CENTURY ALUMINUM CO
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007.

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______.

Commission file number 0-27918

Century Aluminum Company
(Exact name of Registrant as specified in its Charter)

Delaware	**13-3070826**
(State of Incorporation)	(IRS Employer Identification No.)
2511 Garden Road	**93940**
Building A, Suite 200	(Zip Code)
Monterey, California	
(Address of principal executive offices)	

Registrant's telephone number, including area code: (831) 642-9300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

The registrant had 32,585,080 shares of common stock outstanding at April 30, 2007.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

CENTURY ALUMINUM COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

		March 31, 2007		December 31, 2006
ASSETS				
Cash and cash equivalents	$	168,124	$	96,365
Restricted cash		2,011		2,011
Accounts receivable — net		112,924		113,371
Due from affiliates		22,468		37,542
Inventories		163,843		145,410
Prepaid and other current assets		19,573		19,830
Deferred taxes — current portion		95,567		103,110
Total current assets		584,510		517,639
Property, plant and equipment — net		1,230,084		1,218,777
Intangible asset — net		58,097		61,594
Goodwill		94,844		94,844
Other assets		280,411		292,380
TOTAL	$	2,247,946	$	2,185,234
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Accounts payable, trade	$	84,471	$	64,849
Due to affiliates		279,318		282,282
Accrued and other current liabilities		55,549		75,143
Long term debt — current portion		14,611		30,105
Accrued employee benefits costs — current portion		11,083		11,083
Convertible senior notes		175,000		175,000
Industrial revenue bonds		7,815		7,815
Total current liabilities		627,847		646,277
Senior unsecured notes payable		250,000		250,000
Nordural debt		325,176		309,331
Accrued pension benefits costs — less current portion		19,912		19,239
Accrued postretirement benefits costs — less current portion		210,885		206,415
Due to affiliates - less current portion		502,669		554,864
Other liabilities		42,974		27,811
Deferred taxes		47,461		41,587
Total noncurrent liabilities		1,399,077		1,409,247
CONTINGENCIES AND COMMITMENTS (NOTE 7)				
SHAREHOLDERS' EQUITY:				
		326		325

Common stock (one cent par value, 100,000,000 shares authorized; 32,580,662 and 32,457,670 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively)				
Additional paid-in capital		437,375		432,270
Accumulated other comprehensive loss		(136,715)		(166,572)
Accumulated deficit		(79,964)		(136,313)
Total shareholders' equity		221,022		129,710
TOTAL	$	2,247,946	$	2,185,234

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three months ended March 31, 2007		2006
NET SALES:			
Third-party customers	$	380,853	$ 298,473
Related parties		66,804	48,473
		447,657	346,946
Cost of goods sold		337,005	270,478
Gross profit		110,652	76,468
Selling, general and administrative expenses		12,967	12,119
Operating income		97,685	64,349
Interest expense		(11,043)	(6,751)
Interest income		2,013	196
Net gain (loss) on forward contracts		390	(286,760)
Other expense - net		(156)	(161)
Income (loss) before income taxes and equity in earnings of joint ventures		88,889	(229,127)
Income tax (expense) benefit		(28,087)	84,356
Income (loss) before equity in earnings of joint ventures		60,802	(144,771)
Equity in earnings of joint ventures		3,447	3,200
Net income (loss)	$	64,249	$ (141,571)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$	1.98	$ (4.39)
Diluted	$	1.87	$ (4.39)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic		32,508	32,263
Diluted		34,426	32,263

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Three months ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 64,249	$ (141,571)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Unrealized net (gain) loss on forward contracts	(27,399)	286,138
Depreciation and amortization	18,905	14,897
Deferred income taxes	8,087	(84,356)
Pension and other post retirement benefits	5,143	3,503
Stock-based compensation	1,521	2,559
Loss on disposal of assets	180	--
Excess tax benefits from share-based compensation	(330)	(855)
Changes in operating assets and liabilities:		
Accounts receivable - net	447	(15,640)
Due from affiliates	15,074	(3,064)
Inventories	(18,433)	(16,529)
Prepaid and other current assets	(1,217)	(3,398)
Accounts payable, trade	24,429	4,724
Due to affiliates	5,381	(11,206)
Accrued and other current liabilities	(4,611)	(16,325)
Other - net	6,692	(2,838)
Net cash provided by operating activities	98,118	16,039
CASH FLOWS FROM INVESTING ACTIVITIES:		
Nordural expansion	(29,175)	(68,769)
Purchase of property, plant and equipment	(2,438)	(2,632)
Restricted and other cash deposits	2,600	(4,001)
Net cash used in investing activities	(29,013)	(75,402)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	30,000	59,000
Repayment of long-term debt	(29,649)	(143)
Net repayments under revolving credit facility	--	(2,969)
Excess tax benefits from shared-based compensation	330	855
Issuance of common stock	1,973	2,380
Net cash provided by financing activities	2,654	59,123

