

Pacific Aluminium (New Zealand) Limited

Annual financial report

For the year ended 31 December 2019

Pacific Aluminium (New Zealand) Limited

Annual financial report

For the year ended 31 December 2019

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Pacific Aluminium (New Zealand) Limited
Directors' report
31 December 2019

Your directors present their report on Pacific Aluminium (New Zealand) Limited (the "Company") for the year ended 31 December 2019.

With the unanimous agreement of all shareholders, 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 4 to 47 for issue on 20 February 2020.

The parent company of Pacific Aluminium (New Zealand) Limited is RTA Pacific Pty Limited.

Directors

The following persons held office as directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

P J Checketts
R G Prest
S A Hamilton

Company secretary

The following person held office as secretary of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

D Johnstone

Principal activities

The principal activity of the Company remained the operation of an aluminium business including the purchase of alumina and the production and marketing of primary aluminium.

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

Review of operations

The (loss)/profit from ordinary activities for the financial year is set out below:

	2019	2018
	\$'000	\$'000
(Loss)/profit before income tax	(444,181)	277,119
Income tax benefit/(expense)	131,289	(69,669)
(Loss)/profit after income tax	<u>(312,892)</u>	<u>207,450</u>

The net result of the Company after income tax was a loss of \$312,892,000 (2018 profit: \$207,450,000). The results of New Zealand Aluminium Smelters Limited ('NZAS') have been significantly impacted by a material non-cash item that is not related to the underlying performance of the aluminium business. If these items are excluded, the Company's underlying loss after income tax would be \$46,202,000 which compares to an underlying profit after income tax of \$21,576,000 in the prior year.

Pacific Aluminium (New Zealand) Limited
Directors' report
31 December 2019
(continued)

Review of operations (continued)

Reconciliation of statutory results to underlying results

	2019	2018
	\$'000	\$'000
Statutory (loss)/profit after income tax	(312,892)	207,450
Fair value adjustment of LME embedded derivative	<u>266,690</u>	<u>(185,874)</u>
Underlying (loss)/profit after income tax	<u>(46,202)</u>	<u>21,576</u>

In 2019, the underlying result reflects a worse operating environment than the previous year. Lower LME prices and premiums contributed to a \$18 million or 2.1 per cent decrease (2018: \$61 million increase) in metal revenues. This result was further impacted by higher raw material, energy and employee costs. During the year, the cash LME averaged US\$1,791 per tonne which was a 15 per cent decrease on 2018. The US\$:NZ\$ exchange rate averaged 0.66 which was lower than 2018. Aluminium production at the Company's 79.36 per cent owned New Zealand Aluminium Smelters Limited operation at 353,293 tonnes was 3.9 per cent higher than in 2018.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2019 that has significantly affected the Company's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

Rio Tinto as the ultimate holding company of Pacific Aluminium (New Zealand) Limited, which holds 79.36% of New Zealand Aluminium Smelters Limited ('NZAS'), commenced a strategic review of its interest in NZAS operations in October 2019. The strategic review was to consider all options for NZAS's future, including, but not limited to, continued operation and closure. An update on the status of the strategic review is expected to be advised in Quarter 1, 2020. Any decision by Rio Tinto in respect of the future of NZAS will require consideration and approval by the NZAS Board in accordance with the arrangements of the New Zealand Aluminium Smelters Joint Venture. Any decision relating to NZAS's electricity arrangements will be subject to applicable contractual notice requirements.

In preparing these financial statements, the Directors have considered the status of the above strategic review. As noted, the review was initiated by one of NZAS's two participants. There are a number of potential options that could result from the review. These options include the continued operation of the NZAS Smelter. However, the options also include the termination of the electricity arrangements and if improvements in the delivered cost of energy are unable to be negotiated, may lead to the cessation of smelting activities and ultimately the potential closure of the Smelter. The pending results of the strategic review give rise to a material uncertainty in respect to NZAS operations. No formal decision has been made. It is therefore the considered view of the Board that it remains appropriate to complete these financial statements on a going concern basis. The existence of this uncertainty does, however, create a material uncertainty that may cast significant doubt on the Company's intention to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business, if the Company were not considered a going concern.

These financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the Company were not considered a going concern. Such adjustments could be material.

Registered office and address for service

1530 Tiwai Road,
Tiwai Point,
Invercargill 9877

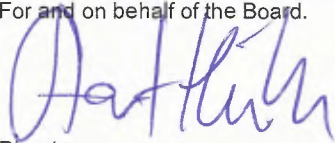
Auditors

PricewaterhouseCoopers,
480 Queen Street,
Brisbane,
QLD 4000

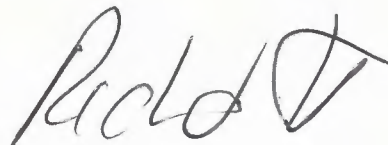
Solicitors

Chapman Tripp Sheffield Young,
10 Customhouse Quay,
P O Box 993,
Wellington 6140

For and on behalf of the Board.



Director
20 February 2020



Director
20 February 2020

Pacific Aluminium (New Zealand) Limited

Annual financial report

31 December 2019

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These financial statements are the financial statements of Pacific Aluminium (New Zealand) Limited. The financial statements are presented in New Zealand Dollars (NZD).

Pacific Aluminium (New Zealand) 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:

Pacific Aluminium (New Zealand) Limited
1530 Tiwai Road
Tiwai Point
Invercargill 9877

The parent entity is RTA Pacific Pty Limited and the ultimate parent entity is Rio Tinto Limited.

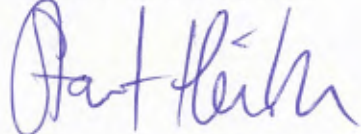
A description of the nature of the Company's operations and its principal activities is included in the directors' report, which does not form part of these financial statements.

These financial statements were authorised for issue by the Directors on 20 February 2020. The Directors have the power to amend and reissue the financial statements.

Pacific Aluminium (New Zealand) Limited
Statement of comprehensive income
For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Continuing operations			
Revenue from contracts with customers	4	837,766	855,688
Other (losses)/gains	6	(370,402)	258,158
Other income	5	18,019	16,852
Raw materials and consumables used		(759,402)	(712,721)
Employee benefits expense	7	(74,754)	(68,097)
Depreciation and amortisation	7	(14,564)	(10,996)
Operating expenses		(54,860)	(43,048)
Other expenses	7	(15,503)	(12,475)
Finance costs	7	(10,481)	(6,242)
		(929,564)	(853,579)
(Loss)/profit before income tax		(444,181)	277,119
Income tax benefit/(expense)	8	131,289	(69,669)
(Loss)/profit from continuing operations after tax		(312,892)	207,450
Total comprehensive (expense)/income for the year		(312,892)	207,450
Total comprehensive (expense)/income for the year is attributable to: Owners of Pacific Aluminium (New Zealand) Limited		(312,892)	207,450

For and on behalf of the Board



Director
20 February 2020



Director
20 February 2020

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Pacific Aluminium (New Zealand) Limited
Balance sheet
As at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	2,188	5,416
Trade and other receivables	10	89,939	141,716
Inventories	11	158,862	201,095
Derivative financial instruments	13	37,650	21,198
Current tax receivables	14	-	6,877
Assets classified as held for sale	12	21,536	21,631
Total current assets		310,175	397,933
Non-current assets			
Other receivables	15	37,154	37,153
Derivative financial instruments	13	21,828	408,682
Property, plant and equipment	16	152,646	128,363
Intangible assets	17	2,749	7,875
Right-of-use assets	18	32,503	-
Deferred tax assets	19	42,053	-
Total non-current assets		288,933	582,073
Total assets		599,108	980,006
LIABILITIES			
Current liabilities			
Trade and other payables	20	90,829	126,764
Borrowings	21	60,813	38,127
Provisions	25	5,531	4,933
Employee benefit obligations	22	19,052	17,888
Current tax liabilities	23	987	-
Finance lease liabilities	26	-	837
Lease liabilities	18	2,514	-
Total current liabilities		179,726	188,549
Non-current liabilities			
Deferred tax liabilities	19	-	89,236
Provisions	25	189,297	184,188
Employee benefit obligations	24	5,599	6,294
Finance lease liabilities	26	-	3,680
Lease liabilities	18	29,756	-
Total non-current liabilities		224,652	283,398
Total liabilities		404,378	471,947
Net assets		194,730	508,059
EQUITY			
Contributed equity	27	600,654	600,654
Accumulated losses	28	(405,924)	(92,595)
Total equity		194,730	508,059

