CENTURY ALUMINUM COMPANY: First Quarter 2011 Earnings Call
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SPEAKERS

Shelly Lair – Vice President and Treasurer
Logan W. Kruger – President and Chief Executive Officer
Wayne R. Hale – Executive Vice President and Chief Operating Officer
Michael A. Bless – Executive Vice President and Chief Financial Officer

PRESENTATION

Moderator: Ladies and gentlemen, thank you for standing by and welcome to the First Quarter 2011 Earnings call. At this time, all lines are in a listen-only mode. Later there will be an opportunity for your questions and instructions will be given at that time.

I'll now turn the conference over to your host, Shelly Lair. Please, go ahead.

S. Lair: Thank you, Kathy. Good afternoon, everyone, and welcome to the conference call. Before we begin, I would like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations, and financial condition. These forward-looking statements involve important known and unknown risks and uncertainties, which could cause our actual results to differ materially from those expressed in our forward-looking statements. Please review the forward-looking statement disclosure in today's slides and press release for a full discussion of these risks and uncertainties.

In addition, we have included some non-GAAP financial measures in our discussion. Reconciliation to the most comparable GAAP financial measures can be found in the appendix to today's presentation and on our website at www.centuryaluminum.com.

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

L. Kruger | Thanks, Shelly. Thank you all for joining us today. So let's get started on slide number 4.

Market conditions continued to improve during the last several months with the pace of economic activity increasing in most regions. China, India and Brazil continued to post robust results, which have led to growing concerns related to overheating and actions by these governments to attempt to reduce inflationary pressures.

We continue to note a consistent and now seemingly serious effort on the parts of the central government in China to reign in the expansion of the aluminum sector. These programs have, in the past, produced mixed results as capacity continues to be built without approvals from the central government. As you would guess, it remains to be seen whether this iteration will produce more tangible results, but I would note that the frequency and the seriousness of the government's communication has been increasing.

I'd also point out to the obvious political activity taking place across much of the Persian Gulf in the Middle East. In addition to China and India, these regions have represented significant growth in primary aluminum capacity during the recent past. Continued instability in this part of the world could have further dampening effect on the growth of supply.

Despite substantial inventories around the world, physical metal remains tight in many regions. Financing transactions play an obvious part in perpetuating this condition as do the logistics of removing metal from warehouses. Both of these factors are subject to dynamic influences, and we are watching them carefully. Primary aluminum production continues to be subject to persistent cost pressures, the largest of which relates to the price of oil. Mike will detail the impact that this trend has and will continue to have on all of us.

Wayne will provide detail on our operations during the past several months, so I will just make a few brief comments. In summary, I am pleased with our recent performance. Safety and productivity performance has been good. We have progressed on several important projects, such as the restart of the first potline at

Hawesville and the reinstallation of the transformer at Grundartangi, which was damaged last year. Wayne will detail a few fits and starts we are experiencing with the line at Hawesville restart, but these are typical, and we are confident we will get through them during the next few months.

We are moving forward with modest but high impact and low risk investment programs at both Grundartangi and Hawesville. I will comment at the end of our remarks on the status of the Helguvik project.

Let's move on to slide number 5. The LME cash price averaged $2,500 per ton in the first quarter of 2011, the highest quarterly level since the third quarter of 2008. Prices are currently above $2,700 per ton. The recent strength in pricing is being driven by a variety of factors, including improving demand, a weak dollar, high energy prices and a strong investor sentiment towards all commodities.

Alumina spike prices remained firm over the quarter and are in the range of $410 to $420 per ton. This market is forecasted to remain in balance in the near-term with prices around these current levels. Aluminum demand remains strong in Europe and North America due primarily to the continued improvement in the transportation sector. In China, demand remains strong driven by continued infrastructure spending and urbanization. Both India and Brazil are also expected to drive aluminum demand as the construction and industrial sectors continue to grow in these regions.

In addition, the aftermath of the recent Japanese earthquake remains a concern for demand in the short-term but activity is expected to quickly recover as reconstruction begins to accelerate within the country. We may note that a similar impact in the U.S. due to the recent widespread infrastructure damage caused by tornados may have a similar effect.