NET CHANGE IN CASH AND CASH EQUIVALENTS		71,759		(240)
Cash and cash equivalents, beginning of the period		96,365		17,752
Cash and cash equivalents, end of the period	$	168,124	$	17,512

See notes to consolidated financial statements

CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements
Three months ended March 31, 2007 and 2006
(Dollars in thousands, except per share amounts)
(UNAUDITED)

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1. General

The accompanying unaudited interim consolidated financial statements of Century Aluminum Company should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006. In management's opinion, the unaudited interim consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for the first three months of 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Throughout this Form 10-Q, and unless expressly stated otherwise or as the context otherwise requires, "Century Aluminum," "Century," "we," "us," "our" and "ours" refer to Century Aluminum Company and its consolidated subsidiaries.

2. Earnings Per Share

The following table provides a reconciliation of the computation of the basic and diluted earnings per share:

	For the three months ended March 31, 2007			2006		
	Income	Shares	Per-Share	Income	Shares	Per-Share
Net income (loss)	$ 64,249			$ (141,571)		
Basic EPS:						
Income (loss) applicable to common shareholders	64,249	32,508	$ 1.98	(141,571)	32,263	$ (4.39)
Effect of Dilutive Securities:						
Plus:						
Options	--	53		--	--	
Service-based stock awards	--	69		--	--	
Assumed conversion of convertible debt	--	1,796		--	--	
Diluted EPS:						
Income (loss) applicable to common shareholders with assumed conversion	$ 64,249	34,426	$ 1.87	$ (141,571)	32,263	$ (4.39)

Options to purchase 443,697 and 358,101 shares of common stock were outstanding during the periods ended March 31, 2007 and 2006, respectively. There were 83,334 and 83,500 unvested shares of service-based stock outstanding at March 31, 2007 and March 31, 2006, respectively. Based on the average price for our common stock in the three months ended March 31, 2007 and March 31, 2006, we would have been required to issue approximately 1,796,000 and 683,000 shares, respectively, upon an assumed conversion of our convertible debt. For the three month period ending March 31, 2007, 85,000 options were excluded from the calculation of diluted EPS because the exercise price of these options was greater than the average market price of the underlying common stock. For the three month period ending March 31, 2006, all options, service-based stock, and shares to be issued upon the assumed conversion of our convertible debt were excluded from the calculation of diluted EPS because of their antidilutive effect on earnings per share.

Service-based stock for which vesting is based upon continued service is not considered issued and outstanding shares of common stock until vested. However, the service-based stock is considered a common stock equivalent and therefore is included, using the treasury stock method, in average common shares outstanding for diluted earnings per share computations, if they have a dilutive effect on earnings per share. Our goal-based performance share units are not considered common stock equivalents until it becomes probable that performance goals will be obtained.

CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued

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3. Income Taxes

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), on January 1, 2007. As a result of adoption, we decreased our January 1, 2007 retained earnings balance approximately $7,900. As of the adoption date, we had unrecognized tax benefits of $21,800. If recognized, $18,300 of this amount would affect the effective tax rate.

It is our policy to recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized approximately $5,000 of interest at January 1, 2007 which is included as a component of the $21,800 unrecognized tax benefit noted above. During the three months ended March 31, 2007, we recognized approximately $700 in potential interest associated with uncertain tax positions.

Century and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions, and Iceland. We have substantially concluded all material U.S. federal income tax matters for years through 1999. Federal income tax returns for 2000 through 2002 are currently under examination by the Internal Revenue Service (IRS). In connection with these examinations, the IRS has raised issues and proposed tax deficiencies. We have filed an administrative appeal with the IRS and it is likely that this examination will conclude in 2007. Returns beginning in 2003 are subject to examination. Material state and local income tax matters have been concluded for years through 2002. West Virginia income tax returns for 2003 through 2005 are currently under examination and the majority of other state returns beginning in 2003 are subject to examination. We are not currently under examination for our Icelandic filed tax returns and income tax matters have been concluded for years through 2001.

We do not expect a significant change in the balance of unrecognized tax benefits within the next twelve months with the exception of reductions for potential payments to the IRS to settle the examination as noted above.

