CENTURY ALUMINUM COMPANY: Second Quarter 2008 Earnings

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SPEAKERS

Shelly Lair, Vice-President and Treasurer
Logan Kruger, President and Chief Executive Officer
Wayne Hale, Executive Vice-President, Chief Operating Officer
Michael Bless, Executive Vice-President, Chief Financial Officer

PRESENTATION

Moderator	Ladies and gentlemen, thank you very much for standing by and welcome to your Second Quarter 2008 Earnings Conference Call. All participants are in a listen-only mode at this time. Later, we will conduct a question and answer session and we will give instructions at that time. As a reminder, the conference is being recorded. With that we'll turn the call over to our host, Ms. Shelly Lair. Please go ahead.
S. Lair	Thank you, Bob. Good afternoon, everyone, and welcome to the conference call. I'm sorry we're a few minutes late, we've had some technical difficulties with our website address.
	For those of you joining us by telephone, this presentation is being Webcast on the Century Aluminum Web site, www.centuryaluminum.com, or if that address is not working you could

use www.centuryca.com. Please note that Web site participants have the ability to advance their own slides.

The following presentation, accompanying press release, and comments include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to future events and expectations and involve known and unknown risks and uncertainties. Century's actual results or actions may materially differ from those projected in these forward-looking statements. These forward-looking statements are based on our current expectations and we assume no obligation to update these statements. Investors are cautioned not to place undue reliance on these forward-looking statements. For risks related to these forward-looking statements, please review Annex A and our periodic SEC filings, including the risk factors and management's discussion and analysis sections of our latest annual report and quarterly reports.

In addition, throughout this conference call we will use non-GAAP financial measures. Please refer to the appendix, which contains the reconciliation to the most directly comparable GAAP measures. This presentation, including the appendix, is available on our Web site.

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

L. Kruger: Thank you, Shelly. Welcome, everyone, to the Second Quarter Conference Call. Other participants include Wayne Hale and Mike Bless. Also in Monterey today is Bob Nielsen and Steve Schneider.

Shall we move on to slide four? This is a bit of an overview of this quarter. We’ve had a strong second quarter for this year. The robust aluminum markets continue. The LME average price for the second quarter of 2008 was $2,940 per ton. This is an increase from $2,730 a ton in the first quarter of this year and $2,765 a ton from the second quarter in 2007. Price support from supply constraints, a weak dollar and rising costs - power supply and the cost of power worldwide.

Our operating income and free cash flow were strong in the face of cost pressures, as you well know. U.S. smelters are operating well. Production is at or above capacity at all of our facilities. We completed the termination of the forward sales contracts, and Mike will discuss this in some more detail.

Grundartangi is producing above nameplate capacity. As you're aware, we commissioned the final expansion last year. We've commenced construction at the Helguvik project in the south of Reykjavik in Iceland in the second quarter.

Our investment in the Chinese anode facility is complete. In addition, the Jamaica refinery project with China Minmetals is moving forward to a full feasibility study. We continue to pursue further growth opportunities and overall we feel good about a strong second quarter.

Can we move on to slide five? I'm going to say a few comments on Helguvik. Wayne will obviously deal with some more detail. The construction commenced in the second quarter. We still anticipate first metal in the last quarter of 2010. The likely high-end production range for phase one is about 180,000 tons of metal a year. We expect to pour the first concrete towards the end of the year and, as I said, Wayne will give you some more details.

If we move on to slide six, please, "The Forward Curve." Forward pricing indicates strong markets over the medium to longer-term. If you look at 2013 today, the price is still $3,300 per ton. Prices in the nearby have been volatile; downside pressure, mainly in concerns about demand, and up side pressure power issues in China and elsewhere.

Capital and operating costs are up globally; energy, carbon in the form of anodes and others, freight, China's high-cost structure and power issues. We know that China's marginal top 10% producers have an average operating cost of about $2,900 per ton. Greenfield and Brownfield expansion projects have costs increasing. There is a long lead-time for new projects, particularly in the Middle East, and today's announcement of another project in the Middle East being cancelled must be noted. Overall the supply side is constrained. Growth in China continues to be strong. Industrial production is 16.2% year-to-date. GDP is 10.4% year-to-date. India has also continued to grow at a healthy pace. GDP is 8.8% for the first quarter of 2008.

Let's move on to slide seven. China is a significant and growing percentage of the fourth quarter of the smelter cost curve. Expensive power contributes to this high-cost position. Five percent to 10% cuts were announced by China's top 20 smelters and smelter producers in an effort to conserve power and stabilize the grid. This is including Chalco. We think that some 500,000 tons may well be impacted by this and we have continued to look at the low range of this estimate. The Chinese government continues in discouraging investment in power intensive industries like aluminum. They've changed the taxes, there is the removal of preferential power prices and stricter regulations, particularly in the environmental phase. You'll also note the impact, particularly on the power side today, the announcement of curtailment of coal pricing and coal expansions and export of coal out of ports. China itself is expected to become a net importer of aluminum in 2009.

If we move on to slide eight; we anticipate the global market will be in a modest surplus in 2008. The days inventory remains low, approximately 29 days of global demand. Total demand at year-end is expected to be in the order of 41 million tons of metal. Recently we saw a large build up in aluminum inventories; primarily this is the USA and is consistent with the sluggish U.S. demand. The U.S. market remains subdued. Markets are soft, with the exception of aerospace.

The Midwest premium continues to be in the $0.04 to $0.045 range and this is obviously consistent with historical averages. Europe itself is going sideways. In addition, spot aluminum prices are about $458 per ton, as well as for aluminum, alumina is seeing cost pressures, particularly caustic soda, and supply disruptions are supporting the price.