China finished the quarter with 9.7% year-over-year growth in GDP and with a year-over-year industrial production growth of 14.4%. GDP in India grew at 8.2% year-over-year in the fourth quarter, consistent with recent performance. Inflationary pressures in both these regions and their governments' monetary policy actions, in response thereto, will remain a key area of focus as this is considered to be a significant threat to global economic recovery.

Why don't we move on to slide number 6? On the supply side, the most viable capacity in China that was idled in quarter four of last year was restarted as expected in this first quarter. The Chinese government has become increasingly vocal in its efforts to clamp down on over capacity in the aluminum sector and is denying authorizations for new projects. While we see this as a positive step for the aluminum industry, we view it with some skepticism given similar attempts in the past that have had limited success. We continue to see China in a net balance position to a modest net importer of metal in the future.

Political unrest in the Persian Gulf and the Middle East may also challenge aluminum supply growth as these regions were expected to be a primary growth vehicle outside of China. We anticipate considerable capacity growth from these regions in the near future, specifically with respect to well advanced projects and expansions of existing facilities. But the longer-term unstable environment may deter new investments.

LME prices continued to be supported by the supply and demand dynamics as well as the meaningful shift in the global cost curve, principally driven by the price of oil. This can be seen from the chart on the slide. After many quarters of pricing inconsistent with its historical relationship to inventories, this does indeed appear to be a fundamental change and not just an anomaly.

We can now move on to slide number 7. Inventories are currently at about 58 days of global demand. A combination of cheap capital and the forward contango continues to contribute to additional financing deals. We closely monitor the key elements that drive the economics of these financing deals and at least in this near-term, low interest rate environment, we anticipate that these transactions will continue. We continue to see volatility in the near-term contango, and are currently experiencing a bit of a squeeze. But low interest rates remain supportive of the financing deals.

Even when financing deals do start to unwind, there is another mitigating factor due to the logistical constraints of moving metal in large quantities out of warehouses. With the current daily volume requirements, we believe the impact of any unwinds will be substantially muted by the pace at which metal can physically leave the warehouse. As a result, the aluminum market is currently experiencing a period of physical tightness and premiums in the U.S., Midwest, Europe and Japan are all at or near record levels despite the substantial inventory overhead.

I'd like to now pass this on to Wayne to talk about the operations.

W. Hale Thank you, Logan. Let's turn to slide number 8. As Logan summarized, the operations have performed generally well in 2011. As always, safety is a key value, and I'm pleased to report the performance at the plants continues to improve. This is an area which we strive to progress continuously, and I'm pleased to see that safety is being embedded into everything we do.

On our last call, I discussed the progress made with the investment programs at Hawesville and Grundartangi. To update, the initial work on the capacity creep program at Grundartangi is progressing. This phase includes modification to the rectifiers with a provision of redundancy, installation of a larger anode and upgrades to the rodding room. The timeline for the completion of Phase I is mid-2012. Mike will remind you of the budget cost during his discussion.

At Hawesville, we energized the first cells in line five at the end of the first quarter. We are methodically starting cells according to the process stability. With the confluence of new people with no previous experience and the restart of line 5, there has been a subsequent operational challenge affecting production and output from the balance of the plant. We expect the plant to be substantially on track by the end of the second quarter and producing at full capacity in the third quarter. Mike will provide a comparison of Hawesville's production in quarter one to what we expect in quarter two.

The upgrade of Hawesville's high voltage control systems which support the plant capacity creep continues. When completed in the fourth quarter, average across all potlines will be increased with a subsequent increase in metal production.

As noted in our last discussion, Mt. Holly's performance has continued to improve. Safety, operation, production and cost performance are all nearing the form of excellence for which Mt. Holly has been noted.

Let's turn on to slide number 9. At Ravenswood, you will remember that we are working with all constituents and stakeholders in West Virginia to formulate a power contract that would allow us to reopen the plant. As we have detailed, we would require an arrangement that would protect the plant in times of low metal prices. We had a strong coalition of partners working to get a bill through the state legislature during the 2011 session that would have supported a power contract of this type. Unfortunately, it failed to be approved. Though disappointed with the results, we continued to work with the power providers, the governor's office and other interested parties to create a pathway to achieve an enabling power contract.

On the market front, just a few comments as Logan has covered most of the key points. The Midwest premium is at an all-time high due to a combination of building economic activity and a lack of readily available material. Growing business confidence is coming from a more diverse range of end markets. Our plants are sold out, and we continue to receive inquiries, especially for high purity products.

With that, I'll turn it over to Mike who will review the financials.

M. Bless Thanks a lot, Wayne, and if we could turn to slide 10, please. As Logan said, we're very pleased with the results this quarter. They came in better than we would have expected and better than the modeling assumptions that we provided to you in February would have predicted.

Our realized prices were up 6.5% quarter-to-quarter. As usual, I will make all my comparisons on a sequential basis. So here, obviously, Q1 over Q4 2010. So, realized price is 6.5% sequentially, which is consistent with the quarter-to-quarter rise in the prompt and one-month lag to LME quarter-to-quarter.

I'll talk a little bit about volumes. If you've had a chance to look at the volume and realized price data that comes at the end of the financial information that followed the earnings release, this quarter, like the last couple of quarters, some of the business done in Iceland was done on a direct basis. About 3900 tons of those direct tons were Iceland. So on that basis, making that adjustment, if we look at the sequential growth in shipments, on a per-day basis, there were two less shipping days this quarter than in the fourth quarter last year. Domestic shipments on a per-day basis were down about 2%. Iceland was about flat quarter-to-quarter.

On the production side, the results were up a little bit, both domestic and Iceland. Production on a per-day basis were both up, so we built just a little bit of inventory this quarter, which will wash out over the next couple quarters.

I'll talk a little bit more about volume. Wayne took you through his assumptions for the restart of the reduction cells in line five, which is progressing well. So let me give you what we expect here for the next couple of quarters in terms of shipment volumes based on the rollout of those new reduction cells in line five of Hawesville, and then, obviously, based on the rest of the Hawesville plant and Mt. Holly and Iceland.

I'll start with domestic. We see shipments up between 6% and 7%, Q2 over Q1, and then Q3 over Q2, up an additional 7% to 8%. So just to repeat: Q2 over Q1 domestic shipments up 6% to 7%, Q3 over Q2 domestic shipments up 7% to 8%.

In Iceland, obviously not as much growth given that Grundartangi, as you know, is producing and has been well above its rated capacity on the order of 275 kilotons annualized capacity. Nevertheless, in Q2 we're looking for between 1% and 2% growth over Q1 and in Q3 up about another 1% over Q2.

Let me get back and talk about the reported results in the first quarter of 2011. Starting at the top of the income statement data, net sales on a U.S. dollar basis were up 3% quarter-to-quarter. Again, as I just said a couple minutes ago, the first quarter had two less days than the fourth quarter of 2010.

Moving on down, gross profit was up one million dollars on a $10 million sales increase quarter-to-quarter. I'm going to take you through a couple of the components of that. Our realized prices drove gross profit up $19 million in the quarter. Those costs are directly linked to the aluminum price. That's obviously the cost of our alumina and power at Grundartangi were up $5 million quarter-to-quarter.

Both Logan and Wayne referenced raw materials, this is mostly carbon-based materials, obviously based on the price of oil, were up $7 million quarter-to-quarter. That's absolutely consistent with our expectations. Again, if you go back to those modeling assumptions we gave you in February, you'll see we had in there some large increases in carbon that we had expected and those are embedded in the operating cost numbers that we put in those slides as well. We came in right on top of those.

U.S. power costs were up $2 million quarter-to-quarter. The Hawesville line side restart had a one-time cost of about $6.5 million as you saw in the earnings release. Other costs were generally favorable this quarter. We had a very good quarter in terms of expense management and productivity.

