreement?

M. Bless Yes look, I don't have to tell you, but we don't have the corporate hurdle rate nor do I think that companies ought to, because we do what I think the companies ought to do--certainly project-based companies or companies whose businesses are more project based--is look at each of these on its own merits and given the risks, both financial and technical…I don't have to go on. I'm sure everybody on the other end of this phone knows what I am talking about, and so we look at each of these differently.

Now Hawesville, of course, is a bit different. There is no capital required there. We'd love to be in a position with a market-based power price a year from now where we're thinking of capital projects to improve that plant, to lower the operating cost, to increase the efficiency of that plant, to improve the product profile of that plant. Those are all opportunities that could be afforded to us once we have a good and stable outlook about a competitive power price. So there is no kind of IRR calculation there per se. We're not investing anything other than of course our time and energy and some modest out-of-pocket legal and other costs in getting this regulatory process done.

Obviously in Iceland it's quite different. At Grundartangi, you have a project there I just talked about, $65 million in spending over the next four years. A very attractive return there based on the incremental footprint. Just to do the math, the simple math for you, and those of you who follow the industry will have a basis of comparison, we're going to spend $65 million if we're correct, and we think our estimates are quite good, to get 40,000-ish tonnes of incremental capacity, so just slightly over $1,500 per tonne of incremental capacity. New capacity is coming on around the world, in Greenfield plants of course, at four and five times that installed cost, so you can start to guess what the IRR there may be. Just because those are incremental tonnes, you are spreading them over a fixed costs base that's already there, and you don't have to increase—so a good project.

Ravenswood is the same. Given the power structure that we have envisioned, the return there would be an attractive one, but we need to get the power situation right because, as I said, you've got $90 million of spending required, again, only half of which is sunk into the ground, the rest is in working capital, which of course turns into cash.

R. Garchitorena | Then my other question. In terms of the anode facility, I was just wondering if you can give us some color in terms of how we should think about the benefits going forward, once it's up and running, relative to current costs.

S. Harrison | Yes, so obviously we're going to be making our own anodes now for the Grundartangi facility, which has historically purchased and brought into Iceland pre-baked anodes. The expectation is that as we produce them ourselves, we'll be able to bring down the average cost of those anodes versus buying them from a third party supplier. We'll also be able to bring in larger anodes, which will be part of the expansion tonnes that Mike talked about, so that's also a support factor as well.

Moderator | Our next question comes from the line of Tim Hayes from Davenport & Company.

T. Hayes | Just two questions. Just to make sure, you haven't bought any power yet forward for Hawesville, correct?

M. Bless No, absolutely not. We couldn't and wouldn't, it would be pure speculation until we had an agreed deal with the regulators signing off, so absolutely not.

T. Hayes Then the expansion at Grundartangi, any thoughts on how much that would lower the operating cost?

M. Bless We'll give you, as we normally do, when we give you our assumptions for 2013 in the next call—I guess it would be in February, Tim. We'll give you specific estimates on spending for 2013, increased production and the shipment volume for 2013 and, as you say, the impact on the opex. We're right in the middle of our planning process now. We had our annual planning meeting just last week in Kentucky, and we'll be presenting our plan per our normal process to our Board in early December. So we'll be ready to talk with you about that in early 2013.

Moderator Our next question is from the line of Timna Tanners from Bank of America.

T. Tanners I just want to make sure I understand, I am sorry if I missed some of this on the call, little hectic over here, but I mean what should we be thinking of as outsiders in terms of catalysts or things on the horizon that are going to help us know whether or not these rate cases are getting decided or Helguvik's expansion goes ahead. Like what can we track externally and how are we going to know when those are making progress or not?

M. Bless Sure. That's a good question, Timna. So in West Virginia, again, that's an active process in front of the State Public Service Commission. When we make a filing or, as I said, if the PSC makes a filing, it's a matter of public record; you can go on their website and see it. Of course we have an obligation, which I hope people believe we take seriously, when there is a material event that happens, we'll obviously issue a press release. If it's really material, we'll hold a special conference call, but we'll keep you up to date through then, and obviously update you quarterly through these calls. But if you want to follow sort of the back and forth of it, it's a matter of public record.

Now in Kentucky, there is not a public process yet. We're speaking with the current power providers and when we are ready, we jointly are ready, it will come in the form of a filing that the power company will make with the PSC there and, I imagine, I can't speak with specificity, but I imagine that that will also be a matter of public record in that state as well. And so you'll be able to follow that, and again, when we come to key points, we'll certainly disclose them through a press release.

On Helguvik, you really need to rely on us. We're in bespoke negotiations with two private companies. One is actually owned by the municipality of Reykjavik, the capital, and one is owned by private investors--60% I should say owned by a listed Canadian company, listed on the Toronto Exchange. There I think you have to rely on our updating you, our disclosures, certainly our press release if we come to a material point here in order to get updates there.

