# New Zealand Aluminium Smelters Limited

## Annual Financial Report
for the year ended 31 December 2020

## Directors' report

With the unanimous agreement of all shareholders, New Zealand Aluminium Smelters Limited (the "Company") has taken advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993.

The Directors of the Company authorised these financial statements presented on pages 3 to 32 for issue on 22 April 2021.

### Principal activities

The principal activity during the course of the financial year consisted of the conversion of alumina into aluminium on behalf of its two shareholders Pacific Aluminium (New Zealand) Limited and Sumitomo Chemical Company Limited ("the Participants"). The Participants retain ownership of the alumina and aluminium, and are responsible for the sale of the aluminium.

There were no significant changes in the nature of the activities of the Company during the year.

### Review of operations

The net result of operations after income tax was a loss $103,788,000 (2019: $355,826,000). These results reflect the tolling nature of the Company whereby its revenue is determined by and equates to the tax deductible costs that have been incurred, not revenue derived from the sale of aluminium.

The following data summarises plant performance:

| | 2020 | 2019 |
|---|---|---|
| All injury frequency rate (AIFR) | 0.53 | 0.10 |
| Hot metal production (tonnes) | 333,348 | 351,481 |
| Saleable metal (tonnes) | 335,405 | 353,293 |
| Average cells operating for the year | 615 | 640 |
| Cells reconstructed | 123 | 106 |
| Employee numbers at year end (FTEs) *(including summer vacation students)* | 742 | 805 |
| Capital expenditure (NZ$m) *(including asset componentisation)* | 49.2 | 56.4 |

### Likely developments and expected results of operations

On 9 July 2020, Rio Tinto as the ultimate holding company of Pacific Aluminium (New Zealand) Limited, which holds 79.36% of the Company, announced the conclusion of the strategic review of its interest in the Company's operations. The strategic review concluded that the business is no longer viable given high energy costs and a challenging outlook for the aluminium industry. As a result, Meridian Energy were advised of a 14 months notice period for the termination of the power contract, during which time operations at the smelter were to wind down.

On 14 January 2021 a new agreement was reached with Meridian Energy in relation to power prices, allowing the Company to continue operating the Tiwai Point aluminium smelter until December 2024.

### Matters subsequent to the end of the financial year

Subsequent to the end of the financial year, the Company has reached an agreement on a new electricity agreement with Meridian Energy that allows New Zealand Aluminium Smelter (NZAS) to continue operating the Tiwai Point aluminium smelter until December 31, 2024.

**Directors**

The following persons were directors of the Company for the whole year, unless otherwise stated:

S A Hamilton
A S Horvat
M Shinada
T Watanabe
M Gwisai (appointed on 1 April 2021)
R G Prest (resigned on 31 March 2021)
T Kawauchi (alternate director for T Watanabe, M Shinada)
N Kokusho (alternate director for T Watanabe, M Shinada)
K Mizukami (alternate director for T Watanabe, M Shinada) (appointed on 1 April 2020)
I Tanaka (alternate director for T Watanabe, M Shinada) (resigned on 31 March 2020)

**Company secretary**

P J Checketts

**Registered Office and address for service at date of this report**
1530 Tiwai Road, Tiwai Point, Invercargill

**Auditors**
KPMG, Perth

**Bankers**
ANZ Banking Group (New Zealand) Limited

**Solicitors**
Chapman Tripp
Greenwood Roche

For and on behalf of the Board.

Chairman
22 April 2021

Director
22 April 2021

# New Zealand Aluminium Smelters Limited

# Annual Financial Report

31 December 2020

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These financial statements are the financial statements of New Zealand Aluminium Smelters Limited as an individual entity. The financial statements are presented in New Zealand Dollars.

New Zealand Aluminium Smelters Limited is a company limited by shares, incorporated and domiciled in New Zealand. The Company is registered under the New Zealand Companies Act 1993.

Its registered office and principal place of business is:

New Zealand Aluminium Smelters Limited
1530 Tiwai Road
Tiwai Point
Invercargill 9877

A description of the nature of the Company's operations and its principal activities is included in the directors' report, which does not form part of these financial statements.

The financial statements were authorised for issue by the Directors on 22 April 2021. The Directors have the power to amend and reissue the financial statements.

**New Zealand Aluminium Smelters Limited**
**Statement of comprehensive income**
**For the year ended 31 December 2020**

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Revenue | 4 | **643,892** | 724,994 |
| Other income | 4 | **3,038** | 7,349 |
| Other losses - net | 5 | **(73,939)** | (458,385) |
| | | **572,991** | 273,958 |
| Change in inventories of work in progress | | **(4,471)** | (2,624) |
| Raw materials, energy and consumables used | | **(460,259)** | (523,066) |
| Employee benefits expense | | **(81,901)** | (87,484) |
| Depreciation and amortisation expense | 6 | **(78,531)** | (55,776) |
| Other expenses | 6 | **(55,989)** | (65,613) |
| Defined contribution plan expense | | **(5,946)** | (5,962) |
| Finance costs - net | 6 | **(26,999)** | (25,730) |
| Total expenses | | **(714,096)** | (766,255) |
| **Loss before income tax** | | **(141,105)** | (492,297) |
| Income tax benefit | 7 | **37,317** | 136,471 |
| **Loss after tax** | | **(103,788)** | (355,826) |
| Other comprehensive income | | **-** | - |
| **Attributed to the shareholders of New Zealand Aluminium Smelters Limited** | | **(103,788)** | (355,826) |

For and on behalf of the Board.

Director
22 April 2021

Director
22 April 2021

*The above Statement of comprehensive income should be read in conjunction with the accompanying notes.*