In summary, overall the aluminum market fundamentals remain strong, as indicated by the current prices, as well as the forward screen. I'd like to now pass it on to Wayne for a discussion on the operations.

W. Hale

Thank you, Logan. Let's turn to slide nine. Domestic smelters operated well during the quarter in all areas. Of particular importance, the cost of production has been impacted by raw material cost increases, particularly in alumina, energy, and petroleum coke. To mitigate we continue to improve the use efficiency of energy and raw materials and review the use of alternative materials, particularly in the anode/coke area. The review of power I'll leave over to Mike to discuss that detail later.

At Hawesville the capacity upgrade program is on schedule and in-line with projected costs. As we discussed last quarter, in February Appalachian Power filed for a 16.7% increase in tariff rates in Ravenswood to be effective July 1, 2008. Among others, we participated in a settlement that reduced the increase to 11%. As an ongoing focus to secure long-term power for the company, executives met with government officials and Appalachian Power to review future power options.

Progress continues, albeit slowly, with the Big Rivers unwind. As I remind you, this is to secure a long-term cost based power for Hawesville until 2023. As one would expect, with the involvement of multi-stakeholders all elements of the unwind are reviewed from different perspectives. Several contractual elements remain under review, which will delay the close of the unwind until the fourth quarter. Despite the delay we remain confident that the unwind will be completed. Fifteen percent of the total power requirement remains open over the second half of the year and we're working with E.ON and Big Rivers to obtain favorable market based supply until the conclusion of the unwind.

In Iceland, Grundartangi continues to improve. All operating metrics are being met or exceeded. In sustainability, that area that overarches health, environment, and safety, we continue to see year-on-year improvement in reducing the total number of injuries and their severity. In Hawesville in particular they've worked two million man hours without a lost time accident and Grundartangi, as I talked to you last quarter, continues to improve their injury rate.

Let's turn to slide ten and I'll talk a little bit about bauxite and alumina. At St. Ann Bauxite, the mine tons were impacted by mobile equipment availability and labor negotiation related slowdowns. The UAWU negotiations are continuing and there has been some progress. Culturally these negotiations do take some time, with little pressure to conclude as all pay is retroactive. Shipped production was affected by ship availability and scheduling and despite these challenges customer requirements were met, both internally and externally.

Looking at the Gramercy Alumina refinery, operations continue to improve. All required operating metrics were achieved throughout the quarter. With hurricane season upon us all necessary preparations have been made at both St. Ann's and Gramercy.

Looking at sales and marketing, despite a year-on-year reduction of 3% in the U.S. metal demand the requirement for our premium products remained strong. Billet in our segmented market is tight as supply of secondary billet has decreased due to high natural gas costs and the demand for our high purity is supported by operational problems at other plants. The Midwest premium has increased quarter-to-quarter due to higher fuel costs, as Logan indicated earlier. Our finished good inventories at all facilities remain low.

Let's turn to slide 11 and I'll say a few words to update the progress on Helguvik, as indicated by Logan earlier. As you know, this project is still at an early stage and with about 28 months remaining until phase one first metal, we are on schedule and budget. However, despite these successes we continue to review costs and schedule to maintain tight control over the long-term. To mitigate, we are also replicating the processes learned while constructing Grundartangi and reviewing alternative sourcing of materials. The construction and completion of the project is growing and is presently at about 32%. In the area of procurement, of the 167 equipment packages required for phase one we have progressed and/or awarded nearly 40.

The EPCM contract has been awarded to a joint venture between Hatch and HRV, which, as you recall, is an Icelandic engineering company who performed the engineering construction for the Grundartangi upgrade.

In the organizational area the key managers have been selected and placed on both the owner's and the EPCM teams. They combine the best of Icelandic international resources.

The civil work, as indicated by Logan earlier, is progressing for the potline foundations. We expect to pour the first concrete in the fourth quarter of this year.

If you turn to the next slide I've got a couple of pictures here, on both the next two, to just show what's going on on the site. Here on slide 12 we see the drill rig on-site. Basically, we're drilling and blasting the basalt there in the area to provide for foundational footings for the potline building.

On slide 13 it just provides a panoramic view of the site. You can see a couple of excavators on site, a haul truck, and the project office. So the project is running and we are making progress. It's nice to see.

Now I'll turn it over to Mike, who will talk about the financials.

M. Bless Thank you very much, Wayne. If everybody could turn, please, to slide 14. As usual, I'll make comments referring to the financial information that comes right after the earnings release, so if you could have that available too it will make my comments easier to follow along with.

First, to talk about the constituents of the growth in sales; Logan talked about the increase in the LME over the quarter. As he noted, the cash LME was up about 8% Q2 over Q1. Importantly, if you look at it on the one-month lag basis the average daily LME close was up 17%. That's important to note. As most of you know, all of our sales contracts are keyed off the one-month lag price, so our direct sales domestically here, as well as our toll sales in Iceland, all are priced off a one-month lag.

Just to continue along that theme, our alumina contracts, LME based in the U.S., obviously for Mt. Holly and Ravenswood, are also priced on a one-month lag basis. The only contract or major contract, LME based, that we have that's priced off of the prompt month is the power contract in Iceland. So again, that 17% growth figure is the key one here in terms of the growth in the LME.

If you look at the end of the financial data following the press release, the operations data, if you've had a chance to look at that you'll see that our average realized price is up 17% as well, realized price per ton, obviously.

Adjusting for that last bit of cash flow hedges that settled in January of this year; as you'll recall we had 9,000 tons of cash flow hedges that were left in 2009. Those were all gone at the end of January. If you pull those out our average realized price was actually up 15% quarter-to-quarter against that 17% market increase on a one-month lag basis.

