

CENTURY ALUMINUM CO
Form 10-K
February 29, 2012

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

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

Commission File Number 1-34474

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	93940
Building A, Suite 200	(Zip Code)
Monterey, California	
(Address of registrant's principal offices)	

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

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

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

Edgar Filing: CENTURY ALUMINUM CO - Form 10-K

Preferred Stock Purchase
Rights

(NASDAQ Global Select
Market)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

Based upon the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 30, 2011, the approximate aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$885,000,000. As of January 31, 2012, 88,844,327 shares of common stock of the registrant were issued and outstanding.

Documents Incorporated by Reference:

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



Table of Contents

TABLE OF CONTENTS		PAGE
PART I		
<u>Item 1</u>	<u>Business</u>	1
<u>Item 1A</u>	<u>Risk Factors</u>	13
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	24
<u>Item 2</u>	<u>Properties</u>	24
<u>Item 3</u>	<u>Legal Proceedings</u>	24
<u>Item 4</u>	<u>Mine Safety Disclosures</u>	25
PART II		
<u>Item 5</u>	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
<u>Item 6</u>	<u>Selected Financial Data</u>	29
<u>Item 7</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	46
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	48
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	111
<u>Item 9A</u>	<u>Controls and Procedures</u>	111
<u>Item 9B</u>	<u>Other Information</u>	111
PART III		
<u>Item 10</u>	<u>Directors, Executive Officers and Corporate Governance</u>	112
<u>Item 11</u>	<u>Executive Compensation</u>	112
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	112
<u>Item 13</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	112
<u>Item 14</u>	<u>Principal Accountant Fees and Services</u>	112
PART IV		
<u>Item 15</u>	<u>Exhibits and Financial Statement Schedules</u>	113
	<u>Signatures</u>	122

Table of Contents

PART I

Item 1. Business

Century Aluminum Company is a Delaware corporation with our principal executive offices located at 2511 Garden Road, Building A, Suite 200, Monterey, California 93940.

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

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 EDGAR filing system of the Securities and Exchange Commission (the "SEC"), including our annual, quarterly and current reports filed on Forms 10-K, 10-Q and 8-K, respectively, our code of ethics that applies to all employees 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 5% 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. A copy of the code of ethics is available on our website. Requests for these documents can be made by contacting our Investor Relations Department by mail at: 2511 Garden Road, Building A, Suite 200, Monterey, CA 93940, or by 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.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, which are subject to the "safe harbor" created by section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. We may make forward-looking statements in our SEC filings, press releases, news articles, earnings presentations and when we are speaking on behalf of the Company. Forward-looking statements can be identified by the fact that they do not strictly relate to historical or current facts. Often, they include the words "believe," "expect," "target," "anticipate," "intend," "plan," "seek," "estimate," "potential," "project," or words of similar meaning, or future or conditional verbs such as "would," "should," "could," "might," or "may."

Forward-looking statements in this annual report, for example, include statements about the following subjects, among other things:

- Our business objectives, strategies and initiatives, the growth of our business and our competitive position and prospects;
- Our assessment of significant economic, financial, political and other factors and developments that may affect our results, including currency risks;
- Our assessment of the aluminum market, aluminum prices, aluminum financing, inventories and warehousing arrangements and other similar matters;

- Aluminum prices and their effect on our financial position and results of operations;
- Future construction investment and development of our facility in Helguvik, Iceland, including our discussions and arbitration regarding power purchase agreements, future capital expenditures, the costs of completion or cancellation, production capacity and the sources of funding for the facility;
- Our hedging and other strategies to mitigate risk and their potential effects;
- Estimates relating to the costs and time necessary to restore our facility in Hawesville, KY to full stable operations following the restart of its previously curtailed potline;

Table of Contents

- Our curtailed operations, including the potential restart of curtailed operations, and potential curtailment of other domestic assets;
- Our procurement of electricity, alumina, carbon products and other raw materials and our assessment of pricing and other terms relating thereto;
- Estimates of our pension and other postemployment liabilities and future payments, deferred income tax assets and property plant and equipment impairment, environmental liabilities and other contingent liabilities and contractual commitments;
- Changes in, or the elimination of, the retiree medical benefit plans and programs of certain of our subsidiaries and their effect on our financial position and results of operation;
- Critical accounting policies and estimates, the impact or anticipated impact of recent accounting pronouncements or changes in accounting principle;
- Our anticipated tax liabilities, benefits or refunds;
- Negotiations with our unionized workforce;
- Our assessment of the ultimate outcome of outstanding litigation and environmental matters and liabilities relating thereto;
- Compliance with laws and regulations and the effect of future laws and regulations;
- The costs and effects and our evaluation of and strategies with respect to legal and regulatory actions, investigations and similar matters;
- Discussions with the Pension Benefit Guaranty Corporation regarding our Ravenswood facility;
- Our capital resources, projected financing sources and projected uses of capital; and
- Our debt levels and intentions to incur or repay debt in the future.