**New Zealand Aluminium Smelters Limited**
**Balance sheet**
**As at 31 December 2020**

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **9,735** | 2,757 |
| Trade and other receivables | 9 | **120,211** | 121,908 |
| Inventories | 10 | **72,313** | 88,679 |
| Derivative financial instruments | 16 | **-** | 46,409 |
| Assets classified as held for sale | 11 | **-** | 27,137 |
| **Total current assets** | | **202,259** | 286,890 |
| **Non-current assets** | | | |
| Other receivables | 12 | **50,991** | 50,991 |
| Derivative financial instruments | 16 | **-** | 27,536 |
| Property, plant and equipment | 14 | **451,892** | 445,306 |
| Intangible assets | 15 | **15,645** | 3,473 |
| Other non-current assets | | **11** | 11 |
| Right-of-use assets | 17 | **32,617** | 40,847 |
| **Total non-current assets** | | **551,156** | 568,164 |
| **Total assets** | | **753,415** | 855,054 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **115,114** | 120,596 |
| Borrowings | 19 | **253,044** | 253,560 |
| Provisions | 22 | **6,464** | 3,884 |
| Lease liabilities | 17 | **3,025** | 3,128 |
| **Total current liabilities** | | **377,647** | 381,168 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 20 | **23,608** | 60,925 |
| Provisions | 22 | **346,140** | 294,883 |
| Employee benefit obligations | 21 | **7,035** | 6,935 |
| Lease liabilities | 17 | **29,049** | 37,419 |
| **Total non-current liabilities** | | **405,832** | 400,162 |
| **Total liabilities** | | **783,479** | 781,330 |
| **Net (liabilities)/assets** | | **(30,064)** | 73,724 |
| **EQUITY** | | | |
| Contributed equity | 23 | **31,500** | 31,500 |
| (Accumulated losses)/retained earnings | | **(61,564)** | 42,224 |
| **Total (deficiency)/equity** | | **(30,064)** | 73,724 |

*The above Balance sheet should be read in conjunction with the accompanying notes.*

**New Zealand Aluminium Smelters Limited**
**Statement of changes in equity**
**For the year ended 31 December 2020**

| | Contributed equity $'000 | Retained earnings/ (accumulated losses) $'000 | Total equity $'000 |
|---|---|---|---|
| **Balance at 1 January 2020** | 31,500 | 42,224 | 73,724 |
| Loss for the year | - | (103,788) | (103,788) |
| **Total comprehensive expense for the year** | **-** | **(103,788)** | **(103,788)** |
| **Balance at 31 December 2020** | **31,500** | **(61,564)** | **(30,064)** |

| | Contributed equity $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|
| Balance at 1 January 2019 | 31,500 | 398,594 | 430,094 |
| Change in accounting policy | - | (544) | (544) |
| **Restated total equity at the beginning of the financial year** | 31,500 | 398,050 | 429,550 |
| Loss for the year | - | (355,826) | (355,826) |
| **Total comprehensive expense for the year** | **-** | **(355,826)** | **(355,826)** |
| **Balance at 31 December 2019** | **31,500** | **42,224** | **73,724** |

*The above Statement of changes in equity should be read in conjunction with the accompanying notes.*

**New Zealand Aluminium Smelters Limited**
**Statement of cash flows**
**For the year ended 31 December 2020**

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **646,634** | 769,066 |
| Payments to suppliers and employees | | **(623,819)** | (739,229) |
| | | **22,815** | 29,837 |
| Research and development growth grant | | **-** | 2,630 |
| Interest paid | | **(15,556)** | (18,105) |
| Interest received | | **1,993** | 1,589 |
| **Net cash inflow from operating activities** | | **9,252** | 15,951 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant, equipment and intangible assets | | **(49,159)** | (56,361) |
| Proceeds from sale of property, plant, equipment, intangible assets and assets held for sale | | **49,904** | 39,329 |
| **Net cash inflow/(outflow) from investing activities** | | **745** | (17,032) |
| **Cash flows from financing activities** | | | |
| Payment of lease liabilities | | **(3,019)** | (2,987) |
| **Net cash outflow from financing activities** | | **(3,019)** | (2,987) |
| **Net increase/(decrease) in cash and cash equivalents** | | **6,978** | (4,068) |
| Cash and cash equivalents at the beginning of the year | | **2,757** | 6,825 |
| **Cash and cash equivalents at the end of the year** | 8 | **9,735** | 2,757 |

*The above Statement of cash flows should be read in conjunction with the accompanying notes.*

# 1 General information

New Zealand Aluminium Smelters Limited ("the Company"), owns and operates the aluminium smelter at Tiwai Point. The principal activity of the Company is the conversion of alumina into aluminium. There are two shareholders and participants, Pacific Aluminium (New Zealand) Limited and Sumitomo Chemical Company Limited ("the Participants").

The normal operating activities of the Company are dependent on the Participants providing alumina for conversion into aluminium. During 2020, 100% (2019: 100%) of the revenue from operations was derived from tolling aluminium for the Participants.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 1530 Tiwai Road, Tiwai Point, Invercargill.

These financial statements have been approved for issue by the Directors on 22 April 2021.

# 2 Summary of significant accounting policies

### (a) Basis of preparation

New Zealand Aluminium Smelters Limited is a company registered under the Companies Act 1993. These financial statements are for the Company as a separate legal entity.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993.

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ('NZ IFRS RDR'), and other applicable Financial Reporting Standards, as appropriate for Tier 2 for-profit entities.

The Company is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards ("NZ IFRS RDR"). The Company qualifies on the basis that it is not publicly accountable and is not a large for-profit public sector entity. In applying NZ IFRS RDR, the Company has applied a number of disclosure concessions.

*(i) Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments) - measured at fair value

*(ii) New and amended standards adopted by the Company*

The Company has applied the following interpretations, standards and amendments for first time in their annual reporting period commencing 1 January 2020:

- *Definition of Material - amendments to NZ IAS 1 and NZ IAS 8;*
- *Definition of a Business - amendments to NZ IFRS 3;*
- *Interest Rate Benchmark Reform - amendments to NZ IFRS 9, NZ IAS 39 and NZ IFRS 7;*
- *2019 Omnibus Amendments to NZ IFRS;*
- *Revised New Zealand Equivalents to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework);*

The adoption of these amendments did not have a material impact on the current or any prior period and is not likely to affect future periods.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

*(iii) New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- *Cost of Fulfilling a Contract - Amendments to NZ IAS 37;*
- *COVID-19 Related Rent Concessions - Amendment to NZ IFRS 16;*
- *Property, Plant and Equipment: Proceeds before Intended Use - Amendments to NZ IAS 16;*
- *Reference to Conceptual Framework - Amendments to NZ IFRS 3;*
- *Classification of Liabilities as Current of Non-current - Amendments to NZ IAS 1;*
- *NZ IFRS 17 - Insurance Contracts*

*(iv) Going concern*

As announced subsequent to the end of the financial year, the Company has reached an agreement on a new electricity agreement with Meridian Energy that allows New Zealand Aluminium Smelter (NZAS) to continue operating the Tiwai Point aluminium smelter until December 31, 2024.