The above balance sheet should be read in conjunction with the accompanying notes

Pacific Aluminium (New Zealand) Limited
Statement of changes in equity
For the year ended 31 December 2019

Attributable to owners of Pacific Aluminium (New Zealand) Limited				
	Notes	Contributed equity \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 January 2019		600,654	(92,595)	508,059
Change in accounting policy	28	-	(437)	(437)
Restated total equity at the beginning of the financial year		600,654	(93,032)	507,622
Loss for the year		-	(312,892)	(312,892)
Total comprehensive expense for the year		-	(312,892)	(312,892)
Balance at 31 December 2019		600,654	(405,924)	194,730
Attributable to owners of Pacific Aluminium (New Zealand) Limited				
		Contributed equity \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 January 2018		600,654	(300,045)	300,609
Profit for the year		-	207,450	207,450
Total comprehensive income for the year		-	207,450	207,450
Balance at 31 December 2018		600,654	(92,595)	508,059

The above statement of changes in equity should be read in conjunction with the accompanying notes

Pacific Aluminium (New Zealand) Limited
Statement of cash flows
For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		900,588	852,133
Payments to suppliers and employees		<u>(916,316)</u>	<u>(882,231)</u>
		(15,728)	(30,098)
Interest paid		(2,873)	(17)
Income taxes paid		7,865	(21,079)
Interest received		<u>1,262</u>	<u>2,443</u>
Net cash outflow from operating activities	34	<u>(9,474)</u>	<u>(48,751)</u>
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(45,249)	(31,126)
Proceeds from sale of property, plant, equipment, intangible assets and assets held for sale		<u>31,213</u>	<u>13,716</u>
Net cash outflow from investing activities		<u>(14,036)</u>	<u>(17,410)</u>
Cash flows from financing activities			
Payment of lease liabilities		<u>(2,404)</u>	<u>(792)</u>
Net decrease in cash and cash equivalents		<u>(25,914)</u>	<u>(66,953)</u>
Cash and cash equivalents at the beginning of the year		<u>(32,711)</u>	<u>34,242</u>
Cash and cash equivalents at the end of year	9	<u>(58,625)</u>	<u>(32,711)</u>

The above statement of cash flows should be read in conjunction with the accompanying notes

1 General information

Pacific Aluminium (New Zealand) Limited (the "Company") is based in New Zealand. The Company's result is derived from its association with the operations of an aluminium business, including the production and marketing of aluminium.

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 20 February 2020.

2 Summary of significant accounting policies

(a) Basis of preparation

(i) Compliance with NZ IFRS

The consolidated financial statements of Pacific Aluminium (New Zealand) Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). Pacific Aluminium (New Zealand) Limited is a for-profit entity for the purposes of complying with GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ('NZ IFRS RDR'), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS RDR. They comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The Company is eligible and has elected to report in accordance with Tier 2 for-profit accounting requirements, ("NZ IFRS RDR") on the basis that the Company has no public accountability and is not a large for-profit public sector entity. In applying NZ IFRS RDR, the Company has applied a number of disclosure concessions.

