

PACIFIC ALUMINIUM (NEW ZEALAND)

MEDIA STATEMENT

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Smelter's modest profit swamped by transmission costs

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\$25 million for 2016, a decrease of nearly NZ\$30 million on the previous year.

The consistently weaker NZ dollar, averaging 70 US cents throughout 2016, softened the blow of low aluminium prices which languished at around US\$1,605 per tonne, a decrease of around \$60 per tonne on the already historically low prices experienced in 2015.

"This result must be seen within the context of NZAS' transmission costs," says NZAS Chief Executive and General Manager Gretta Stephens.

"The team at NZAS is world-class, this year shaving off the equivalent power use of 1,000 average kiwi homes from our works load (the smelter's electricity load used for lighting and cooling). But we can't control transmission costs which at NZ\$67 million for the 2016 pricing year were more than two and half times the amount of our underlying profit."

Powered by renewable hydro-electricity, NZAS is well-placed to provide low carbon aluminium to the growing demand for the lightweight metal in the automotive industry. But as it is paying one of the highest power and transmission prices of any smelter in the world outside China, it is harder to compete in the highly competitive aluminium market.

"Our team at NZAS continues to innovate; staying at the cutting edge of technology. Once again NZAS broke its own hot metal production record in 2016 producing 338,556 tonnes of saleable aluminium from our three P69 Reduction Lines. This is over 5,000 tonnes more than 2015 which was another record breaking year. Achieving this against a background of increasing efficiency across the plant is something to be very proud of," says Ms Stephens.

For the 2017 pricing year, NZAS' transmission costs will increase another \$5 million, rising to NZ\$72 million for the year. This increase in transmission charges is on top of a significant increase in contracted electricity charges in 2017.

Ms Stephens says, "At NZAS we run a world-class operation, but despite breaking a production record in 2016 costs have eroded profits. When it comes to transmission charges, we believe you should pay for what you use. This isn't what is happening now, so we are committed to working with the Electricity Authority and Transpower to achieve a more sustainable method of pricing transmission services."

NZAS currently pays around nine per cent of Transpower's transmission charges to consumers, including paying towards the \$1.3 billion spent on upgrading the grid in the upper North Island since 2004 without receiving any additional benefit to its business.

Reconciliation of Statutory Profit to Underlying Loss

\$M	2016	2015	2014	2013	2012
Statutory profit/(loss) after tax	67	173	74	67	(549)
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 	(42)	(119)	(17)	(84)	(28)
<ul style="list-style-type: none"> Impairment charge 				(1)	528
Underlying profit or (loss) after tax	25	54	56	(18)	(49)

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Editors' notes:

About NZAS

The Tiwai Point smelter is a world-class facility which contributes NZ\$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 (*Infometrics Report to Venture Southland 2012*).

In 2016 NZAS made NZ\$374 million in payments to New Zealand suppliers, including NZ\$46 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.