CENTURY ALUMINUM COMPANY: 2nd Quarter 2013 Earnings

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SPEAKERS

Michael Bless – President and CEO
Shelly Harrison – Senior Vice President, Finance and Treasurer
Peter Trpkovski – Senior Corporate Financial Analyst

ANALYSTS

Bruce Klein – Credit Suisse
Timna Tanners – Bank of America Merrill Lynch
David Olkovetsky – Jefferies & Company
David Gagliano – Barclays Capital

PRESENTATION

Moderator: Ladies and gentlemen, thank you for standing by. Welcome to Second Quarter 2013 Earnings call. At this time, all lines are in a listen-only mode. Later, we will conduct a question and answer session with instructions being given at that time. As a reminder, today's conference is being recorded.

I would now like to turn the conference over to our host, Peter Trpkovski.

P. Trpkovski: Thank you very much, Kerry, and good afternoon, everyone, and welcome to today's call. Before we begin, I would like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations and financial condition. These forward-looking statements involve important known and unknown risks and uncertainties which could cause our actual results to differ materially from those expressed in our forward-looking statements.

Please review the forward-looking statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties. In addition, we have included some non-GAAP financial measures in our discussion. Reconciliation to the most comparable GAAP financial measures can be found in the appendix to today's presentation and on our website at centuryaluminum.com.

With that, I'd like to now introduce Mike Bless, Century's President and Chief Executive Officer.

M. Bless — Thanks, Pete, and thanks, everybody, for joining us this afternoon. We're happy to be here talking to you here for the first time from our new offices in Chicago. And with that, if we could turn to slide four please, let us give you a quick rundown on what we've been working on over the last couple of months.

We think we've had a pretty productive quarter here at Century despite conditions in the commodities markets that are obviously on the weak side. As you would expect, we are trying hard to implement what we are able to, obviously focusing on lowering the company's cost structure and improving our competitive position. Our intent is to set the company up to tough through these kinds of times, like we're going through right now, and to take advantage of better conditions when they come. We think we've made a lot of good progress in doing that. Let us take you through it.

We've continued to take costs out of the operations, and that will be evident when Shelly updates our financial estimates for you here in a couple of minutes. This is even before the substantial improvement coming from the new Kentucky power contracts, which we'll discuss in detail in a moment. Let me just take you through at a high level the last quarter's results to give you a sense of how this is bearing on the actual financial results.

If you look at Q2 over Q1, look at the sales change quarter to quarter, sales were up $11 million, again Shelly will give you more detail on all of this, and gross profit as reported Q1 to Q2 was down $23 million. But if you dissect that $23 million decrease, the lower aluminum price itself, simply the commodity price fall drove gross profit down by $27 million, lower than the decrease itself.

The inventory charge that you see detailed in the earnings release, if you've had a chance to go through it, is a non-cash charge, lower of cost or market charge, we've had those before gains and charges, reduced gross profit by another $10 million. So, those two items alone drove gross profit down by $37 million versus the $23 million reported decrease. All other areas of the company, including importantly the plants themselves, reported positive quarter to quarter variances, and I'll give you some detail plant by plant here in just a couple of minutes.

Moving along, obviously, we importantly, during the quarter reached a definitive agreement for Hawesville's future power supply. You saw that announcement from us in April. The agreement, just to go through it with you again, is pretty straightforward. We'll continue to be served by the same power provider after the current contract terminates on August 20th. Big Rivers, the wholesale provider, will continue to procure power for us in the wholesale markets as we direct them, and Kenergy, the retail provider, will deliver that power to us just like they do now.

We'll pay the market price of the energy, obviously subject to any hedging activities into which we enter, we'll pay a transmission charge, which is federally regulated, we'll pay some minor ancillary fees that are typical of any power supply arrangement, and in addition we'll pay the power providers direct incremental cost for serving us, and those are reasonably small. Just to give you a sense, if you add up all those fees at the current market price for energy, the fully delivered price to Hawesville would be in the mid-$30 per megawatt hour.

Let me just stop here and give you a sense of what Hawesville's pro forma cost structure would look like, again assuming that contract that we have pending before the Kentucky Public Service Commission is approved as we and Big Rivers submitted it. If you take an LME at $$1,800, we ran these numbers a couple of days ago so the price is a little bit lower today, but if you use an $1,800 cash LME, you use that fully delivered electricity price that I just mentioned, under those two assumptions, the plant would be profitable on a cash basis, and that's even after making an allowance for maintenance capital spending.