4. Inventories

Inventories consist of the following:

	March 31, 2007	December 31, 2006
Raw materials	$ 77,192	$ 61,749
Work-in-process	26,693	20,528
Finished goods	6,054	5,435
Operating and other supplies	53,904	57,698
Inventories	$ 163,843	$ 145,410

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

5. Goodwill and Intangible Asset

We test our goodwill for impairment annually in the second quarter of the fiscal year and at other times whenever events or circumstances indicate that the carrying amount of goodwill may exceed its fair value. If the carrying value of goodwill exceeds its fair value, an impairment loss will be recognized. No impairment loss was recorded in 2007 or 2006. The fair value is estimated using market comparable information.

The intangible asset consists of the power contract acquired in connection with our acquisition of the Hawesville facility ("Hawesville"). The contract value is being amortized over its term using a method that results in annual amortization equal to the percentage of a given year's expected gross annual benefit to the total as applied to the total recorded value of the power contract. As of March 31, 2007, the gross carrying amount of the intangible asset was $155,986 with accumulated amortization of $97,889.

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For the three month periods ended March 31, 2007 and 2006, amortization expense for the intangible asset totaled $3,497 and $3,262, respectively. For the year ending December 31, 2007, the estimated aggregate amortization expense for the intangible asset will be approximately $13,991. The estimated aggregate amortization expense for the intangible asset through the Hawesville power contract's term is as follows:

		2008		2009		2010
Estimated Amortization Expense	$	15,076	$	16,149	$	16,378

The intangible asset is reviewed for impairment in accordance with SFAS 142, "Goodwill and Other Intangible Assets," whenever events or circumstances indicate that its net carrying amount may not be recoverable.

6. Debt

		March 31, 2007		December 31, 2006
Debt classified as current liabilities:				
1.75% convertible senior notes due 2024, interest payable semiannually (1)(2)(5)(6)	$	175,000	$	175,000
Hancock County industrial revenue bonds due 2028, interest payable quarterly (variable interest rates (not to exceed 12%))(1)		7,815		7,815
Current portion of long-term debt		14,611		30,105
Debt classified as non-current liabilities:				
7.5% senior unsecured notes due 2014, interest payable semiannually (5)(6)(8)		250,000		250,000
Nordural's senior term loan facility maturing in 2010, variable interest rate, principal and interest payments due semiannually through 2010, less current portion (3)(4)(7)		317,500		301,500
Nordural's various loans, with interest rates ranging from 2.70% to 6.75% due through 2020, less current portion		7,676		7,831
Total Debt	$	772,602	$	772,251

(1) The IRBs are classified as current liabilities because they are remarketed weekly and could be required to be repaid upon demand if there is a failed remarketing. The convertible notes are classified as current because they are convertible at any time by the holder. The IRB interest rate at March 31, 2007 was 3.95%.
(2) The convertible notes are convertible at any time by the holder at an initial conversion rate of 32.7430 shares of Century common stock per one thousand dollars of principal amount of convertible notes, subject to adjustments for certain events. The initial conversion rate is equivalent to a conversion price of approximately $30.5409 per share of Century common stock. Upon conversion of a convertible note, the holder of such convertible note shall receive cash equal to the principal amount of the convertible note and, at our election, either cash or Century common stock, or a combination thereof, for the convertible notes conversion value in excess of such

principal amount, if any.
(3) Nordural’s senior term loan interest rate at March 31, 2007 was 6.87%. The $365.0 million loan facility contains customary covenants, including limitations on additional indebtedness, investments, capital expenditures (other than related to the expansion project), dividends, and hedging agreements. Nordural is also subject to various financial covenants, including a net worth covenant and certain maintenance covenants, including minimum interest coverage and debt service coverage beginning as of December 31, 2006.
(4) Nordural's obligations under the term loan facility are secured by a pledge of all of Nordural's shares pursuant to a share pledge agreement with the lenders. In addition, substantially all of Nordural's assets are pledged as security under the loan facility.

(5) The obligations of Century pursuant to the notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis by all of our existing domestic restricted subsidiaries.
(6) The indentures governing these obligations contain customary covenants, including limitations on our ability to incur additional indebtedness, pay dividends, sell assets or stock of certain subsidiaries and purchase or redeem capital stock.
(7) The term loan agreement repayment schedule was amended in March 2007 to allow a prepayment of the August 2007 principal payment on March 31, 2007. A further amendment in April 2007 and associated prepayment of principal eliminated all periodic principal payments. All remaining outstanding principal amount is due February 28, 2010.
(8) On or after August 15, 2009, we have the option to redeem any of the senior notes, in whole or in part, at an initial redemption price equal to 103.75% of the principal amount, plus accrued and unpaid interest. The redemption price will decline each year after 2009 and will be 100% of the principal amount, plus accrued and unpaid interest, beginning on August 15, 2012.