T. Tanners The other thing I was going to ask is we're talking so much about power, and I understand it's a huge part of the cost structure, but is there anything else that you want to highlight that you see ahead in terms of cost pressure or opportunities going forward?

M. Bless That's a great question. I think Shelly talked about carbon.

T. Tanners Yes.

M. Bless And we've seen structural, or I shouldn't say so much structural, but we've seen decreases in the cost of the carbon that we make in the U.S. and the third party anodes that we buy currently from China and Europe for Iceland as principally, as coke prices have come down reasonably significantly here over the last six to nine months. Across the rest of the spectrum, things are reasonably stable at this point in time.

Shelly talked about where alumina is trading, both on a spot basis and on a contract basis. It's trading around 16% of the LME that would be on an FOB refinery basis, so you'd have to add on freight from wherever you are taking it from and moving it to, but that market has been reasonably stable here over the last six to twelve months.

S. Harrison — It has. We're contracted out all of next year's percentage LME contract, so our alumina cost will float with the metal price.

M. Bless — But it's something that we think about longer term, of course. As Shelly said, we start to develop a small short position in 2014 and then larger in 2015 as some of the larger tolls in Iceland start to come off.

Moderator — Our final question comes from the line of Paul Massoud from Stifel Nicolaus.

P. Massoud — I wanted to ask about Helguvik. If I remember correctly, you had arranged about $250 million in financing from some European banks, I think, before the financial crisis. So I guess my question is, one, is that the right figure? Do I have that right? And two, when should we start to think about you guys stepping forward on the financing side for expanding at Helguvik? Can we assume that it's going to be around the time that you get, say, two headline agreements, agreements in principal with both of power contractors, or should we assume there needs to be much more of a solid agreement before you actually start approaching the financing question?

S. Harrison Starting on size, I think you've still got the right size; that has not changed. As you mentioned, these are agreements that we were working on quite some time ago—not as long as you indicated. It was after the financial crisis, but it has been several years now. So there is a significant amount of work that would need to go into refreshing those arrangements and getting it to a position where everyone is ready to move forward again, but as you indicate, that the critical item will be having the assurance that we need on the power contracts. And once we have that, we'll be in a position to very quickly move forward on the financing again.

M. Bless The latter part of your question, Paul, I think it's two things. I think it's agreements with those two power suppliers. So we've only got two, and whether it's an agreement in principal or a signed contract will depend on a variety of factors, principally what you have to do to take an agreement in principal to a contract; what other things need to accomplish or conditions that need to be satisfied or all that kind of stuff.

There are also other things that need to happen in Iceland, as I said. I gave one example. The national grid company called Landsnet needs to conclude agreements with all the municipalities that are involved here. There are other things, as we told you, we're largely completed with our own permitting, but the power companies need to make sure, and we need to be satisfied that they have all their permitting in place. Obviously, we're going to be very cautious given the amount of money we're talking about here that we're not going to go forward, a) to restart project spending and/or b) to finalize or certainly take down any financing until we are quite satisfied that the project is a go.

But as Shelly said, we have a structure in place that might need to get tweaked depending on sort of what the world looks like and the European financing markets as we get closer to our restart date, but we studied a bunch of alternatives. There are other structures that are out there. The Icelandic financing institutions have strengthened quite a bit over time and are quite anxious to participate here on a larger scale than they were able to do just a year ago. So we're certainly continuing to keep all of it warm, but from a finalization standpoint we've got to get the project to a more final state, which again we think we have reasonable confidence here we'll be able to do over the next couple of months.

P. Massoud I guess maybe just one other question on that is do you see any sources of potential inflation in the original costs for Helguvik that may have popped up since you've put out your original estimates for the project?

M. Bless Sure, it's a great question. So we've got a team. In fact most of the spending that's going on going forward, in addition to the site activity where we're putting siding and roofing on the building and such, is our team doing exactly this kind of engineering work, looking at costs that have come up; some have. Some have decreased as we slack manufacturing capacity out amongst the various suppliers.

We've had up to the plus side options open up as more suppliers in developing parts of the world, for example, get qualified to supply major pieces of equipment. And we're also looking at the reduction technology, because a lot has changed in the modernity of that reduction technology. That was the world's most modern back in '06 and '07 when we signed those technology agreements, but the good news is the world has changed, i.e., that technology from that supplier has become more efficient.

And so we're doing a lot of work there. So it's a compendium of things, but our team is working on driving that cost down to offset sort of the normal inflation that you correctly referenced over the last five years, and hopefully even do better than that.

Moderator There are no further questions at this time.

M. Bless I think we have nothing further other than again to thank everybody for joining us, to wish those in the New York and nearby regions well, and tell you that we'll talk to you again at the end of February as we normally do to talk about full-year earnings, or certainly before if we've got anything to say. Thanks again.

E. De Anda Thank you, Cathy.