To give you a sense of the sensitivity there, obviously the Midwest premium and all local premiums have gotten a lot of press here over the last couple of weeks after the LME's proposed change in the rules, and we'll go through that with you in detail here in a few moments, but just to give you a sense, the plant would get to a breakeven level if the Midwest premium would fall by 50%. So we've still got a lot of room there, again even at an LME of $1,800.

Sebree would be at least as competitive as Hawesville once it's on market power in February of 2014. Let me just give you a sense of how these changes in these two power contracts impact the company, the consolidated company's cost structure. Bottom line, after both Hawesville and Sebree are on market power, so this will be after February 2014, the company's consolidated bottom line breakeven would be about $$1,750 LME, and this is after all cash costs, so not only plant costs, of course, but corporate SG&A, interest expense, all taxes, pension contributions, holding costs for our idle plants in Ravenswood, and maintenance capex. The only cost that it doesn't include are discretionary or investment capex, as we call it.

Moving along, we've got two major regulatory processes that need to be completed before we go on to new power contract at Hawesville. This all has to happen before the 20th of August. First, the contract with the power provider needs to be approved by the Kentucky Public Service Commission. As you may remember, we submitted these documents to the PSC in May, and there is actually a public hearing today going on in Frankfort, Kentucky. We expect the PSC's order likely during the week of August 12th.

In addition to that, the authorities who operate and regulate the regional transmission grid, need to determine the operating protocols necessary for addressing any potential problems in the regional transmission lines. This is a pretty complex situation and it’s produced by Big Rivers' intent to close its generation station that sits just adjacent to Hawesville. This process might not be completed by the 20th of August and we had contemplated that potential when we signed the contract with Big Rivers back in April. So if this issue hasn't been resolved by the 20th of August, what would happen is, Big Rivers would continue to run the generation station for some period of time and we would pay them a net incremental cost of them doing that until the transmission issues are worked through and then they could close down that generation plant; it’s called the Coleman Generation Station.

We believe paying this cost over the longer term would have a detrimental impact on Hawesville's competitive profile, but for the short term, the costs aren't significant. For example, the cost structure comments that I just made, the data that I just gave you, and the estimates that Shelly will give you, the updates that Shelly will give you here in a couple of minutes, include allowance for this amount. It's small; it's about $2 per megawatt hour, just to give you a sense. In addition, we needed to make and have made a capital investment of about $2.5 million for some electrical equipment that's required to support their regional transmission grid, and this is equipment that belongs to us and sits on our property.

Lastly, we are working on putting the processes in place to access market power after August 20th. We'll obviously be a large purchaser, wholesale purchaser of market power. This includes things like the routine scheduling and other requirements of the physical purchasing process and obviously price management, or hedging by another name, if we choose to do any. We still got this last push to go, but we do believe we should get to the finish line here. The progress we've made to date has been the result of a tremendous amount of effort by our folks and we've had great support by key legislators in Kentucky as well as county executives and leaders there.

Moving along, we completed the acquisition of Sebree on the 1st of June. You saw the announcement we made when we signed the agreement with Rio, it was in late April. Just to remind you of the terms, we're paying $61 million in cash. Of that we have paid 80% thus far, the rest by the contract we'll pay after some normal post-closing adjustments are completed here over the coming months. In return for that $61 million, obviously we bought ourselves us a business.

In addition to that, we've received a contractually guaranteed amount of working capital, that's $71 million of working capital. Most of that are commodities like alumina and coke and pitch, which obviously turn into cash reasonably quickly. We've assumed virtually no historical liabilities. The only one that we've really assumed is the pension plan, which by contract came to us on a fully funded basis.

Just to remind you, most of you are familiar with Sebree, but the plant has about a 200,000 tonne capacity, almost half of which is billet, which, as you know, is a premium product that goes largely into the automotive supply chain. The plant is in great physical condition. In fact, it's received significant recent investment, which has expanded the plant's hot metal capacity and refurbished the bake shop and the carbon plant. Over $60 million of discretionary investment has been put into this plant over the last four years. Plant is about an hour from Hawesville, hour's drive from Hawesville, so we'll obviously have the opportunity for some future efficiencies, which we're working on now.