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

Overview

We produce primary aluminum. Aluminum is an internationally traded commodity, and its price is effectively determined on the London Metal Exchange (the “LME”). Our primary aluminum facilities produce standard grade and value-added primary aluminum products. Our current primary aluminum rated production capacity is 785,000 metric tons per year (“mtpy”), of which approximately 170,000 mtpy remained curtailed as of December 31, 2011. We

restarted approximately 49,000 mtpy of curtailed capacity at our Hawesville facility during 2011. We produced approximately 602,000 metric tons of primary aluminum in 2011.

Our primary aluminum capacity includes our facility in Grundartangi, Iceland (“Grundartangi”) with rated capacity of 260,000 mtpy; our facility in Hawesville, Kentucky (“Hawesville”) with rated capacity of 244,000 mtpy; a 49.7% interest in a facility in Mt. Holly, South Carolina (“Mt. Holly”) that provides us with rated capacity of 111,000 mtpy; and our facility in Ravenswood, West Virginia (“Ravenswood”), currently curtailed, with rated capacity of 170,000 mtpy. We are constructing a primary aluminum facility in Helguvik, Iceland (the “Helguvik project”) which is currently contemplated to have a rated capacity of up to 360,000 mtpy. In addition to our primary aluminum assets, we have a 40% stake in Baise Haohai Carbon Co., Ltd. (“BHH”), a carbon anode and cathode facility located in China. The BHH facility has an annual anode production capacity of up to 180,000 mtpy and an annual graphitization capacity of up to 20,000 mtpy and supplies a portion of the anodes used in our Grundartangi facility.

Table of Contents

In light of its high relative operating cost structure, as of December 31, 2011, all operations at Ravenswood remained curtailed. We restarted the curtailed potline at our Hawesville facility in 2011. With the full restart of the curtailed potline at Hawesville, our annualized operating rated production capacity of primary aluminum increased to approximately 615,000 mtpy.

We have continued investing in the Helguvik project. During 2011, project activity and spending remained at modest levels. We plan to restart major construction activity if we are able to successfully resolve of ongoing discussions with the contracted power suppliers for the project. See “Electrical Power Supply Agreements.”

Primary Aluminum Facilities:

Facility	Location	Operational	Rated Capacity (mtpy) (4)	Ownership Percentage
Grundartangi	Grundartangi, Iceland	1998	260,000	100%
Hawesville (1)	Hawesville, Kentucky, USA	1970	244,000	100%
Ravenswood (2)	Ravenswood, West Virginia, USA	1957	170,000	100%
Mt. Holly (3)	Mt. Holly, South Carolina, USA	1980	224,000	49.7%

- (1) As of December 31, 2011, with the restart of the curtailed potline, the Hawesville facility is fully operational.
- (2) In February 2009, we curtailed all operations at the Ravenswood facility. We may in the future restart the curtailed operations upon the realization of several objectives, including a new power agreement which would provide for flexibility in Ravenswood’s cost structure under adverse industry conditions as well as a new labor agreement.
- (3) 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.
- (4) The rated capacity refers to the rated capacity of the technology used in the construction of the facility. The actual production capacity of a facility may significantly exceed the rated capacity through production efficiencies, increased amperage and other similar measures.

Joint Venture Facility:

Facility	Location	Type	Capacity	Ownership Percentage
----------	----------	------	----------	----------------------

Edgar Filing: CENTURY ALUMINUM CO - Form 10-K

Baise Haohai Carbon Co., Ltd (1)	Guangxi Zhuang, China	Carbon anode, cathode and graphitized products	180,000 mtpy anode; 20,000 mtpy cathode/graphitized products	40%
----------------------------------	-----------------------	--	--	-----

(1) Guangxi Qiangqiang Carbon Co., Ltd. holds the remaining 60% ownership interest and is the operator of this facility.

Our current long-term strategic objectives are to: (a) optimize our existing assets by managing costs and improving safety, productivity and efficiency; (b) expand our primary aluminum business by constructing, investing in or acquiring additional capacity that offers favorable returns; and (c) 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 2006.

Table of Contents

Recent Developments

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

Competition

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

Our Hawesville plant is located adjacent to its largest customer. This location allows Hawesville to deliver a portion of its production in molten form, at a cost savings to both parties, providing a competitive advantage over other potential suppliers. We believe that Hawesville also has a competitive advantage in that it currently is the largest producer of high purity aluminum in North America.