We have a $100,000 senior secured revolving credit facility (“Credit Facility”) with a syndicate of banks that will mature September 19, 2010. Our obligations under the Credit Facility are unconditionally guaranteed by our domestic subsidiaries (other than Century Aluminum Holdings, Inc., Century Louisiana, Inc., Century California, LLC and Nordural US LLC) and secured by a first priority security interest in all accounts receivable and inventory belonging to Century and our subsidiary borrowers. The availability of funds under the Credit Facility is subject to a $15,000 reserve and limited by a specified borrowing base consisting of certain eligible accounts receivable and inventory. Borrowings under the Credit Facility are, at our option, at the LIBOR rate or bank base rate, plus or minus in each case an applicable margin. The Credit Facility is subject to customary covenants, including limitations on capital expenditures, additional indebtedness, affiliate transactions, liens, guarantees, mergers and acquisitions, dividends, distributions, capital redemptions and investments. We could issue up to a maximum of $25,000 in letters of credit under the Credit Facility. We have issued letters of credit totaling $2,117 as of March 31, 2007. We had no other outstanding borrowings under the Credit Facility as of March 31, 2007. As of March 31, 2007, we had a borrowing availability of $97,646 under the Credit Facility. We pay a commitment fee for the unused portion of the line.

7. Contingencies and Commitments

Environmental Contingencies

We believe our current environmental liabilities do not have, and are not likely to have, a material adverse effect on our financial condition, results of operations or liquidity. However, there can be no assurance that future requirements or conditions at currently or formerly owned or operated properties will not result in liabilities which may have a material adverse effect.

Century Aluminum of West Virginia, Inc. (“CAWV”) continues to perform remedial measures at our Ravenswood, West Virginia facility (“Ravenswood”) pursuant to an order issued by the Environmental Protection Agency (“EPA”) in 1994 (the “3008(h) Order”). CAWV also conducted a RCRA facility investigation (“RFI”) under the 3008(h) Order evaluating other areas at Ravenswood that may have contamination requiring remediation. The RFI has been approved by appropriate agencies. CAWV has completed interim remediation measures at two sites identified in the RFI, and we believe no further remediation will be required. A Corrective Measures Study, which will formally document the conclusion of these activities, is being completed with the EPA. We believe a significant portion of the contamination on the two sites identified in the RFI is attributable to the operations of third parties and is their financial responsibility.

Prior to our purchase of Hawesville, the EPA issued a final Record of Decision ("ROD") under the Comprehensive Environmental Response, Compensation and Liability Act. By agreement, Southwire is to perform all obligations under the ROD. Century Aluminum of Kentucky, LLC ("Century Kentucky") has agreed to operate and maintain the ground water treatment system required under the ROD on behalf of Southwire, and Southwire will reimburse Century Kentucky for any expense that exceeds $400 annually.

CENTURY ALUMINUM COMPANY
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Century is a party to an EPA Administrative Order on Consent (the "Order") pursuant to which other past and present owners of an alumina refining facility at St. Croix, Virgin Islands have agreed to carry out a Hydrocarbon Recovery Plan to remove and manage hydrocarbons floating on groundwater underlying the facility. Pursuant to the Hydrocarbon Recovery Plan, recovered hydrocarbons and groundwater are delivered to the adjacent petroleum refinery where they are received and managed. Lockheed Martin Corporation ("Lockheed"), which sold the facility to one of our affiliates, Virgin Islands Alumina Corporation ("Vialco"), in 1989, has tendered indemnity and defense of this matter to Vialco pursuant to the terms of the Lockheed-Vialco Asset Purchase Agreement. Management does not believe Vialco's liability under the Order or its indemnity to Lockheed will require material payments. Through March 31, 2007, we have expended approximately $700 on the Recovery Plan. Although there is no limit on the obligation to make indemnification payments, we expect the future potential payments under this indemnification to comply with the Order will be approximately $500, which may be offset in part by sales of recoverable hydrocarbons.

In May 2005, Century and Vialco were among the defendants listed in a lawsuit filed by the Commissioner of the Department of Planning and Natural Resources, in his capacity as Trustee for Natural Resources of the United States Virgin Islands. The complaint alleges damages to natural resources caused by alleged releases from the alumina refinery facility at St. Croix and the adjacent petroleum refinery. Lockheed has tendered indemnity and defense of the case to Vialco pursuant to terms of the Lockheed-Vialco Asset Purchase Agreement. The complaint seeks unspecified monetary damages, costs and attorney fees. Vialco and the other defendants have filed separate motions to dismiss asserting certain affirmative defenses including the statute of limitations. No ruling on those motions has been rendered as of this date.

In July 2006, Century was named as a defendant together with certain affiliates of Alcan Inc. in a lawsuit brought by Alcoa Inc. seeking to determine responsibility for certain environmental indemnity obligations related to the sale of a cast aluminum plate manufacturing facility located in Vernon, California which we purchased from Alcoa Inc. in December 1998, and sold to Alcan Rolled Products-Ravenswood LLC (formerly Pechiney Rolled Products, LLC) in July 1999. The complaint also seeks costs and attorney fees.