Turning to volumes, again, on that operations data that you can see our direct shipments, domestically of course, were down about one percent quarter-to-quarter. If you look at our production volume it's not down there, but our production volume of hot metal was actually about 1,400 tons in excess of our shipped volume. We had a slight build in inventory just due to timing, no other issues than month end timing or quarter-end timing, I should say. So if you adjust for that our production was dead flat quarter-to-quarter, producing at an annualized rate of 533,000 tons, which, as you know, is about 1.5% in excess of the rated capacity of our U.S. plants.

As you can see again on the operations data, Grundartangi is flat quarter-to-quarter; annualized rate of 267,000 tons. We're very pleased with that, as Wayne mentioned.

Turning to the income statement data, based on those price and volume data, net sales up 16%, as you can see on an as reported basis; again, adjusting for those cash flow hedges in Q1, up 14% quarter-to-quarter; on that basis, $67 million of sales increase, of which, obviously, more than all or $71 million was based on the price increase, $4 million reduction in sales based on the slight shipment volume decrease domestically.

Proceeding down the income statement: Gross profit up $60 million, as reported, as you can see, $53 million if you adjust again for that cash flow hedge in Q1. Good conversion. We're very pleased with that conversion of sales dollars down to gross profit. It drove a gross margin of just shy of 29% for the quarter. We're pleased with that.

Let me talk about the cost side. Obviously, it's a key issue for the industry and for us as well; $14 million of net increased costs for the quarter. Let me talk about those a little bit. Half of that was due simply to the increase in the LME, so $7 million due to the increase in the metal price, about $5 million of which was due to our alumina contracts at Mt. Holly and Ravenswood and two, due to our Iceland power contract.

Proceeding, a couple of more items in the cost of sales area: raw materials obviously a large cost item for us were up $2 million Q2 over Q1, but as we look at our forecast for Q3 over Q2 we see about a $6 million to $7 million increase, quarterly obviously, Q3 over Q2. That's almost entirely, as you would expect, for carbon based products. To give you a bit more detail there, about two-thirds of that $6 million to $7 million increase Q3 over Q2 will be an increase in the cost of the anodes, the finished anodes that we import for Iceland and the other third primarily for coke, in the U.S. obviously, that we use to make our own anodes at our smelters in the United States.

Another major cost of sales item, obviously, is electrical power in the U.S. That was up $1 million Q2 over Q1, obviously not much of an increase, but the same issue there as we look out and forecast for Q3 and Q4 we see the Q3 costs rising about $6 million to $8 million versus Q2, so electrical power $6 million to $8 million greater in Q3 than we just reported in Q2.

Let me give you a bit more detail there, three items, obviously, three smelters. Ravenswood first, as Wayne described, a cost increase, a tariff increase in Ravenswood instituted on July 1st of 11%, that will add $2 million to $3 million on a quarterly basis Q3 over Q2. At Mt. Holly, the forecast with which we're working right now shows an increase of about $1 million to $2 million Q3 over Q2 again; and Hawesville, as Wayne said, an unpriced portion of the power there until we get the unwind with Big Rivers completed. Based on spot electricity prices in that region of the country we're looking at about a $3 million increase Q3 over Q2. So again, a total of $6 million to $8 million electrical power Q3 over Q2.

The last major cost item, getting back to Q2 now is the cost at the Gramercy Alumina, which obviously goes into Hawesville's cost of sales. That material was up in cost $6 million Q2 over Q1. As you would expect, the majority of that, about two-thirds of that, a little more than two-thirds of that was from an increase in natural gas costs.

Continuing down the income statement: SG&A you can see; $14 million for the quarter. Loss on forward contracts, $204 million for the quarter; as

Logan detailed, the forward screen not only increased but steepened during the quarter, with the 2013 strip up 7% from the end of March through the end of June.

Effective tax rate, about 23% for the quarter: Again, that excludes, as we always do, the loss on forward contracts line, the mark-to-market charge. We think that something in the mid-20s is the right rate to use for the balance of 2008. Obviously that rate, as it always is, is heavily dependent on our projections for the full-year mix between Iceland and U.S. taxable income.

That tax rate excludes a couple of discrete tax items that we noted in the earnings release, as you've probably seen, aggregating to about $15 million in a one-time tax benefit, the largest of which was a reduction in the Iceland corporate tax rate from 18% to 15%. That's retroactive to the first of this year. That constituted $10 million of that $15 million in one-time tax items. Obviously, that will have an ongoing benefit to the company going forward. All of our taxable income, of course, in Iceland now being taxed at 15%, but this one-time item that we've called out is simply the restating of our deferred tax liabilities in Iceland at that lower rate, which produces a one-time benefit. That's obviously why we've identified it as a one-time item.

Other items in that $15 million are the finalization of our IRS settlement regarding the power contract in Kentucky. Obviously, we inherited that when we bought Hawesville some time ago. That was settled for about $3 million favorable to where we had it on our books. Then lastly, a $2 million item from a favorable tax situation in Jamaica at St. Ann's. That's our portion of it, of course.

Lastly on the income statement, earnings per share, excluding the mark-to-market charge and those tax items about which I just spoke, $2.72 per basic share. That's 41.1 million basic shares, as you've seen, and on a diluted share basis, $2.51. That's based on 44.6 million diluted shares.

If we could turn to slide 15 now, just a quick couple of details on cash flow. We're pleased with the cash flow performance this quarter, $71 million of free cash flow. As you can see, as we noted in the earnings release, that's after $63 million, pre-tax of course, derivative hedge settlements during the quarter, $40 million after tax, as you can see on the chart here.

I would also note if you've had a chance to look at the cash flow data in the financial information, the free cash flow performance was also, after a

$24 million use of cash during the quarter for working capital, principally inventory; obviously, to be expected in a quarter where the aluminum price is rising throughout the quarter.