As at 31 December 2020, the Company had a net working capital deficiency of $175,388,000 (2019: deficiency of $94,278,000). The Company made a loss after tax for the year of $103,788,000 (2019: loss after tax of $355,826,000). Included within the working capital deficiency is $253,044,000 of related party borrowings from Pacific Aluminium New Zealand (PANZ). Under the relevant joint venture agreements between the Participants, if at any time the charges paid or payable under the joint venture agreements by a participant, in the opinion of NZAS, is insufficient to meet such of NZAS' cash requirements as are allocated to that participant, then NZAS can call upon the amount of the deficiency from the participant. Such amounts shall not be repayable by NZAS to that participant unless, and then only to the extent that, NZAS determines that it has sufficient cash which to repay those amounts.

The financial support of the Participants (including support from the participants related parties), pursuant to the joint venture agreement, ensures that the Company is able to meet its debts and commitments as they fall due. Accordingly, the accompanying financial statements have been prepared on a going concern basis, which assumes the Company has the ability and intention to continue business activities for a period of at least 12 months from the date of the financial statements.

### (b) Foreign currency translation

*Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the investment in a foreign operation.

## 2 Summary of significant accounting policies (continued)

### (b) Foreign currency translation (continued)

Foreign exchange gains and losses that relate to borrowings are presented in the Statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the Statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

### (c) Revenue recognition

*Tolling revenue*

The Company recognises tolling revenue based on the tax deductible costs of operations in respect to the tolling of promised goods or services when control of the goods or services passes to the customer. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services.

Under the terms of the participant tolling agreement, the Company's performance obligation is to convert raw material alumina (provided by participants) into aluminium. The tolling agreement establishes the terms of consideration the Company receives for the performance of the services. The agreement allows for the Company to recover the tax deductible costs of operating the activities of the smelter from the participants. As a result, the Company recognises revenue to the extent of tax deductible costs incurred. As these costs are incurred over time, revenue is also recognised over time. There are limited judgements made by management in the determination of revenue recognition, since the deductibility of costs under tax legislation is well understood.

*Interest income*

Interest income is recognised on a time proportionate basis using the effective interest method.

*Dividends*

Dividends are recognised as revenue when the right to receive payment is established.

*Management fees and other recoveries*

Management fees are charges to related parties for corporate services, global business services, people and organisational support, and technology and innovation. Recoveries comprise charges to related and external parties for the rendering of administration and general services.

### (d) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.

Grants relating to ETS indirect allocations are offset against the electricity cost matching the inherent cost of carbon included in the energy price. The direct allocations relate to fuel consumption on site and are treated as miscellaneous expenses and are offset against other expenses. The Company was granted 1,752,913 ETS units in 2020 (2019: 1,678,813 ETS units).

### (e) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as an expense as incurred.

## 2 Summary of significant accounting policies (continued)

### (f) Employee benefits

*(i) Short-term obligation*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities for annual leave, long service leave, alternative leave and short-term incentive plans are recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(ii) Long-term employee benefit obligations*

The liability for long service leave is not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. It is therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income.

The obligations are presented as current liabilities in the balance sheet if the company does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

*(iii) Retirement benefit options*

Most employees of the Company are entitled to benefits on retirement, disability or death from their membership of the NZAS Retirement Fund ("The Fund").

The Fund is a defined contribution scheme. Contributions to the defined contribution superannuation plans are expensed through profit or loss when incurred.

*(iv) Shared-based payments*

The executives and employees of the Company are eligible to participate in share based payment plans as part of the Company's association of the Rio Tinto Group.

The Company reimburses the Rio Tinto Group for the intrinsic value of the options granted. The intrinsic value of an option is calculated as the current share price less the option's exercise price. These payments are treated as employee benefits in accordance with NZ IAS 19 Employee Benefits. The movement in intrinsic value at each reporting date is recognised as an employee benefit expense.

The fair value of options granted is recognised as an employee benefits expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (eg the entity's share price)

- excluding the impact of any service and non-market performance vesting conditions (eg profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

- including the impact of any non-vesting conditions (eg the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss.

## 2 Summary of significant accounting policies (continued)

### (g) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on either: the Company's judgment of the most likely amount of the liability or recovery; or, when there is a wide range of possible outcomes, a probability weighted average approach.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the Company has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### (h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments (mainly money market funds), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are disclosed within current liabilities in the balance sheet.

For the purposes of the statement of cash flows, bank overdrafts have been accounted for as cash movements.

### (i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Details about the Company's impairment policies and the calculation of the loss allowance are provided in note 2(l).

## 2 Summary of significant accounting policies (continued)

### (j) Inventories

*Raw materials and stores, work in progress and finished goods*

Raw materials, operating supplies and work in progress are stated at the lower of cost and net realisable value. Cost of raw materials and operating supplies comprises the direct material cost. The cost of work in progress comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Alumina and finished stocks of aluminium are owned by the Participants.

### (k) Assets held for sale

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

### (l) Investments and other financial assets

***Classification and measurement***

The Company classifies its financial assets in the following categories:

- financial assets held at amortised cost
- financial assets held at fair value through other comprehensive income ('FVOCI')
- financial assets held at fair value through profit or loss ('FVPL').

Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of financial assets at initial recognition. Generally, the Company does not acquire financial assets for the purpose of selling in the short term. The Company's business model is primarily that of 'Hold to collect' (where assets are held in order to collect contractual cash flows). When the Company enters into derivative contracts, these transactions are designed to reduce exposures relating to assets and liabilities, firm commitments or anticipated transactions.

Accounting policies for the categories which the Company holds financial assets are set out below.

*(i) Financial assets held at amortised cost*

This classification applies to debt instruments which are held under a hold to collect business model and which have cash flows that meet the "Solely payments of principal and interest" (SPPI) criteria.

At initial recognition, trade receivables that do not have a significant financing component, are recognised at their transaction price. Other financial assets are initially recognised at fair value plus related transaction costs; they are subsequently measured at amortised cost using the effective interest method. Any gain or loss on de-recognition or modification of a financial asset held at amortised cost is recognised in profit or loss.

## 2 Summary of significant accounting policies (continued)

### (l) Investments and other financial assets (continued)

*(ii) Financial assets held at fair value through profit or loss ('FVPL')*

This classification applies to the following financial assets, in all cases, transactions costs are immediately expensed to profit or loss:

- Debt instruments that do not meet the criteria of amortised cost or fair value through other comprehensive income. These receivables are generally held to collect but do not meet the SPPI criteria and as a result must be held at FVPL.

  Subsequent fair value gains or losses are taken to profit and loss.

