23 April 2015

Upswing in results but smelter still vulnerable after two years of losses

Pacific Aluminium (New Zealand) Limited (PacAl NZ) has reported underlying earnings of $56 million for 2014.

The upturn, due to a brief increase in world prices for aluminium and market premiums; both of which have subsequently decreased in 2015, follows two years of consecutive underlying losses for the smelter.

The aluminium market remains volatile, with average prices remaining at historical lows. Coupled with this, New Zealand’s Aluminium Smelter (NZAS) pays one of the highest power prices of any smelter in the world outside China.

“We have worked consistently to reduce the costs we can control via on-going business improvement initiatives. Prudent investment has maintained the smelter as a world class, high tech, operation,” says NZAS Chief Executive and site General Manager Gretta Stephens.

“We are proud to run one of the most efficient smelters in the world but my team struggles to compete against operations overseas which pay a tenth of what we pay in transmission costs. These have increased by $25 million per annum over the past seven years with no benefit to our business.

“Add to this the internationally high price for power, and this leaves us with an extremely tough operating environment here in New Zealand,” she says.

The smelter’s owners have until 1 July 2015 to make decisions around the power contract held with Meridian Energy.

Ms Stephens says that while no decisions about NZAS’ power supply have been made at this time; “My team and I will do everything within our control to ensure this smelter can continue to proudly produce some of the purest aluminium in the world and contribute to the Southland and New Zealand economies”.

Pacific Aluminium’s parent company, Rio Tinto, recently reversed the impairment charge for its Tasmanian and Queensland operations. However this impairment was not reversed for NZAS.
MEDIA RELEASE

Reconciliation of Statutory Profit to Underlying Loss

<table>
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<th>2014</th>
<th>2013</th>
<th>2012</th>
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<tbody>
<tr>
<td>Statutory profit/(loss) after tax</td>
<td>74</td>
<td>67</td>
<td>(549)</td>
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<tr>
<td>Adjust for the following after tax items</td>
<td></td>
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<td></td>
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<tr>
<td>Changes in fair value of financial instruments relating to the energy contract with Meridian Energy</td>
<td>(17)</td>
<td>(84)</td>
<td>(28)</td>
</tr>
<tr>
<td>Impairment charge</td>
<td></td>
<td>(1)</td>
<td>528</td>
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<td>Underlying profit or (loss) after tax</td>
<td>56</td>
<td>(18)</td>
<td>(49)</td>
</tr>
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The Pacific Aluminium (New Zealand) Limited and Subsidiaries Annual Financial Report 2014 can be accessed via the following link:


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Editors’ notes:

About NZAS
The Tiwai Point smelter is a world class facility which contributes $525 million to the Southland economy annually (10.5% of Southland’s GDP) and supports more than 3,200 direct and indirect jobs in the region. In 2014, NZAS made $366 million in payments to New Zealand suppliers, including $47 million to suppliers in Southland. It is one of two smelters in the world producing ultra-high purity aluminium and the only one producing this using electricity generated from renewable sources.

NZAS is a tolling company
NZAS is 79.36% owned by Pacific Aluminium, a business unit of Rio Tinto, and 20.64% by Japanese company, Sumitomo Chemical Company Limited.

The NZAS financial results have been released at the same time as the Pacific Aluminium NZ (PacAl NZ) results. NZAS is a tolling company that converts alumina into aluminium on behalf of its owners. It is PacAl NZ’s results that reflect the full costs of the raw material, production costs and revenue from the sale of aluminium.

As a tolling company, NZAS simply charges a fee to its owners, PacAl NZ and Sumitomo Chemical Company Limited, for converting alumina into aluminium. A tolling entity typically has an underlying profit or loss of close to $ nil.

Pacific Aluminium
Pacific Aluminium is a division of Rio Tinto Alcan, part of the Rio Tinto Group.