Moving down the income statement, that other operating expense line, just to remind you, that's where we account for Ravenswood, given its curtailed status. As we reminded you in February, we were expecting some accounting gains relating to the change in retirement benefits at West Virginia. That was $9 million as you saw in the earnings release, and we expect that same amount for Q2 of this year and then we'll be done with that. So if you back that out of that number on the Other Operating expense line, you'll see the actual expense was about $3 million, right on top of our expectations.

Moving on down, loss on foreign contracts, $5 million; that's largely non-cash obviously. It goes without saying that if the aluminum price goes up, the value of the put options go down.

No change in our tax status. Just looking quickly at the tax provision line, just to remind you, in the U.S., we provided a 0% rate. That obviously is based on our large balance of deferred tax assets that are fully allowed for. Iceland, we book at the statutory rate of 18%. As you saw in the earnings release, we had a $2 million benefit item in the tax line item related to the retirement benefit change at West Virginia.

At the very bottom of the income statement data, you'll see average diluted shares, common shares in the quarter of 93.3 million. In addition to that, there were 8.2 million average preferred shares out during the quarter.

Take a turn just briefly to slide 16 towards the back. As normal, I'll take you through the ins and outs on the EPS that are described in the first paragraph of the earnings release.

So as you see, and consistent with, obviously, the income statement data, the reported GAAP result net income on common is $0.25. That's obviously the portion of net income that's eligible for the common shares divided by the common shares. When you divide the total net income by the total common preferred shares you obviously get the same results. Obviously allocate the income on a pro rata basis to the common and preferred. It's $0.25.

Then on that total share basis that 101.5 total common preferred shares -- we talked about all these items but just to go through them quickly. The loss on the puts, again, non-cash, $0.05. The accounting for the change in the retirement benefits at Ravenswood, $0.09. Tax benefit related to that, $0.02 and the one time restart cost for line five at Hawesville, $0.06.

Just a couple quick comments on the balance sheet before I move along, not much to report this quarter; cash, including a couple million dollars of restricted cash, stood at $297 million at the end of March. As I said, no other real items to talk about during the quarter. I would note that just after the quarter, in the middle of April, you may have noted we filed an 8-K, and we have called for redemption of the remaining $48 million principal on all of our convertible notes. That process concludes on the 19th of May.

Just to give you a sense of why we did that, as you remember, those notes were putable at par in cash by the holders in August of this year. So we called them a little early, principally for two reasons. One is we can begin now to enjoy the interest rate arbitrage. Obviously we weren't earning and aren’t earning 175 basis points on our cash.

Just as important, those of you familiar with these processes, generally when bonds are put, you get some bonds that are stuck in people's drawers and otherwise, so you don't get them all back and for that reason calling them here will avoid the administrative cost and hindrance of having a couple bonds remaining outstanding. So, again, $48 million of cash will go to that call that will conclude in the third week of May.

Just a couple of cash flow items before I move on. CapEx for the quarter, as you've seen if you've taken a look at the cash flow data, was $3 million. Wayne mentioned the improvement programs ongoing at Hawesville and Grundartangi on schedule. Just to remind you, when we put this obviously in the items in February, we budgeted $10 million to $15 million for those programs in aggregate for this year. We're still on that budget. In addition to that, we have our normal and customary $15 million for maintenance CapEx. We're still on that budget for the year.

Lastly, I'd note spending for Helguvik for the quarter, $4 million, consistent with our estimate that we had given you that we should spend on average about $1 million to $1.5 million per month pending the restart of the major construction activity at the project.

If we can go back please and just go briefly to slide 11, just to give you a sense of the ins and outs and the movements of cash for the quarter. You see the first large item on the tax side. We did some tax planning in Iceland this quarter, and in concert with that, paid an intercompany dividend. Under Icelandic law, you provide a withholding, you pay a withholding tax when you do something like that, so we paid $27 million to the taxing authorities. We get that right back, the same amount in the fourth quarter of this year. So it's just a timing issue.

As we estimated for you in February, we made a pension contribution this quarter. You see the $11 million there. We actually spent $15 million in cash this quarter on pension contributions, and $11 million is the amount in excess of the amount that ran through the income statement. Again, as we advised you in February, we'll spend a few million dollars more on pension contributions through the balance of 2011.

Again, we talked about these other items: Hawesville line five restart one-time cost of $6 million, closer to $6.5 million actually. And the puts, we did buy some additional put options for the first half of 2012. That was a $4 million item in the first quarter of 2011.

Just move on to slide 12 please, very quick comment on cash flow. We had very good cash flow performance this quarter, as you can see. To remind you, this is absolutely consistent with the sensitivity we provided you in the past. Just to remind you, every $100 movement in the LME moves our cash flow on an annualized basis in the range of $35 million to $40 million. If you do the math, you can see the movement here or the increase was right on top of that.

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

L. Kruger Thanks, Mike. Per my earlier comments, regions conducive to the development of a competitive primary aluminum business are becoming increasingly rare. In this regard, we remain convinced that Helguvik will be an attractive, long-term investment for all our shareholders. The economic environment in Iceland has continued along a path of slow improvement. The political picture remains complex. We, like other Icelandic and non-Icelandic companies with significant commitments to the country are hoping that certain recent developments, such as the rejection of the second settlement or the Ice Save dispute will not put this recovery at risk.

The Helguvik project is economically important for Iceland and, thus, enjoys widespread support amongst its stakeholders and other constituents. In this environment, we continue aggressively to pursue the restart of the project. The arbitration process with one of the power suppliers is nearing its end. Regrettably, we may be forced to engage in the similar prices with the other power supply. However, we continue to engage in good faith discussions with both companies and are hopeful that we can arrive at a mutually satisfactory outcome and thus restart a major project activity before the end of this year.

With that, I'd like to say, Kathy, can we take some questions?

Moderator Your first question comes from the line of David Gagliano with Credit Suisse.

D. Gagliano I actually just wanted to focus in on the Ravenswood discussion for just a second. Can you just expand a bit on some of the major sticking points in terms of the power contract? And given where the aluminum price is now, what are you thoughts with regards to timing of bringing Ravenswood back on?

L. Kruger First of all, obviously, I think in our last call we said that we didn't expect a restart in this year. I think that was our comment. Wayne may want to add and Mike may want to add, too. Obviously, what we're looking for is a contract for power for some period of time, and we wanted a longer length of time. That will give us protection or competitive positioning at lower-end, weaker markets. I think that's really where we wish to be. There was a discussion around this and in the finance committee of the Senate this did not pass. But we still have good support for this, and obviously, we'll continue to look at other ways of progressing this.

With your comment as to what the LME is, obviously, we'd look as part of the restart of Ravenswood over the longer-term period of LME to recoup both our financial and our other contributions to restarting this plant. I don't know, Mike or Wayne, any other comments?

W. Hale I think you summarized it.

M. Bless No, Logan said at the end of his comments that, David, as you know, you need to in your analysis be sure that you can -- based on reasonable assumptions -- earn back those restart costs, some of which you get back at the end of time to get the working capital base, some of which you don't. They're one-time costs. So that's the math that we need to do, and the math we'll continue to do as we look to solve this thing either later this year or in a different way.

D. Gagliano Just a rough estimate, what would the restart cost be? I think you've mentioned them before. I just don't remember what they are.

M. Bless — Yes, David, they're upwards of $50 million, maybe a little bit more of which half-ish is working capital and the rest is non-working capital, actual what we call sunk costs.

Moderator — Your next question comes from the line of Brett Levy with Jefferies & Company.

B. Levy — Mike, you mentioned something about put options for 2012. Assuming you don't have Ravenswood significantly ramped up during 2012, approximately what portion of North American production do you currently have hedged for 2011 and what's your target hedge level for 2012 as a percentage of total?

M. Bless — We look at it – just from a definition before I give you the numbers — when you say the denominator in your question, the percentage of production, the denominator we use is what we call the, I think we talked about this with you guys before, the unpriced tonnage. Unpriced in our definition is those tons that aren't already hedged by a natural hedge, in this case the linkage to the alumina price. So on that basis, using that as the definition for the denominator, this year we're just a little bit under 50% and thus far, for the first half of 2012, we're at about 25%, nothing bought yet for the second half of 2012.