In December 2006, Vialco and the company that purchased the assets of Vialco in St. Croix in 1995 were named as defendants in a lawsuit filed by the Commissioner of the Department of Planning and Natural Resources. The complaint alleges the defendants failed to take certain actions specified in a Coastal Zone management permit issued to Vialco in October, 1994, and seeks statutory and other unspecified monetary penalties for the alleged violations. Vialco recently filed its answer to the complaint asserting factual and affirmative defenses.

It is our policy to accrue for costs associated with environmental assessments and remedial efforts when it becomes probable that a liability has been incurred and the costs can be reasonably estimated. The aggregate environmental-related accrued liabilities were $817 and $605 at March 31, 2007 and December 31, 2006, respectively. All accrued amounts have been recorded without giving effect to any possible future recoveries. With respect to cost for ongoing environmental compliance, including maintenance and monitoring, such costs are expensed as incurred.

Because of the issues and uncertainties described above, and our inability to predict the requirements of future environmental laws, there can be no assurance that future capital expenditures and costs for environmental compliance will not have a material adverse effect on our future financial condition, results of operations, or liquidity. Based upon all available information, management does not believe that the outcome of these environmental matters will have a material adverse effect on our financial condition, results of operations, or liquidity.

CENTURY ALUMINUM COMPANY
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Legal Contingencies

We have pending against us or may be subject to various lawsuits, claims and proceedings related primarily to employment, commercial, environmental, safety and health matters. Although it is not presently possible to determine the outcome of these matters, management believes their ultimate disposition will not have a material adverse effect on our financial condition, results of operations, or liquidity.

Power Commitments

Hawesville currently purchases substantially all of its power from Kenergy Corp. (“Kenergy”), a local retail electric cooperative, under a power supply contract that expires at the end of 2010. Approximately 73% of this power is at fixed prices. Kenergy acquires most of the power it provides to Hawesville from a subsidiary of LG&E Energy Corporation (“LG&E”), with delivery guaranteed by LG&E. For 2007, all but three percent (approximately 14 megawatts (“MW”)) of our power requirements at Hawesville are priced. Hawesville’s unpriced power requirements increase to 27% (126 MW) of its total power requirements in calendar years 2008 through 2010.

In February 2007, we were informed that the Corps of Engineers (“COE”) is planning to lower reservoir water levels on the Cumberland River for repair and maintenance. This may reduce electrical production from the dams of these reservoirs that were expected to provide a portion of the electrical power we purchase from Big Rivers Electrical Corporation (“Big Rivers”) for use by our Hawesville facility during 2007.

Based on current expectations of reservoir levels, we expect any impact to be limited to the summer months, when usage rates on the Big Rivers system are at peak consumption. Based on our most recent information from the COE, we expect this to affect only approximately 1.5% of Hawesville’s load requirements during this period. We are exploring alternative sources of energy during the summer period and we may have to pay a premium over and above our power contracts for this energy. Based on the current market for electrical power, we do not expect the premium to have a material adverse effect on our financial condition, results of operation or liquidity.

Appalachian Power Company supplies all of Ravenswood’s power requirements under an agreement at prices set forth in published tariffs, which are subject to change. In 2006, the Public Service Commission for the State of West Virginia approved an experimental rate design through June 2009 in connection with an increase in the applicable tariff rates. Under the experimental rate, Ravenswood may be excused from or may defer the payment of the increase in the tariff rate if aluminum prices as quoted on the LME fall below pre-determined levels. After December 31, 2007, CAWV may terminate the agreement by providing 12 months notice of termination.

The Mt. Holly facility (“Mt. Holly”) purchases all of its power from the South Carolina Public Service Authority at rates established by published schedules. Mt. Holly’s current power contract expires December 31, 2015. Power delivered through 2010 will be priced as set forth in currently published schedules, subject to adjustments for fuel costs. Rates for the period 2011 through 2015 will be as provided under then-applicable schedules.

The Nordural facility at Grundartangi, Iceland (“Grundartangi”) purchases power from Landsvirkjun (a power company owned by the Republic of Iceland), Hitaveita Suðurnesja hf. (“HS”) and Orkuveita Reykjavíkur (“OR”) under long-term contracts due to expire in 2019, 2026 and 2028. The power delivered to Grundartangi is priced at a rate based on the LME price for primary aluminum and is from hydroelectric and geothermal sources.