A couple of more items on cash flow while you're looking at the cash flow data. Capital expenditures, Wayne talked about Helguvik. We spent an additional $25 million on the project during the quarter. That brings the year-to-date six months to $33 million. As Wayne said, we are absolutely on schedule on the project from a project execution standpoint. When we looked at the balance of committed funds versus the actual cash that we're going to spend this year, we believe at this point that we're going to spend closer to about $150 million of actual cash cap ex in '08 versus our former estimate of $200 million. Again, when you look at the funds that we've committed, plus the funds we're going to spend, as Wayne said, we're right on track, but the spending is going to be a little bit lighter this year than we had previously forecast.

Other cap ex, as you can see, $6 million for the quarter, $15 million for the six months versus the '08 budget of $75 million. We think we're still on track to spend pretty close to that $75 million, if not the entire amount.

Lastly, just one other item I'd draw your attention to in the cash flow data, you'll see the investment in joint ventures, $28 million during the quarter.

That's obviously our investment in BHH. That's a Chinese anode plant. We actually, in mid-July, made the last $9 million payment there, so you'll see that in the third quarter financial statements. Just to give you an advance note on that, we made it in the form of a loan so that $9 million will actually be up in operating cash flow in Q3 rather than investing cash flow, as it was in Q2.

Moving on to slide 16, obviously, we've talked at length about the termination transaction over the last couple of weeks, so I'll just hit the high points here and then, obviously we can take questions. We settled just under 1.3 million tons with what we had remaining on the books of fixed price forward aluminum sales through 2015. The value of the settlement on the day on which we signed the agreement, on July 7th, based on the closing stock price of Century on that date was just slightly over $1.7 billion, of which just slightly under $1 billion was in the form of preferred stock, basically a non-voting common stock, that has significant transfer restrictions attached to it. We've now made the July payment for the June volumes, $21 million, and so with that payment we have no further obligations under those former hedges.

Turning to slide 17, just a couple of comments on the accounting treatment for the transaction. Obviously, given that we settled it the end of the first week in July, this will be a Q3 item, so you won't, and you don't see any of the accounting for it as you look at the Q2 financial statements. Obviously, the liability is still on our books at June 30th.

As we discussed before, the liability at a 7.5% discount rate was $1.832 billion on the day that we settled, July 7th. Again, that $1.709 billion settlement value, based on Century's common stock on that day, against that liability value will produce a gain against which approximately $10 million to $15 million, that's the current estimate of fees, will go against. We're still researching the accounting here. There is a good chance that actually the value of the preferred stock will go on our books at a slight discount to that stated value, the stated value being based on the Century common stock on the day of the settlement, based on its non-noting provisions and other provisions of it. So the gain might be a little bit higher than you would note just looking at the numbers on this page.

Accounting for the preferred stock or the underlying common stock it's pretty simple going forward; 16 million common equivalent shares will be included in both basic and diluted shares as of July 7th.

Just to remind you, one other item, that loss on forward contracts line doesn't go away entirely. Obviously, the vast majority of it historically has been the fair valuing of that hedge book, but we do have some principally sales contracts, pieces of which still are accounted for as derivatives, so in any given quarter you might see $1 million, maybe as high as $2 million per quarter, either gain or loss as we properly account for those contracts as derivatives.

If you'd turn to slide 18, please, just a quick note about the tax treatment of the unwind. On a book basis there's no change. As I noted before, we've always talked about the effective tax rate excluding the mark-to-market of the hedge book, so that mid 20s doesn't change.

From a cash standpoint, we have generated a tax loss that will be somewhere between $1.7 billion to $1.8 billion. Obviously, we'll use that to reduce taxable income going forward. The limitation in the use of that is basically based upon IRS regs based upon what the cash settlement of the hedges would have been before we settled them. Just to give you an example, as you may recall, when we announced the unwind transactions, on that date, based on the forward screen on that date, the hedge settlements would have been about $340 million in 2009. Based on these IRS regs, in that case we'd be able to use about $340 million of the tax loss to reduce taxable income in '09, and it keeps going like that for the period through 2015. If there's additional loss remaining after 2015 we don't lose it. We just continue to use it after that point per normal IRS regulations.

Turning to slide 19, just to finish out here, obviously since we announced the unwind we priced our common stock offering, including the green shoe just shy of 7.5 million shares, $442 million in net proceeds, which obviously has gone to largely repay the $505 million short-term note. The balance of that note, obviously, will be repaid out of cash flow during the next couple of months. With that I'll turn it back to Logan.

L. Kruger Thank you, Mike. We continue to be positive on the aluminum fundamentals. The Helguvik groundbreaking and the start of the project execution is very pleasing for us. It's on time and it remains on budget. Capital projects in the U.S. for incremental production have been implemented and we expect the results to come through in the next couple of years. Our investment in the anode capacity in China has been good for us and we believe it's a long-term strategic hedge against supply of anodes to our important facilities in Iceland. The Jamaica refinery project progressed to a full feasibility study. In addition, we continue to pursue our global project pipeline.

At this stage I would like to invite questions from those who would like to ask them. Thank you.

Moderator Thank you. Our first question is from the line of Kuni Chen with Bank of America. Go ahead, sir.

K. Chen This first question, obviously, the group as a whole has been under some pressure in recent weeks and sentiment has been a bit negative. What are your thoughts on what may happen in China post the Olympics, any views on the potential for some deceleration in the back half of the year and into 2009 as far as China's consumption of aluminum?

L. Kruger That's a very interesting question. I think that's part of what the concerns are generally going around the market, Kuni. I don't think that we can see any deceleration. The key issues for us that we see on the aluminum demand is consumption and that seems to be growing, but more importantly, the implementation of the growth of the infrastructure and that continues at a pace. That's not Beijing centric. That continues to be outside in the more areas that are less developed. The third level or the third phase of infrastructure development continues to be there.

I think the real testing question is what is personal consumption going to be like in China over the next couple of years. The indication, if you look at the intensity of use, we don't have that in our slides today. If China continues on the pathway we've seen over the last five years or so, it gets half-way to what the U.S. is, and Kuni, you know that's going to cause another ten million tons of aluminum metal required just for China alone.

K. Chen — Right. Okay. That's good. That's helpful. One other question and I'll turn it over. This is just more of a generic question on acquisitions or potential acquisitions. If hypothetically there was a single smelter operation somewhere in the world that was available for sale, assuming it had a stable, long-term power contract, and let's say it's a second quartile cost-curve type of operation, would you look at this as kind of purely a financial decision or is there also a strategic component to your decision making where you might look to avoid certain regions like, let's say, the U.S. or Europe? I just want to get your general thoughts on that.

L. Kruger — Good, Kuni. I'm glad for the way you phrased it, because we don't comment on specifics, but let's take your hypothetical question. I mean you know we've got a disciplined approach to this. We look at if it makes industrial logic, so the first part will be where is this? Does it fit with our business? Is it in a region in the world that could be attractive to us? I must note at this point that our U.S. assets have obviously changed in their level of attractiveness, as you well know, erosion of currency and obviously less increase, rapid increase on power pricing.

Then we'd want to know can we make money on that hypothetical example. Can we get a risk-adjusted cash flow return on it? We obviously would look at financing it.

The last question is can we add, as a team, any more value to that in fitting it in our business? Lastly, we just would look at anything, but it would have to go through that screening process. We're pretty efficient at doing that and if it goes through the screening process then it will get more attention as it may go forward, but let's leave it as a hypothetical question. I don't know if Mike or Wayne have got any further comments.

M. Bless — No.

K. Chen — Thank you, guys.

Moderator — Next, from the line of David Lipschitz with Merrill Lynch. Go ahead, David.

D. Lipship — A quick question for you: In terms of, you said, that your realization was up 15%, that the LME was up 17%, why would that be? What happened that you went up as much as the LME?

M. Bless — You know, David, I don’t know offhand and so I’d have to prove that out. I’d have to look through it. My off the cuff guess is the impact of the small amount of cash flow hedges still in January. I’d have to prove that out, but I think that’s probably a reasonably good guess.

D. Lipship — Okay.

M. Bless — Because obviously, we had 9,000 tons in Q1 that wasn’t subject to market pricing. It was sold forward at a fixed price.

D. Lipship — Right. No. I know, but you said that was on-line, 17%. You said without that it was 15%. We can talk off-line about that.

M. Bless — Okay.

D. Lipship — My second question: I don’t know if I missed it. You said first to second quarter production was pretty much flat. Is that correct?

L. Kruger	Correct. Hot metal production, David, was spot on. The smelters domestically, U.S. based, are all operating above capacity. We gained about 1,500 tons of inventory, which, as you know, for us is pretty small. That's just a timing issue of the quarter. I don't know if Wayne's got any other comments.

W. Hale	No. I think you hit it.

D. Lipschitz	That's the difference between, the window in inventory. Okay.

W. Hale	That's exactly right.

D. Lipschitz	Okay. My third and final question is what is your fully diluted share count right now going forward? Let's say we're starting 2009 and everything. What would be your fully diluted share count?

M. Bless	Let me build it up for you, David, rather than answer it, because the diluted question obviously depends on the stock price that you need to know in calculating the dilution from the convert, but let me give you all of the shares. We had just over 41 basic shares exiting the quarter. Then you add to that 16 million underlying shares from the preferred in the unwind transaction. Add to that 7.475 million shares, including the shoe in the offering. Then add to that the convert. Now, the total notional shares in the convert, of course, are 5.7 million. From an accounting standpoint when you calculate diluted shares, obviously, not all of those shares are outstanding based on the way that you do your accounting for the diluted shares. This quarter it was an additional 3.5 million-ish shares from total diluted shares, which included most of that was from the convert; some of the rest of it was from options and performance shares.

D. Lipschitz Okay. Thank you.

Moderator Thank you. Next, from the line of Brett Levy with Jeffries. Go ahead.

B. Levy You guys are going to be an $800 million EBITDA a year company very soon. You're a consolidator. You've got lots of free cash flow. Talk about your growth strategy, your acquisition strategy.

L. Kruger It's Logan. We'll ask Mike and Wayne to comment as well. I think we don't distinguish between any points of the growth strategy, but we can tell you we have got a well planned project development. That starts off with Iceland with the Helguvik project. The first phase comes on towards the end of 2010 with about 180,000 tons and has the potential, with the technology, to go to a full 360,000 ton potline. That's dependent on the delivery of geothermal power.

In addition, we're developing our project in Jamaica with our partners, China Minmetals. That also goes to feasibility now by the end of 2009it comes to the fore for a decision. We feel very confident on that project. It's looking good. It's gone through the conceptual stage. We've got the right support. The resources seem to be there, so we're happy about that.

In addition, we obviously continue to look at additional projects. We've bought into an anode facility in China. We're very pleased about that. It was tens of millions of contribution.

In addition that that, we're also adding on some incremental capacity in capital in our existing facilities, including Grundartangi in Iceland and our U.S. smelters.

In a nutshell that's it. Other pieces, as was asked earlier by Kuni, would we look at other opportunities, the answer is very definitely yes, but that's got to meet the criteria that makes a sensible investment for us and the shareholders. Mike, any comments?

M. Bless No. I guess the only further comment I would add is the obvious one. We've talked about this before. It's not specific to Century, obviously.

There's not a lot of M&A, per se, in this sector, as we all know or those of you who follow the sector specifically. There are just not a lot of assets either for sale or that eventually become bought and sold and so, to Logan's point, most of the growth in this industry is either by way of green field projects, major brown field projects, capacity creep, high return projects, quick paybacks like we're doing in the U.S. and at Grundartangi, but those assets that do come on the market or that might be available, we obviously look at every single one.

B. Levy — And I'll reiterate the former analyst's question: Is the U.S. completely of the spectrum in terms of things you'll consider?

L. Kruger — I'll try and recap what I said to Kuni, maybe it was missed ... with some of the discussion. The U.S. assets, our existing U.S. assets, in terms of their cost position have improved for two major reasons. One is the erosion of the U.S. currency; and two, the less dramatic increases or less step function increases for the power supply. So we would not restrict ourselves to any area of the world. We'd look at it on a risk basis and so we're not restricting it to be it the U.S. or anywhere else. There are a few places in the world; and we don't need to name them today; but they politically might not be a sensible place for us to go, so we would avoid those, but otherwise, I think we leave them up and we risk adjust as we see fit for the area where a project or whatever circumstance may arise.

B. Levy — The last question is it seems like alumina is over supplied right now and bauxite is a question mark. Would you make a big acquisition in bauxite?

L. Kruger — Yes. I think we've always said that as part of our strategy we would go upstream, so we've got ourselves into what we think is an attractive project in Jamaica with China Minmetals. The first stage of that would be a refinery producing alumina at some point in the future if the project proceeds of 1.5 million tons. We also just note that the upstream or bauxite/alumina businesses have got attractive returns, so we continue to look at that. We've already got one in place and continue to look at more, but just on the pricing of alumina worldwide, I think it depends on where you are in the world. The Pacific Basin seems to have more accessible supply at this stage than the Atlantic Basin, so you have to think about freight and freight differentials affecting perhaps the pricing in those two areas.

B. Levy — All right. Thank you, guys.

Moderator — Thank you. Next from the line of Terrence Ortslan with TSO & Associates. Go ahead, sir.

T. Ortslan — Just on the Helguvik, you are now approximately 32% for the engineering and 20% for procurement. The way it's advancing, where are you going to be towards the end of the year, let's say, is number one.

Number two: How much of the contingency has already happened in the sense of progress here? How much of the contingency in the project?

L. Kruger — Terrence, I'll ask Wayne to give you a run down and I'll offer some additional at the end.

W. Hale — If I understood your question correctly, have we worked into the contingency yet? There has been no contingency spent on the project yet, so as I said earlier, we're very pleased with the present progress on both schedule and cost.

L. Kruger — I think two other things: Mike mentioned that we will have spent cash of about $150 million by the year-end, so a little bit less than we expected at the beginning of the year, but we're not concerned about it. Our commitments are way above that, so we went in the first quarter, as you know, the beginning of the second quarter, and went and spent time and effort securing long lead-time items, like rectifies and other things that are very key for a smelter.

On the procurement side, just to correct you: Of the 160 plus packages, about 40 of those are going to be placed or already been placed, so we're well up maybe just over 20%. That's pretty good progress, I think, for a project at this stage. The challenge remains, of course, Terry, as you know, how do you handle the cost pressures and we're very focused on that. One advantage, of course, is we've just recently completed a major brownfield expansion at Grundartangi, so we've got a good sense of what the local costs have done. There's also been a favorable impact recently, and we'll see how that lasts, of the Icelandic krona, about 30% to 40% of the project's expenses will probably occur in Icelandic krona.

T. Ortslan I just had a previous conference call at another company in our sector. What they've done was that they assumed that the process into the final turnkey is kind of like 40% increases in the cost, so they kind of budgeted for that. I think a similar timeline of yours, which kind of amazes me, because it's kind of surprising where everybody ... and assuming 40% in a capital intensive sector seems to be the norm now days from the point of view of going to the final construction delivery.

L. Kruger — Terry, we've just gone through a major program, which was on budget and on schedule. We've taken escalation into consideration. We don't comment on what other projects have seen. We know that the challenges experienced so far are good, but we recognize that that's going to be the challenge for us. I mean for the full 360,000 ton smelter our capital estimate for that is about $5,100 to $5,300 per ton, but the first phase, the 180,000 ton is, front-end loaded with some major equipment, so that's about $6,500 per ton. We're in an area where the economy has slowed down a little bit. Obviously, the exchange rate is a little bit more favorable, and we've just come off doing something like this with a very established team, so those advantages hopefully we can continue to leverage in this project.

T. Ortslan — One other question, Logan: I always get hung up on your chart on this Chinese fourth quartile cost curve. The fourth quartile cost cut off from 2005 to 2007, how much did it change that it's shifting in so much into 78%?

L. Kruger — I think, Terry, this is actually a percentage of production. I don't think it's a cost thing. I'm just looking at Shelly.

S. Lair — It is. It's just production.

L. Kruger — The point that we're trying to make on that slide and I'll embellish upon it is that most of the new production capacity in the fourth quarter has come from China, so they're now 75% approximately of the fourth quartile of producers of metal in the world.

In addition, we know reasonably well that the top ten percent, the top decile of the Chinese producers in China are operating at a cash cost, as I mentioned in my earlier remarks, of around $2,900 per ton. So the point is most of the new production in the fourth quartile is Chinese and there is a fairly high percentage of them that's already at $2,900 per ton of cash operating cost.

T. Ortslan — Very strong message, Logan. Thank you.

Moderator — Thank you. Next from the line of Oscar Cabrera with Goldman Sachs.

O. Cabrera — My first question is, Logan, you answered one of my questions. Your Alumina joint venture with Minmetals is going to be 1.5 million tons.

L. Kruger — Right.

O. Cabrera — Are there plans to increase that number? Do you have enough bauxite reserves?

L. Kruger — Yes. I can tell you that obviously we would look to expand that. We are working on the resources to convert them to reserves. We know the area. It's adjacent to our St. Ann's property, so we do know the area. Giulio Casello, our head of business development, has just recently been there. So obviously, we have that in mind, Oscar. It's too early for us to say. We prefer to get the first piece done. That's the tradition and the way we work at Century. Then we'll tackle the next piece after that, so we don't want to get ahead of ourselves, but we like the project. We like the place it is. It's good quality bauxite. We know how it behaves. We're enjoying having the Chinese as a partner, because they'll bring construction expertise and engineering expertise at a competitive price in this world of building capital projects.

O. Cabrera — Yes. I mean that's just a follow-up on that, the arrangement of the joint venture, as you have it, do they have offtake?

L. Kruger — Yes. I think that's the natural thing in these joint venture agreements is both partners can do two things; take their piece of the action, or the offtake, and go and do what they like with it or combine and market it through a combined marketing group. I think the natural answer is both parties would likely take their own offtake. I think that's the preferred arrangement.

O. Cabrera — Okay. It just goes to the last part of the question, which is from an integration perspective is your team's preference to be fully integrated or you don't mind being long alumina?

L. Kruger — We don't mind being long or short. The only question we asked on the alumina or the upstream side is it making money in global terms. So even though Gramercy supplies Hawesville's needs, we still test Gramercy's costs against the market to see how that would impact our business, so the decision to go upstream is not driven by the wish to be integrated. It's driven by this is a great project. It's upstream. It's got good margins. We like the look of it. It's in an area. We like the partnership. It's a good project. If we had nothing else on our books we'd do this project because it makes a lot of sense for our shareholders. The fact that it will give us a position in the market of alumina towards our supply on the smelter side is good, but that is a freight debate where you will swap out freight differentials for delivery, so it doesn't drive us to be integrated. We prefer not to use that because I think that hides a few things on both sides.

O. Cabrera Great. Thank you very much.

Moderator Thank you. Next, from the line of David Gagliano with Credit Suisse. Please go ahead.

D. Gagliano I just have a quick question, Mike, just to clarify the commentary on the near-term costs. The combined sequential cost increases for raw material and energy I think you said it was a total of $12 million to $15 million incremental cost?

M. Bless Yes, David.

D. Gagliano And that's Q3 versus Q2 or is that spread over between?

M. Bless No. No. That's Q3 versus Q2.

D. Gagliano Okay. That's what I need to know. Then just as a follow-up, how sensitive are those numbers on the energy side and the natural gas prices, for example, and what nat gas price are you assuming?

M. Bless Yes. I mean those two are just electrical power and raw materials, basically carbon. We looked at all of our raw materials in the contract prices in the forecast and the rest of the raw materials aren't showing very much increase, if any at all, so it really is carbon. It really will go to, I think I if I could rephrase your question, the sensitivity to really the refinery product complex is what you're talking about and, to a certain extent, the merchant market or third party market for anodes, because that's a reasonably thin market subject to some volatility, but basically our contracts price have a fixed price element and an element that references basically at the end of the day, oil prices. So we know what the pricing is for Q3 right now based on where oil has been; to the extent that that kind of eases up a little bit, we could see some positive comparisons in Q4. We don't know.

On the electrical power side I think in terms of Ravenswood that structural increase is here to stay. Hawesville, that, as I said, is somewhat temporal. That will go away or the unpriced element will go away when we get the Big Rivers unwind done by the end of the year, as Wayne detailed. As we've said before, on Mt. Holly, it's really a quarter-to-quarter thing. We work with their forecast. We diligence them. We ask a lot of questions. We understand the best we can. Obviously, coal prices are the major determinant there.

L. Kruger — Yes, it's driven by coal.

M. Bless — That's kind of a rambling answer, David, to your question, but nat gas is really a separate issue for us. That's really embedded in the Gramercy increased costs Q2 over Q1 about which I talked, $4 million of that $6 million was nat gas. Obviously, as you remember, we came in somewhat hedged. We came into the year somewhat hedged, but not largely hedged, so we saw the brunt of the market increases in nat gas Q2 over Q1 so to the extent that that continues to ease, maybe we'll have some good news there as well. It's too early to tell.

D. Gagliano — Perfect. Thank you a lot.

L. Kruger — I think, David, just the last comment; we wanted to obviously reflect what was going on in the market, so that's why we gave you these numbers.

D. Gagliano — It's very helpful. I appreciate it. Thank you.

Moderator — Thank you. Our next question is from the line of Marty Pollack with NWQ Investment Management. Go ahead.

M. Pollack — I just wondered if you might talk about risk mitigation. Obviously, in a sense you've got a fairly nice price environment. The forward curve is attractive. You've just unwound a forward curve, but is that potentially still one way you might address risk in the future? One of the forecasts that I've seen at Citigroup I think is talking about $2 aluminum price. Is there a price where you would say, "Hey, this is a good place to do it?"

L. Kruger Marty, Mike probably will comment as well. We like being fully exposed to the market. We don't have any views on taking a position on risk mitigation going forward. I presume you're saying selling forward and we don't. It would be remiss of us not to look at this on occasion, but I must emphasize we like being leveraged in this market. We like what the market is telling us. We like the fact that the fundamentals are sound, the supply side is constrained. In previous slides Shelly produced the thing that shows that just reasonable growth, you are going to need 44 new smelters in 2012, each one at 360,000 tons. We've just had two cancellations of major new projects in the last three or four months, including one today. So I think we like our position, but to be fair, we would always look at this. We don't have any view because you have to answer the question of what's going to happen to the cost as well and you have to take that into consideration.

M. Bless Yes. Marty, just one further comment: As we said when we announced the unwind, a couple of weeks ago and then talked about it, it's our view today that we ought to be unhedged generally and that that is what the majority of investors in this sector are seeking and that they believe that if they need some kind of protection, they can create that position themselves.

The important difference from a couple of years ago, of course, when you talk about risk mitigation, absolutely appropriately in my opinion is that when we put on this position, major position a couple of years ago, it was indeed risk mitigation. We had just made an acquisition and had a major project, i.e., the eventual tripling in size of that plant for which we needed some cover in order to mitigate market risk to go get that project done. Today, obviously, the company is in a much different position in terms of the diversity of the assets, the cost of competitiveness of those assets, and just in terms of financial strength. So that, to us, as managers, is the key difference today versus then.

M. Pollack — Okay. Thank you.

Moderator — Thank you. Next, from the line of Sam Martini with Cobalt Capital, please go ahead.

S. Martini — Just a clarification on the cost side: These costs, the $15 million in costs, Mike, that's U.S. alone?

M. Bless — No. On the power side, Sam, I was just commenting on electrical power for the US. Of course, Iceland varies based on the LME, so the answer to your question on the power side is yes. On the raw material's side, no. It's global. As I said, about two-thirds of that, the $6 million to $7 million carbon piece, two-thirds of that is finished anodes for Iceland.

S. Martini — How much, Mike, did anode go up across the complex in the Q2 versus Q1?

M. Bless — Across the complex, again, is only Iceland, because we make our and as we buy our own carbon, buy our own pitch, and bake our own anodes in in the smelters in the U.S., but in Iceland it was only up for this whole complex; I'm sorry; I will answer your question; only up $2 million carbon Q2 over Q1. $2 million.

S. Martini — That seems pretty terrific. I guess a question, Logan, maybe this is for you: If you look at the costs that Mike laid out and the power in the U.S. and the coke in the U.S. and anode generally in Iceland and some of the other considerations that we're all watching on the more upstream side of the equation, you talk about China and you talk about liking your position. Maybe qualitatively, maybe with some numbers you choose, can you talk abut how you're seeing specifically western Europe and Chinese costs in relation to your own? How do you envision their costs changing as you watch what's going on in your business? What do you think is happening in their business? Can you talk about your competitive position as you watch what you're seeing on your competitor's side in the different geographies, again, specifically western Europe and China?

L. Kruger Yes. I won't comment on the competitor's side, but I'll deal with the regional diversification or the regional areas. I think our U.S. smelters have appreciated the position on the cost competitive curve. For example, Ravenswood maybe has come out of the fourth quartile and down into the third quartile. Obviously, you can then assume that Mt. Holly and Hawesville have relatively improved their position as well. Iceland has perhaps got a little bit more expensive, but they're so good and we've got the volumes up there and mainly that's driven by the power being LME linked.

S. Martini Logan, you said Ravenswood is up 11% as of July 1st. What do you think of western European smelter is going to be up for Q3?

L. Kruger Well, I think you just have to take a simple currency thing and do what's happened to the Euro versus the U.S. dollar over the last twelve months. In fact, a lot of those contracts in the European smelters, Sam, are very short-term, subject to revision, and you look at the electrical or power pricing index in Europe and you can predict, I think, numbers that will make that 11% seem quite reasonable.

I think in China there are two or three things that are happening. One is the price of coal and the availability. It got to a point where the electrical or power providers cannot make a margin because the price of coal and the price they're getting for their power is just not making it, so a number of them have actually walked away from generation. I think taking that and perhaps the movement in currencies continually, I think China, and probably the currency will grow in strength over time. I think the positions are going to be quite interesting to see.

The top 10% cost producers in both Europe and China are around about $2,900 a ton.

S. Martini That was at June 30th or that is pro forma this last move in coal?

L. Kruger Let's assume it's a year-end. These are directional numbers, but I think they're pretty well researched by a number of people. Then you now have to apply what escalation you would like to put in Europe for carbon products, power, labor, or whatever. Then do the same in China. I don't think people are avoiding these costs, unless you do what Wayne and his team are doing and improve your utilization and come up with alternatives.

I think in summary we like the improvement of our position in the USA in terms of cost, but we want to now maximize our opportunity by bringing on some incremental throughput in all our operations in the U.S. You're aware that. We've spoken quite extensively about it.

S. Martini Okay. On the anode side, just a question on the Chinese anode: You are receiving product from them right now or that's still on the come?

L. Kruger I think Wayne's got some good news on that.

W. Hale Yes. We've just had a recent report from Grundartangi of good to excellent performance of these anodes in the smelter, so we are using them at Grundartangi and they are performing excellent.

S. Martini Thank you so much.

Moderator Our next question is from the line of David Lipschitz with Merrill Lynch. Go ahead, please.

D. Lipschitz	Just a quick follow up. The power contract in Iceland, is that on a one-month lag or is that on just a quarterly basis?
M. Bless	On a current basis, yes.
D. Lipschitz	And secondly, have you had talks about the new Iceland smelter in terms of is it going to be total, is it going to be a normal smelter? How are you going to restructure that?
L. Kruger	It's too early, 2010 is time off, but we like the tolling arrangements. It's whether we can actually find, David, a similar toll that will be as attractive as the present ones compared to what their market is. Bit early, but we're looking at both options at this stage.
D. Lipschitz	Okay. Thank you.
S. Lair	Bob, any further questions?
Moderator	No further questions at this time. Please continue.

L. Kruger — Well, thank you very much, everyone, for taking the time to listen to our call today. We look forward to speaking to you again soon. Thank you very much and good-bye.

Moderator — Thank you. Folks, that does complete your conference for today. Thank you for your participation. You can now disconnect.