- Equity Investments which are held for trading or where the FVOCI election has not been applied.

  All fair value gains or losses and related dividend income are recognised in profit and loss.

- Derivatives which are not designated as a hedging instrument.

  All subsequent fair value gains or losses are recognised in profit and loss.

***Impairment***

A forward looking expected credit loss (ECL) review is required for; debt instruments measured at amortised cost or held at fair value through other comprehensive income; loan commitments and financial guarantees not measured at fair value through profit or loss; lease receivables and trade receivables that give rise to an unconditional right to consideration.

As permitted by AASB 9, the Company applies the 'simplified approach' to trade receivable balances and the 'general approach' to all other financial assets. The general approach incorporates a review for any significant increase in counterparty credit risk since inception. The ECL reviews include assumptions about the risk of default and expected loss rates. For trade receivables, the assessment takes into account the use of credit enhancements, for example, letters of credit. Impairments for undrawn loan commitments are reflected as a provision.

### (m) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

*Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

*Embedded derivatives*

Derivatives embedded in the Company's contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts or have intrinsic value at inception and the host contracts are not carried at fair value. Contracts are assessed for embedded derivatives when the Company becomes a party to them, including at the date of a business combination. These embedded derivatives are measured at fair value at each period end. Any gains or losses arising from changes in fair value are recognised in profit or loss for the period.

## 2 Summary of significant accounting policies (continued)

### (n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques.

### (o) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Under NZ IAS 16, where a fixed asset contains significant components that have a different useful life and suffer wear and tear or are replaced at different points throughout the life of the asset, then each part with a cost that is significant in relation to the total cost of the asset shall be depreciated separately i.e. componentised.

The Reduction cells, Casting and Logistics furnaces and Carbon Bake furnaces at the Company are classified as significant components of the Reduction asset, Casting and Logistic asset and Carbon Bake facility assets, and hence are depreciated separately under the componentisation treatment.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual value, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings & site development | 10 - 51 years |
| Plant and equipment | 1 - 51 years |
| Reduction cells | 5 - 6 years |
| Casting and logistics furnaces | 5 - 7 years |
| Carbon bake furnace | 7 - 8 years |

Major assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date.

*Impairment*
Assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying amount exceeds its recoverable amount. The assessment of the recoverable amount often requires estimates of the future cash flows. All future cash out flows are supported by contributions from the Participants under the NZAS participant tolling agreement.

### (p) Intangible assets

*NZ Emissions Trading Scheme*

Carbon emission units allocated under the NZ Emissions Trading Scheme (ETS) are measured at fair value on date of allocation, and reported as intangible assets in accordance with the NZ IAS 20 Government Grants standard. Carbon emission units have an indefinite useful life and are subsequently carried at cost. Where the units market value is lower than the carrying value at period end, the units are impaired to the lower realisable value and an impairment loss is recognised in the statement of comprehensive income. The units are held for offsetting direct and indirect carbon emission cost obligations.

*Software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method over their estimated useful lives (three to five years).

## 2 Summary of significant accounting policies (continued)

### (q) Leases

NZ IFRS 16 'Leases' applies to the recognition, measurement, presentation and disclosure of leases. Certain leases are exempt from the standard, including leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources. The Company does not apply NZ IFRS 16 to arrangements which fall within the scope of NZ IAS 38 'Intangible Assets'.

A significant proportion by value of the Company's lease arrangements relate to the use of a wharf, power supply interconnection and offices. Other leases include land, warehouses, equipment and vehicles. The majority of lease terms are negotiated through Rio Tinto's procurement function, although agreements contain a wide range of different terms and conditions.

The Company recognises all lease liabilities and corresponding right of use assets, with the exception of short-term (12 months or fewer) and low value leases, on the balance sheet. Lease liabilities are recorded at the present value of: fixed payments; variable lease payments that depend on an index or rate; amounts payable under residual value guarantees; and extension options expected to be exercised. Where a lease contains an extension option which the Company can exercise without negotiation, lease payments for the extension period are included in the liability if the Company is reasonably certain that it will exercise the option. Variable lease payments not dependent on an index or rate are excluded from the calculation of lease liabilities. Payments are discounted at the incremental borrowing rate of the lessee, unless the interest rate implicit in the lease can be readily determined. For lease agreements relating to properties, non-lease components are excluded from the projection of future lease payments and recorded separately within operating costs on a straight-line basis. The right of use asset, resulting from a lease arrangement, at initial recognition reflects the lease liability, initial direct costs and any lease payments made before the commencement date of the lease less any lease incentives and, where applicable, provision for dismantling and restoration.

The Company recognises depreciation of right of use assets and interest on lease liabilities in the income statement over the lease term. Repayments of lease liabilities are separated into a principal portion (presented within financing activities) and interest portion (which the Company presents in operating activities) in the cash flow statement. Payments made before the commencement date are included within financing activities unless they in substance represent investing cash flows, for example where pre-commencement cash flows are significant relative to aggregate cash flows of the leasing arrangement.

Right of use assets are included in the review for impairment of property, plant and equipment and intangible assets with finite lives, if there is an indication that the carrying amount of the cash generating unit may not be recoverable.

### (r) NZ Emissions Trading Scheme

The Company is a liable entity under New Zealand's Emissions Trading Scheme (ETS).

The activity of primary aluminium smelting as undertaken by the Company has been assessed to be emissions-intensive and trade-exposed, and the Company therefore qualifies for the allocation of Emission Units at the maximum rate (set at 90% for 2020 allocation).

The ETS is currently a domestic-only scheme and ETS participants must surrender one emission unit for one tonne of carbon dioxide equivalent emissions. In order to meet their emission surrender obligation for the 2020 emission year, participants can either provide NZ carbon units to the Government (from their allocation and/or by purchasing units at market price) or by paying the Government a fixed price of NZ$35 per tonne of carbon dioxide equivalent.

It is the Company's intention to utilise these assets to settle future ETS obligations, and sell units when required. Where the market price is lower than the carrying value at period end, the units and obligation will be impaired/revalued to reflect the lower realisable value. A subsequent reversal of impairment may occur when the market price rises, however the reversal shall be no more than the previous impairment value. Any reversal of impairment is recognised in the statement of comprehensive income.

## 2 Summary of significant accounting policies (continued)

### (s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### (t) Provisions for close down restoration and environmental clean-up costs

***Close down and restoration costs***
Close down and restoration costs include the dismantling and demolition of infrastructure, the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, based on the net present value of estimated future costs of closure. Where appropriate, the provision is estimated using probability weighting of the different remediation and closure scenarios. The obligation may occur during development or during the production phase of a facility.

Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan, and reviewed at each reporting period during the life of the operation to reflect known developments. The estimates are also subject to formal review, with appropriate external support, at regular intervals.

The amortisation or 'unwinding' of the discount applied in establishing the provisions is charged to profit or loss in each accounting period. The amortisation of the discount is shown as a financing cost in the statement of comprehensive income.

The initial closure provision together with other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance date and the cost is charged to profit or loss.

***Environmental obligations***
Environmental costs result from environmental damage that was not a necessary consequence of operations, and may include remediation, compensation and penalties. Provision is made for the estimated present value of such costs at the balance date. These costs are presented as an operating cost, except for the unwinding of the discount which is shown as a financing cost.

### (u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## 2 Summary of significant accounting policies (continued)

### (v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### (w) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## 3 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is outlined below.

***Provision for rehabilitation and closure***
The provision for rehabilitation has been determined using estimates and assumptions of future costs expected to be incurred to rehabilitate and restore disturbed land to the required condition as stipulated in various agreements and statutes. The provision is discounted using a discount rate deemed to accurately reflect current market assessments of the time value of money and the risks specific to the liability. In determining the value of the provision for rehabilitation, management made judgements in respect to the method and cost of disposing of spent cell lining, being the waste resulting from regular Reduction cell refurbishment. The total cost in the rehabilitation provision reflects an average annual cost of domestic and international processing costs based on assumed disposal options over the period of the closure provision.

***Likely developments and expected results of operations***
On 9 July 2020, Rio Tinto as the ultimate holding company of Pacific Aluminium (New Zealand) Limited, which holds 79.36% of the Company, announced the conclusion of the strategic review of its interest in the Company's operations. The strategic review concluded that the business is no longer viable given high energy costs and a challenging outlook for the aluminium industry. As a result, Meridian Energy were advised of a 14 months notice period for the termination of the power contract, during which time operations at the smelter were to wind down.

On 14 January 2021 a new agreement was reached with Meridian Energy in relation to power prices, allowing the Company to continue operating the Tiwai Point aluminium smelter until December 2024.

## 4 Revenue and other income

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Tolling revenue | **643,892** | 724,994 |
| **Tolling charges invoiced to participants** | **643,892** | 724,994 |
| **Other income** | | |
| Sale of goods to third parties | **1,020** | 1,672 |
| Dividend and interest income | **1,993** | 3,047 |
| Research and development growth grant | **-** | 2,630 |
| Other income | **25** | - |
| | **3,038** | 7,349 |
| | **646,930** | 732,343 |

**Research and development growth grant**
Research and development growth grant income is received quarterly. This income stream is recognised as a proportional reimbursement for all eligible research and development expenditure the Company has expensed for the respective quarter.

During 2019, Callaghan Innovation suspended the payment of funding to the Company, in accordance with clause 9.2(a) of the Agreement (change of event - based on NZAS Strategic Review announcement), to allow time to conduct a Change Event review.

Correspondence was received from Callaghan Innovation on 7 April 2021, advising that Callaghan Innovation would make no further payments to NZAS under this agreement.

## 5 Other losses - net

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Net foreign exchange (gain)/loss | **(6)** | 847 |
| Loss on derivatives at fair value through profit or loss | **73,945** | 457,538 |
| | **73,939** | 458,385 |

## 6 Expenses

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Loss before income tax includes the following specific expenses:** | | |
| *Depreciation and amortisation expense* | | |
| Buildings | **4,344** | 3,027 |
| Plant and equipment | **71,313** | 49,948 |
| Plant and equipment under lease | **2,776** | 2,687 |
| Software | **98** | 114 |
| | **78,531** | 55,776 |

## 6 Expenses (continued)

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Finance costs* | | |
| Interest on loans paid to related parties | **12,957** | 15,558 |
| Rehabilitation provision: unwinding of discount rate | **11,443** | 7,626 |
| Interest paid to others | **4** | 16 |
| Interest on lease liability | **2,595** | 2,530 |
| | **26,999** | 25,730 |

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Other expenses* | | |
| Gain on disposal of property, plant and equipment and intangible assets | **(5,622)** | (3,187) |
| Emissions Trading Scheme obligation expense | **17,050** | 17,469 |
| Rehabilitation provision: change in past estimates | **10,586** | 13,818 |
| Operating lease expense | **1,679** | 1,702 |
| Donations | **41** | 17 |
| Other expenses | **32,175** | 35,701 |
| Fees paid to auditor | **80** | 93 |
| | **55,989** | 65,613 |

## 7 Income tax expense

### Income tax benefit

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Deferred tax benefit | **37,317** | 136,471 |
| Income tax benefit from continuing operations | **37,317** | 136,471 |

*(a) Numerical reconciliation of income tax benefit to prima facie tax receivable*

| | 2020 | 2019 |
|---|---|---|
| Loss from operations before income tax | **141,105** | 492,297 |
| Tax at the New Zealand tax rate of 28% | **39,509** | 137,843 |
| Non-deductible expenditure | **(2,162)** | (1,357) |
| Other items | **(30)** | (15) |
| Total income tax benefit | **37,317** | 136,471 |

## 8 Current assets - Cash and cash equivalents

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Cash at bank and in hand | **9,735** | 2,757 |

*(a) Reconciliation to cash at the end of the year*

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

| | 2020 | 2019 |
|---|---|---|
| Balances as above | **9,735** | 2,757 |

## 9 Current assets - Trade and other receivables

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Receivable from related parties | **114,279** | 120,099 |
| Trade receivables | **4,042** | 556 |
| Prepayments | **1,686** | 1,050 |
| Energy Clearing House security deposit | **204** | 203 |
| | **120,211** | 121,908 |

## 10 Current assets - Inventories

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Raw materials | **33,411** | 48,012 |
| Work in progress | **23,980** | 26,924 |
| Other inventories and stores | **14,922** | 13,743 |
| | **72,313** | 88,679 |

## 11 Current assets - Assets held for sale

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Emissions Trading Scheme units (NZU's) | **-** | 27,137 |

In the prior year, the NZAS Board approved the marketing for sale of Emissions Trading Scheme units (NZU's) allocated to offset the effects of the NZ ETS on electricity costs during 2020.

In line with NZ IFRS 5, the cost value of the units which make up the Company's commitment to sell have been classified as held for sale.

