



pure kiwi mettle

NEW ZEALAND'S ALUMINIUM SMELTER

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MEDIA STATEMENT

Smelter delivers significantly reduced profit for 2018 and remains vulnerable to a volatile market in 2019

Pacific Aluminium (New Zealand) Limited (PacAl NZ), a subsidiary of Rio Tinto, has reported its interest in the Tiwai Point smelter operated by New Zealand Aluminium Smelters Limited (NZAS), showing underlying earnings of NZ\$22 million for 2018, a decrease of NZ\$53 million on the previous year earnings.

This result reflects that during 2018 the operating environment became significantly more challenging. In the first half of 2018 the London Metal Exchange (LME), which sets the price for primary aluminium, continued to climb from 2017, averaging US\$2,259 per tonne in the second quarter. However in the second half of the year it fell sharply, averaging just US\$1,971 in the fourth quarter. While the New Zealand dollar averaged 0.69 US cents lower than 0.71 during the previous year, the increasing and volatile cost of raw materials throughout the year meant this provided little relief.

“This smaller profit doesn’t represent the efforts of the team here at Tiwai Point,” says NZAS Chief Executive and site General Manager Stew Hamilton.

“The smelter produced 340,111 tonnes of some of the lowest carbon aluminium in the world in 2018, an increase of 0.9 per cent on the previous year and I am very proud of that result.”

“This was a great effort from the team drawing on the incredible range of skills and expertise we have here at the smelter,” Mr Hamilton says.

“However we are facing a very tough time right now with the LME down to US\$1,761 per tonne and predicted ongoing volatility in the market. One of the hardest things for our team to cope with is the very high costs we face that are beyond our control. We pay one of the highest transmission prices of any smelter in the world and our overall power cost is high by international standards. That makes it incredibly hard for NZAS to compete in the highly competitive aluminium market no matter how efficient our team is.”

Operated by

RioTinto

New Zealand Aluminium Smelters Limited

In 2018 NZAS paid NZ\$66 million in transmission costs alone in contrast to the underlying profit of NZ\$22 million.

“We support a ‘user pays’ approach to transmission costs and support reform of the way charges are currently allocated, which sees NZAS pay a large share for the grid upgrades in the upper North Island,” says Mr Hamilton.

“But even that process of reform won’t give any relief from these incredibly high costs for at least another three years and in the meantime we are paying nearly NZ\$1.3 million every week.”

Over the past five years NZAS has paid NZ\$334 million in transmission costs and spent slightly under NZ\$2 billion dollars on employee costs and local suppliers, including power costs.

Reconciliation of Statutory Profit to Underlying Loss

\$M	2018	2017	2016	2015	2014	2013
Statutory profit/(loss) after tax	207	(18)	67	173	74	67
Adjust for the following after tax items						
<ul style="list-style-type: none"> • Changes in fair value of financial instruments relating to the energy contract with Meridian Energy • Impairment charge 	(186)	93	(42)	(119)	(17)	(84)
						(1)
Underlying profit or (loss) after tax	22	75	25	54	56	(18)

Editors’ notes:

About NZAS

The Tiwai Point smelter is a world class facility which contributes NZ\$406 million to the Southland economy annually (6.5% of Southland's GDP) and supports more than 2,260 direct and indirect jobs in the region (*Infometrics Report to Venture Southland 2019*).

In 2018 NZAS made NZ\$418 million in payments to New Zealand suppliers, including NZ\$49 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, delivering some of the lowest carbon aluminium in the world generating around \$1 billion in export earnings every year.

NZAS is a tolling company

NZAS is 79.36% owned by Pacific Aluminium (New Zealand) Limited, a subsidiary 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 from its interest in the Tiwai Point smelter.

As a tolling company, NZAS 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.

For further information, refer to the NZAS website www.nzas.co.nz

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