First job one at Sebree is to get this plant to the appropriate safety and operations baseline. Frankly, the recent performance hasn't been up to our standard, and this is partly based on the uncertainty that the employees have faced. As many of you know, this plant has been for sale for upwards of two years. We are confident that we'll get there, the management at the plant is absolutely committed to do it, and we are already seeing good improvement, specifically on safety.

Then obviously we need to replicate the Hawesville power contract for Sebree. This should be a relatively straightforward process, obviously assuming the PSC approves the Hawesville contract. The situation at

Sebree is less complex as there are no potential transmission issues, like there are at Hawesville.

Lastly here, on this slide before I move on, as you saw, we refinanced our term debt in May. As you might have suspected, we were waiting for resolution of the issues in Kentucky before we access the market, and Shelly will give you details on that offering here in a couple of minutes.

If we can move on to slide five please, I'll make a couple of comments on the broader market. As you know, largely due to macro trends and events, much broader than in our industry alone, the LME price of aluminum, like the price of most commodities, experienced a heavy sell-off beginning in June. It's currently sitting at about a four year low. Price was in the mid-$1,900s in June and fell pretty precipitously to the low 1,700s. Over the last six weeks or so, it's kind of been bouncing around in the $$1,750 to $$1,800 region, I'm talking about the cash price now, but we're sitting here today at about $$1,730 as of this afternoon's trading. The price, again the cash price, in the second quarter averaged $1,835 per tonne. That was down about 8% from the average price in Q1.

Moving on to premiums, we haven't seen much movement yet, but it goes without saying that there's real uncertainty in the market as a result of the LME's proposed changes in the warehousing rules. I'm sure you've all read, everything has been published about this. As written, as you know, the new rules would impact the ability of the warehouses, or really the economic ability of the warehouses, to continue to accumulate metal. Currently the rules are out under a common period that ends at the end of September and the new rules, in whatever form they're going to take, as currently proposed, would take place or would start in April of 2014.

The market's right now really in a state of flux pending, further developments, no one wants to set a new level here, obviously in terms of transacting, but it goes without saying that all else being equal, any new rules of this kind are very likely to have a downward effect on premiums. It's just difficult at this point to predict the extent of that impact and the timing of it.

For now, LME inventories, as you know, we're sitting at an all-time high; we're at about 5.5 million tonnes. Midwest premium was at $0.118 before the announcement from the LME, and, as I said, there just hasn't been many transactions since then, so it's still sitting right there. Same goes for the European duty paid premium at about $270 a tonne.

Just a couple of quick comments on the market balance, global primary demand was up about 4.5% in Q2, that's versus a supply growth of 3.8%. So we actually built an incremental deficit during this last quarter. Same is true in China where during the second quarter demand was up a little over 8% and supply up a little less than 6%, and for the whole first half, China was relatively in balance; both demand and supply were up about 9%.

You may have seen last week's announcement by the Chinese government of further constraints being put on this industry. Given the past practices here, we're viewing those with a high degree of skepticism. We'll wait and see. Pending any further developments, we see the global market right now, and for at least the foreseeable future, generally in balance, and that includes China.

If we can move along to slide six please, we've updated the cost curve here for you. This is the same format that we've shown you here in the past. We've adjusted this for all regional and product premiums, so the data you're seeing here are directly comparable to the LME. So as you can easily see, at about $1,800 cash LME price, about half of the smelters in the world are operating at a breakeven or below, and that's obviously at current premiums. China this year will have about at least 1 million, maybe upwards of 2 million tonnes of curtailment, and we see additional curtailments pending or potentially coming in Europe, the U.S. or in Russia. We've obviously got supply coming on in China and in the Persian Gulf. Most market participants believe that given the environment, those curtailments obviously aren't sufficient.

Move along to slide seven, please I'll make some comments as I referenced earlier about the company's operations. Safety, first and foremost, most importantly, our performance was generally equal to Q1 across the plants, so we're not yet back to the record performance we reached in 2012. There's been no change in our focusing commitment in this most important area. Our actual performance, if you look at the data, is still in the better half of similar industrial facilities, but our goal is to truly be world-class in this area and we were approaching that benchmark in 2012. As I told you last time, we lost a little bit of momentum early in 2013. The important thing here is, based on the 2012 performance, our people out in the plants and throughout the company really saw that a zero incident workplace is achievable, and that's a great, great confidence builder.

Moving down, you can see production was generally good across the plant. Shelly will make some additional comments about Hawesville, but the sales volume or the shipment volume tonnes at Hawesville were actually down a little bit more than that. We were down about 4% at Hawesville in shipments quarter to quarter, and that's because we purposely built some high purity inventory to help reassure our customers given the uncertainty in the power situation.

