MEDIA STATEMENT

31 May 2018

Smelter profit improves after tough five years

Pacific Aluminium (New Zealand) Limited (PacAl NZ) has reported its financial results relating to its interest in New Zealand’s Aluminium Smelter (NZAS), showing underlying earnings of NZ$75 million for 2017, an increase of NZ$50 million on the previous year. Consistently higher aluminium prices have delivered this more favourable result for the smelter’s owners. Metal prices were almost twenty three per cent higher on average in 2017 than in 2016, which more than offset the effect of large increases in major raw material prices through 2017.

“This is a pleasing result and has given NZAS the ability to look more confidently to a commercially sustainable future,” says NZAS Chief Executive and General Manager Gretta Stephens.

“But predictions are for aluminium market conditions in 2018 to be volatile and NZAS remains vulnerable to that market volatility as well as movements in the New Zealand dollar against the US dollar. This is because we continue to pay one of the highest prices for delivered power for a smelter anywhere in the world. In 2017 our transmission costs, at NZ$72 million for the calendar year, were just three million dollars shy of our underlying profit.”

Powered by renewable hydro-electricity, NZAS is well-placed to provide low carbon aluminium to meet the growing demand for the lightweight metal in the automotive industry.

“Having secured a power arrangement that enables us to restart our quarter potline Line 4, the team is hard at work on the restart project,” says Ms Stephens.

“Unfortunately an unintended consequence of restarting Line 4 is that NZAS transmission costs will increase by around another $6 million per year despite there being no change in the transmission infrastructure the smelter uses.”

Ms Stephens says, “We believe businesses should pay a fair price for the transmission services they receive, this is not what is happening under the current system.”

It is likely to take up to six months to get Line 4 fully operational, eventually boosting NZAS’ daily overall production of aluminium by nine per cent. Last year the smelter produced 337,016 tonnes of metal, 0.5 per cent lower than in 2016.
Reconciliation of Statutory Profit to Underlying Loss

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<td>Statutory profit/(loss) after tax</td>
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<td>67</td>
<td>173</td>
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<td>(549)</td>
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<td>• Changes in fair value of financial instruments relating to the energy contract with Meridian Energy</td>
<td>93</td>
<td>(42)</td>
<td>(119)</td>
<td>(17)</td>
<td>(84)</td>
<td>(28)</td>
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<tr>
<td>• Impairment charge</td>
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<td></td>
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<td>(1)</td>
<td>528</td>
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<tr>
<td>Underlying profit or (loss) after tax</td>
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<td>25</td>
<td>54</td>
<td>56</td>
<td>(18)</td>
<td>(49)</td>
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The Pacific Aluminium (New Zealand) Limited and Subsidiaries Annual Financial Report 2017 can be accessed via the following link: 


ENDS

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Editors’ notes:

About NZAS
The Tiwai Point smelter is a world-class facility which contributes NZ$40 million to the Southland economy annually. In 2017 NZAS made NZ$398 million in payments to New Zealand suppliers, including NZ$40 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 (New Zealand) Limited, part of the Pacific Aluminium 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 results for Pacific Aluminium (New Zealand) Limited (PacAl NZ). 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 for Pacific Aluminium’s interest.

As a tolling company, NZAS charges the tax deductible costs 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 business unit of Rio Tinto.