In April 2006, we announced an expansion of the Grundartangi facility from 220,000 metric tonnes per year ("mtpy") to 260,000 mtpy ("Phase V expansion") which is expected to be completed in the fourth quarter of 2007. OR has agreed to deliver the power for the additional expansion capacity by late 2008. Landsvirkjun has agreed to deliver power for the additional capacity on an interim basis until power is available from OR in late 2008.

In June 2006, Nordural signed a memorandum of understanding ("MOU") to purchase power from HS and OR for a planned primary aluminum reduction facility in Helguvik, Iceland. Under the agreement, power will be supplied to the planned Helguvik facility in stages, beginning with an initial phase of up to 250 MW, which will support production capacity of up to 150,000 mtpy. HS will provide up to 150 MW in this initial stage, and OR will supply up to 100 MW. Electricity delivery for this first phase is targeted for late 2010. The MOU provides for a total of 435 MW, which will ultimately provide power for a 250,000 mtpy facility. The agreement is subject to the satisfaction of certain conditions related to the construction of the Helguvik facility.

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Labor Commitments

Approximately 81% of our U.S. based work force is represented by the United Steelworkers of America (the “USWA”). In May 2006, our Hawesville, Kentucky plant employees represented by the USWA ratified a four-year collective bargaining agreement that will extend through April 1, 2010. The agreement covers approximately 600 hourly workers at the Hawesville plant. In August 2006, our Ravenswood plant employees represented by the USWA ratified a three-year labor agreement that will extend through May 31, 2009. The agreement covers approximately 580 hourly employees at the Ravenswood plant.

Approximately 90% of Grundartangi’s work force is represented by five labor unions under an agreement that expires on December 31, 2009.

Other Commitments and Contingencies

At March 31, 2007 and December 31, 2006, we had outstanding capital commitments of approximately $57,376 and $67,732, respectively, primarily related to the Grundartangi Phase V expansion project. Our cost commitments for the Grundartangi expansion may materially change depending on the exchange rate between the U.S. dollar and certain foreign currencies, principally the Icelandic krona and the Euro.

In May 2006, we purchased foreign currency options with a notional value of $41,627 to hedge a portion of our foreign currency risk from our exposure to the Icelandic krona associated with capital expenditures from the ongoing Phase V project at Grundartangi. The option contracts, which are designated as cash flow hedges and qualify for hedge accounting under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No.133”) have maturities through November 2007. The critical terms of the contracts match those of the underlying exposure.

As of March 31, 2007, the fair value of the options of $2,937 is recorded in other assets. Included in accumulated other comprehensive income is an after-tax unrealized gain of $2,326.

8. Forward Delivery Contracts and Financial Instruments

As a producer of primary aluminum products, we are exposed to fluctuating raw material and primary aluminum prices. We routinely enter into fixed and market priced contracts for the sale of primary aluminum and the purchase of raw materials in future periods. The following tables present our long-term primary aluminum sales and tolling contracts. Certain contracts are with a related party, Glencore International AG (together with its subsidiaries, “Glencore”).

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Forward Physical Delivery Agreements

Primary Aluminum Sales Contracts

Contract	Customer	Volume	Term	Pricing
Alcan Metal Agreement	Alcan	276 to 324 million pounds per year	Through July 31, 2007	Variable, based on U.S. Midwest market
Glencore Metal Agreement I (1)	Glencore	50,000 mtpy	Through December 31, 2009	Variable, LME-based
Glencore Metal Agreement II (2)	Glencore	20,400 mtpy	Through December 31, 2013	Variable, based on U.S. Midwest market
Southwire Metal Agreement	Southwire	240 million pounds per year (high purity molten aluminum) (3)	Through March 31, 2011	Variable, based on U.S. Midwest market
		60 million pounds per year (standard-grade molten aluminum)	Through December 31, 2010	Variable, based on U.S. Midwest market
		48 million pounds per year (standard-grade molten aluminum)	Through December 31, 2007	Variable, based on U.S. Midwest market

(1) We account for the Glencore Metal Agreement I as a derivative instrument under SFAS No. 133. We have not designated the Glencore Metal Agreement I as "normal" because it replaced and substituted for a significant portion of a sales contract which did not qualify for this designation. Because the Glencore Metal Agreement I is variably priced, we do not expect significant variability in its fair value, other than changes that might result from the absence of the U.S. Midwest premium.
(2) We account for the Glencore Metal Agreement II as a derivative instrument under SFAS No. 133. Under the Glencore Metal Agreement II, pricing is based on then-current market prices, adjusted by a negotiated U.S. Midwest premium with a cap and a floor as applied to the current U.S. Midwest premium.
(3) The Southwire Metal Agreement will automatically renew for additional five-year terms, unless either party provides 12 months notice that it has elected not to renew.

