

CENTURY ALUMINUM COMPANY

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12:00 p.m. CDT

Moderator Ladies and Gentlemen, thank you for standing by and welcome to the Century Aluminum Second Quarter 2005 Earnings conference call. At this time, all participants are in a listen-only mode and later we will conduct a question and answer sessions and instructions will be given at that time. If you should require assistance during the call, please press star then zero. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, the Director of Corporate Communications, Mr. Michael Dildine. Please go ahead.

M. Dildine Thank you, Rochelle. Hello, everyone. Welcome to the Century Aluminum conference call covering earnings for the second 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 at our filings 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.

Before we get started, I have a correction to announce. Net cash provided by operating activities in our cash flow statement was transcribed incorrectly by Business Wire. The correct number for net cash provided by operating activities for the first half of the year is \$58,724,000.

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

C. Davis.

Thank you, Mike. For those of you listening today, we're spread around quite a bit. Neither David nor Jack nor I are in the same place, so if we have a little bit of hesitation we're trying to make sure that we move from one to the other, please excuse that.

My principle focus today will be on the overall second quarter results and year to date, and we will go through our normal process of having David and Jack update you on the other aspects of the company and the business.

We had a solid second quarter and a very excellent first half. Our second quarter results were not as positive as we would have liked because of continuing operational difficulties at Hawesville. Even with these issues, our first half operating income of just over \$80 million represents an all-time high for the company.

The aluminum markets remain fairly strong in the second quarter but were down from the first quarter. The LME cash price declined approximately \$0.05 during the quarter. We, however, believe that the supply and demand fundamentals for aluminum remain positive.

Our focus continues to be on improving our operations and reducing cost. With the exception of Hawesville, all of our plants exceeded our expectations during the quarter. As Jack Gates will describe shortly, we believe that we're on track to resolve the operating issues at Hawesville.

We executed a significant eight-year forward sale, which will begin in 2008. By selling forward in a strong market, we were able to continue our policy of putting a significant underpinning in place to protect the company during a down market, while at the same time leaving a substantial amount of unpriced tonnage for the upside in stronger markets. David will cover this in more detail.

We continue to make good progress on the expansion project in Iceland. As you know, we're expanding from 90,000 to 212,000, and, in fact, I believe we will be ultimately going to 220,000 tons. We remain basically on budget and on schedule. We also are actively pursuing additional opportunities in Iceland at this time.

David, now would you please cover the financial results for the second quarter?

D. Beckley

Thanks, Craig. Century reported second quarter net income of \$40.7 million, or \$1.27 a share. As indicated in the release, the marked to market adjustment on forward sales contracts added \$0.49 a share to the results.

I will now briefly comment on income taxes, the change to the FIFO inventory valuation method, our performance in the quarter and, finally, an update on our hedge position.

With respect to income taxes, our normal tax rate is now in the 32% to 33% range instead of 36%. We're no longer assuming that normal earnings will be subject to U.S. income taxes. The change from the LIFO inventory valuation method to FIFO had an immaterial impact on second quarter results, well less than a penny a share.

With respect to our performance, price realizations were slightly lower in the first quarter as expected, as the LME price of aluminum was lower. The Midwest Premium was also lower in the second quarter.

Our costs were basically where we expected them to be with the exception of Hawesville, and Jack will comment on this in a few minutes.

As Craig indicated, in June, we put in place a significant eight-year forward sale that begins in 2008. The detail of our forward-priced sale position as of June 30, 2005 is included in the selected operating data accompanying the release.

Factoring in the natural edge associated with our percentage alumina contracts and the total range and percentage electricity contract at Nordural, we're effectively hedged 53% for the second half of 2005, 44% for 2006 and 45% for 2007. These percentages don't include the potential additional volume associated with the long-term contract we put in place in November of 2004. The percentages also assume that we renew our expiring percentage aluminum contracts in 2007.

Jack Gates will now talk about operations.

J. Gates

Thank you, David. I will first go over the smelter operations. The Ravenswood, Mt. Holly and Nordural smelters exceeded expectations during the quarter. Ravenswood and Nordural are on track for record production years. Mt. Holly has recovered from its first quarter pot room and casting problems, and metal production and shipments are back to normal.

While I announced in our first quarter conference call that Hawesville was improving and would be back to expectations in the second quarter, it has taken a little longer than I thought. Hawesville experienced more pot failures in the second quarter than projected and thus missed its second quarter production targets. Hawesville has accelerated its pot-relining program and expects to be back to normal in pot count over the next several months. Operating efficiencies, which slipped a little bit in the second quarter, are back to normal now.

