

Final Transcript

CENTURY ALUMINUM COMPANY: First Quarter 2010 Earnings Call

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SPEAKERS

Shelly Lair- Vice President and Treasurer

Logan Kruger- President, Chief Executive Officer and Director

Wayne Hale- Executive Vice President and Chief Operating Officer

Michael Bless- Executive Vice President and Chief Financial Officer

PRESENTATION

Moderators Ladies and gentlemen, thank you for standing by and welcome to the Century Aluminum First Quarter 2010 Earnings Call. At this time, all lines are in a listen-only mode. Later, there'll be an opportunity for your questions and instructions will be given at that time. And, as a reminder, this conference is being recorded. I'll now turn the conference over to your host Shelly Lair. Please go ahead.

S. Lair Thank you, Cathy. Good afternoon, everyone and welcome to the conference call. For those of you joining us by telephone, this presentation is being webcast on the Century Aluminum website www.centuryaluminum.com. Please note that website participants have the ability to advance their own slides.

The following presentation and related comments by Century management contain forward-looking statements within the meeting of the Private Securities Litigation Reform Act of 1995. Information provided in this presentation and discussion is based on information available as of April 27, 2010. We believe the expectations reflected in these forward-looking statements are reasonable based on information available to us on the date of this presentation. However, given the described uncertainties and risks, we cannot guarantee our future financial performance, results of operations or financial condition, and you should not place undue reliance on these forward-looking statements. Century undertakes no duty to update or revise any forward-looking statements whether as a result of new information, actual events, future events or otherwise.

In addition, throughout this conference call, we will use non-GAAP financial measures. Reconciliations to the most comparable GAAP financial measures can be found in the appendix of today's presentation and on our website.

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

L. Kruger

Thank you very much, Shelly. Good afternoon, everyone and thank you for joining us. We welcome the opportunity to report on our progress today so let's move on to slide number 4.

We were pleased with our first quarter performance. We have continued to build the company's financial strength and have made good progress on some of our important long-term strategic objectives. My colleagues and I will give you some details during the next few minutes.

We continued to see decent improvement in many fundamental measures of market activity. In the U.S. and in Europe, the pace of manufacturing recovery has been increasing. Certain industries, notably automotive, are experiencing their first meaningful increase in activity levels in the last several years. The supply chains remain generally lean with distributors and other intermediaries continue to exhibit a wait-and-see mentality.

Despite recent restrictive efforts by monetary authorities in both China and India, those economies continue to perform very well.

Turning to trends, which gives us a pause, certain industries remain depressed, commercial construction being a good example of this, and we remain under a watchful eye of the warehouse and other stocks and further on the actual amount of metal available to the market. There are a myriad

of factors, as you know, as well as a disparate of the aluminum ETFs and the changing shape of the forward price curve, which can influence these critical measures.

Our business continues to perform very well. First, our safety results, already above those of the industry, continue to show consistent improvement. This result is a testament to Wayne and his team at each of our plants. Hawesville had a good quarter and continues to scrutinize every aspect of its cost structure with a review toward the step-up in realized power prices the smelter will see in 2011. Grundartangi is also operating well and continues to produce a meaningful premium to its rated capacity.

We had a busy quarter in labor relations. We have received a tentative new five-year contract with Nordural's unions in Iceland, and we are working hard in a constructive dialogue with the steelworkers in Hawesville to finalize a new, mutually acceptable contract that provides a base for the smelter's long-term competitiveness.

We are focusing our two major issues at Mt. Holly. The plant is still showing only a slow return to normalcy from operational issues it faced last year, and we and our co-owner have spent a significant amount of

time talking amongst ourselves and then with the power supplier about the long-term future of the power arrangement at Mt. Holly. Again, our goal here is to obviously find a structure which provides for the long-term economic competitiveness of the business.

We are facing a complex business environment in Iceland, but are working very hard to restart major project activities. We continue to be encouraged by the fact that important constituencies, the local and national government, the power companies and the society in general remain very supportive of this project. When restarted, it will be the largest economic development in Iceland and that's an important contributor to the return to strength of the Icelandic economy over a number of years. I'll comment a bit more in detail in a few moments.

Let's move on to slide number 5. The LME cash price averaged \$2,167 per ton for the first quarter of 2010 and prices have climbed to around \$2,300 recently. We should take a pause obviously today with the markets being influenced by what's going on in Europe, particularly Greece and Portugal, the price has come off \$150 a ton reminding us how volatile these markets can be.

