

CENTURY ALUMINUM CO  
Form 10-K  
March 02, 2009

---

---

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

OR

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

Commission File Number 0-27918

CENTURY ALUMINUM COMPANY

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

13-3070826  
(IRS Employer Identification No.)

2511 Garden Road  
Building A, Suite 200  
Monterey, California  
(Address of registrant's principal offices)

93940  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, \$0.01 par value per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Edgar Filing: CENTURY ALUMINUM CO - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in a definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>	Non-Accelerated Filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
-------------------------	-------------------------------------	-------------------	--------------------------	--	--------------------------	---------------------------	--------------------------

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

Based upon the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 30, 2008, the approximate aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$1,952,000,000. As of February 20, 2009, 73,556,562 shares of common stock of the registrant were issued and outstanding.

Documents Incorporated by Reference:

All or a portion of Items 10 through 14 in Part III of this Form 10-K are incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if the Registrant's Schedule 14A is not filed within such period, will be included in an amendment to this Report on Form 10-K which will be filed within such 120 day period.

Table of Contents

	TABLE OF CONTENTS	PAGE
	<u>Forward-Looking Statements</u>	1
	PART I	
Item 1	<u>Business</u>	1
Item 1A	<u>Risk Factors</u>	12
Item 1B	<u>Unresolved Staff Comments</u>	25
Item 2	<u>Properties</u>	25
Item 3	<u>Legal Proceedings</u>	25
Item 4	<u>Submission of Matters to a Vote of Security Holders</u>	25
	PART II	
Item 5	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
Item 6	<u>Selected Financial Data</u>	28
Item 7	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 7A	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
Item 8	<u>Financial Statements and Supplementary Data</u>	49
Item 9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	101
Item 9A	<u>Controls and Procedures</u>	101
Item 9B	<u>Other Information</u>	101
	PART III	
Item 10	<u>Directors, Executive Officers and Corporate Governance</u>	102
Item 11	Executive Compensation	102
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	102
Item 13	Certain Relationships and Related Transactions and Director Independence	102
Item 14	Principal Accountant Fees and Services	102
	PART IV	
Item 15	<u>Exhibit and Financial Statement Schedules</u>	103
	<u>Signatures</u>	108

Table of Contents

PART I

Throughout this Form 10-K, and unless expressly stated otherwise or as the context otherwise requires, "Century Aluminum Company," "Century Aluminum," "Century," "we," "us," and "our" refer to Century Aluminum Company and its subsidiaries.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. We have based these forward-looking statements on current expectations and projections about future events. Many of these statements may be identified by the use of forward-looking words such as "expects," "anticipates," "plans," "believes," "projects," "estimates," "intends," "could," "would," "will," "scheduled," "potential" and similar words. These forward-looking statements are subject to risks, uncertainties and assumptions including, among other things, those discussed under Item 1, "Business," Item 1A, "Risk Factors," Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data," including further declines in the price of aluminum, additional curtailment of certain of our operations, the possible need for alternate liquidity sources, the continuation or worsening of global financial and economic conditions, our ability to access the credit and capital markets, further reductions in our selling, general and administrative expenses, our ability to meet pension funding obligations, deterioration of economic and political conditions in Iceland, further volatility in our stock price, our planned construction and development activities, including our Helguvik site, debt servicing requirements, year-end and possible future asset write downs, changes in our credit ratings, costs to curtail unprofitable operations, our ability to close a new long-term power contract at Hawesville and receipt of federal tax refunds. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated or projected. The risks described herein in Item 1A, "Risk Factors," Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data" should be considered when reading any forward-looking statements in this document.

We believe the expectations reflected in our forward-looking statements are reasonable, based on information available to us on the date of this Form 10-K. However, given the described uncertainties and risks, we cannot guarantee our future performance or results of operations, and you should not place undue reliance on these forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law, you are advised to consult any additional disclosures we make in our quarterly reports on Form 10-Q, annual report on Form 10-K and current reports on Form 8-K filed with the SEC. See Item 1, "Business - Available Information."

Item 1. Business

Overview

We produce primary aluminum. Aluminum is an internationally traded commodity, and its price is effectively determined on the London Metal Exchange ("LME"). Our primary aluminum facilities produce value-added and standard-grade primary aluminum products. In 2004, we acquired Grundartangi, an Icelandic primary aluminum facility which became our first production facility located outside of the United States. We produced approximately 804,000 metric tons of primary aluminum in 2008 with net sales of approximately \$2.0 billion. Our current primary aluminum production capacity is 785,000 metric tons per year ("mtpy"). We have begun construction on a primary aluminum facility in Helguvik, Iceland and have curtailed operations at our Ravenswood, West Virginia facility. We are currently evaluating the Helguvik project's cost, scope and schedule in light of global economic conditions and weakening commodity prices. During the evaluation, we have significantly reduced spending on the project.



