

CENTURY ALUMINUM COMPANY

May 5, 2005
12:30 p.m. CDT

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Century Aluminum Company First Quarter 2005 Earnings conference call. At this time, all lines are in a listen-only mode. Later, there will be a question and answer session and instructions will be given at that time. As a reminder, today's call is being recorded.

At this time, I'd like to turn the conference over to Michael Dildine. Please go ahead, sir.

M. Dildine Thank you, Kent. Hello, everyone. Welcome to the Century conference call covering earnings for the first quarter of 2005. Before we begin, let me say that this conference may include forward-looking statements within the meaning of federal security laws. Century has based its forward-looking statements on current expectations and projections about the future. However, these statements are subject to risks, uncertainties

and assumptions, any of which could cause Century's actual results to differ materially from those expressed in its forward-looking statements. More information about these risks, uncertainties and assumptions can be found in the risk factors and forward-looking statements cautionary language contained in Century's filing with the Securities and Exchange Commission.

Century does not undertake and specifically disclaims any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events for circumstances after the date such forward-looking statements are made.

Now, let's begin the conference call. Here is Century's Chairman and Chief Executive, Craig Davis.

C. Davis

Thank you, Mike. I'd like to add my welcome to all of you to our first quarter call. We are spread around the world today and at different locations so you'll have to excuse us if there is a little bit of confusion on our part because we're not sitting in front of each other, but hopefully, we'll be able to get everything across to you.

I'd like to focus on the overall results and then David and Jack will cover the financial and operating results.

The company certainly benefited from the strong industry fundamentals during the quarter. Both revenue and operating earnings were at or near record levels. The operations continued to perform quite well during the quarter. We completed the financing for the Nordural expansion during the quarter as well. I was in Iceland earlier this week and was most impressed with the progress on the expansion. It is going well and Jack will discuss that in more detail.

Finally, we want to assure you that we are continuing to focus on improving our operations and reducing cost.

While during the quarter we did have a few operating problems, which Jack will also discuss in more detail, with one exception, we believe that most of these problems are behind us and not permanent. We would note that the Mt. Holly power surcharge will continue, it appears, at higher levels than we originally anticipated in it, probably throughout this year.

David, will you now cover the financial results?

D. Beckley

Sure. Thanks, Craig. Century reported first quarter income of \$11.1 billion or \$0.35 a share. Included in the results is an after tax charge of \$14.5 million or \$0.46 a share for mark-to-market adjustments on forward contracts that do not qualify for cash flow hedge account. As indicated in our last conference call, we put in place a significant five-year forward sale on the fourth quarter 2004. In fact, the base tonnage is about 300,000 tons and under certain scenarios, it could potentially double up to 600,000 tons. In terms of pounds, the maximum that could be delivered or settled under that contract would be 1.325 billion pounds so it is a very significant contract. A penny change in the forward market could have a dramatic impact positive or negative on a mark-to-market adjustment.

The forward market was higher at March 31 compared to year-end 2004. As indicated, the majority of the mark-to-market adjustment relates to this very significant contract.

As Craig indicated, although we had very good operating results, our operations were impacted by several factors. We had approximately a million dollars of higher electricity costs at Mt. Holly than anticipated. The spot aluminum purchased in the quarter increased costs by over a million dollars. We made up some of the loss buying at Mt. Holly

associated with the cast house problem. However, we had higher potlines at Hawesville and Mt. Holly than anticipated and the lower volume in potline probably reduced our margins by about \$2 million. On a very positive note, our share of pre-tax profits on third party bauxite on hydrate sales exceeded \$5 million in the quarter, that's the equity income line.

At this point, I will give you an update on our hedge position. The supplemental data accompanying the press release indicates the forward price sales for 2005, 2006, 2007 and for 2008 through 2010 period as of March 31. We did no forward selling in the quarter. The only change in our hedge position occurring the first quarter 2005 as some of the 2005 contracts settled. Entering 2005, we were effectively hedged 49% in 2005, 44% in '06, 35% in '07 and less than 10% of the period 2008 through 2010.

At this point, I'll turn it over to Jack who will talk a little bit more about the operations.

J. Gates

Thank you, David. I'll break it into four different pieces. I'll talk about the smelter operation, the Nordural expansion, our Bauxite aluminum operations and a little bit about the markets. Production operations at our

four smelters were normal in most aspects during the first quarter. Potline production was slightly below expectations in Hawesville and Mt. Holly, but above at Ravenswood and Nordural.