## 12 Non-current assets - Receivables

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Other receivables | **3,011** | 3,011 |
| Environmental restoration account | **47,980** | 47,980 |
| | **50,991** | 50,991 |

**Environmental restoration account**
This is a deposit held with the New Zealand IRD in relation to future environmental restoration cost which can be withdrawn when environmental closure costs are incurred.

## 13 Financial instruments by category

Assets as per Balance sheet

| | Assets at fair value through profit or loss | Other assets at amortised cost | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **At 31 December 2020** | | | |
| Cash and cash equivalents | **-** | **9,735** | **9,735** |
| Trade and other receivables excluding prepayments | **-** | **118,525** | **118,525** |
| Derivative financial instruments | **-** | **-** | **-** |
| Other receivables | **-** | **50,991** | **50,991** |
| Total | **-** | **179,251** | **179,251** |
| **At 31 December 2019** | | | |
| Cash and cash equivalents | - | 2,757 | 2,757 |
| Trade and other receivables excluding prepayments | - | 120,858 | 120,858 |
| Derivative financial instruments | 73,945 | - | 73,945 |
| Other receivables | - | 50,991 | 50,991 |
| Total | 73,945 | 174,606 | 248,551 |

Liabilities as per Balance sheet

| | Liabilities at fair value through profit or loss | Other liabilities at amortised cost | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **At 31 December 2020** | | | |
| Trade and other payables (excluding ETS obligation and employee benefits) | **-** | **75,333** | **75,333** |
| Borrowings | **-** | **253,044** | **253,044** |
| Employee benefits | **-** | **30,518** | **30,518** |
| Lease liabilities | **-** | **32,074** | **32,074** |
| | **-** | **390,969** | **390,969** |
| **At 31 December 2019** | | | |
| Trade and other payables (excluding ETS obligation and employee benefits) | - | 80,967 | 80,967 |
| Borrowings | - | 253,560 | 253,560 |
| Employee benefits | - | 30,736 | 30,736 |
| Lease liabilities | - | 40,547 | 40,547 |
| | - | 405,810 | 405,810 |

## 14 Non-current assets - Property, plant and equipment

| | Land $'000 | Buildings & Site Development $'000 | Plant and Equipment $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 January 2020** | | | | | |
| Cost or fair value | 38 | 168,158 | 1,348,379 | 38,529 | 1,555,104 |
| Accumulated depreciation | - | (142,884) | (966,914) | - | (1,109,798) |
| Net book amount | 38 | 25,274 | 381,465 | 38,529 | 445,306 |
| | | | | | |
| **Year ended 31 December 2020** | | | | | |
| Opening net book amount | 38 | 25,274 | 381,465 | 38,529 | 445,306 |
| Additions | - | - | - | 49,159 | 49,159 |
| Disposals | - | (16) | (3,023) | - | (3,039) |
| Depreciation charge | - | (4,344) | (71,313) | - | (75,657) |
| Transfers to/(from) construction in progress | - | - | 33,973 | (33,973) | - |
| Increase/(decrease) in ARO provision | - | - | 36,123 | - | 36,123 |
| Closing net book amount | 38 | 20,914 | 377,225 | 53,715 | 451,892 |
| | | | | | |
| **At 31 December 2020** | | | | | |
| Cost | 38 | 167,998 | 1,385,007 | 53,715 | 1,606,758 |
| Accumulated depreciation | - | (147,084) | (1,007,782) | - | (1,154,866) |
| Net book amount | 38 | 20,914 | 377,225 | 53,715 | 451,892 |

## 14 Non-current assets - Property, plant and equipment (continued)

| | Land $'000 | Buildings & Site Development $'000 | Plant and Equipment $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | |
| Cost or fair value | 68 | 168,241 | 1,300,609 | 30,726 | 1,499,644 |
| Accumulated depreciation | - | (140,088) | (932,698) | - | (1,072,786) |
| Adjustment for change in accounting policy | - | - | (6,236) | - | (6,236) |
| Net book amount | 68 | 28,153 | 361,675 | 30,726 | 420,622 |
| **Year ended 31 December 2019** | | | | | |
| Opening net book amount | 68 | 28,153 | 361,675 | 30,726 | 420,622 |
| Additions | - | - | - | 56,344 | 56,344 |
| Disposals | (30) | (84) | (3,136) | - | (3,250) |
| Depreciation charge | - | (3,027) | (49,948) | - | (52,975) |
| Transfers to/(from) construction in progress | - | 232 | 48,309 | (48,541) | - |
| Increase/(decrease) in ARO provision | - | - | 24,565 | - | 24,565 |
| Closing net book amount | 38 | 25,274 | 381,465 | 38,529 | 445,306 |
| **At 31 December 2019** | | | | | |
| Cost | 38 | 168,158 | 1,348,379 | 38,529 | 1,555,104 |
| Accumulated depreciation | - | (142,884) | (966,914) | - | (1,109,798) |
| Net book amount | 38 | 25,274 | 381,465 | 38,529 | 445,306 |

## 15 Non-current assets - Intangible assets

| | Internally generated software $'000 | Emissions Trading Scheme units $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 31 December 2020** | | | |
| Net book amount at 1 January 2020 | 458 | 3,015 | 3,473 |
| Units acquired | - | 41,781 | 41,781 |
| Units utilised | - | (14,107) | (14,107) |
| Units surrendered | - | (15,404) | (15,404) |
| Amortisation charge | (98) | - | (98) |
| Net book amount at 31 December 2020 | 360 | 15,285 | 15,645 |
| **At 31 December 2020** | | | |
| Cost | 12,221 | 15,285 | 27,506 |
| Accumulated amortisation | (11,861) | - | (11,861) |
| Net book amount | 360 | 15,285 | 15,645 |

| | Internally generated software $'000 | Emissions Trading Scheme units $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 31 December 2019** | | | |
| Net book amount at 1 January 2019 | 555 | 9,416 | 9,971 |
| Units acquired | - | 41,970 | 41,970 |
| Additions | 17 | - | 17 |
| Units utilised | - | (10,282) | (10,282) |
| Units surrendered | - | (10,952) | (10,952) |
| Amortisation charge | (114) | - | (114) |
| Transfer to assets held for sale | - | (27,137) | (27,137) |
| Net book amount at 31 December 2019 | 458 | 3,015 | 3,473 |
| **At 31 December 2019** | | | |
| Cost | 12,221 | 3,015 | 15,236 |
| Accumulated amortisation | (11,763) | - | (11,763) |
| Net book amount | 458 | 3,015 | 3,473 |

Emission Trading Scheme unit's (NZUs) are classified as intangible assets and are carried at cost. It is the Company's intention to utilise these assets to settle future ETS obligations, and sell any surplus units when required.