Customer Base

In 2011, we derived approximately 80% of our consolidated sales from our three major customers: Glencore International (together with its subsidiaries, “Glencore”), Southwire Company (“Southwire”), and BHP Billiton. Additional information about the revenues and percentage of sales to these major customers is available in Note 20 Business Segments of the consolidated financial statements included herein. We currently have long-term primary aluminum sales or tolling contracts with each of these customers. More information about these contracts is available under “Forward Physical Delivery Agreements” in Note 16 Forward delivery contracts and financial instruments of the consolidated financial statements included herein.

Table of Contents

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 20 Business Segments to the consolidated financial statements included herein. For a description of certain risks attendant to our operations, see Item 1A, "Risk Factors."

Energy, Key Supplies and Raw Materials

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

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

Electrical power, alumina, carbon anodes and labor are the principal components of cost of goods sold. These components together represented over 80% of our 2011 cost of goods sold. We have long-term contracts to attempt to ensure the future availability of many of our cost components. For a description of certain risks attendant to our raw material supplies and labor, see Item 1A, "Risk Factors."

Long-term Supply Contracts

Alumina Supply Agreements

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

In 2011, 10,500 metric tons of primary aluminum was produced at Grundartangi outside of such toll agreements, using alumina purchased on a spot basis.

Facility	Supplier	Term	Pricing
Mt. Holly	Trafigura AG	Through December 31, 2013	Variable, LME-based
Hawesville	Glencore	Through December 31, 2014	Variable, LME-based

Table of Contents

Electrical Power Supply Agreements

We use significant amounts of electricity in the aluminum production process. A summary of our long-term power supply agreements is provided below.

Facility	Supplier	Term	Pricing
Ravenswood (1)	Appalachian Power Company	Through June 30, 2012	Based on published tariff, with provisions for pricing based on the LME price for primary aluminum
Mt. Holly (2)	South Carolina Public Service Authority ("Santee Cooper")	Through December 31, 2015	Fixed price, with fuel cost adjustment clause
Hawesville (3)	Big Rivers Energy Corporation ("Big Rivers")	Through December 31, 2023	Cost-based
Grundartangi (4)	Landsvirkjun Orkuveita Reykjavíkur ("OR") HS Orka hf ("HS")	Through 2019 - 2036	Variable rate based on the LME price for primary aluminum
Helguvik (4)(5)	OR HS	Approximately 25 years from the dates of each phase of power delivery under the respective power agreements	Variable rate based on the LME price for primary aluminum

- (1) All operations at the Ravenswood facility are presently curtailed. Appalachian Power supplies all of Ravenswood's power requirements. Effective July 2006, the Public Service Commission of the State of West Virginia (the "PSC") approved a special rate mechanism in connection with an increase in the applicable tariff rates. Under the special rate mechanism, 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 June 2011, the PSC extended the special rate mechanism through June 2012.
- (2) In 2010, Santee Cooper amended the Mt. Holly power contract to provide power through 2015 priced at rates fixed under currently published schedules, subject to adjustments to cover Santee Cooper's fuel costs with early termination provisions to allow Mt. Holly to terminate the power contract early, in whole or in part, without penalty, if the LME falls

below certain negotiated levels.

- (3) Century Aluminum of Kentucky, our wholly owned subsidiary (“CAKY”) entered into an arrangement (the “Big Rivers Agreement”) to provide power for Hawesville’s full production capacity requirements (approximately 482 megawatts (“MW”)) with pricing based on the provider’s cost of production. The Big Rivers Agreement is take-or-pay for Hawesville’s energy requirements at full production. Under the terms of the Big Rivers agreement, any power not consumed by Hawesville will be made available for sale and we will receive credits for actual power sales up to our cost for that power.
- (4) The first stage of power under the Helguvik power supply agreement with OR (approximately 47.5MW) became available in the fourth quarter of 2011. This power is currently being utilized at Grundartangi.
- (5) HS and OR have alleged that certain conditions for the delivery of power under the Helguvik power supply agreements have not yet been satisfied. We are in discussions with HS and OR with respect to the satisfaction of these conditions. See “—Primary Aluminum Facilities — Helguvik project — Power Supply Agreements” and Item 1A, “Risk Factors — If we are unable to procure a reliable source of power the Helguvik project may not be feasible.”

Table of Contents

Labor Agreements

Our labor costs at Ravenswood and Hawesville are subject to the terms of labor contracts with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (“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.

Facility	Organization	Term
Hawesville	USWA	Through March 31, 2015
Ravenswood (1)	USWA	Expired August 31, 2010
Grundartangi (2)	Icelandic labor unions	Through December 31, 2014

(1) We are in discussions with the USWA regarding a new labor contract, but are unable to predict the outcome of such discussions at this time. See Item 1A, “Risk Factors — Union disputes could raise our production costs or impair our production operations.”

(2)