At Hawesville, we increased the metal pads and the production sales after completing a study and test that proved that this change would improve the operating efficiencies and the energy consumption per pound of metal produced. Even with this increase in the volume of metal in our pots, the plant expects to meet its annual production and shipping forecast for the year. Mt. Holly did experience some operational problems at both the pot rooms and the cast house missing shipments by approximately two million pounds. This revenue shortfall was partially made up by producing and shipping a richer mix from Mt. Holly.

As Craig mentioned earlier, Mt. Holly's power costs were up over forecast due to Santee Cooper paying more for coal and passing that increase on to us. Plant operations at Ravenswood and Nordural were excellent, meeting or exceeding all key performance indicators. Nordural continues to perform at a level equal to the best smelters in the world.

In April, Nordural also completed negotiations on a new five-year labor

contract with the various unions represented at the plant.

A little bit about the expansion, the expansion to increase annual production from the current 90,000 tons a year to 212,000 tons a year, remains on schedule and on budget. Start-up is still projected in late 2006. The weaker U.S. dollar has caused some price increases, but to date we've been able to cover these increases out of cost savings in other areas and the project contingency. We recently announced that an agreement has been signed with the two Icelandic power companies that will allow us access to power to further expand the 260,000 tons a year in 2007 and 2008. This agreement is conditional based on the permitting and development of additional geothermal resources. The necessary funds for this additional increase have not yet been approved by our board.

A little bit about Bauxite and Alumina; the recently acquired Gramercy. Alumina refinery had a very good first quarter, only to experience a precipitation tank failure on April the 4th. We originally responded to inquiries concerning this event by stating that while not material, it could affect 2005 production by as much as 2%. This has now changed due to the refinery personnel developing very creative means to minimize any production loss, which is now forecast to be minimal and possibly even

zero.

Just a little bit about the markets; some of the customers are reporting a slight slowdown in some areas of the market, especially automotive and building products. We understand that General Motors is back, selling metal units back into the marketplace. Demand for billet is softening in certain regions. Southwest extruders continue to operate at high levels, but those in the Northwest seemed to have slowed their consumption. Other markets remain strong such as play for aerospace and tooling, common alloy sheet, general engineering plate and rod and cable. The Midwest transaction price has fallen to currently, I guess, today, was about \$0.87 with the Midwest premium now at \$0.66 a pound.

Craig, I'll turn it back over to you.

C. Davis Thank you, Jack. Kent, we'll open up the conference to questions now.

Moderator Our first question comes from the line Brett Levy with Jefferies & Company. Please go ahead.

B. Levy Hello, guys. I don't know if this has ever been put out there, but with the

ramp up of Nordural, is there a rough calculation that says every penny movement in the LME impacts your annual operating income by a certain number?

C. Davis That will change with Nordural coming on and we do have that kind of a calculation we've discussed from time to time based on our hedge position obviously. I don't know. David, if you have a current number where we've discussed a current number, would you like to comment further?

D. Beckley I think maybe a way to answer, Craig, is that we said when the initial 90,000 tons came on it reduced the overall cost for Century by about a penny a pound. When the expansion comes on, we expect, perhaps, another penny a pound coming out of the overall cost of the company. And when we get further up to another 260, perhaps, up to another penny per pound. So I think that's the relative contribution of Nordural.

C. Davis Does that answer your question, Brett?

B. Levy Somewhat. I guess I wanted to sort of start with what was the baseline on that calculation.

C. Davis Again, I think what you have to do is look at what our hedge position. If

you're looking at the total company, if we're 50% hedged, for example, as we are this year, then the change in the LME in '05 is only going to affect half of the capacity, if I understand your question correctly. David, do you have anything to add to that?

D. Beckley If that's your question, we're effectively 49% hedged, a \$0.01 change in the LME given the number of shares we have outstanding approximately \$32 million, has the DPS impact of about \$0.14 per share.

B. Levy Got you. And then to make those penny adjustments, as Nordural comes online. Then you guys have guided to start up in early '06. When do you think you get to the 212?

C. Davis By the end of '06, Jack?

J. Gates Yes. We'll be at the 180 by mid '06 and should be to 212 by the end of '06.

B. Levy And just to give us a rough sense, just a sort of the relative cost advantage versus other parts of the world, can you give a sense as to the cost of power that you guys are negotiating or some range where other

negotiations have been completed for power cost in Iceland?

C. Davis I don't think that has been made public, Brett, but I think it would be fair to say, it is based on LME and it will be fair to say it's a very competitive power situation with other Hydro projects that are LME-based.