Tolling Contracts

Contract	Customer	Volume	Term	Pricing
Billiton Tolling Agreement (1)(4)	BHP Billiton	130,000 mtpy	Through December 31, 2013	LME-based
Glencore Toll Agreement (2)(3)(4)	Glencore	90,000 mtpy	Through July 2016	LME-based

(1) In September 2005, Nordural and BHP Billiton amended the Billiton Tolling Agreement to increase the tolling arrangement from 90,000 metric tonnes to 130,000 metric tonnes of the per annum production capacity at Grundartangi effective in the fourth quarter of 2006.
(2) Nordural entered into a 10-year LME-based alumina tolling agreement with Glencore for 90,000 mtpy of the Phase III/IV expansion capacity at Grundartangi. Deliveries on this contract began in July 2006.
(3) In December 2005, Glencore assigned 50% of its tolling rights under this agreement to Hydro Aluminum for the period 2007 to 2010.
(4) Grundartangi's tolling revenues include a premium based on the European Union ("EU") import duty for primary aluminum. In May 2007, the European Union members reduced the European Union ("EU") import duty for primary aluminum from six percent to three percent and agreed to review the new duty after three years. This decrease in the EU import duty for primary aluminum negatively impacts Grundartangi's revenues.

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Apart from the Alcan Metal Agreement, Glencore Metal Agreement I, Glencore Metal Agreement II and Southwire Metal Agreements, we had forward delivery contracts to sell 100,436 metric tonnes and 132,726 metric tonnes of primary aluminum at March 31, 2007 and December 31, 2006, respectively. Of these forward delivery contracts, we had fixed price commitments to sell 102 metric tonnes and 2,538 metric tonnes of primary aluminum at March 31, 2007 and December 31, 2006, respectively, of which none were with Glencore.

Financial Sales Agreements

To mitigate the volatility in our variable priced forward delivery contracts, we enter into fixed price financial sales contracts which settle in cash in the period corresponding to the intended delivery dates of the forward delivery contracts. Certain of these fixed price financial sales contracts are accounted for as cash flow hedges depending on our designation of each contract at its inception. Glencore is the counterparty for all of the contracts summarized below:

Primary Aluminum Financial Sales Contracts as of:

	(Metric Tonnes)					
	March 31, 2007			**December 31, 2006**		
	Cash Flow Hedges	**Derivatives**	**Total**	**Cash Flow Hedges**	**Derivatives**	**Total**
2007	81,000	37,800	118,800	119,500	50,400	169,900
2008	9,000	100,200	109,200	9,000	100,200	109,200
2009	--	105,000	105,000	--	105,000	105,000
2010	--	105,000	105,000	--	105,000	105,000
2011	--	75,000	75,000	--	75,000	75,000
2012-2015	--	300,000	300,000	--	300,000	300,000
Total	90,000	723,000	813,000	128,500	735,600	864,100

The contracts accounted for as derivatives contain clauses that trigger additional volume when the market price for a contract month is above the contract ceiling price. If the market price exceeds the ceiling price for all contract months through 2015, the maximum additional shipment volume would be 723,000 metric tonnes. These contracts will be settled monthly. We had no fixed price financial contracts to purchase aluminum at March 31, 2007 or December 31, 2006.

Additionally, to mitigate the volatility of the natural gas markets, we enter into financial purchase contracts, accounted for as cash flow hedges, which settle in cash in the period corresponding to the intended usage of natural gas.

Natural Gas Financial Purchase Contracts as of:

	(Thousands of MMBTU)	
	March 31, 2007	**December 31, 2006**
2007	810	2,200
2008	480	480
Total	1,290	2,680

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Based on the fair value of our financial sales contracts for primary aluminum and financial purchase contracts for natural gas that qualify as cash flow hedges as of March 31, 2007, an accumulated other comprehensive loss of $63,703 is expected to be reclassified as a reduction to earnings over the next 12 month period.

In the event of a material adverse change in our creditworthiness, Glencore has the option to require a letter of credit, or any other acceptable security or collateral for outstanding balances on these contracts.

The forward financial sales and purchase contracts are subject to counterparty credit risk. However, we only enter into forward financial contracts with counterparties we determine to be creditworthy. If any counterparty failed to perform according to the terms of the contract, the accounting impact would be limited to the difference between the contract price and the market price applied to the contract volume on the date of settlement.

9. Supplemental Cash Flow Information

	Three months ended March 31,	
	2007	2006
Cash paid for:		
Interest	$ 17,127	$ 15,080
Income tax	17,640	6,698
Cash received for:		
Interest	1,596	196
Income tax refunds	--	135
Non-cash investing activities:		
Accrued Grundartangi expansion costs	(3,656)	(5,534)

Non-cash Activities

In the first quarter of 2007, we issued 50,985 shares of common stock as part of our performance share program to satisfy a $2,281 performance share liability to certain key employees. In addition, we recorded a $7,900 noncash adjustment to the beginning balance of our retained earnings as part of the adoption of FIN 48, see Note 3.