B. Levy — You basically have got 50% of the first half of 2012 that's -- .

M. Bless — No, sorry, 50% of all of 2011 and 25% of the first half of 2012.

L. Kruger — Clearly these are put options, so it's downside risk leaving the whole upside available to us.

B. Levy — I'm sure we're going to get or I'm going to continue to evaluate on the options question. You guys are coming up on a call date on your notes. The capital markets are wide open and fairly cheap. Let's see. Obviously you guys want to own as much of Helguvik as you possibly can. Are you guys looking at some options in terms of taking out the bonds and perhaps replacing it with a larger issue to even shore up liquidity further?

M. Bless — Two comments Brett; first is you answered your own question before you asked it, and so I'll leave it at that. As you would hope, all kidding aside, we're looking at this hard because, as you said, the market is good both in respect of absolute yields and spreads for companies with credit profiles like ours.

The only other comment I wanted to pick up on is the one you said about Helguvik. We said at least for the last four quarters, maybe more, Logan that our absolute and full intention is we will own 100% of Helguvik. There is no intention at all to sell down either in the first phase or otherwise any portion of the ownership of Helguvik. Logan, I don't know if you want to --

L. Kruger I think that's correct. Good, Mike, that you made that point. I just want to go back to the put options. Obviously, we evaluate what we see in the market. As you've noted in our prior quarters and maybe the one before, we believe that this market has improved substantially you noted through my comments today, and the economic indicators are supportive of this market doing well.

Obviously the premiums, as you see both in Midwest and Europe and elsewhere are indicating that there’s a demand for metal and immediate availability of metal is not that easy. We've moved on to being obviously positive on the market.

B. Levy I'm going to come back to Helguvik. Can you talk about what the major impediments are and what the timetable might be to get this plant beyond the shell construction stage? Obviously, you guys are talking about power costs. You're trying to build relationships. Just give a little bit deeper dive in terms of what the next few steps are going to be and what the challenges are going to be to get Helguvik to the next few stages.

L. Kruger

I'll just summarize our comments from the last few quarters. Basically, it revolves around finalizing our discussions with the two power providers. It's as simple as that. Our capital cost we know. The engineering we know. The operating permits and environmental permits, those are all in place. It's simple and very clear that we need to come to terms with our partners, our power providers on the contracts that were put in place in 2007 and then went through obviously the financial crisis.

So that is the situation. We're already in that process and, as we've commented before, we went to arbitration with one of the power providers, and we hope that we'll go through the process in the next few months. So we'll keep you apprised of that but that is the only impediment to continuing and to moving forward on the major start of our reconstruction.

We have a good team in place with the same team or similar team that does the work in Grundartangi, and I think all things are ready to go subject to just finalizing our positions with our power providers.

Mike, any comment?

M. Bless — No.

B. Levy — The arbitration board is supposed to rule when, and is there any way we can follow the events a little bit?

L. Kruger — I think we'll keep you apprised as we move forward. Obviously that's going to happen in the near term with the one arbitration board in this quarter, but you can't determine the timing on those. So, we obviously will let you know as soon as we have any more details.

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

S. Tharani — Logan, you mentioned about the logistical impediments of bringing this inventory out of the LME as a rule. These rules have been around for a long time. Is that correct?

L. Kruger — Correct.

S. Tharani So in the past, when we have inventory destocking -- I haven't been covering aluminum for a long time, but how was that path? Was it also a very slow bleed into the market?

L. Kruger I can't really talk to that because my period in aluminum is not sufficient to cover that. But yes, it took a while for that to bleed out into the market. And there's another factor. Of course, it depends on whether people want to release the metal that may be tied up in financing deals.

S. Tharani For that to happen, either you have to go to backwardation or interest rates have to rise. Is that correct?

L. Kruger I think there's a number of elements, and I think we mentioned them in my comments: one, interest rates, obviously; other is contango and what people see as the costs of carrying that forward and making some return on it.