The second quarter was an excellent shipping period, shipping 339.5 million pounds, leaving us with an ending inventory of only about 1.5 days of production.

The safety performance in the first half of 2005 at all four smelters has been excellent, as we continue to stress safety as our number one priority. Hawesville and Nordural are exceeding their 2005 stretch safety goals, while Ravenswood and Mt. Holly are just slightly over their goals.

Let us talk a little bit about the Nordural expansion. As Craig has mentioned, the Nordural expansion continues on schedule and at budget. Projects' spending to date totals \$178 million, while total commitment to date is 81.4%, or \$378 million. The lining of the new cells has begun and a new 70,000 ton alumina silo is almost complete. Also during the second quarter the Century board of directors approved \$9.1 million for Phase 4B, which would increase annual production by an additional 8,000 tons per year, bringing the total rated annual capacity to 220,000 tons a year.

A little bit about our bauxite alumina operations, the bauxite alumina operations met most expectations with our biggest problem being the recent two hurricanes, which affected the mining operations in Jamaica. While there was no major storm damage, we did lose several days of mining, due to the rain caused by the hurricanes. During the quarter we also completed a multi-year bauxite supply agreement with a third party, which will allow us to maximize bauxite production and also revenue.

The Gramercy alumina refinery continues to operate very well and projects to meet or exceed its 2005 production goal. The demand for aluminum hydrate remains strong, which is reflected in higher pricing.

Just a brief comment about the market. The second quarter began with the LME cash settlement price of \$0.899 per pound with the Midwest

Premium of \$0.75 a pound. We saw some softening during the quarter. The quarter ended at \$0.785 and \$0.054 respectively.

The market experienced softening in most sectors related to automotive, but other sectors, mainly aerospace, construction, routing cable and general purpose remained strong. The softer market conditions had some effect on primary demand as scrap is more available and imported metal is arriving steadily. I would mention that today's LME price has moved back up to \$0.828, but the Midwest Premium has dropped to now \$0.044 a pound. LME stocks today went up 7,000 tons and ended at 533,000 tons.

Craig, I will turn it back over to you.

C. Davis Thanks, Jack. Rochelle, we now turn it over for questions.

Moderator Our first question comes from the line of Tony Rizzuto of Bear Stearns. Please go ahead.

T. Rizzuto I am just trying to figure out, to just get a handle on these issues at Hawesville with the pot line failures and also in front of what is the labor expiring next year, and also, you have obviously a lot of negotiations going on right now for power, at least for one-fourth of your power needs there. I wonder if you could discuss, is there any interrelation between these factors and the issues that you are incurring at Hawesville?

C. Davis I will try to discuss the interrelation and maybe Jack has some further thoughts, Tony, but I don't really think they are interrelated. We normally project certain pot failures and a pot count and sometimes, it doesn't hit the average. I guess to get to the average, you have to have times when it is more and times when it is less. I think that has been the fundamental issue there. They have also had a few problems in their efficiencies, but I believe that has now been addressed. But overall, I don't think there is any relationship between the other issues.

Jack, would you add to that?

J. Gates Yes, I agree, Craig, there is no relationship in the issues.

T. Rizzuto All right. Just, if I can follow up then. You guys obviously had a fixed-price contract that's going to expire at Hawesville for power. If you were to enter into an agreement today for one-fourth of your power, what would that do to your costs? If you can give me some kind of indication, that would be helpful.

- C. Davis Right now, obviously the spot market is pretty high. It would increase, I don't have a number and we haven't entered into anything at this point. We're very closely monitoring the marketplace and trying to determine when we should look at putting in that open power, Tony, and also how long we want to go, whether we want to stay a relatively short for a period of time or if the opportunity is there to go a little bit longer with a better price. So I think it may be a bit early to give you a hard number in terms of the overall impact.
- I don't know, David or Jack, do you have any further on that?
- D. Beckley I don't think so, Craig. Again, I remind people that the power we're talking about is 2006 through 2010, and we're working on the issue. We're trying to use the process within the state to see if we can get some relief from the very high rates that we're quoted right now.
- J. Gates Well, it is mostly a coal problem in today's world, I believe, is what we're facing.
- T. Rizzuto With the coal surcharge. I am sorry, I haven't totally looked at the details here, but did you disclose or quantify what the impact of these maybe abnormally high pot failures were, and if you haven't, could you quantify that for me now?
- C. Davis David, do you want to address that?
- D. Beckley Yes. Tony, I think that the lost production and the extra cost is probably in the \$3 million range pre-tax in the quarter.
- T. Rizzuto That will revert back to more normal level in three?
- D. Beckley It should come back in, hopefully, most of it will come back in the next quarter.
- C. Davis But during the quarter, we won't get it all back until the end of the quarter, I think, Jack.
- J. Gates That's correct. Yes, we're increasing our pot-relining program and by the end of the quarter, we should be very close to back to normal.
- T. Rizzuto Okay. And then your utility down there is Big Rivers. Is that right?
- C. Davis At Hawesville, yes.

- Moderator Okay. Thank you. And our next question comes from the line of Kevin Cohen of Credit Suisse First Boston. Please go ahead.
- I am going to release him and go on to the next. It is Barney Pollack of NWQ Investment Management. Please go ahead.
- M. Pollack Yes. Marty Pollack. If I may on Ravenswood, I am just wondering if you could elaborate on what you know as Alcan's or believe Alcan's strategy is. Clearly, we're assuming that with the current environment, Ravenswood is making fairly good money. Perhaps, you could just comment on that.
- C. Davis I think in terms of Alcan, we cannot really speak for Alcan. They continue to run the rolling mill. I think they are having a pretty good year and it has improved over what it had done over the last couple of years; but for the longer term, we really don't know. We continue to deliver all the metal at the high end of the contract, and again, Ravenswood is having a very good year.
- I think, just in case you are not aware of the history of the situation with the rolling mill next door, we have put on our own cast house, a very simple cast house at Ravenswood. So that if that rolling mill ever were to cease to operate, we would cast it and sell the metal ourselves on the outside. There would, obviously, be some cost associated with that because we would lose the savings of sending hot metal next door. But it is not a disaster, it just takes away some of our margin.
- M. Pollack I am just wondering whether you believe, though, that to your knowledge, they are actually still required to divest that or deal with that.
- C. Davis To my knowledge, they are no longer required to divest that because what they did was just hold off for the ... their other rolling business. I think that's correct. Does anybody see it no differently?
- D. Beckley That's my understanding, correct.
- J. Gates Correct.
- C. Davis So at this point, they can keep it if they so desire.

- M. Pollack The other question just regarding the small spread on Midwest Premium, what do you think accounts for that, especially you're suggesting this is even with a little bit of a price move back into the low 80's.
- C. Davis I think it is a combination of freight differentials and availability of metal in the states. Jack, any other comments?
- J. Gates I think the scrap is more in balance, and I think that's having an effect, too, more scrap, which drives it down.
- C. Davis Which is really the availability of metal.
- J. Gates Yes.
- C. Davis But in a bit of a different form, but yes.
- M. Pollack And just one last swing back to Hawesville. The issue of the reline, I am just wondered if you assessed the plant there. Is there longer-term strategy here to do more to upgrade the smelter there?
- C. Davis It is not such an upgrading, but, Jack, why do you not try to answer?
- J. Gates Marty, I will talk to you about it. It is the pot lining; I guess the good news in all of that's that the excess cells that we lost were all old cells. We had a couple of issues, I guess, this year. Line 5, which is a new pot line, was started in 1999 and if you do the math, what happened is the original pots all got to over 2,000 days old. So you start trying to decide when you start taking out pots, so we got behind a little bit. The first quarter we caught up and then, we had some equipment problems that caused some problems and we lost some.
- But they were old pots. So I guess the only good news out of it, the pots were old. We normally rely on about nine a month, and we were having to line a few more than that. And, of course, the weather is pretty hot right now, so we do most of the excess relining on overtime. So it is just taking us a little while to get caught back up, but we hope to be very close to normal as far as the number of operating pots by the end of the quarter.
- C. Davis And the equipment problem, we're addressing or have addressed.
- J. Gates We have addressed that. Yes.

- C. Davis It is more really when sometimes, the averages just work against you. You get a whole bunch of pots go at the same time, so we will be a little bit behind until we can catch up. And then the next time around, you won't have so many fail and so, you will actually be operating at a higher level. And over the years, of course, you end up with the average.
- Moderator Okay. Thank you. And our next question comes from the line of Wayne Atwell of Morgan Stanley. Please go ahead.
- W. Atwell Thank you. Could you explain your comment about looking for other opportunities in Iceland?
- C. Davis We would like to do more in prime areas as we have said, it is a basic part of our strategy, Wayne. We have looked at what opportunities exist in Iceland. We're quite comfortable in Iceland. We like the business environment and so on. We have signed, which I believe was made public, what, two or three weeks ago, Jack?
- J. Gates Yes.
- C. Davis A letter of intent to work together to develop a greenfield project in the southwest, so that certainly is one of our focuses. We have in the past looked at other parts in Iceland and we also have from time to time, considered an additional expansion, a significantly large expansion at Grundartangi, the existing facility. And that requires, again, new permitting and so on. So it is a combination of looking at those various things that was really behind my comment, Wayne.
- W. Atwell If you were to do a greenfield, would it be AP30 or AP50 and how large do you think it might be and would you own 100% or have a partner?
- C. Davis You always ask a lot of questions at once. I don't think it would be AP50, but it is a bit soon. We haven't gotten to the point of saying exactly what technology we would look to use and we might or might not have a partner. It would really depend on the size of the project or the natural size of the project and how well the pieces fall out. You might end up taking a partner who provides technology, for example, but we haven't decided any of that at this time. We're quite flexible as to how we would do it.
- W. Atwell Can you put a bracket around a potential size and capital cost?

C. Davis I don't think I could do capital cost. Now maybe Jack would attempt that one, but size would be in the range of 200,000 to 300,000 tons.

J. Gates Yes. In that range. Yes.

W. Atwell And presumably, this would require new power, so it could be quite a long lead time, maybe five, six years total?

C. Davis Oh, it is a long lead time. That's correct. If you are doing a Greenfield, it would be quite long. Yes.

Moderator Thank you. And our next question comes from the line of Brett Levy of Jeffries. Please go ahead.

B. Levy This is Jordan Alder for Brett. Just to follow up on you guys went through the LME prices and where they are at now, do you just have some sort of outlook of where you think they will be third quarter or where your realize price will be? And any pickup from the automotive sector, you talked about some softness there.

C. Davis First of all, we don't try to forecast these prices. I think you have to look at the global economy and the global supply/demand situation, which seems to have picked up a little bit in the later part of the last quarter, which to us will be a plus. Our realized prices, you have two things you have to look at: one is the hedges we have in place and the second thing is our prices have a lag. Sometimes, they're prior months and sometimes, some of the contracts are prior quarter, so the price is going to depend on all of those things coming together, and as the LME comes out over the quarter, but I don't think we would try to forecast, where it will be.

J. Alder Any kind of outlook on aluminum prices?

C. Davis We follow it like everybody else and the last time I looked into it, I have to confess it has been a little bit of time now, the spot prices were still relatively good and the long-term market is, I think, trying to settle in and decide where really it is going to be and how tight the forward aluminum market is going to be. There seems to be two different views; whether it is going to loosen up in a couple of years or whether it will remain tight.

At this point I am not sure that, again, we have a certain view on that. In our case until we renew our contracts, our aluminum is all tied up and the prices are all fixed percentage of the LME, other than Gramercy. It is not

a major impact today; it will be in the future when we start to renegotiate our contracts.

J. Alder Earlier you said the Nordural expansion is on schedule. Are you still guiding to the cap ex for 2005 about \$325?

C. Davis I think that's right. David, I mean, we're pretty much on plan.

D. Beckley Yes. That's pretty close to what we think it will be.

Moderator Thank you. And our next question comes from the line of Alex Latzer of Merrill Lynch. Please go ahead.

A. Latzer Dave, you went over some of your hedge positions kind of quickly there, but including the impact of the alumina, what did you say the percentage was in 2007?

D. Beckley Okay, Alex, the percent for the remainder of 2005 were effectively 53% hedge; for 2006 we're 44% hedged; and 2007, we're 45% hedged. Now keep in mind that it assumes that we renew our alumina contracts that the percentage of alumina contracts that as a percentage of the LME in 2007. It also assumes that the additional tonnage, if you look at the table accompanying the release, it shows that if prices are at a certain level, there can be some additional tonnage that would increase those percentages. If we're in a very, very high market, those percentages could go up slightly in those years in 2006 and 2007.

A. Latzer Okay. Thanks for that. And as a follow up here, you mentioned in your remarks, I believe it was Craig, on the bauxite production agreement. I just wasn't sure if that was just a basic agreement with Jamaica or whether, perhaps, you guys have an agreement to, perhaps, provide more bauxite in addition to what you are using at Gramercy. Maybe you could just clarify that.

C. Davis We supply bauxite to a third party under contract, and it was actually Jack. And that's what he was referring to. We have renewed that contract in the last month and very positive tonnage and at a good price for the company.

A. Latzer Okay, so that's separate because you obviously supply alumina.

C. Davis We supply bauxite to our own facility in Gramercy, what we own with Nordural, and we also supply it to a third party.

- A. Latzer Okay. Is there any volume increases implicit in that agreement or it is pretty much, in other words, are you looking for the potential, would you be interested in increasing your bauxite, or is that pretty much for the long term?
- C. Davis No, we would be interested in increasing it, and Jack, you may want to speak about that, but certainly, the customer would like more and we would like to deliver more. It is just a question of making sure we can meet all of the commitments we would take on. Where are we in that, Jack?
- J. Gates We have a plan together for 2006 to try and increase capacity. One of the issues has to do with mobile equipment. The mobile equipment of the mine was fairly ancient and we're replacing a lot of that. As Craig mentioned, our third-party customer would like more bauxite and we think we can push up some more volume through the customer, they would like it. And as soon as we can be assured of doing it, we think the second half will be better than the first half of this year as far as shipments and we expect even a better shipment in 2006.
- A. Latzer What order of magnitude, Jack, are you talking about here? Is it 10%, 15%?
- J. Gates We could be 10% to 15% more.
- Moderator Thank you. And our next question comes from the line of Arthur Ross of Centro Corp. Please go ahead.
- A. Ross Thank you. Can you give us an idea as to what price these forward contracts are at? And number two, what is general rate of return do you expect to earn on this \$370 million you are investing in Iceland?
- C. Davis You are talking, Arthur, about the hedges?
- A. Ross Yes.
- C. Davis We don't disclose the actual price, but what we have told people in the past, and I believe David is still consistent with this, we look to hedge against the forward screen. I think we said when we did it and will look the forward screen has been a backwardation during this period of time. You get out to the far end of this, you don't have a screen, but you have sort of a flattening out of the backwardation. When we do hedge, first of all, it has to meet our criteria of having a fairly strong price being

basically beyond or equal to our view of the long-term value of the commodity and then, we will hedge against the screen. Which is what we have done, and so if one were to look in the period of time we did that, David can give you the dates, you can get pretty close. But in terms of the exact number, we don't have that in our public information.

The second question was.

- A Ross The rate of return on this \$370 million investment in Iceland.
- C. Davis We generally look for DCF in the range of 10% to 15% net. That's still in that range, yes, David?
- D. Beckley Yes.
- Moderator Okay. Thank you. And our next question comes from the line of Daniel Roling of Merrill Lynch. Please go ahead.
- D. Roling Thank you. A couple things going back to Jamaica and the bauxite. Jack, you said 10% to 15% more than what second half 2005 or 2006 better than first half of 2005. What is the reference point?
- J. Gates If you want to talk about the first half of the year, we probably are looking at, due to some problems we had in the first half of the year with mining, probably an increase of maybe 10% or 15% over the first half of the year. And then we think if we can get the mine to where we would like to have it, we'd have maybe another 105 or 15% overall in 2006.
- D. Roling With all of our other metals companies and mining companies, there is a constant drumbeat of very tough to get mining equipment, to get tires, backlogs. Is that part of the problem?
- J. Gates Yes.
- D. Roling And are we talking, do you really think you will be able to pick enough up by 2006 to do that?
- J. Gates Yes.
- D. Roling Okay, that's good. And then the other question I had relates to David. Why the switch from LIFO to FIFO?

D. Beckley Dan, if you look back in our history, we've had market write-downs when the market has been weak we had relatively high LIFO there and when we got back into the strong market, we reversed those markdowns and put them back into the income statement.

I would also mention that the principle people in the industry used either average cost or FIFO, so it is a more common practice in the industry. It is not a tremendously big factor, but the big thing is it disturbed the patterns of our earnings on a quarterly basis in the past.

D. Roling Yes. Okay, so this is just bringing you into line with the industry standard and to take away some of that volatility.

D. Beckley That's exactly right.

Moderator Thank you. And our next question comes from the line of Timothy Hayes of BB&T Capital Markets. Please go ahead.

T. Hayes Thank you. How far out do the forward curves go out and then what is your view of the long-run price for aluminum?

C. Davis The forward screen is out through 2010, I don't think it is into 2011 yet.

D. Beckley That's correct, Craig.

C. Davis And usually what you will see if you follow the forward screen in the kind of markets we have, where we're in backwardation, the backwardation shrinks as you go further and further out and it gets very close to being flat. To project the market beyond the screen, that's basically how we have looked at it.

In terms of our view, I think what you will find is the industry and the people who trade in the commodities look for a long-term value that has been in the range of \$1,500 to \$1,600. Two, three years ago, I think most people were thinking \$1,500 and today, they are probably a little bit higher. They are probably more in the \$1,500 to \$1,600 range. And we have been sort of in between that all along, and I think fairly consistently in terms of our view of where it is.

T. Hayes What is the backwardation in 2010?

C. Davis I don't have the screen in front of me. I don't know if you have one handy, Dave.

- D. Beckley I do, based on yesterday, I don't have today's, but in 2010, the price is 1,634 per ton or \$0.74.
- C. Davis What has happened here, I mean interestingly actually, is even with a bit of a weaker nearby market, if I remember correctly from the hedge we put in place late last year, we started seeing a phenomenon, where the forward price was stronger than it had been. So the backwardation was less, I guess is the best way to put that. And it is one of the things that we took into account when we put these additional hedges in place, because we had a forward market of 2009, 2010 and then beyond the extrapolation that was well above what one could achieve in late 2004 and well above our view of the longer-term value of metal. So we looked at that and thought it was an opportune time to do a little more of this underpinning. But again, if you look at the total amount out there, I think it is around 10%, which could double to 20%, so there is still a lot of the company available for upside.
- T. Hayes Would it be a fair assumption to take that backwardation in 2010 and then use it for 2011 through 2015?
- C. Davis I mean that's one way to do it. If you are trying to get at what we actually did, there is probably still some additional, but not a tremendous amount, once you get out past 2010.
- Moderator Thank you. And our next question comes from the line of Orest Wowkodaw of BMO Nesbitt. Please go ahead.
- O. Wowkodaw Thank you very much. Good afternoon. I am just wondering, with the Nordural expansion, how much production do you actually expect to extract from Nordural in 2006?
- C. Davis Jack, do you want to address this?
- J. Gates We're going to start pots about the middle of February, so you can extrapolate up. We think we will be at full production for the second half of the year, so the second half of the year will be 45,000 tons. It is kind of a guess, but I would say probably 15,000 and 20,000 the first half. So in the range of 60,000, 65,000 tons for the year.
- O. Wowkodaw And the additional expansion that you just approved, I guess the 220,000, is that included in that or will that come...

- J. Gates No, that's not included. That will not come on until 2007.
- O. Wowkodaw Okay, and just another question if I could on the tax rate. What is your forecast in terms of the breakdown between deferred and current taxes now on your new rate, in terms of a percentage?
- C. Davis David, do you have that handy?
- D. Beckley I guess what I would say is just so people understand in Iceland, the tax rate is 18% and that's what we will be accruing at on normal earnings going forward. Most of those are deferred taxes because during expansion mode you are able to manage your depreciation, such as you don't pay any current income taxes. So for the foreseeable future, we won't be paying a lot of income taxes in Iceland. It is a little more complex to go into what it is domestically, so I am not going to answer that.
- O. Wowkodaw Okay. You are not going to or you cannot today?
- D. Beckley I cannot.
- C. Davis Don't appear uncooperative, just say you cannot do it right now. Sorry about that, carry on.
- O. Wowkodaw Okay.
- Moderator Thank you. And we have a follow-up question from the line of Wayne Atwell of Morgan Stanley. Please go ahead.
- W. Atwell Thank you. Can you tell me on your hedging contracts, are you able to capture the Midwest Premium and where do these take place? What geographic region?
- C. Davis No, we elected not to do a Midwest, so it is on any price realization, you must add the Midwest on top of what we have achieved.
- W. Atwell So let us say hypothetically, you have \$0.74. I should then add the Midwest on top of that?
- C. Davis Correct.
- J. Gates The fact is, the reason, Wayne, is first of all, there is not any real market that very far out on the Midwest Premium; and because of the volatility people have seen in the Midwest Premium over the last couple of years, anything very far forward is at a big discount to the present. And we just

did not feel that we wanted to try to put a pin in that map. We felt that it was better to go with just a basic LME and then any Midwest Premium that exists at the time, we would get.

W. Atwell Okay. And then lastly, I know you have grown over the years in a sort of a stair step fashion, adding capacity as it is available. What are your thoughts in terms of bauxite and alumina? You probably won't be specific with me, but I would be happy for any information. Are there any opportunities there in generalities that are exciting that you might be stepping forward to address?

C. Davis Well, as we have said now for some time we're interested to go upstream. It is part of our basic strategy. So yes, we're actively looking at what the opportunities might be in that area. I have to say, especially with the very tight markets we have seen in the last year or so and the very high spot prices, it does not make it easier. So all I can say at this point is that it is a part of our basic strategy and we're actively looking at and trying to uncover opportunities in that area.

Moderator Thank you. And we have a follow-up question from Daniel Roling of Merrill Lynch. Please go ahead.

D. Roling On the hedging, David, as we go those long ones out there, do they qualify for hedge accounting and how do you handle that that far into the future?

D. Beckley Dan, they don't qualify for hedge accounting because of the optionality in them. In other words, there is a springing mechanism; if the price gets to a certain level, the tonnage could potentially double, based on the month of settlement. As a result, they don't qualify for hedge accounting. Those are the hedges that are running through our income statement. And if you recall in the first quarter we had a very large pre-tax loss and, because of the decline in the market, we had a very large gain.

C. Davis In the second quarter. Yes.

D. Beckley The second quarter. If prices move significantly from one quarter to the next, you can expect that we will have a tremendous amount of volatility in that line and that's why we set that out separately in our information.

D. Roling Okay, and that's just going to be an ongoing occurrence?

D. Beckley Yes. That's correct.

C. Davis Dan, we succeeded in reducing the volatility from LIFO to FIFO and increased it in hedging. What can I say?

D. Roling You know, we have to have some volatility in our lives.

C. Davis Absolutely.

D. Roling Going back to something else you said earlier, where you said there were two different views and I agree, can you give us a little flavor from your standpoint on where you think alumina supply versus demand, the tightness, is it going to sort of loosen up 2007, 2008?

C. Davis I honestly don't know. I guess my own view has been that maybe to some degree. I mean the tremendous pressure that has been placed by the Chinese, for example, and then others maybe that would soften a bit. But in terms of the basic to fundamental supply and demand, I felt that it was going to be reasonably from a demand standpoint. In other words, it would be not tight, but maybe not the long or the real looseness we saw back when the stock price was, what \$125, \$150.

But we're actually looking at this now and studying it and trying to get a better understanding of the different views. And there are those who are quite convinced that alumina is going to get fairly long in the timeframe you mentioned. And we have asked for some information, which I am not even sure has come in yet because I have been away now for a week or so. We're going to be looking at this more closely and could probably, hopefully, answer that question a little better by the next conference call. I am not certain at this point, Dan.

Moderator Thank you. And we have another question from the line of Tony Rizzuto of Bear Stearns. Please go ahead.

T. Rizzuto Thanks very much, just a follow-up question on alumina while Dan had just asked that question. Your current contract with Glencore I think expires. Are you guys just going to simply renew that at higher indexation to the metal?

C. Davis We're going to look at all the opportunities, Tony, in terms of where the supply should come from next time, who our counterparty should be. Clearly we will talk to Glencore because they are supplying now, but we in the past had a contract with Alcoa. I think we want to see what the market really has to offer before we make any decision.

- T. Rizzuto Okay. Can you provide some basic guidance in terms of cap ex for 2006 at this point? You mentioned \$325 for 2005. Any feel at this point for 2006?
- C. Davis We know the balance for Iceland and, David, you can give him that. And at our normal run rate, but beyond that I don't think we have anything at this point we can give you guidance on, but go ahead, David.
- D. Beckley I was going to say our maintenance cap ex is \$16 million to \$20 million typically and then the balance of the Nordural expansion, the \$460 plus million, we will spend \$325 approximately this year and spent a little bit last year, so the rest of it kind of accounts for the difference.
- T. Rizzuto Okay. Great. And SG&A ran a little bit higher than you were looking for in the quarter. I know you know some of it is certainly variable, but could you provide me some different guidance there or the guidance that you have been using more recently?
- C. Davis David, go ahead.
- D. Beckley Yes. We're having a very good year. Our SG&A is driven by our compensation plans, also our retirement plans and then, our accounting and auditing fees and corporate insurance are also in there. So I would expect that if we continue to have a good year like we're having, you would expect SG&A to be in the \$7.5 million to \$8 million range per quarter, which is up from what we thought earlier, Tony. But yes, again, it is related to a number of those issues.
- Moderator Thank you. And we have a follow up question from the line of Wayne Atwell of Morgan Stanley. Please go ahead.
- W. Atwell If we fast-forward a couple of years and you have a big profit on your hedging position, would you capture some of that a few years out? I know you did that with Glencore a few years ago. If, let's say, the fifth, sixth, seventh year were hugely profitable, the price was depressed, you could capture that and use that maybe to buy an asset. Would you do that?
- C. Davis I certainly would not say no today, Wayne, but by the same token, the yes answer is much more difficult. In other words, you have hit some of the issues we would have to look at. We would have to look at what was going on in the market, what we saw for the future. If we thought it was too risky to open ourselves up, we would have to consider not doing that.

And then if we had a very good use for the money and on the assumption we could raise some capital that way, that would be a factor. If we did not have a good use for it, then we would have to think twice about it. So a whole number of things would come into play at the time.

W. Atwell Well, under the right circumstances that could be a real asset.

C. Davis Could be.

W. Atwell Let us say the market crashes in a few years; an asset that's available at a very attractive price because the price of metal is down and you have a big profit, you could close out the tail end of that and, presumably, get back into it a couple of years later.

C. Davis In fact, you pointed out we did this once before and at the time, we were getting very little credit in terms of the value to the company for having those hedges in place. We had an asset we wanted to complete the purchase of, so we did just that. We used the cash to allow us to buy the balance of Hawesville and at the time thought, well, okay, we can get back in the markets are going to go up and down and so far that strategy has proven to be correct. But I think you have to look at the time, what is going on. I think it is sometimes a hidden asset, or however you want to put it, that has some real value in the future.

Moderator Okay, thank you. And we have a follow up question from the line of Marty Pollack of NWQ Investment Management. Please go ahead.

M. Pollack Yes, gentlemen, this may be a sensitive questions to ask, but clearly there is going to be some change at the helm and there is a switch presumably that will be taking place. Could you provide some status on that in terms of timing and how that's proceeding?

And at the same time kind of give us what you think about the mergers into a much bigger player. I think you are probably approaching a million tons of capacity and very uniquely, possibly one of the best properties out there, especially for one of those sort of valuation of the individual properties. I am wondering whether as you might be departing, whether there is a sense that the value of the stock has been maximized here.

C. Davis Has been maximized?

M. Pollack Yes or, perhaps, there is still a lot left on the table. I know it is...

C. Davis

I can deal with the first one maybe more easily than the second one. In terms of the transition and so on, I think we have mentioned in the past, we have been mindful of this and, in fact, yes the search has been going on. I have to say that it was our plan and our objective to have it completed by now, so sooner than is, in fact, going to be the case. But I think it is coming along well now, and I think we will have a good and effective transition, so that we don't lose some history, etc.

I believe we stated in one of the prior conference calls, we're going to change our approach in terms of the top jobs in the company and go to what I guess is more now the British system; but maybe the U.S. will head that way, which is to separate the Chairman's job and the CEO's job. So the new CEO will be the president and CEO; and at this point, the board has asked me to stay on as chairman for a period of time, partially for transition and partially because I guess my knowledge in the business. So we will have a transition period in there, and I think we're getting close to being able to have that completed.

In terms of the values, I don't know. As we continue to do things with the company and improve it and strengthen it, I would hope the share value continues to reflect that, and we continue to create value for shareholders that we will get rewarded for that in terms of the share price. So I don't have any view in my own mind that this is sort of it. No.

Does that answer your question?

M. Pollack

Yes. Yes.

Moderator

There are no further questions. Please continue.

C. Davis

Well, I thank all of you for your interest and for listening in today. If I can just do a quick summary, I do believe the second quarter was basically a solid quarter for the company. Even with the operating problems we experiences at Hawesville, we have had a record operating income for the first half of this year. I will say, which I have said before, that though we're not satisfied with having these kind of problems and we have a lot of focus and a lot of pressure on ourselves and everybody in the company to deal with the Hawesville situation and to correct it, and to make sure we're back where we should be. And we're enjoying the strong markets by having all of the production we should have, so there is a lot of focus in the company on doing that.

We do think the fundamentals in the industry at this point remain positive and we also believe we have some excellent prospects for significant further growth. Certainly, Iceland is our major focus today, but we will ultimately look elsewhere depending on how that develops.

In terms of the basics, I think you heard from Jack, I mean that's a focus very much of ours that we stay with the basics, we try to control our costs and we bring down some of the costs that have gotten a little bit higher and we improve our operating efficiency.

I look forward to speaking with all of you next quarter and thank you very much for your participation.

I think that's all, Rochelle.

Moderator

All right. Ladies and gentlemen this conference will be available for replay after 4:30 p.m. today through Saturday, July 30, and you may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code, 787502. International participants please dial 3203653844.

And that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.