Moving down, key production metrics were good and stable across the operations, and again, I referenced cost before, to go through it with you again as promised on a plant by plant basis, Hawesville had nice performance, down again. This is largely due to labor efficiency this quarter, and just to remind you, now, since the fall of 2011, we've taken well over $300 a tonne of cost out of this plant and that's obviously in the face of rising power cost, rising to date. Mt. Holly, more than the entire increase that you see here is represented by higher natural gas costs. Obviously that translates directly to our power costs. At Grundartangi, that nice increase, that nice performance that you see here is coming from virtually all areas of the plant.

With that, I will turn it over to Shelly and she'll take you through the results.

S. Harrison Alright, thanks, Mike. If you could turn to slide eight, please. I'll take you through the company's financial performance for the quarter. Shipments were up 11% quarter-over-quarter, and this was entirely due to the Sebree acquisition. Shipments at Mt. Holly were up about 4% due to one additional day in Q2 and a reduction in inventory. But as Mike mentioned, we built about 5,000 tonnes of finished goods at Hawesville, so shipments for that plant were down about 4% in the quarter.

In Iceland, we had direct shipments of approximately 2,300 tonnes and total volume for Iceland was up slightly due to the extra day in the quarter. On a one-month lagged basis, the average cash LME price was down 9% from Q1 to Q2. When you look at our realized unit prices in the U.S., they were down 7% with higher premiums offsetting a portion of the LME impact. In Iceland, our realized unit prices were down 11% and this reflects the impact of higher toll shipments during the quarter.

Moving on to the income statement data, net sales were up 3% Q2 over Q1. The acquisition drove net sales up by 12%, but lower LME prices offset most of this increase. For operating income, we had our normal adjustments for depreciation and amortization and lower cost of market inventory adjustments. In addition, we had $2 million of relocation expenses in Q2 associated with the headquarters move to Chicago. So on an adjusted basis, operating income decreased $20 million from Q1 to Q2 primarily due to the negative LME impact on revenues, net of the benefit from our LME-linked alumina and power contracts.

For Q2, we had an adjusted loss of $24 million or $0.25 per share and we had several unusual items during the quarter. So let me spend a few minutes taking you through those. As Mike mentioned, an important factor in our decision to acquire the Sebree plant was our strong belief that we would be able to transition that plant to market-based power in the same manner as we are doing at Hawesville when Sebree's power contract terminates in January. Until then, we'll be required to pay for power under the current contract terms with rates that are well above market power prices today, and we expect those rates will increase even further in late August when Hawesville goes off the Big Rivers system. As you'd expect, both the current power rate and the anticipated step up in August were factored into our valuation of the asset.

So our preliminary purchase accounting for Sebree includes a $37 million power contract liability, which reflects the difference between the forecasted contract rates and market power rates over the remaining seven months of the contract. This liability was fully amortized by the end of January through credit to amortization expense. For Q2, this credit was about $3 million reflecting one month under Century's ownership. We also recorded a bargain purchase gain of $2 million for the excess of the Sebree net assets over the purchase price. I'd note that all these purchase accounting values are provisional at this point and subject to future adjustments.

For the refinancing, we had a $3 million charge during the quarter for extinguishment of debt. Let me take a step back here and take you through the refinancing activities in Q2. In May, we refinanced $250 million of 8% senior notes that were maturing in 2014. The new notes have a coupon of 7.5% and mature in 2021. The extinguishment of debt charge included a premium paid to tendering bondholders as well as a non-cash write-off of the remaining capitalized fees and bond discount associated with the retired notes.

We also refinanced our $100 million revolving credit facility that would have matured next year as well. The facility was increased to $137.5 million and now matures in 2018. The increase in our revolver capacity was supported by the current assets that came with the Sebree acquisition and we also reduced the margins on this facility by 125 basis points from our old revolver.

With these two refinancings, we've addressed all of our near-term maturities with the exception of a $3 million sub of unsecured notes, which we'll pay off at maturity next year. That said, we continue to look at different ways to enhance our liquidity and ensure that we're well positioned to withstand the volatile price environment that comes along with being a commodity producer.