The aluminum market remains in balance and prices continue to climb with the most recent spot prices for alumina quoted in the range of \$330-\$350 per ton, up from the \$300 per ton in the fourth quarter.

Global aluminum metal demand continues to improve mostly driven by China and some modest growth in the U.S. As an aside, China's GDP accelerated to the fastest pace in almost three years in the first quarter with 11.9% year-on-year growth and industrial production was up 18.1% in March year-over-year.

India economy has increased some 6% year-over-year in the fourth quarter for GDP. Industrial production was 15.1% year-over-year in the month of February. This industrial production growth rate is significantly higher than even previous prerecession levels.

A cautionary note, global costs pressures most notably power, carbon and alumina have also been supportive of the higher prices for the metal we've seen recently.

Let's move on to slide number 6. LME stocks remain relatively flat over the last couple of quarters. This is a meaningful improvement from the significant additions to warehouses that we saw in the first three quarters

of 2009, but we have yet to see any sizeable and sustained declines.

Aluminum tied up in financing deals has provided some support to the prices as regional tightness has lifted premium.

In the U.S., the Midwest premium has climbed to 6.35 cent range, an increase of some 50% from a year ago. In addition, the European duty-paid premium is currently around \$150- \$170 per ton and the premium in Japan is in the low \$120. While supportive near-term, these financing transactions add another element of uncertainty to our market as the economics of these transactions can be influenced by a variety of factors including the slope of the forward curve, interest rates, risks, insurance and other factors.

To this point, there has recently been some discussion of transactions being unwound or not rolled forward in Europe in order to take advantage of the increased local premiums. We believe that the significant warehouse inventory levels will be an overhang on the market for some time to come.

Let's move on to slide number 7. With inventories at 63 days of global demand, we are at roughly double the normalized level of 30-40 days of global demand. As noted on the chart in slide number 7, we see even a

greater disconnect in quarter 1 from the normal relationship between days, inventory and price. As a result, we continue to be cautious in our views on pricing and will continue to focus on running the business prudently in uncertain environment and times.

Now I'd like to pass you on to Wayne for our operations.

W. Hale

Thanks very much, Logan. Let's turn on to slide number 8. The team at Grundartangi continues to post excellent performance results in all areas. Not once did they take their eye off the key performance requirements during the protracted labor negotiations. Safety and operating performance remains strong. The contract has been agreed by the union leaders and is in the process of being reviewed by the workforce.

The repair process of the transformer we have previously reported to you is proceeding as scheduled. It has been removed from service, and it should be back in place as expected in August. As a reminder, we expect the impact on production will only be a couple thousand tons.

I wanted to comment on the volcanic eruption in Iceland and our operations. As you saw, we issued a press release last week confirming there had been no impact on our business. Frankly, the only reason we did

so was the increasing number of inquiries we were experiencing. The volcano is about 100 miles east of Grundartangi and has had no impact on our operation or our electrical supply. All of our critical supplies travel to Iceland by ship to a port located adjacent to our operations and of course our finished metal leaves the same way.

Looking at Hawesville and regarding the labor contract, as you've seen in our press releases, we have extended the current contract with the United Steelworkers as we work with them on a new contract. Discussions to date have been constructive, and the plant continues to operate normally. We are confident of achieving a mutually acceptable agreement which recognizes the challenging environment faced by all U.S. smelters.

As we have previously discussed, our supply agreement with our major customer at Hawesville expires in March 2011. We have had extensive discussions with them about the future relationship and believe this process will soon come to a head. We are hopeful that a mutually acceptable solution can be reached for continuing with this long-term relationship. If we cannot reach such an agreement, Hawesville will simply sell metal to the general market. There should be no problem selling all of the plant's production of both high purity and standard grade metal.

At Mt. Holly, Logan gave you pretty much a good overview of the issues. The plant continues to improve, albeit slowly, from its poor operating performance in 2009. The management team is focused on all the right issues. Importantly, we are in the midst of extensive and substantive discussions with our partner and the power supplier for Mt. Holly. We have told them that the current pricing and structure put the plants long-term viability at risk and that we need to work with them on a structure that will allow us to plan to operate the plant with confidence through different types of market environments. This is a complex issue and will require significant efforts by all parties.

Let's turn on to slide number 9. At Ravenswood, we have seen some encouraging recent developments. The state legislature recently passed and the Governor signed into law legislation which permits the State Public Service Commission to approve pricing arrangements and structures for specific classes of customers such as large, electrically intense industrial companies.