## 16 Derivative financial instruments

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Current assets** | | |
| Derivative financial instrument - power contract | - | 46,409 |
| **Non-current assets** | | |
| Derivative financial instrument - power contract | - | 27,536 |
| **Total derivative financial instruments** | - | 73,945 |

The 2019 derivative balances represent the Company's contract with Meridian Energy for a 50MW Contract for Difference in relation to the consumption of electricity on Reduction Line 4. The Company is entitled to terminate the 50MW Contract for Difference by giving Meridian Energy not less than 2 months' notice. On 3 April 2020, the Line 4 CfD was suspended at NZAS' request, following NZAS' decision to temporarily curtail Reduction Line 4 in order to effectively manage the health and safety of employees at NZAS and to ensure the stability of NZAS' operation during NZ's Covid-19 lockdown period. As at 22 April 2021 NZAS had not restarted Line 4 and the Line 4 CfD remains in place. Accordingly the derivative for the 50MW Contract for Difference has a nil valuation as at 31 December 2020.

## 17 Leases

*(i) Amounts recognised in the balance sheet*

The balance sheet shows the following amounts relating to leases:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Right-of-use assets** | | |
| Plant and equipment | **32,617** | 40,847 |
| **Lease liabilities** | | |
| Current | **3,025** | 3,128 |
| Non-current | **29,049** | 37,419 |
| | **32,074** | 40,547 |

Additions to the right-of-use assets during the 2020 financial year were $nil (2019: $nil).

*(ii) Amounts recognised in the statement of comprehensive income*

The statement of comprehensive income shows the following amounts relating to leases:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Plant and equipment | **2,776** | 2,687 |
| Interest expense (included in finance cost) | **2,595** | 2,530 |

The total cash outflow for leases in 2020 was $5,614,000 (2019: $5,518,000).

## 18 Current liabilities - Trade and other payables

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Amounts owed to related parties | **16,274** | 17,451 |
| Trade payables | **59,059** | 63,516 |
| ETS obligations payable | **16,298** | 15,828 |
| Employee benefits | **23,483** | 23,801 |
| | **115,114** | 120,596 |

*Carbon emissions*
The Company is a participant in the New Zealand Government's Emissions Trading Scheme (ETS). The emissions liability is recognised as a provision for the Company's carbon surrender obligations and is measured at the carrying amount of emission units (NZUs) held. If excess units are required to settle the obligation, these are measured at the market price of the units at balance date.

## 19 Current liabilities - Borrowings

| | **$'000** |
|---|---|
| At 1 January 2020 | **253,560** |
| Movement due to changes in interest rate | **(516)** |
| At 31 December 2020 | **253,044** |
| | |
| At 1 January 2019 | **254,090** |
| Movement due to changes in interest rate | **(530)** |
| At 31 December 2019 | **253,560** |

The borrowings from related parties were denominated in NZ dollars and are unsecured. Interest rates for the year ranged from 4.83% to 5.65% (2019: 5.65% to 6.49%). Borrowings are repayable on demand.

## 20 Non-current liabilities - Deferred tax liabilities

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| ***Deferred tax liabilities*** | | |
| Depreciation and amortisation | **38,497** | 44,632 |
| Environmental restoration account | **46,920** | 46,920 |
| Derivative financial instruments | **-** | 20,705 |
| Other | **-** | 1,535 |
| | **85,417** | 113,792 |
| ***Deferred tax assets*** | | |
| Staff leave/incentive provisions | **(8,599)** | (8,599) |
| Rehabilitation provision | **(49,199)** | (44,195) |
| Employee share payment | **(54)** | (73) |
| Other | **(3,957)** | - |
| | **(61,809)** | (52,867) |
| Net deferred tax liabilities | **23,608** | 60,925 |
| **Movements: (charged to profit or loss)** | | |
| Depreciation and amortisation | **6,135** | 4,618 |
| Staff leave/incentive provisions | **-** | 152 |
| Employee share payment | **(19)** | - |
| Rehabilitation provision | **5,004** | 5,074 |
| Derivative financial instruments | **20,705** | 128,111 |
| Lease liability | **-** | (1,594) |
| Other | **5,492** | 110 |
| **Net movement** | **37,317** | 136,471 |

## 21 Non-current liabilities - Employee benefit obligations

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Long service leave | **7,035** | 6,935 |

## 22 Provisions

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| **Current provisions** | | |
| Rehabilitation & closure | **6,464** | 3,884 |
| **Non-current provisions** | | |
| Rehabilitation & closure | **346,140** | 294,883 |
| | **352,604** | 298,767 |

**Movements in provisions**

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Carrying amount at start of year | **298,767** | 256,362 |
| Additional provisions charged to plant and equipment | **36,123** | 24,565 |
| Change in rehabilitation and closure estimates | **10,586** | 13,818 |
| Current year unwind of discount | **11,443** | 7,626 |
| Used during period | **(4,315)** | (3,604) |
| Carrying amount at end of year | **352,604** | 298,767 |

This provision represents the present value of the estimated costs for rehabilitation and restoration assuming activities are terminated at the end of the current power supply contracts in 2024.

The major uncertainties affecting the amount and timing of cash outflows include:
- determination of the strategy for disposal of the spent cell linings; and
- the ability to secure an energy arrangement on internationally competitive terms.

## 23 Contributed equity

**Share capital**

| | **2020 Shares** | 2019 Shares | **2020 $'000** | 2019 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | **31,500,000** | 31,500,000 | **31,500** | 31,500 |

All shares rank equally in all respects. Shareholders have a right to an equal share in dividends authorised by the Board and a right to share in the distribution of the Company's surplus assets in accordance with the Constitution. Ordinary shares do not have a par value.

## 24 Contingencies

Various immaterial contingent liabilities exist in the form of claims, guarantees and indemnities. No material costs are expected to be incurred by the Company resulting from these contingent liabilities (2019: nil).

## 25 Commitments

### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Property, plant and equipment | **9,168** | 26,099 |

### (b) Other commitments

*Fair Value of power derivative*

On 9 July 2020, following a strategic review by Rio Tinto, NZAS gave Meridian Energy notice of termination of the electricity price agreement, to be effective on 31 August 2021, during which time operations at the smelter were to wind down. This has resulted in a nil valuation for the 50MW Contract for Difference as at 31 December 2020.