Continuing down to the balance sheet, you can see that we had a significant decrease in cash quarter-over-quarter. A large portion of the decline relates to the initial purchase price for Sebree, but I also wanted to note that we had a $22 million customer payment that was inadvertently paid late on the first business day after quarter end. The last calendar day of Q2 was a Sunday, so even though the payment was due on Friday the 28th, we didn't receive funds until Monday, July 1. As a result, we had a large cash outflow associated with the build in receivables in Q2 and that cash has now been received, which you'll see in the next quarter.

As I mentioned previously, we increased the size of our revolving credit facility during Q2, but we also increased our letters of credit by about $26 million. You can see here the net increase in availability was about $13 million. The additional LCs relate primarily to our credit requirements under the Sebree power contract.

As most of you know, this facility was primarily used for letters of credit in the past, but given the increased size and lower cost of the new revolver, we expect to utilize this facility more in the future as a way to fund our U.S. cash flow needs. Our funded debt was essentially flat quarter-over-quarter and our net debt was $133 million at quarter end, and that's before adjusting for the late customer payment I mentioned.

Moving on to slide nine, here we show our normal cash flow waterfall bridging Q1 to Q2. Obviously our biggest use of cash during the quarter was $48 million initial purchase price for the Sebree acquisition. We do expect there will be an additional payment for the acquisition once the calculation of working capital is finalized. Based on the agreed purchase price, this would be an incremental $13 million, so we expect the final amount would be less than this based on the actual level of inventory at closing.

Moving on to the right, you can see we had $8 million in cash costs associated with the bond refinancing. These costs relate primarily to our advisor fees and the issue discount on the new bond. Capital spending picked up during Q2 with $3.5 million spent on the restart of our anode plant in the Netherlands. We also had another $8 million in capex at our smelter facilities and this includes the investment in the creep project at Grundartangi as well as one month of spending for Sebree.

The last few items I'll point out here are the $7 million pension contribution, which represents the bulk of our requirements for 2013. We also made a semi-annual interest payment on our bonds during Q2 and we had a $5 million tax refund from the carry back that was pending finalization of our IRS audit, which is now complete.

So quarter-over-quarter, cash was down $68 million and we ended June with $128 million on the balance sheet. If you add in the late customer payment, then our cash position would have been just under $150 million.

If you could flip to the next slide, on slide ten we've updated our forecast for the second half of 2013 reflecting the Sebree acquisition as well as the expected impact of market-based power for our Kentucky smelters. Shipments for our existing facilities are expected to be pretty much in line with our initial estimates back in February and we expect Sebree will ship about 95,000 tonnes in the second half of the year.

Moving down the chart, we've updated our net cash cost for the second half at an LME range of $$1,800 to $$2,000 per tonne. For our U.S. facilities, we've shown this three different ways: first, on the basis of our current power contracts for both of our Kentucky smelters; second, showing the impact of just Hawesville at market power prices when its contract terminates in August; and finally, showing both Hawesville and Sebree pro forma for market power prices. So you can see here a change in just Hawesville power contract to market will decrease our average U.S. cash cost by $60 a tonne, and this includes both the temporary transmission reliability surcharge that Mike mentioned as well as the anticipated step up in Sebree power cost in August.

In the final step, you can see our average cash cost going down another $120 reflecting both Hawesville and Sebree at market power. So in total, we expect our average U.S. cash cost will go down by $180 per tonne, which translates to in annual EBITDA impact of just over $100 million.

Continuing down the slide, SG&A is up from our original forecast due to the cost associated with the headquarters relocation as well as higher than anticipated SG&A cost for the anode plant restart. We expect that both of these projects will be completed by the end of the year. Book interest will be down just slightly as a result of our refinancing our senior notes and the 50 basis point reduction in coupons will save us a little over $1 million a year in cash interest.

As I mentioned earlier, most of our pension payments for 2013 were made in Q2 and we expect only $2 million in additional payments for the balance of the year. We've increased our maintenance capex forecast to $10 million to $15 million for second half as a result of the Sebree acquisition as well as the capital spending Mike mentioned to support the transmission grid for Hawesville. We also expect to spend another $20 million for the anode plant restart and $15 million to $20 million for the Grundartangi creep project.

Lastly, on this slide, we've updated our depreciation and amortization forecast for the second half. Depreciation is up about $3 million due to the PP&E acquired at Sebree, but the amortization of the Sebree power contract liability will bring those down to a net of about $10 million.

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

M. Bless Thanks, Shelly. If we could just turn to slide 11 please, let me just take you through quickly, then we can get to the Q&A, but I want to take you through the things that we'll be focusing on here over the next couple of months so you can look out for our progress. Obviously job one here is on Hawesville power, we need to finalize the regulatory approvals and the transmission related issues. We did get set up to be a very significant market power purchaser and put in place our price management strategy. Net-net, you ought to look for an announcement for us on progress on the regulatory and other fronts sometime between now and mid-August.

On Sebree, as I said, we need to establish an appropriate safety and operations baseline and get our systems and processes there up to our expectations. And then again, as I detailed earlier, we need to replicate the Hawesville power arrangement for Sebree; should be a reasonably straightforward progress, process rather.

At Grundartangi, we'll continue, as Shelly said, to execute the multi year expansion project. They are well ahead of schedule there as you'll be able to calculate when you look at the numbers during this last quarter, they're now producing at an annualized rate at just shy of 290,000 tonnes, so great, great progress at Grundartangi. And as Shelly said again, we'll prepare for the Vlissingen, for the Netherlands anode plant to restart in the fourth quarter.

At Helguvik, as you remember when we talked to you in April, we were talking about the Icelandic elections. Those have obviously now taken place and the new government has been seated. The summer holidays are in full swing in Iceland now, so not very much is getting done, but we are maintaining some dialogs which we expect will accelerate here as we move into late August and into the fall.

Before the end of the year, we believe we need to determine if we can reach the basis of agreement with the two power companies with whom we signed contracts in 2007, and also as we've discussed with you in the past, importantly, to determine if and on what basis the National Power Company can play a role in this project.

Lastly, as Shelly detailed, we spent a lot of time and will continue to, to preserve the company's financial strength and flexibility. We've ceased all discretionary spending other than these two important projects at Grundartangi. We believe it's appropriate even in this current tough environment to continue with those projects, to complete the restart of the anode plant in the Netherlands and to keep pushing forward on the capacity creep at Grundartangi. And as Shelly said, we are continuing to maintain good liquidity and financial flexibility.

With that, Kerry, I think we can take questions.

Moderator First question comes from the line of Bruce Klein with Credit Suisse.

B. Klein Just on the Hawesville power, what is sort of your view would be the biggest risk I guess in terms of regulators, what would they be viewing as an impediment or have you heard any impediments that they are articulating?

M. Bless — We haven't heard any impediments, we don't believe there should be any impediments. Again, as you know, the deal is a market-based deal, it preserves the smelter obviously, it doesn't put any incremental cost on the other rate payers or the power company. It's exactly what we were intending to do; it's exactly what the politicians wanted us to do. So that is the long-winded answer. There should be no impediments but until it's over it's not over in our view, and that's why we're going to keep going here until we get the final approval.

B. Klein — In terms of hedges, I don't know if you picked them on the power side, is that something that's more on the forefront or later or any, if you could talk about this?

M. Bless — Yes, I mean we're looking at it. Obviously until we have a firm deal that's been approved, you don’t have a liability to go out and hedge. So we've not done anything to-date but we're spending a lot of time looking at it and we're going to be buying 480 megawatts at Hawesville and then when Sebree is at market, we're going to be buying over 800 megawatts, so a very, very major purchase. There's plenty of power out there, the physical power is there in abundance, but as it is a very deep and liquid market, as you know, that allows you to hedge this in any manner that you wish; you can buy forward, you can buy puts and calls if you want to put a range on it, or any combination of that that you can buy from financial, you can transact with financial intermediaries or physical sellers, we're talking to them all right now. So, again we haven't come to any conclusion yet. My guess is at the end of the day, like in most things, we won't hedge it all and we won't hedge none of it; it will be somewhere in between.

The other comment I might make just to give you a sense of how we look at this is that you have to be really careful when you're only looking at hedging one side of the equation, right. So if you're looking at hedging the power price, I'm not saying we will or we won't, but you have to carefully so you're looking at hedging a cost that represents say 40% of your cost, it will be less once we go to market, but let's say 30% plus. You also have to carefully look at the revenue side of that as well or else you might be unbalanced. So we're grinding through all of that as we speak.

Moderator Next we turn to the line of Sal Tharani with Goldman Sachs.

M. Bless — Shall we move on and he can get back in the queue.

Moderator — Certainly, we'll go to the line of Timna Tanners with Bank of America.

T. Tanners — Can you help go through again the breakeven cost of production? I just want to make sure that I distinguished the U.S. versus the overall company once all the cost savings are done?

M. Bless — Sure, absolutely. Now what I gave you was the total company, so bottom, bottom line, all the smelters, U.S. and Iceland, all the, for want of a better term, corporate costs, interest, corporate SG&A and all the rest of that, and that number was $1,750, again once, as you say, both of the Kentucky smelters are on market power. Shelly now has given you a slightly different format. We don't want people to get confused. What she gave you is at a range of LMEs, $1,800 to $2,000; she gave you the actual cost estimates for the U.S. as distinct from Iceland. So it's slightly different. Obviously the breakeven has a circular reference in it, if you will, because of the costs that are referenced to the aluminum prices.

T. Tanners — I just want to make sure I understand that. Now those are cash costs, but with the corporate overhead implied in there, is that correct?

M. Bless — Yes, this is all cash, we're talking only cash here, so we're not putting in any non-cash cost, and all the corporate – everything is in. Basically, it's the bottom line what you would think of as free cash flow, so it's after everything, after interest, after corporate SG&A, after taxes, after pension contributions, after maintenance capex. The only thing that's not in that $1,750 breakeven is discretionary capex, investment capex, capex that we choose to spend on improving the plants, expanding the plants, etc.

T. Tanners — Okay, but no depreciation or anything, right?

M. Bless — No, no depreciation, this is not on a GAAP basis, this is pure cash.

S. Harrison — And just to clarify what Mike just said, that's all referring to his $1,750 breakeven that he referred to. If you go to the second half items we've put out, those numbers are plant specific because we give you things like interest and SG&A separately, and we don't want them double counted. So just want to make sure there was no confusion there.

T. Tanners What happened to Ravenswood, I don't think we mentioned it in this call?

M. Bless Yes, I mean Ravenswood has just been, it's been at steady-state, Timna, this past quarter. The short answer is there's been no change. The long answer is we are continuing to talk there with the power company and the state and all the rest of the constituents, the retiree group on finding a way. We haven't lost—I'm glad you raised it, there's just so much going on this past quarter, we couldn't fit it in, that's probably not a great way to say it, but we haven't lost our interest in reopening this plant and we think that maybe the solutions that we're hopefully about to reach here in Kentucky might hold some answers to how to breach the final gap in West Virginia, but the short answer is, there is no change at Ravenswood, regrettably.

T. Tanners Then final question on the inventory side, the big increase and just want … steady-state with Sebree?

M. Bless Yes, I think it's reasonably steady-state. Obviously that we assumed that, or we bought that inventory, received that inventory. As Shelly said, it was a little bit less than the contractually guaranteed amount, so I guess all else being equal, we'll bulk up by a couple of million and pay a couple of million dollars less on the final purchase price, the difference between the

$61 million and the $48 million that we've paid thus far, as Shelly said, but I think, Shelly, reasonably steady-state going forward?

S. Harrison Yes, for Sebree, and as we talked about for Hawesville, we’re actually a little high on inventory there, we talked about a 5,000 tonne build, so by year end, you would expect to see that come back down.

M. Bless That's an excellent point. So we are roughly $8 million, $9 million of Hawesville inventory higher than we otherwise would be because we really thought it prudent to make sure that that high purity stuff that is, as you know, in very short supply in the U.S. and around the word and customers there need that material and they need it in that specification in order to make sure that they have the confidence to continue to deal with us, which they want to do. Because there are just no other U.S. suppliers, we thought it was the right thing to do to build those couple of thousand tonnes. So to Shelly's point, those should go away here in the third and fourth quarters.

Moderator I'll next return to the line of David Olkovetsky with Jefferies.

D. Olkovetsky I apologize, but I hopped on a bit late and I hope you didn't already go through this, but can one of you guys go through that first paragraph of the earnings release where we talked about what are the various one-time items and just let me know where on the income statement some of them are?

M. Bless Sure, yes, we did go through them but your question is a good one, we didn't give you the geography, as we call it here. Where on the income statement they are, that's a good question, probably many people have the same sense. Shelly, do you want to just march through them.

S. Harrison Yes, sure. What I've done, I've gone to slide 15 of the presentation and basically this reconciliation lines up with that first paragraph. So LCM, you're going to see that in cost of goods; power contract amortization, that's going to be in your depreciation and amortization expense; the gain on bargain purchase, you'll see that as a separate line item; same with extinguishment of debt; and then corporate relo is in SG&A.

D. Olkovetsky Then, on slide six, you guys show that your cash cost is $1,800 and then on ten it's $1,730 to $1,780. I just wondered if you could reconcile that for me.

M. Bless Sure, absolutely, this may have been what we were talking about before. The first slide that you referenced, David, is – oh six, I'm sorry, six is a global cost curve and all we were doing there, sorry it's a bad picture there, all we were doing there at $1,800 is drawing a line where the LME was two days ago when we made this slide. So that's the only thing that that horizontal $1,800 line represents on six.

D. Olkovetsky Oh okay, I got you.

M. Bless Sorry about that. On the second slide that you referenced, those are at that range of LMEs that you see there are actual cash costs for the second half of this year and going forward, as you see.

D. Olkovetsky Then any update on a CFO?

M. Bless The answer is, no. Right now, as you know, since the changes I guess almost two years ago now, it was the fall of November 2011, I've been acting as CFO. We've got two tremendously talented senior finance executives who've been with the company for some time in those jobs. Shelly, who you know here, handles obviously investor relations, the treasury side of things, capital markets insurance and otherwise; and Steve Schneider is our Chief Accounting Officer, handles IT and a whole mess of other things, and that's been working very well thus far. And we think in this current environment, without being too penny wise obviously, we're making sure we don't do that and our Board is making sure I don't do that, but we think in this environment with things running well, it's worked well and it's been prudent here to run the company in this way. Believe me; we continue to talk about it at the Board level very frequently, but for now, no change.

D. Olkovetsky — Then one more if I could, on slide ten again, the cash cost, obviously there's a bit of a difference there in terms of July, August, September, December, is that just due to like peak power prices in summer months?

M. Bless — No, no, let me go through it with you because this is important for everybody to understand. So it's pretty straightforward. July and August is the company – which is the only differences between these three data points are the two plants in Kentucky. So July and August are the two plants in Kentucky as we currently sit, i.e., both plants buying the cost-based power from Big Rivers. As we've told you, they're paying just shy of $50 a megawatt hour. So that's kind of steady-state, the company as it exists.

Then moving to that second line, the Sep to Dec, there are two changes actually, they go opposite ways. So what happens is after August 20th, Hawesville drops to market power and Hawesville's costs go down significantly. At the same time, Sebree until February remains on the Big Rivers system, and what happens on the Big Rivers system is because Hawesville is leaving, the costs to all the other ratepayers, including Sebree, go up. So we've got Hawesville going down in the Sep to Dec period and Sebree going up by about 17%.

And then pro forma is after January of next year, and that's with Hawesville still at market power, no change there, and Sebree leaving the Big Rivers system as they are contractually able to do after January 31 and going to market based power. So, with apology, it's a little bit confusing, but we wanted to give people the data to be able to crunch the numbers really on monthly basis here over the next six months.

Moderator Next we turn to the line of David Gagliano with Barclays.

D. Gagliano I have a really, really quick basic question. I just noticed the SG&A line keeps running at a bit higher quarterly Q1, Q2 versus last year. What's the reason behind that and should we expect that run rate $15 million, $16 million per quarter to continue?

M. Bless Good question, David. The answer to the second part of your question is absolutely no and it's easily explainable. In fact, that whole delta is basically divided in half explained by two items; one is the corporate relocation, and obviously that is now essentially done, we'll have some additional expense here just as we complete the transition over the next couple of months. And the second is specific to the restart of the Vlissingen plant in the Netherlands. The way it works, the accounting works, is that until this plant starts producing, we've hired a bunch of employees there to help with the restart and to get the system set up and all the rest of it, and the way the accounting works is that until the plant starts producing, those costs have to be reported in SG&A, but as soon as the plant is like a normal plant, it is producing, those costs will be reported where they should be, which is in cost of goods sold.

So again the answer to the second part of your question is, no, it ought to go back to a traditional kind of level. The $7 million where we were before was the result of some positive one-time things, as you may remember, and so if you look at the guidance that Shelly took you through, kind of the run rate SG&A on a cash basis here at Century is a little bit over $10 million a quarter, and on a book basis it's, as you can see, we're showing $26 million but including the one-time stuff. So, it will go back to kind of the level where it was but in sort of $9 million to $10 million reported where we used to be.

Moderator Speakers, we have no further questions in queue.

M. Bless We thank everybody very much for their participation and interest today, and again we will be talking to you certainly when we report third quarter and you'll see some announcements from us in August as we progress in Kentucky. Thanks again.

Moderator Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.