(ii) Historical cost convention

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

- certain financial assets, financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property - measured at fair value

(iii) 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 2019:

- NZ IFRS 16 *Leases*
- Amendments to NZ IFRS 2017-6 - *Prepayment Features with Negative Compensation*
- Amendments to NZ IFRS 2017-7 - *Long-term Interests in Associates and Joint Ventures*
- Amendments to NZ IFRS 2018-1 - *Annual Improvements 2015-2017 Cycle*
- Amendments to NZ IFRS 2018-2 - *IAS 19 Plan Amendment, Curtailment or Settlement*
- Interpretation 23 *Uncertainty over Income Tax Treatments*.

The Company had to change its accounting policies and make certain adjustments as a result of adopting NZ IFRS 16. The Company elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 35. The other amendments listed above did not have any impact on the amounts recognised in prior years and are not expected to significantly affect the current or future years.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. The Company is currently evaluating the impact of these pronouncements:

Mandatory in 2020

- Amendments to NZ IFRS 2018-7 - *Definition of Material*
- Amendments to NZ IFRS 2018-6 - *Definition of a Business*
- Interest Rate Benchmark Reform to NZ IFRS 9, NZ IFRS 139 and NZ IFRS 7

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting years and on foreseeable future transactions.

(v) *Comparative information*

Comparative information is reclassified where appropriate to enhance comparability.

(vi) *Economic dependency*

During 2019, 100% (2018: 100%) of the revenue of the Company was derived from the sale of aluminium to Rio Tinto Marketing Pte Limited. The Company is also economically dependent on funding from Rio Tinto Finance Plc for its continued existence and ability to carry on normal activities.

(vii) *Going concern*

Rio Tinto as the ultimate holding company of Pacific Aluminium (New Zealand) Limited, which holds 79.36% of New Zealand Aluminium Smelters Limited ('NZAS'), commenced a strategic review of its interest in NZAS operations in October 2019. The strategic review was to consider all options for NZAS's future, including, but not limited to, continued operation and closure. An update on the status of the strategic review is expected to be advised in Quarter 1, 2020. Any decision by Rio Tinto in respect of the future of NZAS will require consideration and approval by the NZAS Board in accordance with the arrangements of the New Zealand Aluminium Smelters Joint Venture. Any decision relating to NZAS's electricity arrangements will be subject to applicable contractual notice requirements.

In preparing these financial statements, the Directors of Pacific Aluminium (New Zealand) Limited have considered the status of the above strategic review. As noted, the review was initiated by one of NZAS's two participants. There are a number of potential options that could result from the review. These options include the continued operation of the NZAS Smelter. However, the options also include the termination of the electricity arrangements and if improvements in the delivered cost of energy are unable to be negotiated, may lead to the cessation of smelting activities and ultimately the potential closure of the Smelter. The pending results of the strategic review give rise to a material uncertainty in respect to NZAS operations. No formal decision has been made. It is therefore the considered view of the Board that it remains appropriate to complete these financial statements on a going concern basis. The existence of this uncertainty does, however, create a material uncertainty that may cast significant doubt on the Company's intention to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business, if the Company were not considered a going concern.

These financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the Company were not considered a going concern. Such adjustments could be material.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(viii) Statutory base

The Company is registered under the New Zealand Companies Act 1993.

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

(b) Principles of consolidation

Joint operations

Under NZ IFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Company has a joint operation.

The Company recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

(c) 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 consolidated 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.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated 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.

2 Summary of significant accounting policies (continued)

(d) Revenue recognition

Sale of goods

The Company recognises sales revenue related to the transfer 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 company is or expects to be entitled in exchange for those goods or services.

Sales revenue is recognised on individual sales when control transfers to the customer. In most instances, control passes and sales revenue is recognised when the product is delivered to the vessel or vehicle on which it will be transported once loaded, the destination port or the customer's premises. There may be circumstances when judgement is required based on the five indicators of control below.