S. Tharani One last thing; if you look out over the next few years between the aluminum and alumina market, how do you think these two will progress in terms of supply demand balance? Where do you think there will be more tightness?

L. Kruger — I think it's a good question. I think let's put the discussion of the inventory to one side having perhaps covered that. I think the market's moving forward with demands on the increase. The ability for the additional production outside of China is very limited. I think all commentators are talking about 2012, maybe early 2013 that the market will turn into a deficit.

Obviously that is dependent on how quickly the demand accelerates. But certainly what we see in our areas that we work, we see demand picking up. As Mike, I think, and Wayne commented, we're completely out at all our plants, and we have people knocking on our door particularly for high purity. So that's a good indicator of the base demand.

I think obviously the alumina side is reasonably balanced against the market, but it's certainly an interesting dynamic there as you know with index on pricing. We'll see how that goes.

Moderator — Your next question comes from the line of Tony Rizzuto with Dahlman Rose.

T. Rizzuto — I've got a couple of questions, Logan, I'd like to ask you about obviously a lot of information, a lot of mixed information coming out of China and you indicated serious efforts. We see some of the provinces looking as if they're going to try to remove some of that redundant capacity, and yet, we're also seeing other indications where in the Western parts of the country they're talking about adding a tremendous amount of capacity. I wonder, I appreciate your comments and always your insights on the market, but how do you see this playing out? Do you really believe that this time is different? We've seen a lot of rhetoric over the years. What gives you the confidence level that things might be a little bit different this time?

L. Kruger

I think in my prepared notes I didn’t display any confidence in this at all. In fact, I said we shall see. But I did note, Tony, on the other side of this that the messages are a lot stronger, they're a lot more consistent and a lot wider stretched as well. I think we shall see. As we commented last quarter, we believe that a lot of the restarts will start in the first quarter and that's really happened and there’s some more to come, but demand has picked up in China as you know and the question is can and will new capacity be built at a rate that keeps up with demand? I think that's the real question that you're trying to ask.

This is just another equation in that. We'll observe that. We also note the plant production increases or new plant built in the western areas. But some of that will be offset by some of the areas that won't be economic. Power prices in China, as you know, are going to continue to go up, and I think over time this will play out in a positive way. That's my view.

T. Rizzuto When you see that, I heard the question I think that Sal asked, and I thought it was a good question and to me it was a critical question in looking at the various markets. In my view, I think the raw material markets could be a limiting factor on China going forward. I'm wondering if the way that you see this playing out, I know that you're going to observe how these markets play out, but does this expedite in your view the need to – I know you have the contracts going out, and I believe the contracts first phase really doesn't come off I believe until 2013, maybe second half – but does this give you a greater sense of urgency to have a little bit more of a natural hedge as you look our further from a standpoint of backward integration?

L. Kruger Yes, I think backward integration means going upstream. Is that what you're saying, Tony?

T. Rizzuto Yes, yes, obviously into the mining and refining.

L. Kruger Absolutely. We've always said that on a project basis if it makes sense, that's a way for us to go. We've also said, clearly we would not be an interested party in going downstream. We've maintained that position and, as you know, we have an early stage project in Jamaica called Mincenco, with a partner, and that will obviously progress on its route and determine whether it's a viable project or not.

Moderator Your next question comes from the line of Lloyd O'Carroll with Davenport & Company.

L. O'Carroll Yes, do you have any uncommitted high purity out of Hawesville at this point since there are only two smelters in North America with high purity? And I'm thinking of the Japanese rebuild of the power grid and the necessity for high purity for conductor.

L. Kruger Good question. I think I have to simply say, one of my colleagues said we sold out.

M. Bless We sell all we make.

L. Kruger It was a slight inventory build in the first quarter but by the measure it's a small amount, and we're sold out and we have ongoing inquiries for more high purity. We've certainly seen from one of our large customers the demand for conductivity material, which is part of your question, Lloyd. There's been a stronger demand for that material.

Moderator We have no further questions, gentlemen.

L. Kruger Well, thank you very much to everyone. We look forward to talking to you again in the near term. Thanks very much.