During the three month periods ended March 31, 2007 and 2006, we capitalized interest costs incurred in the construction of equipment of $1,216, and $3,852, respectively.

10. Asset Retirement Obligations

The reconciliation of the changes in the asset retirement obligation is as follows:

	For the three months ended March 31, 2007	For the year ended December 31, 2006
Beginning balance, ARO liability	$ 12,864	$ 11,808
Additional ARO liability incurred	510	2,302
ARO liabilities settled	(587)	(2,236)
Accretion expense	258	990

Ending balance, ARO liability	$	13,045	$	12,864

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11. Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This pronouncement applies to other existing accounting pronouncements that require or permit fair value measurements. The pronouncement does not require any new fair value measurements. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and the interim periods within those years. We are currently assessing the new pronouncement and have not yet determined the impact of adopting SFAS No. 157 on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." The Statement would permit us to choose to measure certain financial instruments and other items at their fair value. The objective of the Statement is to mitigate the volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This fair value option would allow us to choose to measure eligible items at fair value at a specified election date. The Statement is effective for us as of January 1, 2008. We are currently assessing the new pronouncement and have not yet determined the impact of adopting SFAS No. 159 on our financial position and results of operations.

12. Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Comprehensive Income:

	Three months ended March 31,			
		2007		2006
Net income (loss)	$	64,249	$	(141,571)
Other comprehensive income (loss):				
Net unrealized (gain) loss on financial instruments, net of tax of $1,452 and $26,613, respectively		1,178		(47,272)
Net amount reclassified to income, net of tax of $(19,234) and $(8,719), respectively		29,248		15,301
Adjustment of pension and other postretirement benefit plan liabilities, net of tax of $375		(570)		--
Comprehensive income (loss)	$	94,105	$	(173,542)

Components of Accumulated Other Comprehensive Loss:

		March 31, 2007		December 31, 2006
Unrealized loss on financial instruments, net of $40,059 and $58,452 tax benefit	$	(60,912)	$	(90,728)
		(75,803)		(75,844)

Pension and other postretirement benefit plan liabilities, net of $49,850 and $48,864 tax benefit, respectively	$ (136,715)	$ (166,572)

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13. Components of Net Periodic Benefit Cost

	Pension Benefits Three months ended March 31, 2007	2006	Other Postretirement Benefits Three months ended March 31, 2007	2006
Service cost	$ 974	$ 1,030	$ 1,761	$ 1,468
Interest cost	1,403	1,214	2,997	2,420
Expected return on plan assets	(1,695)	(1,700)	--	--
Amortization of prior service cost	182	103	(540)	(219)
Amortization of net gain	280	214	1,369	1,035
Net periodic benefit cost	$ 1,144	$ 861	$ 5,587	$ 4,704

14. Other Assets

Components of Other Assets:	March 31, 2007	December 31, 2006
Deferred tax assets - noncurrent	$ 188,567	$ 203,452
Other assets (primarily investments in joint ventures)	79,533	75,950
Capitalized financing fees	12,311	12,978
	$ 280,411	$ 292,380

15. Condensed Consolidating Financial Information

Our 7.5% Senior Notes due 2014, and 1.75% Convertible Senior Notes due 2024 are guaranteed by each of our material existing and future domestic subsidiaries, except for Nordural US LLC. The subsidiary guarantors are each 100% owned by Century. All guarantees are full and unconditional and all guarantees are joint and several. These notes are not guaranteed by our foreign subsidiaries (such subsidiaries and Nordural US LLC, collectively the "Non-Guarantor Subsidiaries"). Our policy for financial reporting purposes is to allocate corporate expenses or income to subsidiaries. For the three months ended March 31, 2007 and March 31, 2006, we allocated total corporate expense of $2,646 and $3,601 to our subsidiaries, respectively. Additionally, we charge interest on certain intercompany balances.

The following summarized condensed consolidating balance sheets as of March 31, 2007 and December 31, 2006, condensed consolidating statements of operations for the three months ended March 31, 2007 and March 31, 2006 and the condensed consolidating statements of cash flows for the three months ended March 31, 2007 and March 31, 2007 present separate results for Century, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries.

This summarized condensed consolidating financial information may not necessarily be indicative of the results of operations or financial position had Century, the Guarantor Subsidiaries or the Non-Guarantor Subsidiaries operated as independent entities.

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CONDENSED CONSOLIDATING BALANCE SHEET
As of March 31, 2007

	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	The Company	Reclassifications and Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ —				