CENTURY ALUMINUM CO
Form 10-K
February 29, 2008

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

Commission File Number 0-27918

CENTURY ALUMINUM COMPANY

(Exact name of registrant as specified in its charter)

Delaware	13-3070826
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification No.)
2511 Garden Road Building A, Suite 200 Monterey, California (Address of registrant's principal offices)	93940 (Zip Code)

Registrant's telephone number, including area code

(831) 642-9300

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

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

per share

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

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

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

Based upon the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 29, 2007, the approximate aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,588,632,000. As of January 31, 2008, 41,008,573 shares of common stock of the registrant were issued and outstanding.

Documents Incorporated by Reference:

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

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PART I

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

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. We have based these forward-looking statements on current expectations and projections about future events. Many of these statements may be identified by the use of forward-looking words such as “expects,” “anticipates,” “plans,” “believes,” “projects,” “estimates,” “intends,” “s “could,” “would,” “will,” “scheduled,” “potential” and similar words. These forward-looking statements are subject to risks, uncertainties and assumptions including, among other things, those discussed under Part I, Item 1, “Business,” Part I, Item 1A, “Risk Factors,” Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Part II, Item 8, “Financial Statements and Supplementary Data,” and:

- The cyclical nature of the aluminum industry causes variability in our earnings and cash flows;
- The loss of a customer to whom we deliver molten aluminum would increase our production costs and potentially our sales and marketing costs;
- Glencore International AG (“Glencore”) owns a large percentage of our common stock and has the ability to influence matters requiring shareholder approval;
- We enter into forward sales and hedging contracts with Glencore that help us manage our exposure to fluctuating aluminum prices. Because Glencore is our sole metal hedge counterparty, a material change in our relationship with Glencore could affect how we hedge our exposure to metal price risk;
- We could suffer losses due to a temporary or prolonged interruption of the supply of electrical power to one or more of our facilities, which can be caused by unusually high demand, blackouts, equipment failure, natural disasters or other catastrophic events;
- Due to volatile prices for alumina and electrical power, the principal cost components of primary aluminum production, our production costs could be materially impacted if we experience changes to or disruptions in our current alumina or electrical power supply arrangements, production costs at our alumina refining operation increase significantly, or if we are unable to obtain economic replacement contracts for our alumina supply or electrical power as those contracts expire;
- Changes in the relative cost of certain raw materials and electrical power compared to the price of primary aluminum could affect our margins;
- By expanding our geographic presence and diversifying our operations through the acquisition of bauxite mining, alumina refining and additional aluminum reduction assets, we are exposed to new risks and

uncertainties that could adversely affect the overall profitability of our business;

- We may not realize the expected benefits of our growth strategy if we are unable to successfully integrate the businesses we acquire or establish;
- Most of our employees are unionized and any labor dispute could materially impair our ability to conduct our production operations at our unionized facilities;
- We are subject to a variety of existing environmental laws and regulations that could result in unanticipated costs or liabilities and our planned environmental spending over the next three years may be inadequate to meet our requirements;
- We may not be able to renew or renegotiate existing long-term supply and sale contracts on terms that are favorable to us, or at all;
- Our proposed Helguvik project and other projects could be subject to cost over-runs and other unanticipated expenses and delays;
- Operating in foreign countries exposes us to political, regulatory, currency and other related risks;
- Our indebtedness reduces cash available for other purposes and limits our ability to incur additional debt and pursue our growth strategy;

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- Our proposed Helguvik project is subject to various conditions and risks that may affect our ability to complete the project;
- Continued consolidation of the metals industry may limit our ability to implement our strategic goals effectively; and
- Any further reduction in the duty on primary aluminum imports into the European Union would further decrease our revenue at Grundartangi.

We believe the expectations reflected in our forward-looking statements are reasonable, based on information available to us on the date of this filing. However, given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The risks described above and elsewhere in this report, including in Item 1A, "Risk Factors" should be considered when reading any forward-looking statements in this filing.

Item 1. Business

Overview

We produce primary aluminum. Aluminum is an internationally traded commodity, and its price is effectively determined on the London Metal Exchange ("LME"). Our primary aluminum facilities produce value-added and standard-grade primary aluminum products. In 2004, we acquired Nordural, an Icelandic primary aluminum facility which became our first production facility located outside of the United States. We produced approximately 767,000 metric tons of primary aluminum in 2007 with net sales of approximately $1.8 billion. Our current primary aluminum production capacity is 785,000 metric tons per year ("mtpy"), after the completed expansion of our Grundartangi facility to 260,000 mtpy ("Phase V expansion") in the fourth quarter of 2007. We are seeking approval to construct a primary aluminum facility in Helguvik, Iceland. Our goal for this facility is to begin operations in late 2010 with an initial production capacity of 150,000 mtpy.

In addition to our primary aluminum assets, we have 50 percent joint venture interests in the Gramercy alumina refinery, located in Gramercy, Louisiana and a related bauxite mining operation in Jamaica. The Gramercy refinery supplies substantially all of the alumina used for the production of primary aluminum at our Hawesville, Kentucky facility.

Primary Aluminum Facilities:

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

(1) Grundartangi's production capacity increased to 260,000 mtpy in the fourth quarter of 2007 with the completion of the Phase V expansion.

(2) Alcoa holds the remaining 50.3% ownership interest and is the operator. Century's share of Mt. Holly's capacity is approximately 111,000 mtpy.

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Bauxite and Alumina Facilities:

Facility	Location	Type	Capacity	Ownership Percent
Gramercy	Gramercy, Louisiana, USA	Alumina Refinery	1.2 million mtpy	50%
St. Ann Limited (1)	St. Ann, Jamaica	Bauxite	4.5 million mtpy	50%

(1) The Government of Jamaica has granted St. Ann Bauxite Limited ("SABL") rights to mine 4.5 million dry metric tons of bauxite on specified lands annually through September 30, 2030.

Our strategic objectives are to: (i) expand our primary aluminum business by investing in or acquiring additional capacity that offers favorable returns and lowers our per unit production costs; (ii) further diversify our geographic presence; and, (iii) pursue upstream opportunities in bauxite mining, alumina refining and the production of other key raw materials. The following table shows our primary aluminum shipment volumes since 2001.

To date, our growth activities have included:

- acquiring an additional 23% interest in the Mt. Holly facility ("Mt. Holly") in April 2000;
- acquiring an 80% interest in the Hawesville facility ("Hawesville") in April 2001;
- acquiring the remaining 20% interest in Hawesville in April 2003;
- acquiring the Grundartangi facility ("Grundartangi") in April 2004;
- acquiring a 50% joint venture in the Gramercy facility ("Gramercy"), our first alumina refining facility, together with related bauxite mining assets in October 2004, and;
- expanding Grundartangi's production capacity to 260,000 mtpy of primary aluminum (from 90,000 mtpy at the time of our acquisition).

Recent Developments

Proposed power contract for Hawesville

Hawesville's proposed new long-term power contract was filed with the Kentucky Public Service Commission in late December 2007. The contract would provide all of Hawesville's power requirements through 2023 at cost-based pricing. The parties involved expect the transaction to close late in the second quarter of 2008.

Glencore alumina agreement

In November 2007, Glencore and Century agreed to terms for a long-term alumina supply agreement for the period January 2010 through December 2014.

Nordural received a positive opinion on proposed Helguvik Environmental Impact Assessment

In October 2007, Nordural received a positive opinion from the Icelandic Planning Agency on the Environmental Impact Assessment for our proposed greenfield smelter to be constructed near Helguvik, Iceland.

Transmission Agreement signed for proposed Helguvik project

In October 2007, Nordural Helguvik signed a transmission agreement with Landsnet to provide an electrical power transmission system to the proposed Helguvik smelter. Landsnet is the company responsible for operating and managing Iceland's transmission system.

Century prices power for Hawesville

In October 2007, Century acquired 22% of the 27% unpriced position of Hawesville's power requirements for the first six months of 2008. The power was acquired through Kenergy from Big Rivers and Constellation Energy at fixed prices. Approximately five percent of Hawesville's power requirements for the first six months of 2008 and 27% for the balance of 2008 remain unpriced.

Alcan metal agreement

Century Aluminum of West Virginia, Inc.'s ("CAWV") and Alcan signed a contract for a long-term metal agreement through August 31, 2009.

Increase in electrical power tariff rates in West Virginia

In May 2007, the West Virginia Public Service Commission ("PSC") agreed on proposed adjustments to the tariff rates paid by purchasers of electrical power from Appalachian Power Company ("APCo"). APCo supplies all the electrical power requirements for our Ravenswood smelter. The agreement became effective July 1, 2007 and increased the special contract rate for CAWV by approximately ten percent.

Equity offering raises $414 million, net of offering costs

In June 2007, we completed a public equity offering of 8,337,500 shares of common stock, which included the exercise of the over-allotment option of 1,087,500 shares of common stock, at a price of $52.50 per share, raising $437.7 million before offering costs. We sold the 8,337,500 shares of common stock in a simultaneous offering in the

United States and Iceland. Shares of common stock offered and sold in Iceland are represented by global depositary receipts, with one depositary receipt representing one share of common stock. The offering costs were approximately $23.6 million, representing underwriting discounts and commissions and offering expenses.

Repayment of Nordural debt

Nordural repaid all of the principal balances associated with its senior term loan facility, harbor loan and site loans in 2007. In June 2007, we used a portion of the net proceeds from the equity offering to prepay $200.0 million of principal of the Nordural senior term loan facility. The remaining repayments were provided by available cash and cash generated from operations.

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Century signs power contracts for the proposed Helguvik project

In June 2007, we entered into an electrical power supply agreement with Orkuveita Reykjavikur (“OR) to supply a portion of the electrical power for the proposed Helguvik project. The price of the electrical power provided under the contract will be based on the LME price of primary aluminum. The contract is subject to various conditions. With this agreement, together with the electric power supply agreement entered into with Hitaveita Suðurnesja hf. (“HS”) in April 2007, we have secured adequate electrical power supplies for the initial phase of the proposed Helguvik project. Successful completion of the proposed Helguvik project is subject to various conditions.

EU lowers European import duty for primary aluminum

In May 2007, the European Union (“EU”) members reduced the EU import duty for primary aluminum from six percent to three percent and agreed to review the new duty after three years. The decrease in the EU import duty for primary aluminum reduces Grundartangi’s revenues and any future decreases would lower Grundartangi’s revenues further. We do not expect the change in the import duty to have a material effect on our financial position or results of operations.

Century signs memorandum of understanding with Guangxi Investment Group Company

In June 2007, we signed a memorandum of understanding with the Guangxi Investment Group Company to explore the feasibility of developing a high purity aluminum reduction project and related bauxite and alumina supplies in China.

Competition

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

Our Hawesville and Ravenswood plants are each located adjacent to their largest customer. This location allows the plants to deliver a portion of their production in molten form, at a cost savings to both parties, providing a competitive advantage over other potential suppliers. Our Hawesville plant also has a competitive advantage due to its ability to produce the high purity aluminum needed by its largest customer for the manufacture of electrical transmission lines.

Customer Base

In 2007, we derived approximately 79% of our consolidated sales from our four major customers: Southwire, Alcan, Glencore and BHP Billiton. Additional information about the revenues and percentage of sales to these major customers is available in Note 18 of the Consolidated Financial Statements included herein. A loss of any of these customers could have a material adverse effect on our results of operations. We currently have long-term primary aluminum sales or tolling contracts with each of these customers. More information about these contracts is available under “Primary Aluminum Sales Contracts” in Note 14 of the Consolidated Financial Statements included herein.

Financial Information about Segments and Geographic Areas

We operate in one reportable segment, primary aluminum. Additional information about our primary aluminum segment and certain geographic information is available in Note 18 to the Consolidated Financial Statements included herein. For a description of certain risks attendant to our operations, see Item 1A “Risk Factors.”

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Energy, Key Supplies and Raw Materials

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

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

Electrical power, alumina, carbon anodes and labor are the principal components of cost of goods sold. These components together represented over 75 percent of our 2007 cost of goods sold. We have long-term contracts to ensure the future availability of many of our cost components. For a description of certain risks attendant to our raw material supplies and labor, see Item 1A "Risk Factors."

Key Long-term Supply Contracts

Alumina Supply Agreements

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

Facility	Supplier	Term	Pricing
Mt. Holly	Glencore	Through January 31, 2008	Variable, LME-based
Mt. Holly (1)	Trafigura	Through December 31, 2013	Variable, LME-based
Hawesville	Gramercy Alumina	Through December 31, 2010	Variable, Cost-based
Ravenswood	Glencore	Through December 31, 2009	Variable, LME-based
Various (2)	Glencore	January 1, 2010 through December 31, 2014	Variable, LME-based

(1) The alumina supply contract with Trafigura provided Century with 125,000 metric tons in 2007 and will provide 220,000 metric tons in 2008 through 2013.
(2) In November 2007, we agreed to terms for a long-term supply agreement with Glencore.

Electrical Power Supply Agreements

We use significant amounts of electricity in the aluminum production process. In addition to the contracts listed below, we have entered into long-term power supply agreements to supply power for the proposed Helguvik project. These contracts, described above in "Recent Developments", are subject to various conditions. A summary of our long-term power supply agreements is provided below.

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Facility	Supplier	Term	Pricing
Ravenswood (1)(2)	Appalachian Power Company	Continuous	Based on published tariff, with provisions for pricing based on the LME price for primary aluminum
Mt. Holly	South Carolina Public Service Authority	Through December 31, 2015	Fixed price, with fuel cost adjustment clause through 2010; subject to a new fixed price schedule after 2010
Hawesville (3)	Kenergy	Through December 31, 2010	Fixed price through 2010
Nordural	Landsvirkjun	Through 2019	Variable rate based on the LME price for primary aluminum
Nordural (4)(5)	Hitaveita Suðurnesja	Through 2026-2028	Variable rate based on the LME price for primary aluminum
Nordural (5)	Orkuveita Reykjavíkur	Through 2026-2028	Variable rate based on the LME price for primary aluminum

(1) Appalachian Power supplies all of Ravenswood's power requirements. After December 31, 2007, Ravenswood may terminate the agreement by providing 12 months notice of termination. Effective July 28, 2006, the Public Service Commission of the State of West Virginia approved an experimental rate design in connection with an increase in the applicable tariff rates. Under the experimental rate, Ravenswood may be excused from or may defer the payment of the increase in the tariff rate if aluminum prices as quoted on the LME fall below pre-determined levels. The experimental rate design is effective through June 30, 2009.

(2) This contract contains LME-based pricing provisions that are an embedded derivative. The embedded derivative does not qualify for cash flow hedge treatment and is marked to market quarterly. Gains and losses on the embedded derivative are included in the Net gain (loss) on forward contracts in the Consolidated Statement of Operations.

(3) Under this contract, approximately 73% of Hawesville's power requirements are at fixed prices. We continuously review our options to manage the balance, or 27%, of this power and price the remaining power when we believe the combination of price and term is appropriate. We are working with Big Rivers Electric Corporation ("Big Rivers") and Kenergy on a proposal that would restructure and extend this contract. The proposed new long-term power contract was filed with the Kentucky Public Service Commission in late December 2007. The contract would provide all of Hawesville's power requirements through 2023 at cost-based pricing. The parties involved expect the transaction to close late in the second quarter of 2008.

(4)

In April 2006, we announced an expansion of the Nordural facility from 220,000 mtpy to 260,000 mtpy which was completed in the fourth quarter of 2007. OR has agreed to deliver the power for the additional expansion capacity by late 2008. Landsvirkjun has agreed to deliver power for the additional capacity on an interim basis until power is available from OR in late 2008.

(5) The power agreement for the power requirements for the expansion to 220,000 mtpy is through 2026. The term of the power agreement for the expansion to 260,000 mtpy is through 2028.

Labor Agreements

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

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Facility	Organization	Term
Hawesville	USWA	Through March 31, 2010
Ravenswood	USWA	Through May 31, 2009
Grundartangi	Icelandic labor unions	Through December 31, 2009
Gramercy	USWA	Through September 30, 2010
St. Ann (1)	Jamaican labor unions	Through April 30, 2007 and December 31, 2007

(1) St. Ann has two labor unions, the University and Allied Workers Union (the "UAWU") and the Union of Technical and Supervisory Personnel (the "UTASP"). Contracts with both the UAWU and the UTASP expired on April 30, 2007 and December 31, 2007, respectively. Both sides continue to develop their proposals with the expectation of prolonged negotiations, which is common in Jamaica. There has been no change in mine operations and none is expected. We expect any contract changes will be applied retroactively to the expiration date.

Pricing

Our operating results are sensitive to changes in the price of primary aluminum and the raw materials used in its production. As a result, we try to mitigate the effects of fluctuations in primary aluminum and raw material prices through the use of various fixed-price commitments and financial instruments.

We offer a number of pricing alternatives to our customers which, combined with our metals risk management activities, are designed to achieve a certain level of price stability on our primary aluminum sales. Generally, we price our products at an indexed or "market" price, in which the customer pays an agreed-upon premium over the LME price or other market indices.

Grundartangi derives substantially all of its revenues from tolling arrangements whereby it converts alumina provided by its customers into primary aluminum for a fee based on the LME price for primary aluminum. Grundartangi's revenues are subject to market price risk associated with the LME price for primary aluminum; however, because it produces primary aluminum under a tolling arrangement, Grundartangi is not directly exposed to fluctuations in the price for alumina. Grundartangi purchases power under its current power contract at a rate which is a percentage of the LME price for primary aluminum. By linking its most significant production cost to the LME price for primary aluminum, Grundartangi is partially hedged against downswings in the market for primary aluminum; however, this hedge also limits Grundartangi's upside as the LME price increases. Grundartangi's tolling revenues include a premium based on the EU import duty for primary aluminum. In May 2007, the EU members reduced the import duty for primary aluminum from six percent to three percent and agreed to review the new duty after three years. This decrease in the EU import duty for primary aluminum negatively impacted Grundartangi's revenues and further decreases would also have a negative impact on Grundartangi's revenues.

Primary Aluminum Facilities

Grundartangi

The Grundartangi facility located in Grundartangi, Iceland, is owned and operated by our subsidiary, Nordural ehf. Grundartangi is our most modern and lowest cost facility. Operations began in 1998 and production capacity was expanded in 2001, 2006 and 2007. The facility has a production capacity of 260,000 mtpy.

Grundartangi operates under various long-term agreements with the Government of Iceland, local municipalities, and Faxafloahafnir sf (which operates the harbor at Grundartangi and is jointly owned by several municipalities). These agreements include: (i) an investment agreement which establishes Nordural's tax status and the Government's obligations to grant certain permits; (ii) a reduction plant site agreement by which Nordural leases the property through 2020, subject to renewal at its option; and (iii) a harbor agreement by which Nordural is granted access to the port at Grundartangi. In connection with its expansion, Nordural has entered into amendments to the investment agreement and the reduction plant site agreements with the Government of Iceland.

Recently Completed Expansion Projects. Since our acquisition of Nordural in 2004, we have completed two major expansion projects at the Grundartangi facility. In late 2006, we completed the expansion of the Grundartangi facility from a production capacity of 90,000 mtpy to 220,000 mtpy at a total cost of approximately $483 million. In the fourth quarter of 2007, we completed a further expansion to 260,000 mtpy of production capacity at an estimated total cost of $131 million.

Tolling Agreements. Grundartangi has long-term tolling agreements for all of its production capacity with BHP Billiton, Glencore and Hydro. The tolling counterparties provide alumina and receive primary aluminum in return for tolling fees that are based on the LME price of primary aluminum. See Note 14 in the Consolidated Financial Statements for more information about these agreements.

Power. Grundartangi purchases power from Landsvirkjun (a power company jointly owned by the Republic of Iceland and two Icelandic municipal governments), HS and OR under long-term contracts due to expire in 2019, 2026 and 2028. The power delivered to Grundartangi is priced at a rate based on the LME price for primary aluminum and is produced from hydroelectric and geothermal sources. Landsvirkjun is also delivering power on an interim basis for the Phase V expansion capacity until late 2008, when OR is expected to be the primary provider of electrical power for this capacity.

Employees. Our employees at Grundartangi are represented by five labor unions that operate under a labor contract that establishes wages and work rules for covered employees for the period through December 31, 2009.

Hawesville

Hawesville is owned by our subsidiary, Century Kentucky, Inc. Hawesville is located adjacent to the Ohio River near Hawesville, Kentucky and began operations in 1970. Hawesville has five reduction potlines with an annual rated production capacity of 244,000 metric tons.

Hawesville's original four potlines have an annual production capacity of approximately 195,000 metric tons and are specially configured and operated to produce high purity primary aluminum. The average purity level of primary aluminum produced by these potlines is 99.9%, compared to standard-purity aluminum which is approximately 99.7%. High purity primary aluminum is sold at a premium to standard-purity aluminum. The high purity primary aluminum provides the conductivity required by Hawesville’s largest customer, Southwire, for its electrical wire and cable products as well as for certain aerospace applications. A fifth potline added in 1999 has an annual capacity of approximately 49,000 metric tons of standard-purity aluminum.

Metal Sales Agreement. Hawesville has a long-term aluminum sales contract with Southwire (the “Southwire Metal Agreement”). The Southwire Metal Agreement expires March 31, 2011, subject to automatic renewal for additional five-year terms, unless either party provides 12 months’ notice that it has elected not to renew. The price for the molten aluminum delivered to Southwire is variable and is determined by reference to the U.S. Midwest Market Price. Under the contract, Hawesville supplies 240 million pounds (approximately 109,000 metric tons) of high-purity molten aluminum annually to Southwire’s adjacent wire and cable manufacturing facility. Under this contract, Southwire will also purchase 60 million pounds (approximately 27,000 metric tons) of standard-grade molten aluminum each year through December 2010. Southwire has an option to purchase an equal amount of standard-grade molten aluminum in 2011. In addition, Southwire purchased an additional 48 million pounds (approximately 22,000 metric tons) of standard grade molten aluminum during 2007.

Alumina. Hawesville purchases alumina under a supply agreement with Gramercy Alumina LLC (“GAL”) our 50% joint venture company, which owns and operates the Gramercy alumina refinery. The alumina supply agreement runs through December 31, 2010 and the contract pricing varies based on GAL's cost of production.

Power. Hawesville purchases substantially all of its power from Kenergy Corp. ("Kenergy"), a retail electric member cooperative of the Big Rivers Electrical Corporation ("Big Rivers"), under a power supply contract that expires at the end of 2010. Under this contract, approximately 73% of this power is at fixed prices. We continuously review our options to manage the balance, or 27% (126 MW), of this power and price the remaining power when we believe the combination of price and term are appropriate. In October 2007, Century acquired 22% of the 27% unpriced position of the power requirements for Hawesville for the first six months of 2008. The power was acquired through Kenergy from Big Rivers and Constellation Energy at fixed prices. Approximately five percent of Hawesville's power requirements for the first six months of 2008 and 27% for the balance of 2008 remain unpriced. Hawesville has unpriced power requirements of 126 MW or 27% of its power requirements from mid-2008 through 2010.

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We are working with Big Rivers Electric Corporation (“Big Rivers”) and Kenergy on a proposal that would restructure and extend the existing power supply contract through 2023. Hawesville’s proposed new long-term power contract was filed with the Kentucky Public Service Commission in late December 2007. The contract would provide all of Hawesville’s power requirements through 2023 at cost-based pricing. The parties involved expect the transaction to close late in the second quarter of 2008.

Employees. The bargaining unit employees at Hawesville are represented by the USWA. Century’s collective bargaining agreement, which covers all of the represented hourly employees at Hawesville, expires March 31, 2010.

Ravenswood

The Ravenswood facility (“Ravenswood”) is owned and operated by our subsidiary, Century Aluminum of West Virginia, Inc. (“Century of West Virginia”). Built in 1957, Ravenswood operates four potlines with a production capacity of 170,000 metric tons. The facility is located adjacent to the Ohio River near Ravenswood, West Virginia.

Metal Sales Agreements. Ravenswood produces molten aluminum that is delivered to Alcan’s adjacent fabricating facility and standard-grade ingot that we sell in the marketplace. We have a new supply contract with Alcan under which Alcan purchases 19 million pounds (approximately 8,600 metric tons) per month of molten aluminum through December 31, 2008 and 14 million pounds (approximately 6,350 metric tons) per month of molten aluminum produced at Ravenswood through August 30, 2009 (the “Alcan Metal Agreement”). The price for primary aluminum delivered under the Alcan Metal Agreement is variable and determined by reference to the U.S. Midwest Market Price. This contract requires us to deliver molten aluminum, which reduces our casting and shipping costs. Ravenswood also sells 10,200 metric tons per year of primary aluminum under a contract with Glencore (the “Glencore Metal Agreement II”) through December 31, 2013. Under the Glencore Metal Agreement II, Glencore purchases a total of 20,400 metric tons per year of the primary aluminum produced at the Ravenswood and Mt. Holly facilities, at a price determined by reference to the U.S. Midwest Market Price, subject to an agreed cap and floor as applied to the U.S. Midwest Premium.

Alumina. Glencore supplies the alumina used at Ravenswood under a contract that expires on December 31, 2009. The contract pricing varies based on the LME price for primary aluminum.

Power. Appalachian Power Company (“APCo”) supplies all of Ravenswood’s power requirements. Power delivered under the supply agreement is as set forth in published tariffs. Ravenswood may terminate the agreement by providing 12 months notice of termination. Effective July 28, 2006, the Public Service Commission for the State of West Virginia approved an experimental rate design in connection with an increase in the applicable tariff rates. Under the experimental rate, Ravenswood may be excused from or may defer the payment of the increase in the tariff rate if aluminum prices as quoted on the LME fall below pre-determined levels.

In May 2007, the West Virginia Public Service Commission (“PSC”) agreed on proposed adjustments to the tariff rates paid by purchasers of electrical power from APCo. APCo supplies all the electrical power requirements for the Ravenswood facility. APCo requested an increase in the tariff rate established in July 2006 for pollution control additions and higher than anticipated fuel, purchased power and capacity charges. The agreement became effective July 1, 2007 and increased the special contract rate for Ravenswood by approximately ten percent.

Employees. The bargaining unit employees at Ravenswood are represented by the USWA. The collective bargaining agreement that covers all of the represented hourly employees at Ravenswood expires May 31, 2009.

Mt. Holly

Mt. Holly, located in Mt. Holly, South Carolina, was built in 1980 and is the most recently constructed aluminum reduction facility in the United States. The facility consists of two potlines with a total annual rated production capacity of 224,000 metric tons and casting equipment used to cast molten aluminum into standard-grade ingot, extrusion billet and other value-added primary aluminum products. Value-added primary aluminum products are sold at a premium to standard-grade primary aluminum. Our 49.7% interest represents approximately 111,000 metric tons of the facility's annual production capacity.

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Our interest in Mt. Holly is held through our subsidiary, Berkeley Aluminum, Inc. ("Berkeley"). Under the Mt. Holly ownership structure, we hold an undivided 49.7% interest in the property, plant and equipment comprising the aluminum reduction operations at Mt. Holly and an equivalent share in the general partnership responsible for the operation and maintenance of the facility. Alcoa owns the remaining 50.3% interest in Mt. Holly and an equivalent share of the operating partnership. Under the terms of the operating partnership, Alcoa is responsible for operating and maintaining the facility. Each owner supplies its own alumina for conversion to primary aluminum and is responsible for its proportionate share of operational and maintenance costs.

Metal Sales Agreements. We have a contract to sell to Glencore 50,000 metric tons of primary aluminum produced at Mt. Holly each year through December 31, 2009 (the "Glencore Metal Agreement I"). The Glencore Metal Agreement I provides for variable pricing determined by reference to the quoted LME price of primary aluminum. Mt. Holly also sells 10,200 metric tons per year of primary aluminum under the Glencore Metal Agreement II. More information on the Glencore Metal Agreement II is available under "Primary Aluminum Sales Contracts" in Note 14 of the Consolidated Financial Statements included herein.

Alumina. Substantially all of our alumina requirements for Mt. Holly will be provided by Trafigura AG under an agreement that extends through 2013. The pricing for alumina under our contract with Trafigura are variable and based on the LME price for primary aluminum.

Power. Mt. Holly purchases all of its power requirements from the South Carolina Public Service Authority ("Santee Cooper") under a contract that runs through 2015. Power delivered through 2010 will be priced at rates fixed under currently published schedules, subject to adjustments to cover Santee Cooper's fuel costs. Rates for the period 2011 through 2015 will be as provided under then-applicable schedules.

Employees. The employees at Mt. Holly are employed by Alcoa and are not unionized.

Proposed Helguvik project (expected to be operational in late 2010)

The proposed Helguvik smelter would be located approximately 30 miles from the city of Reykjavik and would be operated through our Nordural ehf subsidiary. This site provides a flat location and existing harbor, as well as proximity to the capital and other industry.

The first phase of construction which corresponds with a production capacity of at least 150,000 mtpy is currently being planned based on the expectation that power would be available beginning in late 2010 for startup of production. Additional power is expected to become available not later than 2015 which would allow us to increase the proposed Helguvik project's capacity to approximately 250,000 mtpy. The smelter will use AP36 technology which is capable of supporting a single potline with a production capacity of 360,000 mtpy. Successful completion of the proposed Helguvik project is subject to various conditions and approvals.

Power Supply Agreements. In April 2007 and June 2007, Nordural signed electrical power supply agreements with HS and OR, respectively, for the proposed Helguvik smelter. Under the agreements, power will be supplied to the proposed Helguvik facility in stages, beginning with an initial phase of up to 250 megawatts ("MW"), which will support production capacity of about 150,000 mtpy. HS will provide up to 150 MW in this initial stage, and OR will supply up to 100 MW. Electricity delivery for this first phase is targeted to begin in late 2010. The agreements provide for a total of 435 MW, which will ultimately provide power for a 250,000 mtpy facility. The agreements are subject to the satisfaction of certain conditions.

Site and other agreements. To date, we have signed a site agreement and a harbor agreement.

Environmental Impact Assessment. In October 2007, Nordural received a positive opinion from the Icelandic Planning Agency on the Environmental Impact Assessment ("EIA") for the proposed Helguvik smelter.

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Transmission Agreement. In October 2007, Nordural Helguvik signed a transmission agreement with Landsnet to provide an electrical power transmission system to the proposed Helguvik smelter. Landsnet is the company responsible for operating and managing Iceland's transmission system.

Joint Venture Facilities

Gramercy Alumina LLC ("GAL")

The alumina refinery in Gramercy, owned by GAL, is equally owned by Century and a joint venture partner. Gramercy began operations in 1959 and consists of a production facility, a powerhouse for steam and electricity production, a deep water dock and a barge loading facility. Extensive portions of the Gramercy plant were rebuilt and modernized between 2000 and 2002.

Alumina Operations. The Gramercy refinery has an annual rated capacity of 1.2 million metric tons of alumina per year. Gramercy's production consists of approximately 80% smelter grade alumina and 20% alumina hydrate or chemical grade alumina. GAL sells approximately 50% of its smelter grade alumina to Hawesville at prices based on Gramercy's production costs under an alumina supply contract due to expire on December 31, 2010. All of the chemical grade alumina production is currently sold under short-term and long-term contracts with approximately twenty third-party customers.

Supply Agreements. Bauxite is the principal raw material used in the production of alumina, and natural gas is the principal energy source. The Gramercy plant purchases all of its bauxite requirements from SABL under a contract that expires at the end of 2010. The Gramercy plant purchases its natural gas requirements at market prices under agreements with local suppliers.

St. Ann Bauxite Limited ("SABL")

SABL, which owns bauxite mining operations, is equally owned by Century and a joint venture partner. The bauxite mining operations are comprised of: (i) a concession from the Government of Jamaica ("GOJ") to mine bauxite in Jamaica (the "mining rights,") and (ii) a 49% interest in a Jamaican partnership that owns certain mining assets in Jamaica (the "mining assets"). The GOJ owns the remaining 51% interest in the partnership. The mining assets consist primarily of rail facilities, other mobile equipment, dryers, and loading and dock facilities.

Bauxite Mining Rights. Under the terms of the mining rights, SABL manages the operations of the partnership, pays operating costs and is entitled to all of its bauxite production. The GOJ receives: (i) a royalty based on the amount of bauxite mined, (ii) an annual "asset usage fee" for the use of the GOJ's 51% interest in the mining assets and (iii) certain fees for lands owned by the GOJ that are covered by the mining rights. SABL also pays to the GOJ customary income taxes and certain other fees pursuant to an agreement with the GOJ that establishes a fiscal regime for SABL. A production levy normally applicable to bauxite mined in Jamaica has been waived for SABL through December 2008. If the levy is subsequently assessed on bauxite produced by SABL, the Establishment Agreement provides that certain payments to the GOJ will be reduced and SABL and the GOJ will negotiate amendments to SABL's fiscal regime in order to mitigate the effects of the levy.

Under the terms of the mining rights, SABL mines the land covered by the mining rights and the GOJ retains surface rights and ownership of the land. The GOJ granted the mining rights and entered into other agreements with SABL for the purpose of ensuring the St. Ann facility is able to provide its customers with sufficient reserves to meet their annual alumina requirements.

Under the mining rights, GOJ has granted SABL rights to mine 4.5 million dry metric tons of bauxite on specified lands annually through September 30, 2030. The GOJ will provide additional land if the land covered by the mining rights does not contain sufficient quantities of commercially exploitable bauxite. SABL is responsible for reclamation of the land that it mines. As of December 31, 2007, SABL's reclamation obligations amounted to approximately $8.0 million.

Customers. Approximately 50 percent of the bauxite from St. Ann is refined into alumina at the Gramercy refinery and the remainder is sold to Sherwin Alumina Company, which is owned by Glencore, a related party.

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SABL and GAL have a contract under which SABL will supply the Gramercy plant's bauxite requirements through December 2010. The price for bauxite under the contract is fixed through 2008.

SABL has various short-term agreements with third parties for the supply of fuel oil, diesel fuel, container leasing and other locally provided services.

Environmental Matters

We are subject to various environmental laws and regulations. We have spent, and expect to spend, significant amounts for compliance with those laws and regulations. In addition, some of our past manufacturing activities have resulted in environmental consequences which require remedial measures. Under certain environmental laws which may impose liability regardless of fault, we may be liable for the costs of remediation of contaminated property, including our current and formerly owned or operated properties or adjacent areas, or for the amelioration of damage to natural resources. We believe, based on currently available information, that our current environmental liabilities are not likely to have a material adverse effect on Century. However, we cannot predict the requirements of future environmental laws and future requirements at current or formerly owned or operated properties or adjacent areas. Such future requirements may result in unanticipated costs or liabilities which may have a material adverse effect on our financial condition, results of operations or liquidity. More information concerning our environmental contingencies can be found in Note 13 to the Consolidated Financial Statements included herein.

Intellectual Property

We own or have rights to use a number of patents or patent applications relating to various aspects of our operations. We do not consider our business to be materially dependent on any of these patents or patent applications.

Employees

We employ a work force of approximately 1,900 employees.

Available Information

Additional information about Century may be obtained from our website, which is located at www.centuryaluminum.com. Our website provides access to filings we have made through the SEC's EDGAR filing system, including our annual, quarterly and current reports filed on Forms 10-K, 10-Q and 8-K, respectively, and ownership reports filed on Forms 3, 4 and 5 after December 16, 2002 by our directors, executive officers and beneficial owners of more than 10% of our outstanding common stock. These filings are also available on the SEC website at www.sec.gov. In addition, we will make available free of charge copies of our Forms 10-K, Forms 10-Q, and Forms 8-K upon request. Requests for these documents can be made by contacting our Investor Relations Department by mail at: 2511 Garden Road, Suite A200, Monterey, CA 93940, or phone at: (831) 642-9300. Information contained in our website is not incorporated by reference in, and should not be considered a part of, this Annual Report on Form 10-K.

Item 1A. Risk Factors

The following describes certain of the risks and uncertainties we face that could cause our future results to differ materially from our current results and from those anticipated in our forward-looking statements. These risk factors should be considered together with the other risks and uncertainties described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere herein.

The cyclical nature of the aluminum industry causes variability in our earnings and cash flows; our hedging transactions may limit our ability to benefit from increased aluminum prices which are currently near historical highs.

Our operating results depend on the market for primary aluminum, which is a highly cyclical commodity with prices that are affected by global demand and supply factors and other conditions. Historically, aluminum prices have been volatile and we expect such volatility to continue. Currently, we are experiencing favorable global economic conditions and continued strong demand in China and other developing regions. Although we use contractual arrangements to manage our exposure to fluctuations in the commodity price, a decline in primary aluminum prices would reduce our earnings and cash flows. Any significant downturn in prices for primary aluminum would significantly reduce the amount of cash available to meet our current obligations and fund our long-term business strategies and may force the curtailment of all or a portion of our operations at one or more of our facilities.

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Conversely, as prices for aluminum increase, certain of our hedging transactions, including our forward sales of primary aluminum and our LME-based alumina and power contracts, limit our ability to take advantage of these increased prices. More information about Century's market risks is available in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk.”

We sell molten aluminum to the major customers of Ravenswood and Hawesville; the loss of one of these major customers would increase our production costs at those facilities and could increase our sales and marketing costs.

Approximately 45% of our consolidated net sales for 2007 were derived from sales to Alcan and Southwire. Alcan’s facility is located adjacent to Ravenswood and Southwire’s facility is located adjacent to Hawesville. Due to this proximity, we are able to deliver molten aluminum to these customers, thereby eliminating our casting and shipping costs and our customers’ freight and remelting costs and reducing our sales and marketing costs. Century has contracts with Alcan and Southwire which are due to expire in August 2009 and March 2011, respectively. We may be unable to extend or replace these contracts when they terminate. If we are unable to renew these contracts when they expire, or if either customer significantly reduces its purchases under those contracts, we would incur higher casting and shipping costs and potentially higher sales and marketing costs.

A material change in our relationship with Glencore could affect how we hedge our exposure to metal price risk.

We benefit from our relationship with Glencore, our largest shareholder. Prior to our initial public offering in April 1996, we were an indirect, wholly-owned subsidiary of Glencore. As of January 31, 2008, Glencore owned approximately 28.5% of our outstanding common stock. We enter into forward sales and hedging contracts with Glencore that help us manage our exposure to fluctuating aluminum prices. Because Glencore is our sole metal hedge counterparty, a material change in our relationship with Glencore could affect how we hedge our exposure to metal price risk, which could impact our results of operations.

Losses caused by disruptions in the supply of power would reduce the profitability of our operations.

We use large amounts of electricity to produce primary aluminum. Any loss of power which reduces the amperage to our equipment or causes an equipment shutdown would result in a reduction in the volume of molten aluminum produced and may result in the hardening or “freezing” of molten aluminum in the pots where it is produced. Interruptions in the supply of electrical power to our facilities can be caused by a number of circumstances, including unusually high demand, blackouts, equipment failure, natural disasters or other catastrophic events. If such a condition were to occur, we may lose production for a prolonged period of time and incur significant losses. We maintain property and business interruption insurance to mitigate losses resulting from catastrophic events, but are required to pay significant amounts under the deductible provisions of those insurance policies. In addition, the coverage under those policies may not be sufficient to cover all losses, or may not cover certain events. Certain of our insurance policies do not cover any losses that may be incurred if our suppliers are unable to provide power during periods of unusually high demand. Certain losses or prolonged interruptions in our operations may trigger a default under our revolving credit facility.

The cost of alumina used at Hawesville may be higher than under our LME-based alumina contracts.

We acquire alumina used at Ravenswood and Mt. Holly at prices based on the LME price for primary aluminum. Gramercy supplies substantially all of the alumina used at Hawesville at prices based on Gramercy’s production costs. Those production costs could be materially higher than the price paid under LME-based contracts during periods when aluminum prices are low and raw material and energy costs used in the production of alumina, such as natural gas, are high.

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Changes or disruptions to our current alumina and other raw material supply arrangements could increase our raw material costs.

We depend on a limited number of suppliers for alumina. Disruptions to our supply of alumina could occur for a variety of reasons, including disruptions of production at a particular supplier's alumina refinery. These disruptions may require Century to purchase alumina on the spot market on less favorable terms than under our current agreements.

Gramercy supplies substantially all the alumina used at Hawesville. Our joint venture bauxite mining operation in St. Ann, Jamaica supplies all of the bauxite used in the production of alumina at Gramercy. If there is a significant disruption of St. Ann bauxite shipments in the future, Gramercy could incur additional costs if it is required to use bauxite from other sources. Production shortfalls at Gramercy during 2007 required spot purchases of alumina to support Hawesville's operations which increased our cost of goods sold in 2007.

Our business also depends upon the adequate supply of other raw materials, including caustic soda, aluminum fluoride, calcined petroleum coke, pitch, finished carbon anodes and cathodes, at competitive prices. Although there remain multiple sources for these raw materials worldwide, consolidation among suppliers has globally reduced the number of available suppliers in this industry. A disruption in our raw materials supply from our existing suppliers due to a labor dispute, shortage of their raw materials or other unforeseen factors may adversely affect our operating results if we are unable to secure alternate supplies of these materials at comparable prices.

Changes in the relative cost and availability of certain raw materials and energy compared to the price of primary aluminum could affect our operating results.

Our operating results vary significantly with changes in the price of primary aluminum and the raw materials used in its production, including alumina, caustic soda, aluminum fluoride, calcined petroleum coke, pitch, and cathodes. Because we sell our products based on the LME price for primary aluminum, we cannot pass on increased costs to our customers. Although we attempt to mitigate the effects of price fluctuations through the use of various fixed-price commitments and financial instruments and by pricing some of our raw materials and energy contracts based on LME prices, these efforts also limit our ability to take advantage of favorable changes in the market prices for primary aluminum or raw materials. In addition, because we have sold forward a certain amount of our production capacity in future years, rising raw material and energy prices would negatively impact our earnings and cash flow. See "Item 7A - Quantitative and Qualitative Disclosures About Market Risk."

Electricity represents our single largest operating cost. As a result, the availability of electricity at economic prices is critical to the profitability of our operations. We purchase virtually all of our electricity for our U.S. facilities under fixed-price contracts. Portions of the contracted cost of the electricity supplied to Mt. Holly vary with the supplier's fuel costs. An increase in these fuel costs would increase the price this facility pays for electricity. Approximately five percent of Hawesville's power requirements for the first six months of 2008 and 27% for the balance of 2008 through 2010 remain unpriced. The profitability of Hawesville could be adversely affected if we are unable to obtain power for the unpriced portions of Hawesville's power requirements at economic rates. We are working with a local power company on a proposal that would restructure and extend Hawesville's existing power supply contract through 2023. If we are not successful in replacing such power requirements, we may be forced to curtail or idle a portion of our production capacity, which would lower our revenues and adversely affect the profitability of our operations. At Ravenswood, power prices have some variability based upon the LME price for primary aluminum and are subject to possible adjustments in the published tariff. An agreement was reached in a tariff rate case pending before the West Virginia Public Service Commission, or PSC, which increased the special contract rate for Ravenswood by approximately 10% effective July 1, 2007. Other possible future rate cases could lead to a further increase in the price that Ravenswood pays for electricity and thereby decrease profit margins.

Unexpected events, including natural disasters, may increase our cost of doing business or disrupt our operations.

Unexpected events, including fires or explosions at our facilities, natural disasters, such as hurricanes, unplanned power outages, supply disruptions, or equipment failures, may increase our cost of doing business or otherwise disrupt our operations.

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We are subject to the risk of union disputes.

The bargaining unit employees at Ravenswood and Hawesville and at the Gramercy refinery are represented by the USWA. Century's USWA labor contracts at Ravenswood, Hawesville and the labor contract at Gramercy expire in May 2009, March 2010 and September 2010, respectively. Our bargaining unit employees at Grundartangi are represented by five unions under a collective bargaining agreement that expires on December 31, 2009. If we fail to maintain satisfactory relations with any labor union representing our employees, our labor contracts may not prevent a strike or work stoppage at any of these facilities in the future. Any threatened or actual work stoppage in the future could prevent or significantly impair our ability to conduct production operations at our unionized facilities, which could have a material adverse effect on our financial results.

We are subject to a variety of environmental laws and regulations that could result in costs or liabilities.

We are obligated to comply with various federal, state and other environmental laws and regulations, including the environmental laws and regulations of the United States, Iceland, the EU and Jamaica. Environmental laws and regulations may expose us to costs or liabilities relating to our manufacturing operations or property ownership. We incur operating costs and capital expenditures on an ongoing basis to comply with applicable environmental laws and regulations. In addition, we are currently and may in the future be responsible for the cleanup of contamination at some of our current and former facilities or for the amelioration of damage to natural resources.

We, along with others, including current and former owners of a facility on St. Croix in the Virgin Islands, formerly owned by a subsidiary of ours, have been sued for alleged natural resources damages at the facility. In addition, in December 2006, Century and the company that purchased the assets of our St. Croix facility in 1995 were sued by the Commissioner of the U.S. Virgin Islands Department of Planning and Natural Resources alleging our failure to take certain actions specified in a Virgin Islands Coastal Zone management permit issued to our subsidiary, Virgin Island Alumina Corporation LLC, in October 1994. In July 2006, Century was named as a defendant together with certain affiliates of Alcan Inc. in a lawsuit brought by Alcoa Inc. seeking to determine responsibility for certain environmental indemnity obligations related to the sale of a cast aluminum plate manufacturing facility located in Vernon, California, which we purchased from Alcoa Inc. in December 1998, and sold to Alcan Rolled Products-Ravenswood LLC in July 1999. Our known liabilities with respect to these and other matters relating to environmental compliance and cleanup, based on current information, are not expected to be material. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, previously unknown environmental conditions or damages to natural resources are discovered or alleged, or if contributions from other responsible parties with respect to sites for which we have cleanup responsibilities are not available, we may be subject to additional liability, which may be material and could affect our liquidity and our operating results. Further, additional environmental matters for which we may be liable may arise in the future at our present sites where no problem is currently known, with respect to sites previously owned or operated by us, by related corporate entities or by our predecessors, or at sites that we may acquire in the future. In addition, overall production costs may become prohibitively expensive and prevent us from effectively competing in price sensitive markets if future capital expenditures and costs for environmental compliance or cleanup are significantly greater than current or projected expenditures and costs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Environmental Contingencies" and Note 13 to our consolidated financial statements herein for additional information regarding our environmental matters and associated costs and risks.

Acquisitions may present difficulties.

We have a history of making acquisitions and we expect to make acquisitions in the future. We are subject to numerous risks as a result of our acquisitions, including the following:

- it may be challenging for us to manage our existing business as we integrate acquired operations;
- we may not achieve the anticipated benefits from our acquisitions; and
- management of acquisitions will require continued development of financial controls and information systems, which may prove to be expensive, time-consuming, and difficult to maintain.

Accordingly, our past or future acquisitions might not ultimately improve our competitive position and business prospects as anticipated.

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International operations expose us to political, regulatory, currency and other related risks.

Grundartangi, in Iceland, was our first facility located outside of the United States and it represents approximately 33% of our overall primary aluminum production capacity. In addition, we intend to construct an aluminum smelter near Helguvik, Iceland. The St. Ann bauxite operations related to the Gramercy plant are located in Jamaica. International operations expose us to risks, including unexpected changes in foreign laws and regulations, political and economic instability, challenges in managing foreign operations, increased cost to adapt our systems and practices to those used in foreign countries, export duties, tariffs and other trade barriers, and the burdens of complying with a wide variety of foreign laws. In addition, we may be exposed to fluctuations in currency exchange rates and, as a result, an increase in the value of foreign currencies relative to the U.S. dollar could increase our operating expenses which are denominated and payable in those currencies. Nordural's revenues are denominated in U.S. dollars, while its labor costs are denominated in Icelandic krona and a portion of its anode costs are denominated in euros. As we continue to explore other opportunities outside the U.S. and construct the proposed Helguvik facility, our currency risk with respect to the Icelandic krona and other foreign currencies will significantly increase.

The influence of China may negatively impact our results in the event of a slowdown in consumption.

The Chinese market has become a significant source of global demand for primary aluminum. China now represents in excess of 25 percent of aluminum demand. China's demand for aluminum has more than doubled in the last five years. Consequently, in response to its increased demand for commodities, China is increasingly seeking self-sufficiency in key commodities, including investments in additional developments in other countries. These investments may impact future demand and supply balances and prices.

Our historical financial information may not be comparable to our results for future periods.

Our historical financial information is not necessarily indicative of our future results of operations, financial position and cash flows. For example, certain of our historical financial data do not reflect the effects of:

- the 130,000 mtpy expansion capacity of Grundartangi that was completed in the fourth quarter of 2006; and
- the 40,000 mtpy expansion capacity of Grundartangi that was completed in the fourth quarter of 2007.

Our level of indebtedness requires significant cash flow to meet our debt service requirements, which reduces cash available for other purposes, such as the payment of dividends, and limits our ability to pursue our growth strategy.

We had an aggregate of approximately $432.8 million of outstanding indebtedness as of December 31, 2007. In addition, we could borrow additional amounts under our $100 million credit facility, and we expect to incur additional indebtedness to finance the proposed Helguvik project. The level of our indebtedness could have important consequences, including:

- limiting cash flow available for capital expenditures, acquisitions, dividends, working capital and other general corporate purposes because a substantial portion of our cash flow from operations must be dedicated to servicing our debt;
- increasing our vulnerability to adverse economic and industry conditions; and

- limiting our flexibility in planning for, or reacting to, competitive and other changes in our business and the industry in which we operate.

We will be required to settle in cash up to the principal amount of our $175 million convertible notes (which are convertible by the holder at any time) upon conversion, which could increase our debt service obligations. In addition to our indebtedness, we have liabilities and other obligations which could reduce cash available for other purposes and could limit our ability to pursue our growth strategy. More information about our liquidity and debt service obligations is set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” included herein.

We are also exposed to risks of interest rate increases. Our industrial revenue bonds (“IRBs”) and any borrowings on our credit facility would be at variable interest rates. Future borrowing required to fund the construction of the proposed Helguvik facility may be at variable rates. An increase in the interest rates would increase our debt service obligations under these instruments, further limiting cash flow available for other uses.

Our ability to pay interest and to repay or refinance our indebtedness, including our senior unsecured notes and convertible notes and to satisfy other commitments, will depend upon our future operating performance, which is subject to general economic, financial, competitive, legislative, regulatory, business and other factors, including market prices for primary aluminum, that are beyond our control. Accordingly, there is no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay debt service obligations or to fund our other liquidity needs. If we are unable to meet our debt service obligations or fund our other liquidity needs, we could attempt to restructure or refinance our indebtedness or seek additional equity capital. There can be no assurance that we would be able to accomplish those actions on satisfactory terms.

Restrictive covenants in our credit facility and the indenture governing our senior notes limit our ability to incur additional debt and pursue our growth strategy.

Our revolving credit facility and the indenture governing our senior unsecured notes each contain various covenants that restrict the way we conduct our business and limit our ability to incur debt, pay dividends and engage in transactions such as acquisitions and investments, which may impair our ability to pursue our growth strategy. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - “Liquidity and Capital Resources.” Any failure to comply with those covenants may constitute a breach under the revolving credit facility or the indenture governing the notes, which may result in the acceleration of all or a substantial portion of our outstanding indebtedness and termination of commitments under our revolving credit facility. If our indebtedness is accelerated, we may be unable to repay the required amounts and our secured lenders could foreclose on any collateral securing our secured debt.

Further consolidation within the metals industry could provide competitive advantages to our competitors.

The metals industry has experienced consolidation over the past several years and there may be more consolidation transactions in the future. Consolidation by our competitors may enhance their capacity and their access to resources, lower their cost structure and put us at a competitive disadvantage. Continued consolidation may limit our ability to implement our strategic objectives effectively. We cannot reliably predict the impact on us of further consolidation in the metals industry.

The proposed Helguvik project is subject to certain conditions and risks.

We intend to use the net proceeds from our June 2007 equity offering primarily as part of the funding for the construction of a greenfield aluminum smelter near Helguvik, Iceland. In June 2007, we used a portion of the net proceeds from the equity offering to prepay $200 million of principal of the Nordural senior term loan facility, which is expected to increase our borrowing capacity to secure financing for the Helguvik project. This project is subject to various Icelandic regulatory and other approvals and conditions. Recently, there has been increasing opposition among some voters in Iceland to the construction of new aluminum smelters and the further development of heavy industry in general. There can be no assurance that we will receive the necessary approvals to proceed with construction of our proposed Helguvik smelter, on a timely basis or at all. In addition, such approvals as we do receive may be subject to conditions that are unfavorable or make the project impracticable or less attractive from a financial standpoint. Even if we receive necessary approvals on terms that we determine are acceptable, the construction of this project is a complex undertaking. There can be no assurance that we will be able to complete the project within our projected budget and schedule. In addition, unforeseen technical difficulties could increase the cost of the project, delay the project or render the project not feasible. Any delay in the completion of the project or increased costs could have a material negative impact on our financial performance and future prospects. To successfully execute this project, we will also need to arrange additional financing and either enter into tolling arrangements or secure a supply of alumina.

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If we are unable to procure a reliable source of power, the proposed Helguvik project would not be feasible.

Our proposed greenfield smelter near Helguvik, Iceland will require generation and transmission of geothermally-generated electricity to power the smelter. Our wholly-owned Iceland subsidiary, Nordural Helguvik sf, has entered into agreements with two providers of geothermal power in Iceland for a substantial portion of this power. These two power company agreements are subject to certain conditions, some of which are not expected to be satisfied until the fourth quarter of 2008. These conditions include approvals by the boards of directors of the power companies, as well as environmental agency approvals. Generation of the electrical power contracted for the proposed Helguvik smelter will require successful development of new geothermal energy sources within designated areas in Iceland. If there are construction delays or technical difficulties in developing these new geothermal fields, power may be delayed or may not be available. Factors which could delay or impede the generation and delivery of electric power are substantially beyond our ability to control, influence or predict. In October 2007, Nordural Helguvik signed a transmission agreement with Landsnet to provide an electrical power transmission system to the proposed Helguvik smelter.

Reductions in the duty on primary aluminum imports into the European Union decrease our revenues at Grundartangi.

Grundartangi's tolling revenues include a premium based on the EU import duty for primary aluminum. In May 2007, the EU members reduced the import duty for primary aluminum from six percent to three percent and agreed to review the new duty after three years. This decrease in the EU import duty for primary aluminum negatively impacts Grundartangi's revenues and further decreases would also have a negative impact on Grundartangi's revenues.

We depend upon intercompany transfers from our subsidiaries to meet our debt service obligations.

We are a holding company and conduct all of our operations through our subsidiaries. Our ability to meet our debt service obligations depends upon the receipt of intercompany transfers from our subsidiaries. Subject to the restrictions contained in our revolving credit facility and the indentures governing our senior and convertible notes, future borrowings by our subsidiaries could contain restrictions or prohibitions on the intercompany transfers by those subsidiaries. In addition, under applicable law, our subsidiaries could be limited in the amounts that they are permitted to pay as dividends on their capital stock.

The price of our common stock has fluctuated significantly.

The market price of our common stock has experienced significant volatility from time to time, and this volatility may continue in the future. From January 1, 2006, through February 15, 2008, the intra-day sales price of our common stock on NASDAQ ranged from $26.14 to $67.85 per share. In addition, the securities markets have experienced significant price and volume fluctuations. The market price for our common stock may be affected by a number of factors, including actual or anticipated variations in our quarterly results of operations, expectations about the future price of aluminum, changes in earnings estimates or recommendations by securities analysts, changes in research coverage by securities analysts, any announcement by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments, developments in the aluminum industry, including with respect to our major competitors, and sales of substantial numbers of shares by current holders of our common stock in the public market. In addition, general economic, political and market conditions and other factors unrelated to our operating performance may cause the market price of our common stock to be volatile.

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Provisions in our charter documents and state law may make it difficult for others to obtain control of Century Aluminum, even though some stockholders may consider them to be beneficial.

Certain provisions of our restated certificate of incorporation and amended and restated bylaws, as well as provisions of the Delaware General Corporation Law, may have the effect of delaying, deferring or preventing a change in control of Century, including transactions in which our stockholders might otherwise have received a substantial premium for their shares over then current market prices. For example, these provisions:

- give authority to our board of directors to issue preferred stock and to determine the price, rights, preferences, privileges and restrictions of those shares without any stockholder vote;
- provide, under our charter documents, for a board of directors consisting of three classes, each of which serves for a different three-year term;
- require stockholders to give advance notice prior to submitting proposals for consideration at stockholders' meetings or to nominate persons for election as directors; and
- restrict, under our charter documents, certain business combinations between us and any person who beneficially owns 10% or more of our outstanding voting stock.

In addition, several of our officers have entered into employment and severance compensation agreements that provide for cash payments, immediate vesting of stock options and performance shares and acceleration of other benefits under certain circumstances, including a change in control of Century. Our 1996 Stock Incentive Plan, as amended, also provides for acceleration of the ability to exercise stock options and the vesting of performance shares upon a change in control, and our Non-Employee Directors' Stock Option Plan provides for acceleration of an option holder's ability to exercise stock options upon a change in control.

This list of significant risk factors is not all-inclusive or necessarily in order of importance.

Item 1B. Unresolved Staff Comments

We have no unresolved comments from the staff of the Securities and Exchange Commission.

Item 2. Properties

We own the property on which our Hawesville and Ravenswood facilities are located. The site on which the Grundartangi facility is situated is leased from the Government of Iceland under a long-term lease that runs through 2020, renewable at our option. The site for our proposed Helguvik greenfield project is leased from Reykjaneshofn, an independent public authority owned by the Municipality of Reykjanesbaer, under a long-term lease expected to run through 2060, with an automatic extension provision. Our corporate offices are subject to an operating lease that expires in June 2010. We hold a 49.7% interest in a partnership which operates a primary aluminum reduction facility in Mt. Holly, South Carolina and a 49.7% undivided interest in the property on which the Mt. Holly facility is located. The remaining interest in the undivided property at Mt. Holly is owned by Alumax of South Carolina, Inc., a subsidiary of Alcoa.

All of our facilities are operating at or near their productive capacity. We believe all of our facilities are suitable and adequate for our current operations. Additional information about the age, location, and productive capacity of our facilities is available in the “Overview” section of Item 1, “Business.”

Item 3. Legal Proceedings

We have pending against us or may be subject to various lawsuits, claims and proceedings related primarily to employment, commercial, environmental, safety and health matters. Although it is not presently possible to determine the outcome of these matters, management believes the ultimate disposition will not have a material adverse effect on our financial condition, results of operations, or liquidity. For a description of certain environmental matters involving Century, see Note 13 to the Consolidated Financial Statements included herein.

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Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our security holders during the fourth quarter of 2007.

Our Executive Officers

Executive officers are appointed by and serve at the discretion of the Board of Directors. The following table details certain information about our executive officers as of February 28, 2008.

Name	Age	Position and Duration
Logan W. Kruger	57	President and Chief Executive Officer since December 2005.
Michael A. Bless	42	Executive Vice President and Chief Financial Officer since January 2006.
Wayne R. Hale	52	Executive Vice President and Chief Operating Officer since March 2007.
Robert R. Nielsen	63	Executive Vice President, General Counsel and Secretary since May 2006.
Steve Schneider	52	Senior Vice President, Chief Accounting Officer and Controller since June 2006, Vice President and Corporate Controller from April 2002 through May 2006; Corporate Controller since April 2001.
Giulio Casello	48	Senior Vice President of Business Development since April 2007, Vice President of Bauxite and Alumina Operations from December 2005 through May 2006 and Vice President of Century Alumina, Inc. from September 2005 to December 2005.
Michelle M. Lair	32	Vice President and Treasurer since February 2007, Treasurer since June 2006, Assistant Treasurer from November 2005 to June 2006, and Corporate Financial Analyst from May 2000 to October 2005.
William J. Leatherberry	37	Vice President, Assistant General Counsel and Assistant Secretary since January 2008. Assistant General Counsel and Assistant Secretary since July 2007, Assistant Secretary since May 2007 and Corporate Counsel since January 2005.
Jerry E. Reed	44	Vice President of Business Development since June 2007.

Prior to joining Century, Mr. Kruger served as President, Asia/Pacific for Inco Limited, from September 2005 to November 2005; Executive Vice-President, Technical Services from September 2003 to September 2005; Chief

Executive Officer of Anglo American Chile Ltd., from July 2002 through September 2003; and President and Chief Executive Officer, Hudson Bay Mining and Smelting Co., Limited, from September 1996 until June 2002.

Prior to joining Century, Mr. Bless served as managing director of M. Safra & Co., Inc., from February 2005 to January 2006 and Executive Vice President and Chief Financial Officer of Maxtor Corporation from August 2004 to October 2004. From August 1997 through January 2004, Mr. Bless served in a number of senior executive positions with Rockwell Automation, Inc. (formerly known as Rockwell International Corporation), a leading industrial automation hardware, software and services company, including as Senior Vice President and Chief Financial Officer from June 2001 to January 2004.

Prior to joining Century, Mr. Hale served as Senior Vice President of Sual-Holding from April 2004 to February 2007; held various senior management positions with Kennecott Utah Copper Corporation from April 2000 to April 2004, including Chief Operating Officer from April 2002 to April 2004.

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Prior to joining Century, Mr. Nielsen served as Senior Vice President, General Counsel and Secretary for Tanimura and Antle, Inc. from July 2005 to April 2006, and Vice President, General Counsel and Secretary from March 1993 to June 2005.

Prior to joining Century, Mr. Casello served in a number of senior positions with Alcoa World Alumina Australia from 1986 to 2005, including as Director of Western Australian Operations from January 2003 to September 2005; General Manager of Alcoa World Chemicals from April 2001 to December 2002.

Prior to joining Century, Mr. Leatherberry served as Senior Transactions Counsel of VarTec Telecom Inc. from September 2003 to January 2005 and Associate with the law firm of Jones Day from May 1996 to September 2003.

Prior to joining Century, Mr. Reed served as Strategic Marketing Director for Alcoa Primary Products from July 2004 to May 2007, and various senior management positions for Alcoa, including Commercial Manager for Alcoa Australia and Alumina Market Manager for Alcoa World Alumina from 2001 through 2004.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on the NASDAQ National Market tier of the NASDAQ Stock Market under the symbol: CENX. The following table sets forth, on a quarterly basis, the high and low sales prices of the common stock during the two most recent fiscal years. Our common stock reached a record intra-day high of $67.85 on July 13, 2007 and closed at $62.84 on February 15, 2008.

Year	2007		2006	
	High sales price	Low sales price	High sales price	Low sales price
First quarter	$ 49.83	$ 38.65	$ 44.50	$ 26.14
Second quarter	$ 58.60	$ 46.66	$ 56.57	$ 31.28
Third quarter	$ 67.85	$ 40.00	$ 39.16	$ 29.60
Fourth quarter	$ 59.40	$ 49.38	$ 47.34	$ 30.31

Holders

As of January 31, 2008, there were 18 holders of record of our common stock, which does not include the much larger number of beneficial owners whose common stock was held in street name.

Dividend Information

We did not declare dividends in 2007 or 2006 on our common stock. We do not anticipate paying cash dividends in the foreseeable future.

Our revolving credit facility and the indenture governing our senior notes contain restrictions which limit our ability to pay dividends. Additional information about the terms of our long-term borrowing agreements is available at Note 6 to the Consolidated Financial Statements included herein.

Item 6. Selected Consolidated Financial Data

The following table presents selected consolidated financial data for each of the last five fiscal years. The selected consolidated historical balance sheet data as of each of the years ended December 31, 2007 and 2006 and the selected consolidated statement of operations data for each of the years ended December 31, 2007, 2006 and 2005 is derived from our consolidated financial statements audited by Deloitte & Touche LLP included herein. The selected consolidated historical balance sheet data as of each of the years ended December 31, 2005, 2004 and 2003 and the selected consolidated statement of operations data for each of the years ended December 31, 2004 and 2003 is derived from our consolidated financial statements audited by Deloitte & Touche LLP which are not included herein. Our selected historical results of operations include:

· the results of operations from the remaining 20% interest in Hawesville since we acquired it in April 2003;

- the results of operations from Nordural since we acquired it in April 2004;
- our equity in the earnings of our joint venture investments in Gramercy Alumina LLC and St. Ann Bauxite Ltd. since we acquired an interest in those companies in October 2004;
- the results of operations from our 130,000 mtpy expansion of Grundartangi which became operational in the fourth quarter of 2006; and
- the results of operations from our 40,000 mtpy expansion of Grundartangi which became operational in the fourth quarter of 2007.

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Our results for these periods and prior periods are not fully comparable to our results of operations for fiscal year 2007 and may not be indicative of our future financial position or results of operations. The information set forth below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" and notes thereto.

	Year Ended December 31,				
	2007(1)	2006 (2)	2005 (3)	2004 (4)	2003 (5)
	(in thousands, except per share data)				
Net sales	$ 1,798,163	$ 1,558,566	$ 1,132,362	$ 1,060,747	$ 782,479
Gross profit	363,463	348,522	161,677	185,287	43,370
Operating income	303,543	309,159	126,904	160,371	22,537
Income (loss) before cumulative effect of change in accounting principle	(101,249)	(40,955)	(116,255)	33,482	3,922
Net income (loss)	(101,249)	(40,955)	(116,255)	33,482	(1,956)
Earnings (loss) per share:					
Basic and Diluted:					
Income (loss) before cumulative effect of change in accounting principle	$ (2.72)	$ (1.26)	$ (3.62)	$ 1.14	$ 0.09
Cumulative effect of change in accounting principle	--	--	--	--	(0.28)
Net income (loss) per share	$ (2.72)	$ (1.26)	$ (3.62)	$ 1.14	$ (0.19)
Dividends per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Total assets	$ 2,578,271	$ 2,185,234	$ 1,677,431	$ 1,332,553	$ 804,242
Total debt (6)	432,815	772,251	671,901	524,108	344,125
Long-term debt obligations (7)	250,000	559,331	488,505	330,711	336,310
Other information:					
Shipments – Primary aluminum:					
Direct shipment pounds (000)	1,171,889	1,152,617	1,153,731	1,179,824	1,126,542
Toll shipment pounds (000)	518,945	346,390	203,967	138,239	--
Average realized price per pound:					
Direct shipments	$ 1.13	$ 1.09	$ 0.86	$ 0.83	$ 0.69

Toll shipments	$	0.91	$	0.88	$	0.67	$	0.62		--
Average LME price per pound	$	1.197	$	1.166	$	0.861	$	0.778	$	0.649
Average Midwest premium per pound	$	0.031	$	0.055	$	0.056	$	0.068	$	0.037

(1) Income (loss) before cumulative effect of change in accounting principle and net income (loss) include an after-tax charge of $328.3 million, or $8.83 per basic share for mark-to-market losses on forward contracts that do not qualify for cash flow hedge accounting.
(2) Income (loss) before cumulative effect of change in accounting principle and net income (loss) include an after-tax charge of $241.7 million, or $7.46 per basic share for mark-to-market losses on forward contracts that do not qualify for cash flow hedge accounting and by a gain on the sale of surplus land.
(3) Income (loss) before cumulative effect of change in accounting principle and net income (loss) include an after-tax charge of $198.2 million, or $6.17 per basic share for mark-to-market losses on forward contracts that do not qualify for cash flow hedge accounting.
(4) Income (loss) before cumulative effect of change in accounting principle and net income (loss) include an after-tax charge of $30.4 million, or $1.06 per basic share for a loss on early extinguishment of debt.
(5) We adopted Statement of Financial Accounting Standards (“SFAS”) No. 143, “Accounting for Asset Retirement Obligations” on January 1, 2003. As a result, we recorded a one-time, non-cash charge of $5,878, for the cumulative effect of a change in accounting principle.
(6) Total debt includes all long-term debt obligations and any debt classified as short-term obligations, including, current portion of long-term debt, the IRBs and the 1.75% convertible senior notes.
(7) Long-term debt obligations are all payment obligations under long-term borrowing arrangements, excluding the current portion of long-term debt.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion reflects our historical results of operations, which do not include results from:

- the 130,000 mtpy expansion capacity of Grundartangi until it was completed in the fourth quarter of 2006; and
- the 40,000 mtpy expansion of Grundartangi until it was completed in the fourth quarter of 2007.

Accordingly, the results for fiscal years 2006 and 2005 are not fully comparable to the results of operations for fiscal year 2007. Our historical results are not indicative of our current business. You should read the following discussion in conjunction with our consolidated financial statements included herein.

Overview

We produce primary aluminum. The aluminum industry is cyclical and the price of primary aluminum (which trades as a commodity) is determined by global supply and demand. The key determinants of our results of operations and cash flow from operations are as follows:

- Our selling price is based on the LME price of primary aluminum and is influenced by regional premiums and fixed price sales contracts.

- Our facilities operate at or near capacity, and fluctuations in volume, other than through acquisitions or expansion, generally are small.

- The principal components of cost of goods sold are alumina, electrical power, labor and carbon products, which in aggregate were in excess of 75% of the 2007 cost of goods sold. Many of these costs are covered by long-term contracts.

Shipment volumes, average realized price and cost of goods sold per pound shipped are our key performance indicators. Revenue can vary significantly from period to period due to fluctuations in the LME and Midwest price of primary aluminum. Any adverse changes in the conditions that affect shipment volumes or the market price of primary aluminum could have a material adverse effect on our results of operations and cash flows. Our revenue is also impacted by our hedging activities. Fluctuations in working capital are influenced by shipments, the LME and Midwest price of primary aluminum and by the timing of cash receipts from major customers and disbursements to our suppliers.

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Cost of goods sold, excluding alumina and certain energy costs, is expected to remain relatively stable because our facilities generally operate near capacity and our major cost drivers are subject to long-term contracts. Fluctuations in the cost of alumina in our U.S. facilities are expected as the pricing in these contracts is variable and, except for the Gramercy alumina contract, based on LME prices. Power contracts for our U.S. facilities primarily provide for fixed priced power through 2010, subject to possible adjustments for fuel costs in Mt. Holly and adjustments in tariff rates in Ravenswood. Power contract pricing for Nordural is variable and based on LME prices.

Approximately 27% of Hawesville's power requirements (126 MW) are unpriced beginning in mid-2008 through 2010. We have negotiated short-term contracts to cover most of this requirement through the first half of 2008 at approximately market prices. We are working with Big Rivers Electric Corporation and Kenergy Corporation on a proposal that would restructure and extend Hawesville's existing power supply contract from mid-2008 through 2023. The proposed new long-term power contract was filed with the Kentucky Public Service Commission in late December 2007. The contract would provide all of Hawesville's power requirements through 2023 at cost-based pricing. The parties involved expect the transaction to close late in the second quarter of 2008. We expect power rates for the 27% of Hawesville's requirements not covered by long-term contracts to be higher than those under our current long-term power contracts.

Results of Operations

The following table sets forth, for the years indicated, the percentage relationship to net sales of certain items included in our Statements of Operations.

	Percentage of Net Sales		
	2007	2006	2005
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(79.8)	(77.6)	(85.7)
Gross profit	20.2	22.4	14.3
Selling, general and administrative expenses	(3.3)	(2.5)	(3.1)
Operating income	16.9	19.9	11.2
Interest expense	(1.8)	(2.4)	(2.3)
Interest income	0.6	0.1	0.1
Loss on early extinguishment of debt	(0.2)	—	(0.1)
Other income (expense) - net	—	0.4	—
Net loss on forward contracts	(28.3)	(25.0)	(27.2)
Loss before income taxes and equity in earnings of joint ventures	(12.8)	(7.0)	(18.3)
Income tax benefit	6.3	3.3	7.1
Loss before equity in earnings of joint ventures	(6.5)	(3.7)	(11.2)
Equity in earnings of joint ventures	0.9	1.1	0.9
Net loss	(5.6)%	(2.6)%	(10.3)%

The following table sets forth, for the periods indicated, the shipment volumes and the average sales price per pound shipped:

	Primary Aluminum	
	Direct (1)	
Metric tons	Pounds (000)	$/pound

2007	531,561	1,171,889	$1.13
2006	522,819	1,152,617	$1.09
2005	523,324	1,153,731	$0.86

		Toll (2)	
	Metric tons	Pounds (000)	$/pound
2007	235,390	518,945	$0.91
2006	157,120	346,390	$0.88
2005	92,518	203,966	$0.67

(1) Direct shipments do not include toll shipments from Grundartangi.
(2) Grundartangi expansion capacity start-up began in February 2006. Annual production of 220,000 mtpy was reached in the fourth quarter of 2006. Annual production of 260,000 mtpy was reached in the fourth quarter of 2007.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net sales: Net sales for the year ended December 31, 2007 increased $239.6 million to $1,798.2 million. Higher price realizations for primary aluminum in the year ended December 31, 2007, due to improved LME prices for primary aluminum, contributed $67.1 million to the sales increase. Additional net sales volume contributed $172.5 million to the sales increase. Direct shipments increased 19.3 million pounds from the same period in 2006, primarily due to the temporary shutdown of a potline in August 2006, and toll shipments increased 21.8 million pounds from the same period in 2006 due to the Grundartangi expansion capacity that has come on-stream since September 2006.

Gross Profit: For the year ended December 31, 2007, gross profit increased $14.9 million to $363.4 million. Improved price realizations, net of LME-based alumina and LME-based power contract cost increases, improved gross profit by $13.1 million. Increased shipment volume contributed $60.0 million in additional gross profit. Partially offsetting these gains were $58.2 million in net cost increases comprised of: increased power costs at our U.S. smelters, $14.0 million; increased costs for maintenance, supplies and materials, $18.2 million; increased costs for our non-LME-based alumina, $11.0 million; increased net amortization and depreciation charges, primarily at Grundartangi, $8.8 million; and other cost increases, $6.2 million.

Selling, general and administrative expenses: Selling, general and administrative expenses for the year ended December 31, 2007 increased $20.6 million to $59.9 million. Approximately 55% of the increase is due to spending on the proposed Helguvik project, and the reminder of the increase is due primarily to compensation related expenses, outside professional support and expenses incurred for business development activities.

Interest expense: Interest expense for the year ended December 31, 2007 decreased $4.1 million to $32.9 million. The decrease in interest expense is due to the retirement of Nordural's outstanding debt in 2007 and offset by lower interest capitalized on the Grundartangi expansion during 2007.

Interest income: Interest income for the year ended December 31, 2007 increased by $9.1 million to $10.8 million. The increased interest income is a result of higher average cash and short-term investment balances during 2007 due to proceeds of the equity offering, improved operating results and reduced investing activities for the Nordural expansion, offset by the repayment of Nordural's outstanding debt.

Net loss on forward contracts: For the year ended December 31, 2007, the net loss on forward contracts was $508.9 million compared to a net loss on forward contracts of $389.8 million for 2006. The losses reported for the years ended December 31, 2007 and 2006 were primarily a result of mark-to-market losses associated with our long term financial sales contracts with Glencore that do not qualify for cash flow hedge accounting. Cash settlement of financial sales contracts that do not qualify for cash flow hedge treatment accounted for $98.3 million of the 2007 net loss and accounted for $54.2 million of the 2006 net loss. The remaining $411.0 million in net loss for 2007 are unrealized losses related to our outstanding financial sales contracts that do not qualify for cash flow hedge accounting that are due for settlement in 2008 through 2015, offset by a $0.4 million gain for non-cash settlements of physical delivery sales contracts that are accounted for as derivatives and marked-to-market.

Tax provision: The changes in the income tax provision were a result of changes in the level of earnings and losses within the various tax jurisdictions in which we operate, changes in the current year's effective tax rate and a change in the West Virginia tax law. We recorded a tax benefit of $8.3 million in 2007 to increase the carrying amount of deferred tax assets as a result of the West Virginia tax law change.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net sales: Net sales for the year ended December 31, 2006 increased $426.2 million or 38% to $1,558.6 million. Higher price realizations for primary aluminum in 2006, due to improved LME prices and Midwest premiums, contributed $331.5 million of the sales increase. This amount was partially offset by a $1.0 million decrease in direct shipment revenues. Direct shipments were 1.1 million pounds less than the previous year due to the potline shutdown at Ravenswood, offset by production increases at the other U.S. smelters. The additional revenue provided by the increase in Grundartangi tolling shipments for the year ended December 31, 2006 contributed $95.7 million to the 2006 net sales increase.

Gross profit: For the year ended December 31, 2006, gross profit increased $186.8 million to $348.5 million. Improved price realizations net of increased LME-based alumina costs improved gross profit by $213.6 million. Improved tolling fee realizations net of increased LME-based power costs improved gross profit by $48.2 million. Increased shipment volume, the result of the Grundartangi expansion, contributed $33.3 million in additional gross profit. Offsetting these gains were $108.3 million in net cost increases comprised of: higher power and natural gas costs, $41.2 million; higher raw materials, supplies and maintenance costs, $26.3 million; increased cost for Gramercy alumina, $12.3 million; restart and increased average costs due to the temporary potline shutdown at Ravenswood, $7.3 million; increased net amortization and depreciation charges, $12.7 million; increased pension and other postemployment benefit accruals, $4.6 million, and other increased spending, $3.9 million.

Selling, general and administrative expenses: Selling, general and administrative expenses for the year ended December 31, 2006 increased $4.6 million to $39.4 million relative to the same period in 2005. The increase is primarily due to the adoption of SFAS No. 123(R), “Share-Based Payments.”

Interest expense: Interest expense for the year ended December 31, 2006 increased $11.3 million to $35.3 million. The increase in interest expense is due to higher debt at Nordural.

Net loss on forward contracts: For the year ended December 31, 2006, net loss on forward contracts was $389.8 million compared to a net loss on forward contracts of $309.7 million for 2005. The losses reported for the years ended December 31, 2006 and 2005 were primarily a result of mark-to-market losses associated with our long term financial sales contracts with Glencore that do not qualify for cash flow hedge accounting. Cash settlements of financial metal sales contracts that do not qualify for cash flow hedge treatment accounted for $54.2 million of the net loss, of which $2.6 million loss is due to the non-cash settlements of derivatives associated with the Glencore Metal agreements. The remaining $335.6 million is unrealized losses consisting of: $335.4 million unrealized losses related to our outstanding financial metals sales contracts that do not qualify for treatment as cash flow hedges due for settlement in 2007 through 2015, and $0.2 million unrealized loss due to an embedded derivative in our Ravenswood power contract.

Tax provision: We recorded an income tax benefit for the year ended December 31, 2006 of $52.0 million, a reduction of $28.7 million from the recorded tax benefit of $80.7 million for the year ended December 31, 2005. The reduction in the tax benefit is due to the reduced loss before income taxes and increased equity in earnings of joint ventures.

Equity in earnings of joint ventures: Equity in earnings from the Gramercy and SABL investments improved to $16.1 million for the year ended December 31, 2006 and $10.7 million in 2005. These earnings represent our share of profits from third party bauxite, hydrate and chemical grade alumina sales.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flow from operations and available borrowings under our revolving credit facility. We believe these sources of cash will be sufficient to meet our near-term working capital needs. We have not determined the sources of funding for our long-term capital and debt repayment requirements; however, we believe that our cash flow from operations, available borrowing under our revolving credit facility and, to the extent necessary and/or economically attractive, future financial market activities will be adequate to address our long-term liquidity requirements. Our principal uses of cash are operating costs, settlement of our primary aluminum financial sales contracts, payments of principal and interest on our outstanding debt, the funding of capital expenditures and investments in related businesses, working capital and other general corporate requirements.

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Our management believes the presentation of free cash flow is a useful measure that helps investors evaluate our capacity to fund ongoing cash operating requirements, including capital expenditures and debt service obligations, and to make acquisitions or other investments. We define free cash flow as net cash (used in) provided by operating activities less capital expenditures (other than capital expenditures related to the expansion of Grundartangi) and including the net increase in short term investments due to their liquidity. Our calculation of free cash flow may not be comparable to similarly titled measures reported by other companies due to differences in the components used in its calculation. A reconciliation of free cash flow to cash flow from operating activities, which is the most directly comparable generally accepted accounting principles in the United States ("GAAP") financial measure is provided below. Free cash flow should not be considered as a substitute for cash flows from operating activities as determined in accordance with GAAP.

Reconciliation of Cash Flow from Operations to Free Cash Flow

	Year ended December 31,		
	2007	2006	2005
Net cash (used in) provided by operating activities	$ (5,755)	$ 185,353	$ 134,936
Increase in short-term investments – net	280,169	--	--
Purchase of property, plant and equipment (1)			