For those of you who are familiar with our industry, this is similar to what was done last year in Ohio. Of course, this is only an enabler for us to negotiate specific and competitive agreement that selectively meets our

needs, requirements of the power provider and the PSC acting on behalf of all the rate payers of the state. On this work, in order to restart the plant we will need to renegotiate the labor contract which was extended to August of this year to provide for long-term competitiveness of the plant.

On the market conditions, again, Logan pretty much summed it up. Premiums in the U.S., Europe and Asia remain strong despite some recently changing additions which we are watching closely. Some sectors, like automotive that have long been ailing, are showing some signs of increased activity, thus renewed investment. The impact of these increasing production rates is exacerbated by the lower supply chain inventories.

Now I'll hand it over to Mike to review the financials.

M. Bless

Thanks, Wayne. If we could please turn to slide 10 and as usual, I will refer my comments to the financial information that follows the verbiage in the earnings release. If you have that handy it will make my comments easier to follow along with. So as usual my comments will compare the quarter that just ended, Q1 sequentially to the quarter before that, so, Q1 over Q4.

Before we get to the top of the income statement, let's just look at the market, Logan and Wayne both referred to the changes in the market. The cash LME sequentially quarter-to-quarter was up 8% and with a one month lag up 14%. On that basis, our realized unit prices in the U.S. were up 13% and our total revenues in Iceland, again on a per unit basis, were up 14%, so right on top of the market.

Looking at volumes, you can see these data at the end of the financial information after the press release. On a reported basis, both domestic and toll volumes were down a little bit. On a per-day basis they were exactly flat. There were two less production and shipment days in Q1 versus Q4. And again, as we noted in the press release, we're happy to say that Grundartangi continues to produce at the rate of 276,000 tons on an annualized basis. Great performance given their rated capacity of 260,000 tons and the fact, as Wayne reminded you, that we do have the transformer out for repair right now.

So putting the pricing and volume data together, net sales on a U.S. dollar reported basis, as you can see on the slide, up 11% Q1 over Q4. Just walking down the income statement, I'll point out a couple factors here. Gross profits first, up \$20 million quarter-to-quarter on a sales increase of \$29 million, so good conversion there.

The only two items that I'd like to point out to you this quarter both relate to the market directly. Alumina costs, in the U.S. obviously, up \$13 million quarter-to-quarter. Obviously, those are indexed to the market, and power costs at Grundartangi in Iceland, of course indexed as well to the metal, up \$2 million quarter-to-quarter.

Again, I'd like to emphasize, you see it in the press release that included in cost of sales this quarter and obviously a deduct the gross profit is \$15 million cost-to-sales charge for power costs in Hawesville for which we're not responsible for which the prior power supplier to Hawesville is responsible for the balance of 2010. We've spoke about that at length.

Moving down the income statement. Other operating expense. Those are obviously curtailment expenses relating to Ravenswood. \$5 million for the quarter. The cash amount this quarter was \$7 million. SG&A \$12 million, cash amount was around \$10 million for the quarter. Income tax provision, as you know we provide no taxes in the U.S. given our large deferred tax assets so the whole amount there you see is a provision at a statutory rate of 18% for our taxable income in Iceland.

Bottom of the income statement data, just to point out to you, average shares, common shares 93.1 million and remember there are 8.3 million average this quarter preferred shares. As you recall, the preferred shares are essentially common stock equivalent. So adding those two together the entire share base is about 101.4 million shares average for the quarter.

On that basis, if you could turn to slide 16 near the back of the deck, just talk through again some of the per share data. As you can see here and back to the reported income statement data, net income spread over those 93 million common shares \$0.06 per share, and when you spread all the net income over the entire share base of 101.4 million, obviously you get the same amount as that net income is allocated prorata to both the common shares on the one hand and the preferred shares in the other hand.

Then you see also on this page, still on slide 16, now that payment that E.ON is making on our behalf as part of the power bill for Hawesville this year on an after-tax basis spread over all those 101 million shares that was \$0.15 for the quarter.

Turning back quickly to the financial statement data. Just a couple of comments on the balance sheet. As you'll see, cash for the quarter including \$9 million of restricted cash ended at \$223 million, up nicely

from year-end. Just to remind you, most of that restricted cash other than a couple million dollars of it is cash that we have on deposit for our power contract, that same new power contract at Hawesville in favor of the power supplier Big Rivers Energy Corporation.

Most of that cash will come back to us, i.e. that whole amount that we have on deposit with Big Rivers when later this year when we post a letter of credit for the remaining security deposit that we take a step back, we talked about this on the last call.

In the fourth quarter this year, we're required to deposit a further \$22 million dollars. So what we intend to do is rather than deposit that cash, consistent with our rights under the contract with Big Rivers, we'll post an LC backed by our revolving credit agreement and in fact, we'll most likely take back the \$7 million of cash that we've already deposited and have the LC cover that amount as well.

Just to review the status of the revolver for you, we talked about this last time. As we expected, we have mandated a lead arranger. They're hard at work on their completing their due diligence and finishing the structuring of the facility. And as we told you last time, we continue to be very confident that we'll have a new facility in place sometime this spring, at

least a couple months before the current facility expires in September this year.

A couple other comments, just one really on the balance sheet down at the debt line, we exchanged some more of the new 8% notes for the old 7.5% notes this quarter. We bought back \$4.3 million principal amount of the old 7.5% notes. So the principal amount balances at the end of this quarter are now \$2.6 million for the old 7.5% and \$249.6 million for the new 8% notes.

A couple comments on the cash flow statement. If you've had a chance to take a quick look, cash from operations for the quarter is \$22 million. As you see one large item above that \$21 million source of cash for due to affiliates, essentially accounts receivable, a little bit of that amount had to do, as you would suspect, with simply the growth of the metal price over the quarter, but a large chunk of it was simply timing, i.e., the regular payment scheduled just a couple days after the balance sheet date. Obviously, that cash came in so that was largely a timing issue.

One other cash flow item I'd just like to point out that wasn't a first quarter issue, but you'll see it in the second quarter. We like many other companies put in for increased tax refunds due to the expansion of the

U.S. carryback period from three years to five years from the legislation that was signed by the President, obviously enacted by Congress and signed by the President earlier this year. So we applied, we put in for additional refunds of \$16 million and received that full amount in April, so you'll see that coming through our cash flow statement when we report our second quarter earnings.

Just two other items in the cash flow, maintenance CapEx of a \$1 million for the quarter and Helguvik spending as we expected just a little bit over \$1.5 million on a monthly basis. You can see there \$4.7 million for the quarter.

Just turn to page—slide 11, please. This is the liquidity changes chart, basically cash quarter-end to quarter-end that we've been showing you. Nothing much to point out on this quarter other than that one item that I noted in the working capital, that \$21 million increase in the due to affiliates, again, just a timing issue there. And with that I'd like to turn it back to Logan.

L. Kruger

Thanks, Mike. If we turn to slide number 12, we can wrap up the presentations and move on to questions and answers. I thought you'd enjoy seeing some of our relatively recent photos from the construction

site at Helguvik. It is as good of a project site as I've seen. The results of the limited site work which when continued will serve as an excellent jumping off point when we restart major activity.

In addition, we are significantly further ahead in terms of engineering effort than a project typically at this point and time. This gives us continued confidence in the project execution and in the capital budget. Thus far, the team has delivered at or favorable to the budget on all areas. We are spending considerable time and effort on finalizing the remaining issues required to restart the project in earnest. Given the ongoing situation in Iceland, the business environment is somewhat complex, but we enjoy strong support from the important constituencies, and thus, we are confident that we can make progress towards a major construction restart later this year. This includes having a financing package in place. We'll obviously update you as we go forward. With that we'd be happy to take your questions. Thanks, Cathy.

Moderator Ladies and gentlemen, our first question comes from Kuni Chen with Bank of America Merrill Lynch.

K. Chen Hi. Good day, everybody.

L. Kruger

Hi, Kuni.

K. Chen

I guess just first question, just on the potential formation of an aluminum ETF. Can you kind of talk about your thoughts on that and what type of impact that should have on the industry and what type of impact that may have on inventory levels?

L. Kruger

Thanks, Kuni. It's Logan. I'll have a go at it and ask Mike to pass on some comments as well. First of all, obviously, it does take some commodity or metal off the market as you well know. The numbers they've talked about anything above a million tons, maybe more and in fact some talk about a second ETF. We'll see how that progresses. That should be supportive of the price because it does take that metal out of circulation. So I think overall first impressions are that it should be supportive, and it should continue to support the market.

The greatest support of the market is obviously growth in demand above supply so we keep noting that and we've been and remain somewhat cautious on that process albeit different from what has happened in the market today because in today's market, because today's market reaction is a bit different from some of the fundamentals. Did Mike have any other comments?

M. Bless No, Logan stole my thunder. Short-term, obviously, all else being equal there's a block of demand that as long as that ETF trades of course and the physical metal has to back it up, we'll never be able to go anywhere. You're talking about a relatively large vehicle there, of course, at a million tons at a couple thousand dollars a ton you're talking about a couple billion dollar vehicle but given the size of this marketplace perhaps and the number of investors who seem to be interested in investing in this marketplace, perhaps it's not that large, but as Logan said, long-term any positive technical or funds flow or whatever you want to call it, impact of that will be hugely overshadowed by the confluence of supply and demand over the next three to five years.

K. Chen Alright. I guess just as a follow-up, I don't know if you mentioned it in your opening remarks, but as far as the potential restart of Ravenswood, can you just update us on what the timing looks like for that situation?

L. Kruger I think Kuni that you may – I don't think you've missed any remarks, and I'll ask Wayne to comment on that. We don't see an eminent restart at Ravenswood but let me put together some of our thoughts. The legislative process in West Virginia has allowed the Public Service Commission now to negotiate or establish what we believe may be a competitive power

pricing mechanism, but that's early days. The law has just been promulgated and then the next step, obviously, is a competitive arrangement with our people manning the plant and then with our labor negotiations the contract comes up at the end of August and then our view, Kuni, with what the market will be longer term, medium to longer term. We think this is positive but I wouldn't try and get ahead of ourselves in looking at this. Other than that, Wayne, any comments?

W. Hale Just an addition, in so far as the law that was passed by legislature and signed by the governor, that doesn't come into effect until mid-June so we can't have advantage of that until that time, however, that doesn't prevent us from stopping and starting discussions with the power supplier and perhaps the Public Service Commission, but that's a timeline element that we have to be considerate of.

K. Chen But potentially any agreement on a new power contract, that would be sometime after mid-year. Is that the right way to think about it?

L. Kruger Yes. Absolutely, Kuni. I think you've got to think anything will develop towards the end of the year. We're just giving you a heads-up if there's been a change and, obviously, we want to look at this opportunistically and work on it.

K. Chen Okay. Very good. Thank you.

L. Kruger Thanks.

W. Hale Thanks, Kuni.

Moderator Thank you. We'll go to Brett Levy with Jefferies & Company.

B. Levy Hi, guys. More of sort of a political update question. Can you guys give an update on the efforts to—I know that Iceland tried to do a bond, I don't know how successful that was—just some sense as to the stability of the Iceland government and the likelihood of any kind of default on the Iceland debt, and then also sort of in the various scenarios, whether or not there's going to be any impact on the profitability of the Century operations in any likely scenario?

M. Bless Sure, Brett. It's Mike. We don't have any inside information here. I'll just tell you what we know based on what the government has announced and obviously we talk with the government ministers all the time. So as you've just seen the IMF has approved—the International Monetary Fund has approved the second stage of the rescue package and that amount

shows the Icelandic government is enough to insure that they have no liquidity or refinancing needs at least through 2011. So I think, again, based on that and the people to whom we talk to, people seem to believe that in the short-term anyway there are no sorts of funding issues.

In answer to your second question, it's hard to kind of predict. As we've talked about when the market was at its perhaps worst two falls ago and then through the early part of 2009, our business wasn't impacted at all in terms of operations, in terms of our ability to get product in and continue to satisfy our obligations to our customers and such. As you remember, we did move our banking operations out of Iceland given that we were worried at the time, in October of 2008—long time ago, about the condition of the banks. That turned out to be a good move as the banks all, of course, became insolvent. And we continue to do our banking operations outside of Iceland maintaining all of Nordural's cash accounts in Europe and in the U.S.

So I guess the only thing that stretching your mind you can think of I guess I'll ask Logan and Wayne if they can think of anything else.

You know, the currency continues to be weak. It's trading at a band. It's sort of an artificial, I guess I'd call it, market given that it doesn't freely

float today and won't for some period of time. If the currency were to move one way or the other that would affect our local costs which are roughly say 20% or so of Grundartangi's cost of sales. Otherwise, I can't really dredge up any other sort of answers to your question. I don't know, Wayne, Logan, if you guys—

W. Hale I think, Mike, you're spot on.

L. Kruger I think we continue to operate through very difficult times the end of 2008/early 2009, Brett, and we don't try and make any predictions on the political situation but the IMF second stage loan is very positive. The discussions around the Icesave continue. We're no more knowledgeable than anyone else publically. I think it's good to see that the country's stable and there's progress being made in perhaps small steps on the economy.

B. Levy And just to stay on the political side, if there is a changeover in the government as it relates to Icesave or any other aspect of it, is there—what do you see as the probability or possibility that the Green Party or some other group that would be opposed to Helguvik could have any influence on this project as best as you can tell from your political take on the situation?

L. Kruger I think, Brett, I try and keep out of political forecasting because I don't think that's going to work very easily. But you would note that the Green Party is already a coalition partner anyway. I think the project itself is significantly important, and it's included in the IMF projections for the recovery of the Icelandic economy in the next two to three years. So I think all people that have got knowledge of what this means to the country and to the impact, particularly on jobs and employment are very supportive of this project. So I would not like to guess of what the future would bring but certainly the value of this project to Iceland and the broader economy and the recovery is critical, and it's part of the Icelandic plan that the IMF is part of.

B. Levy Alright. Thanks very much, guys.

M. Bless Thanks, Brett.

Moderator Then we'll go next to David Gagliano with Credit Suisse.

D. Gagliano Hi. First of all, thanks for taking the questions. This question's actually for Logan. I couldn't help notice that you were pretty cautious and even negative regarding the outlook for the aluminum pricing in your prepared

remarks. And so I was wondering if, first of all, you could remind us what your hedging policy is at the moment and if you are considering making any changes to that policy in light of this cautious outlook and the financing needs for Helguvik?

L. Kruger Yes. Thanks, David. I'm not negative, I'm just cautious, and we've got a challenging 18 months, very successfully. I think we clearly look at this market and see some positive things which you noticed, automotive and premium and things like that. We also note that the metal is full large inventory, but a lot of that is tied up in financing deals but we also want an outlet. So we're cautious; we're not negative.

I think when you look towards ourselves, we obviously look at our domestic production and I think as Mike and ourselves have reported in other previous calls we've taken some downside risk protection for our local or domestic operations. We know that Grundartangi can make cash right through the cycle, and we're in a very difficult cycle. Grundartangi does that. So we wish to protect the downside because that's the element that's going to get us, and I don't know if Mike wants to add anymore?

M. Bless Just on the hedging. Just to reflect upon what Logan said. Remember the hedging we've done, and I wouldn't even, call it hedging, but it's really

just as Logan said, buying insurance. It's very tactical. It's directed at, as Logan said, our domestic operations, and specifically Hawesville and specifically the step-up in power prices we're going to see next year, and we think we pay some nominal insurance premiums to protect the downside of prices, i.e. buying put options for 2010. As we told you, we bought some for 2011, and we are opportunistically watching the marketplace to invest here or there to buy a little bit more insurance. But we're not in a mode, perhaps in the proof in the putting category, David, not to take issue with what you said, but we're not in the mode right now of entering into any kind of arrangement that would limit upside and so in that respect I think perhaps where we are, as Logan said, a bit more balanced.

D. Gagliano Perfect. The concern was just to make sure that that wasn't in the works, obviously.

L. Kruger No. With downside protection and the last piece I would add just on the market just to sort of put some balance to my cautious remarks as you pointed out is that China and India continue to go ahead greatly and great guns and that is going to hopefully in some ways drag the rest of the world. But we're at a point and time where you are starting to see some positive signs but we're not going to start celebrating. I think we've

learned a lot in the last 18 months to look at these things and treat them with respect.

D. Gagliano Okay. And just to follow-up on the Ravenswood question earlier. What medium to long-term aluminum price do you think you'd need to see in order to restart at Ravenswood, assuming that a power agreement is reached?

L. Kruger I think, David, you could go and look at the CRU numbers and you know Ravenswood falls in the fourth quartile of cost producers so we want to get Ravenswood with a competitive set of conditions, power, labor, etc. and operations down into the lower part of the fourth quartile with the majority of the cost producers in the fourth quartile worldwide you know are Chinese. So we want to get ourselves a bit lower down in that quartile, and if you go and look at your CRU charts you will see that's somewhere north of \$2,000 a ton.

D. Gagliano Okay. Thanks.

L. Kruger Thanks.

M. Bless Thanks, David.

- Moderator We have a question from Tony Rizzuto with Dahlman Rose.
- T. Rizzuto Thanks very much. Actually it was a question about hedging, and I think you guys addressed it pretty well. Actually in reading the press release, I also felt the same way that it looked like you guys were looking maybe to layer on a little bit more protection there, but I think you answered that pretty well. Appreciate that.
- L. Kruger Thanks, Tony.
- M. Bless Thanks, Tony.
- Moderator Thank you, then we'll go to Tim Hayes with Davenport & Company.
- T. Hayes Hi. Good day everyone.
- M. Bless Hi, Tim.
- T. Hayes Just a question on Helguvik and the power plant. Can you remind us of the status of that? That's not—it's still got to be built and what about financing for that?