B. Levy Okay. And then last one, really, has more to do with kind of, you guys had sort of guided to looking forward that you guys were looking to potentially buy alumina assets? How has the hunt gone and do you still see the alumina market as being as tight going forward as you saw it a quarter ago?

C. Davis The hunt continues, if I can put it that way. We haven't concluded anything. We still are looking. As we've said, we view this as an area of business we think we should be in as a stand-alone business, not just from an integration standpoint, but it has both aspects to it.

In terms of the alumina markets themselves, there have been some publications more recently thinking alumina is going to ease up a bit. Right now, it remains pretty tight from what we can see and we think the alumina markets will be fairly tight for the foreseeable future. Like all

these other businesses, there is cyclical in it. But I think it will be a fairly decent place to be for the foreseeable future.

B. Levy All right. Thanks very much, guys. Good quarter.

Moderator Our next question comes from the line of Forest Wokoda with BMO Nesbitt Burns. Please go ahead.

F. Wokoda Good afternoon. The \$5.3 million of equity earnings from joint venture, I guess largely the bauxite sales and the hydrate sales, is that a sustainable number going forward or is that sort of a one-time first quarter windfall year? Thank you.

C. Davis David or Jack, do you want to address that?

J. Gates The answer is, yes. It is sustainable. In fact, if anything could even get better because the hydrate market is tightening as alumina does, but we're basically sold out for hydrate. We are selling alumina and bauxite to a third party customer. We're very close to finishing up a multi-year contract to supply that customer bauxite. So yes, to answer your question, it is sustainable.

F. Wokoda

Well, that's great. Thank you very much.

C. Davis

I think, just to add to what Jack said on the Gramercy situation, we said when we were initially looking at it and when we acquired it, that it was more defensive, which I still think is the case. We wanted to assure a certain supply of alumina for Hawesville. In fact, our alumina cost in this market is about a push; in other markets, it could be higher. But we also said there might be some added benefits that we weren't counting on. That's what we're seeing today, is that the operation is a decent one and we do have opportunity there and we are able to bring in some profitability on the bauxite sale hydrate sale site. Next question?

Moderator

Our next question comes from the line of Tony Rizzuto with Bear Stearns. Please go ahead.

T. Rizzuto

Thanks very much. Hello, gentlemen. I only have a couple of questions here. First question is the follow-up on that chemical grade. We hear often about the metallurgical grade, but I don't really know a whole lot about the way those chemical grade contracts may be structured. If you can just give me an idea of kind of what they're tied to, in terms of duration and so on and so forth and generally, how the profitability moves

over the cycle. Is it more or less stable?

C. Davis

They're a very different structure. I'll let Jack deal with this in more detail, Tony, but they're not typically an LME kind of thing because it's a whole different marketplace and they're much shorter duration. Many of them, I think, are just a year-to-year contract. They have, I think, tended to be a pretty good profitable area over the longer-term, but some cyclicity. Jack, do you want to add to that?

J. Gates

Yes, you're right. Tony, most of these contracts will be one or two years, probably two years will be a long contract. There are even some spot sales in this marketplace, as Craig mentioned, but it is a good business. And the market has tightened up considerably since we took over the plant. I would say that the average in the marketplace for hydrate has probably gone up \$50 a ton in the last six months. So it's a very good market. We're pushing the plant to produce as much as it can and, as I said, we've constrained our calcination for the million tons so anything lower than that, it goes into the hydrate market. Right now, it's a very good market.

C. Davis

Jack, where would our main custom base be in that...?

- J. Gates For a location region, probably in the New England area.
- C. Davis But the business is ...
- J. Gates The business, a lot of it goes into carpet. It goes into backing on a carpet. Some of it goes into paint. It's a pretty broad market. One thing about this, I think Craig mentioned it, Tony, over the years and I've been in this business for a long time, it doesn't vary a lot. It's pretty stable. You don't see the real highs and the real lows in the hydrate business you see in the metallurgical grade alumina.
- T. Rizzuto Thanks very much, Jack. And just the other question I had right now was, in regards to your desire to get them further backward integrated, possibly even long in the alumina market, are there certain geographic regions, Craig, that you guys think that look more attractive relative to others? And I wonder if you can just talk about that a little bit. For example, you have some exposure in Jamaica, how does that look in comparison to other parts of the world, like South America?
- C. Davis I think, Tony, you're right. We would look at going into a situation where we're long alumina because then, we'd be in the alumina business. In

terms of the geographic regions, currently, Jamaica has been and remains one of the major producers in the world and it has been pretty steady really in terms of the export situation and so on. Australia is obviously another one, although I think, for us, frankly, opportunities in Australia would be extremely limited. In fact, I'm not sure today whether there really would be any. South America is a potential. Africa is a potential. I think we will be a little, as we've said in other areas, we may be more conservative than some, in terms of the amount of risk that we feel we can take. But probably, we would be and are more focused on areas that are in the business, know the business and have been pretty steady in it over time.