On 14 January 2021 NZAS and Meridian Energy agreed to withdraw the notice of termination and amend the electricity price agreement with a revised termination date of 31 December 2024. In addition the agreement was amended so that the agreed volume is no longer fully fixed, with the introduction of a portion that is load following. The price under the amended agreement is fixed and no longer linked to aluminium prices or escalated by NZ CPI, there is no longer an embedded derivative to be measured at fair value.

*Ouvea Premix*

NZAS remains committed to the 2018 agreement with Southland District and Regional Councils, Invercargill City Council, Gore District Council, and the New Zealand Government to provide financial assistance in the removal and disposal of a fertiliser premix (Ouvea Premix) material currently stored at the Mataura Paper Mill and other facilities. This material had been abandoned following the liquidation of Taha, a company that had been contracted to process dross at NZAS.

In March 2018, a NZ$4 million package was agreed between the Southland and Gore District Councils, the Southland Regional Council, Invercargill City Council, the New Zealand Government and NZAS to fund the removal and disposal of the Premix material. NZAS has made a commitment to provide NZ$1.75 million to this financial package.

In 2021, NZAS reached agreement with the Ministry for the Environment (MfE) to relocate the material stored at the Mataura Paper Mill and move it to be stored at NZAS pending it's processing and disposal. The costs of such arrangement are to be shared on a 50:50 bases with the MfE.

## 26 Related party transactions

The Company has two shareholders and participants, Pacific Aluminium (New Zealand) Limited and Sumitomo Chemical Limited. Pacific Aluminium (New Zealand) Limited own 79.36% of the Company's shares, Sumitomo Chemical Company Limited own the remaining 20.64% of the shares. The ultimate holding company of Pacific Aluminium (New Zealand) Limited is Rio Tinto Limited, a company incorporated in Australia. Sumitomo Chemical Company Limited, a company incorporated in Japan, operates in New Zealand through a branch office.

### (a) Key management personnel

| | **2020 $000** | 2019 $000 |
|---|---|---|
| Key management personnel compensation | **3,890** | 2,965 |

### (b) Outstanding balances

The following balances are outstanding (to)/from at reporting date in relation to transactions with related parties other than key management personnel:

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| ***Entities with joint control over the Company:*** | | |
| *Receivable/(payable)* | | |
| Pacific Aluminium (New Zealand) Limited | **114,260** | 116,586 |
| Sumitomo Chemical Company Limited | **(10,923)** | (12,148) |
| *Borrowings* | | |
| Pacific Aluminium (New Zealand) Limited | **(253,044)** | (253,560) |
| ***Other entities under common control:*** | | |
| *Receivable/(payable)* | | |
| Rio Tinto Aluminium Services Pty Limited | **(405)** | (753) |
| Rio Tinto Aluminium Limited | **-** | (927) |
| Rio Tinto Aluminium (Bell Bay) Limited | **(41)** | (41) |
| Boyne Smelters Limited | **1** | - |
| Rio Tinto Limited | **(4,905)** | (102) |
| Rio Tinto Japan Limited | **-** | (6) |
| Rio Tinto Services Limited | **-** | 23 |
| Rio Tinto Shared Services Pty Limited | **-** | (3) |
| RTA Weipa Pty Limited | **18** | 18 |
| | **(155,039)** | (150,913) |

All related party debtors and creditors are repayable on demand.
No amounts have been written off or foregone during the year.

## 26 Related party transactions (continued)

### (c) Transactions with other related parties

The following are related parties with whom the Company had transactions (purchases/sales of goods, receiving of services, interest on financing, and licence fees) during the year:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Entities with joint control over the Company:* | | |
| *Purchases from:* | | |
| Pacific Aluminium (New Zealand) Limited | **14,142** | 16,526 |
| Sumitomo Chemical Company Limited | **-** | 12 |
| | **14,142** | 16,538 |
| *Sales to:* | | |
| Pacific Aluminium (New Zealand) Limited | **517,199** | 584,571 |
| Sumitomo Chemical Company Limited | **126,693** | 140,423 |
| | **643,892** | 724,994 |
| *Other transactions - income/(expenses)* | | |
| Rio Tinto Aluminium Services Pty Limited | **(15,393)** | (17,468) |
| Rio Tinto Aluminium Limited | **(1,425)** | (1) |
| Rio Tinto Aluminium (Bell Bay) Limited | **1,204** | 115 |
| Rio Tinto Shared Services Pty Limited | **(39)** | (125) |
| Boyne Smelters Limited | **417** | (29) |
| Rio Tinto Japan Limited | **(95)** | (158) |
| Rio Tinto Services Limited | **(17)** | (96) |
| Rio Tinto Limited | **(1,748)** | (1,566) |
| Tomago Aluminium Company Pty Limited | **-** | (43) |
| | **(17,096)** | (19,371) |

### (d) NZAS Retirement Fund

In 2016 the Company incorporated a subsidiary company called NZAS Retirement Fund Trustee Limited to act as the Corporate Trustee of the NZAS Retirement Fund (the Fund). The Fund is a restricted workplace savings scheme (registered under the Financial Markets Conduct Act 2013) designed to help member-employees save for their retirement. The Fund's assets are invested in pooled managed funds and are managed by five external investment managers. The Company contributes defined contributions as per the statement of comprehensive income and also meets most of the administration expenses of the Fund. Although the Company is the sole shareholder of the Corporate Trustee, it does not have any entitlement to the assets of the Fund and has not been consolidated.

## 27 Events occurring after the reporting period

Subsequent to the end of the financial year, the Company has reached an agreement on a new electricity agreement with Meridian Energy that allows New Zealand Aluminium Smelter (NZAS) to continue operating the Tiwai Point aluminium smelter until December 31, 2024.

# Independent Auditor's Report

To the shareholders of New Zealand Aluminium Smelters Limited

**Report on the audit of the financial statements**

## Opinion

In our opinion, the accompanying financial statements of New Zealand Aluminium Smelters Limited (the 'company') on pages 4 to 32:

i. present fairly in all material respects the company's financial position as at 31 December 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

We have audited the accompanying financial statements which comprise:

- the balance sheet as at 31 December 2020;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

## Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Other information includes the Director's report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Use of this independent auditor’s report

This independent auditor’s report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor’s report, or any of the opinions we have formed.

## Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime);
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

## Auditor’s responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor’s report.

KPMG.

KPMG

Perth, Australia

22 April 2021