L. Kruger

I think, Tim, I'm going to take a go at this and try and answer the question and perhaps ask Mike or Wayne to fill in. There are two major suppliers to the Helguvik project, OR and HS and approximately about even in this, but maybe a bit more from HS. OR is very well advanced both in their projects and their financing, and that's particularly true for phases one and two and as you know the development of the project because geothermal energy takes five to six years, as you would know.

On HS side, obviously, the initial development of phase one is done and the challenge remains now as part of their financing is to take on phases two, three and four. I'm less concerned about phase four because that's a long time, and at that point and time, you're generating cash from a number of different sources.

So I think that's where we are and our concern remains on the financing side particularly with HS but we're obviously are working with that and with them on that situation. And we also know there's some power available from the other major producer, the largest one in Iceland, and obviously we hope to have some access on that as supplemental and bridging.

M. Bless Tim, It's Mike, with just one further comment on HS and this will ring for those of you especially who came on our tour a couple of years ago. The majority of the power that HS will supply to the first phase, as Logan said, they're well on their way, because your comment was well taken Tim and the answer is both. Both existing plants and new, but the majority of the power that HS will supply will come from simply an expansion of that existing power plant in Reykjanes that many of you who were on the tour—all of you who were on the tour saw. They'll be adding more capacity in that existing plant and so that makes the size of the task, both in respect of financing and execution, exactly, a bit less than it would be if it were a Greenfield, though they will both be putting on Greenfield capacity as we add further phases.

T. Hayes Okay. Very good. Thank you.

L. Kruger Thanks, Tim.

M. Bless Thanks, Tim.

Moderator Next, we have Mark Liinama with Morgan Stanley.

M. Liinama Hello, all.

M. Bless Hi, Mark.

M. Liinamwa There's been a fair amount of discussion or increasing discussion recently about changing the pricing dynamics in the alumina market. Can you comment on your thoughts at all on that and how it may or may not effect Century? Thanks.

L. Kruger Thanks, Mark. Good question. There's been a lot of discussion about that, a lot of it actually arising out of what's happened in the iron ore business. I think a couple of notes, first of all that I think that the proportion of spot to long-term business iron ore is a lot higher than it exists in the alumina business. The alumina business has been at a disadvantage for a long time and this is not necessarily a new idea. At this point and time, it's difficult for us to comment because it was no surprise that this discussion is happening where the spot market is above the long-term price market, so you have to look at what the other side of the coin will look like and over a period of time how that may or may not affect your business. Too early to comment really, Mark, but I just wanted to sketch two things. One, it's a different look and you've got to look at both sides of this equation over a period of time.

- M. Liinamaa So you are in favor of keeping the same traditional benchmark system, I would assume.
- L. Kruger It seems to have worked over a long period of time. Obviously, there are protagonists that believe that it should change, but on the other side of the coin are a number of others that will be reasonably settled with the arrangement as they are.
- M. Liinamaa Thanks. And just quickly on Helgøvik, as you get closer to major construction is there anything as far as changes in the capital budget that seem to be creeping up or is it pretty much going to cost the same as last time we were discussing it? Thanks.
- L. Kruger Yes. Mark, thanks for the question. We actually feel the team has done an excellent job, both on the level of engineering and the execution, and we really feel good about our capital estimate, particularly about Phase One. We know it well. We've been through it extensively. We know where it's coming from, and in detail, it's looking robust at this point and time. I don't know if Mike wants to comment on both of those subjects. Alumina or anything like that.

M. Bless No. No change at all on the Helguvik CapEx. As Wayne said, every quarter that goes by despite the fact that the spending and activity right now is reasonably modest, every quarter that goes by where we continue to be on budget, continue to re-estimate the future spending, continue to do further engineering, get—Wayne might comment about the level of engineering that we've done thus far-- we've become, as Logan said, more confident in that number.

L. Kruger Wayne, any comments?

W. Hale Yes, quickly just to conclude on this. We've been in this phase for quite some time, on this phase one, so we know the suppliers intimately; they know us intimately. So far as the contracts, the engineering has been largely completed in general terms and the detail is upwards of 30%-40%, and so it's moving along as we'd expect, but we've been in this phase for a long time and we know it well.

L. Kruger And Mark there's no technical risk on the actual plant itself, as you know.

M. Liinamaa Great. Thanks a lot, Logan. Good luck.

L. Kruger Thanks, Mark.

Moderator And we do have a follow-up from Tony Rizzuto.