T. Rizzuto

But you're likely to be more price-sensitive. That's certainly an area that I think is a concern for many people, given that the market has been so tight and given that your balance sheet is in the condition it is, and I think we'd like to see that. Can you give us an idea of some of the parameters you would look at? Obviously, you can't look at the current pricing situation we have. Where do you kind of, when you look at analyzing some of these other areas, what kind of alumina price do you typically utilize when you're looking at different assets?

C. Davis

Firstly, you're right. We're going to be very careful about how we approach it in terms of the balance sheet. I think we have also said we don't feel that it would be appropriate to add any significant amount of leverage to the company without additional equity. So we would have to look at how one does that.

In terms of alumina values, we would go back to a long-term value of alumina just as we do with aluminum and we take a position in the long-term value. Historically, that long-term value has probably been in the range of 12.5%, 13% of the LME. I think today, that's ratcheted up a bit and I think the long-term values have moved somewhat, but we would still look for a long-term value that would certainly be way below the current spot markets, and we would have to justify the investment based on that.

T. Rizzuto

Right. Are you also likely to keep well in mind, I mean, obviously, there's a lot of concern by equity holders given that the stock is down quite a bit off of its high, that there might be a dilution from a situation like this. How much are you likely to pay attention to the level of the stock price in looking at...?

- C. Davis It's important. We would have been a lot happier doing something at where we were a few weeks ago than where we are today. We look at the dilution issue very much, Tony. The level of our share price is an important part of the whole calculation.
- T. Rizzuto Right. Thanks very much, guys.
- Moderator We have a question then from the line of Alex Latzer with Merrill Lynch. Please go ahead.
- A. Latzer Good quarter, guys, with all the disruptions. I wanted to get back to Jack's comments on the market. You kind of quickly went over what you're seeing among your customers and then was it reported, Jack, you said there was a slow down on automotive and what was the other sector?
- J. Gates Building products. It's not as much our customer as what we're hearing. Our customers that we sell metal to really are experiencing this but they downstream from them. This is what they're reporting to us, is that building products and automotive is slowing. It did in April and it seem to happen pretty fast.

A. Latzer How might this impact your—I know you guys produce a variety of alloys, too, P1020s and the others. Do you see then therefore your mix, perhaps, becoming a little bit less rich as there's less poll for these sort of ...?

J. Gates I doubt it. I don't think it will change our mix unless this were to continue for some extended period of time. I don't think it will change our mix at all. We're basically sold out.

A. Latzer Right, for the rest of the year.

J. Gates On our premium products.

A. Latzer Okay. Good. Thank you.

C. Davis All right. Thanks.

Moderator At this time, I'd like to turn the conference back over to management team.

C. Davis Thank you, Kent. Just a brief summary. Again, we appreciate your continued interest and participation in our call. I think on balance, we can say that our operations are performing quite well. We had a few glitches

in the quarter, but overcame most of that and I think had, from an operating perspective, a very good quarter. We have seen a little bit of softening in the market. We're not certain where that's going to go and it may be fair to say that everybody started getting used to \$1,900 plus and maybe that was a bit, I probably shouldn't say this, but a bit rich. In other words, I don't think we have anything to complain about horribly right now. We're still enjoying reasonably decent marketplace and the company is operating well.

So at this point, we're feeling positive about it, but I would have to say at the same time, we do continue to be very focused on our cost control and on improving our basic cost position in our asset base. So that will be our focus during this period and we will be looking to do more with the company. But I think really in response to some of Tony's questions, we'll be very mindful how we do that.

Again, we thank you for your interest and look forward to our call after this current quarter is completed. Thank you very much.

Moderator

Ladies and gentlemen, this conference will be available for replay starting today, the 5th of May, Thursday at 5:00 p.m. eastern time and it will be available then through Saturday, May 7th at midnight eastern time. You

may access the AT&T Executive Playback Service by dialing 1-800-475-6701, from within the United States or Canada, or from outside the U.S. or Canada, please dial 320-365-3844, and then enter the access code of 777799.

That does conclude our conference for today. Thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.