Table of Contents

In addition to our primary aluminum assets, we have 50% joint venture interests in the Gramercy alumina refinery, located in Gramercy, Louisiana and a related bauxite mining operation in Jamaica and a 40% stake in Baise Haohai Carbon Co., Ltd. (“BHH”), a carbon anode and cathode facility located in the Guangxi Zhuang Autonomous Region of south China. The Gramercy refinery supplies substantially all of the alumina used for the production of primary aluminum at our Hawesville, Kentucky facility, assuming Gramercy and Hawesville operate at full capacity. The BHH facility has annual anode production capacity of 180,000 metric tons and an annual cathode production capacity of 20,000 metric tons and supplies a portion of the anodes used in our Grundartangi facility.

## Primary Aluminum Facilities:

Facility	Location	Operational	Capacity (mtpy)	Ownership Percent
Grundartangi	Grundartangi, Iceland	1998	260,000	100%
Hawesville	Hawesville, Kentucky, USA	1970	244,000	100%
Ravenswood(1)	Ravenswood, West Virginia, USA	1957	170,000	100%
Mt. Holly (2)	Mt. Holly, South Carolina, USA	1980	224,000	49.7%

- (1) On February 20, 2009, we curtailed all operations at the Ravenswood facility until economic conditions warrant the possibility of restarting.
- (2) Alcoa holds the remaining 50.3% ownership interest and is the operator. Century’s share of Mt. Holly’s capacity is approximately 111,000 mtpy.

## Joint Venture Facilities:

Facility	Location	Type	Capacity	Ownership Percent
Gramercy (1)	Gramercy, Louisiana, USA	Alumina refinery	1.2 million mtpy	50%
St. Ann Limited (2)	St. Ann, Jamaica	Bauxite	4.5 million mtpy	50%
Baise Haohai Carbon Co., Ltd (3)	Guangxi Zhuang, China	Carbon anode and cathode	180,000 mtpy anode; 20,000 mtpy cathode	40%

- (1) Gramercy is currently operating at a reduced capacity of 700,000 mtpy.

- (2) The Government of Jamaica has granted St. Ann Bauxite Limited (“SABL”) rights to mine 4.5 million dry metric tons of bauxite on specified lands annually through September 30, 2030.
- (3) BHH is currently operating at 50% of its rated capacity due to the reduced operations of its main customer in China.

Our long-term strategic objectives are to: (i) expand our primary aluminum business by investing in or acquiring additional capacity that offers favorable returns and lowers our per unit production costs; (ii) further diversify our geographic presence; and, (iii) pursue upstream opportunities in bauxite mining, alumina refining and the production of other key raw materials. The following table shows our primary aluminum shipment volumes since 2004.

- 2 -

Table of Contents

## PRIMARY ALUMINUM SHIPMENTS (in thousands of metric tons):

	Shipments from U.S. Operations	Shipments from Iceland Operations	TOTAL
2004	535	63	598
2005	523	93	616
2006	523	157	680
2007	532	235	767
2008	532	272	804

Since 2004, our growth activities have included:

acquiring the Grundartangi facility (“Grundartangi”) in April 2004;

acquiring a 50% joint venture in the Gramercy facility (“Gramercy”), our first alumina refining facility, together with related bauxite mining assets in October 2004, and;

expanding Grundartangi’s production capacity to 260,000 mtpy of primary aluminum (from 90,000 mtpy at the time of our acquisition), and;

acquiring a 40% joint venture in the Baise Haohai Carbon Co. Ltd., a carbon anode and cathode facility and our first investment in China in April 2008.

## Recent Developments

Information on our recent developments is available in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included herein.

## Competition

The market for primary aluminum is global, and demand for aluminum varies widely from region to region. We compete with U.S. and international companies in the aluminum industry primarily in the areas of price, quality and service. In addition, aluminum competes with materials such as steel, copper, carbon fiber, composites, plastic and glass, which may be substituted for aluminum in certain applications.

Our Hawesville and Ravenswood plants are each located adjacent to their largest customer. This location allows the plants to deliver a portion of their production in molten form, at a cost savings to both parties, providing a competitive advantage over other potential suppliers. Our Hawesville plant also has a competitive advantage due to its ability to produce the high purity aluminum needed by its largest customer for the manufacture of electrical transmission lines. On February 20, 2009, we curtailed all operations at the Ravenswood facility until economic conditions warrant the possibility of restarting.



Table of Contents

## Customer Base

In 2008, we derived approximately 76% of our consolidated sales from our four major customers: Southwire, Alcan, Glencore and BHP Billiton. Additional information about the revenues and percentage of sales to these major customers is available in Note 22 of the Consolidated Financial Statements included herein. We currently have primary aluminum sales or tolling contracts with each of these customers. More information about these contracts is available under “Long-term Primary Aluminum Sales Contracts” in Note 18 of the Consolidated Financial Statements included herein.

## Financial Information about Segments and Geographic Areas

We operate in one reportable segment, primary aluminum. Additional information about our primary aluminum segment and certain geographic information is available in Note 22 to the Consolidated Financial Statements included herein. For a description of certain risks attendant to our operations, see Item 1A, “Risk Factors.”

## Energy, Key Supplies and Raw Materials

We consume the following key supplies and raw materials in the primary aluminum reduction process:

electricity	carbon anodes	silicon carbide
alumina	cathode blocks	caustic soda
aluminum fluoride	liquid pitch	calcined petroleum coke
natural gas		

Electrical power, alumina, carbon anodes and labor are the principal components of cost of goods sold. These components together represented over 75% of our 2008 cost of goods sold. We have long-term contracts to attempt to ensure the future availability of many of our cost components. For a description of certain risks attendant to our raw material supplies and labor, see Item 1A, “Risk Factors.”

## Key Long-term Supply Contracts

## Alumina Supply Agreements

A summary of our alumina supply agreements is provided below. Grundartangi does not have alumina supply agreements because this facility tolls alumina provided by BHP Billiton, Hydro and Glencore into primary aluminum.

Facility	Supplier	Term	Pricing
Mt. Holly	Trafigura	Through December 31, 2013	Variable, LME-based
Hawesville	Gramercy Alumina	Through December 31, 2010	Variable, Cost-based
Ravenswood (1)	Glencore	Through December 31, 2009	Variable, LME-based

Various	Glencore	January 1, 2010 through December 31, 2014	Variable, LME-based
---------	----------	--	------------------------

(1) If we are unable to use the contracted alumina in our other operations or sell the alumina at prices consistent with our contract costs, we could incur significant losses under these contracts. As a result of the Ravenswood curtailment, we expect to incur cash losses of approximately \$15 to \$20 million in 2009 associated with the sale of excess alumina that will be received under this alumina supply agreement. This estimate is based on current alumina contract pricing which is indexed to LME prices for primary aluminum, our estimate of spot alumina prices and the forecasted internal use of a portion of this material in our other smelting operations.

- 4 -

Table of Contents

## Electrical Power Supply Agreements

We use significant amounts of electricity in the aluminum production process. In addition to the contracts listed below, we have entered into long-term power supply agreements to supply power for the Helguvik project. These contracts, described in Note 17 to the Consolidated Financial Statements included herein, are subject to various conditions. A summary of our long-term power supply agreements is provided below.

Facility	Supplier	Term	Pricing
Ravenswood (1)(2)	Appalachian Power Company	Through June 30, 2009	Based on published tariff, with provisions for pricing based on the LME price for primary aluminum
Mt. Holly	South Carolina Public Service Authority	Through December 31, 2015	Fixed price, with fuel cost adjustment clause through 2010; subject to a new fixed price schedule after 2010
Hawesville (3)	Kenergy	Through December 31, 2010	Fixed price through 2010
Grundartangi	Landsvirkjun Orkuveita Reykjavíkur HS Orka hf.	Through 2019 - 2029	Variable rate based on the LME price for primary aluminum

- (1) On February 20, 2009, we curtailed all operations at the Ravenswood facility until economic conditions warrant the possibility of restarting. Appalachian Power supplies all of Ravenswood's power requirements. We will be subject to minimum demand charges associated with this contract and these costs are included in our curtailment costs, see the Note 26 Subsequent Events in the Consolidated Financial Statements included herein for additional information. Effective July 28, 2006, the Public Service Commission of the State of West Virginia approved an experimental rate design 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. The experimental rate design is effective through June 30, 2009.
- (2) This contract contains LME-based pricing provisions that are an embedded derivative. The embedded derivative does not qualify for cash flow hedge treatment and is marked to market quarterly. Gains and losses on the embedded derivative are included in Net gain (loss) on forward contracts in the Consolidated Statement of Operations.
- (3) Under this contract, approximately 70% (339 MW) of Hawesville's power requirements are at fixed prices. We continuously review our options to manage the balance, or 30%, of this power and price the remaining power when we believe the combination of price and term is appropriate. We are working with Big Rivers Electric Corporation ("Big Rivers") and Kenergy on a proposal that would restructure and extend this contract. The

proposed new long-term power contract was filed with the Kentucky Public Service Commission in late December 2008. The contract would provide all of Hawesville's power requirements through 2023 at cost-based pricing. The parties involved expect the transaction to close in the second quarter of 2009.

#### Labor Agreements

Our labor costs at Ravenswood and Hawesville are subject to the terms of labor contracts with the United Steelworkers of America ("USWA") which generally have provisions for annual fixed increases in hourly wages and benefits adjustments. The five labor unions represented at Grundartangi operate under a labor contract that establishes wages and work rules for covered employees. The employees at Mt. Holly are employed by Alcoa and are not unionized. A summary of key labor agreements is provided below.