T. Rizzuto Thanks very much. Just a follow-up on—I've got two follow-ups actually. Alumina, quite a large third-party seller has indicated that they are driving more multiple price resets. Are you guys seeing that or are you subject to that or are things been going on as they had previously in terms of the pricing that you pay for alumina?

L. Kruger No, Tony, we're not seeing it. Mike or Wayne can comment. They're probably closer to this than myself. We're not seeing that.

M. Bless No.

L. Kruger And as you know, we have some existing contracts in place anyway. So we are largely covered for a foreseeable couple of years. So it'll be interesting to see how this develops. As I said earlier to the previous question, Tony, it's no surprise that this is being discussed in a market where the spotters are ahead of the long-term. It will be interesting to see when that reverses at some point and time, which it will do as you know, it cycles.

T. Rizzuto Yes. Thanks, Logan. The other question I have is with regard to Hawesville for next year, I think you guys have told us in the past that your power costs might go up next year on the order of magnitude about \$70 million. Should I think of that \$70 million power costs over the four out of the five lines operating or how should we think about that and where would that place the Hawesville smelter on the cost curve? You gave us the positioning of Ravenswood, but where do you think Hawesville would be on kind of a next year basis?

L. Kruger Yes, I think, obviously, you should look at it on the full capacity as the \$70 million. We still have one line down and I'm not giving you any predictions on where that is, but I would start thinking about on that basis, but we'll update you as we go forward so you'll have more than enough time to look at that going forward. I think in terms of where its position is. I don't think it's changed very much because the whole world has seen escalating power costs. No one's immune to that. I'm not knowledgeable of anyone that has seen a reduction in power prices other than some exceptions where there's been linkage to commodity price which is thus taken the flat rate out of costs.

And I'm looking at my colleagues, and I think we'll all be more or less where we were which is the upper end of the third quartile with

Hawesville going forth. Wayne and his team are working on, obviously, ways to ameliorate that, and they're also opportunities but we'll have to bring them to the table before we start talking about them. Wayne, any comments?

W. Hale

No, I think you did it.

M. Bless

The only thing I'd comment, Tony, back to the first half of your question. Obviously, when you look at the increment today, your \$70 million and you saw the number this quarter was \$15 million and last quarter, if I recall, was \$17 million, that is the amount by which without the E.ON support being in place i.e., when it expires at the end of this year, our power costs would be higher for the current operation which, of course, is four lines now. It goes without saying, of course, that if we initiate a fifth line our power costs will go up because we'll need power for that fifth line and that will be if it were in 2011 at that higher or unsupported by E.ON price and so it's a bit of apples to oranges, I realize. I just wanted to make sure that as people are building models and such and looking at scenarios as we do, you've got to account obviously for a full load of power for that incremental fifth line where we can energize it and run it for the entire year.

- T. Rizzuto Comment understood. Thanks very much, Mike. Appreciate it.
- M. Bless Yes. Thanks, Tony.
- L. Kruger Thanks, Tony.
- Moderator We also have a follow-up from Tim Hayes.
- T. Hayes Yes, one more on—if we were to assume that Ravenswood started in full
in 2011, you'd have to get an alumina contract then to support both
Hawesville and Ravenswood?
- L. Kruger Yes. Tim, it's Logan. I think we're just bringing you up to speed with
what's changed in our business. We're not trying to make any prediction
of when or if Ravenswood would ramp up again. So, clearly, we'd have
to have fundamentals of power and a labor contract and a few other things
and then obviously then your basic materials would come in through that
as well. But we're not in that space yet, and then I think you should watch
the space rather than let us be forecasting the future too early.
- M. Bless But again, it's Mike, Tim if you want to do some scenario analysis just,
obviously, look in the K that was just filed a couple of weeks ago, and you

can see detail on the alumina contracts and so you know what we got in terms of supply and then you can lay on top of that current production times 1.95 and any increase in production either from line 5 at Hawesville, on the one hand that's about 50,000 tons of metal or Ravenswood, which of course at a full capacity is about 170,000 tons and then you could see pro forma for that how long or short we would be in any of those scenarios.

T. Hayes Right. Okay. Thank you.

L. Kruger Thanks, Tim.

M. Bless Thanks, Tim.

Moderator And we have no further questions. Please go ahead with any closing remarks.

L. Kruger Thanks to everyone for taking the time for being on our call today. We're looking forward to speaking to you again in the near future. Thank you.
Thanks, Cathy.