- the customer has the significant risks and rewards of ownership and has the ability to direct the use of, and obtain substantially all of the remaining benefits from the good or services;
- the customer has a present obligation to pay in accordance with the terms of the sales contract. For shipments under the Incoterms Cost, this is generally when the ship is loaded, at which time the obligation for payment is for both product and freight;
- the customer has accepted the asset. Sales revenue may be subject to adjustment if the product specification does not conform to the terms specified in the sales contract but this does not impact the passing of control. Assay and specification adjustments have been immaterial historically;
- the customer has legal title to the asset. The Company usually retains legal title until payment is received for credit risk purposes only;
- the customer has physical possession of the asset. This indicator may be less important as the customer may obtain control of an asset prior to obtaining physical possession, which may be the case for goods in transit.

The Company sells a significant proportion of its products on Free on Board (FOB), where the Company has no responsibility for freight or insurance once control of the goods has passed at the loading port. For these Incoterms there is only one performance obligation, being for provision of product at the point where control passes.

The Company's products are sold to customers under contracts which vary in tenure and pricing mechanisms, including some volumes sold in the spot market. Within each sales contract, each tonne of product shipped is a separate performance obligation. Revenue is generally recognised at the contracted price as this reflects the stand-alone selling price.

Sales revenue excludes any applicable sales taxes.

Aluminium sales to external parties are reflected at final prices in the results for the period.

Interest income

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

(e) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2 Summary of significant accounting policies (continued)

(f) 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. Until 31 December 2018, the company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. From 1 January 2019, 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 for 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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Tax consolidation group

The Company and other Rio Tinto wholly owned New Zealand entities form a tax consolidation group. As a consequence, one income tax return is completed for the group and the group is treated for income tax purposes as one tax payer.

The tax balances have been attributed for reporting purposes to each of the entities on the basis of their individual results. Amounts of tax due to and receivable from the New Zealand Inland Revenue Department ("IRD") are made by the Company as nominated member of the tax consolidated group. The current tax balance for the group has been allocated among the members based on each entity's current tax movement for the period. Where tax losses are incurred by group members, these are offset within the group through their respective intercompany accounts.

2 Summary of significant accounting policies (continued)

(h) Leases

The Company has changed its accounting policy for leases where the Company is the lessee. The new policy is described in note 18 and the impact of the change in note 35.

Accounting policy applied until 31 December 2018

Leases of property, plant and equipment where the Company, as the lessee, had substantially all the risks and rewards of ownership are classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

Accounting policy applied from 1 January 2019

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 the Rio Tinto 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.

2 Summary of significant accounting policies (continued)

(h) Leases (continued)

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.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term (note 18). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, Inland Revenue and Rio Tinto Finance Plc, 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 and bank overdrafts. Bank overdrafts and amounts owing to Rio Tinto Finance Plc are shown within borrowings in current liabilities in the balance sheet.

For the purposes of the statement of cash flows, bank overdrafts and movements in the Rio Tinto Finance Plc payable or receivable balance have been accounted for as cash movements.

(k) 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 1(n).

2 Summary of significant accounting policies (continued)

(l) Inventories

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost 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. Costs of purchased inventory are determined after deducting rebates and discounts.

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.

Work in progress inventory includes alumina stockpiles and other partly processed material. Quantities are assessed primarily through surveys and assays.

(m) 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.

(n) 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 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.

(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.

(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:

2 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

- Debt instruments that do not meet the criteria of amortised cost or fair value through other comprehensive income. The Company has a significant proportion of trade receivables with embedded derivatives for provisional pricing. 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 NZ IFRS 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.

(o) 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 the changes in fair value are recognised in profit or loss for the period.

2 Summary of significant accounting policies (continued)

(p) 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.

(q) Intangible assets

NZ Emissions Trading Scheme

Emission Trading Scheme units ("NZUs") allocated under the NZ Emissions Trading Scheme ("ETS") transitional assistance have been 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 unit market value is lower than the carrying value at period end, the units are revalued to reflect the lower realisable value. The units are held for offsetting direct and indirect carbon emission cost obligations.

Software

Acquired computer software licenses 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).

(r) Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which are incurred in bringing the assets to the location and condition necessary for their intended service.

The costs of assets constructed by the Company includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs are capitalised as soon as the asset is ready for productive use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that 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 financial period in which they are incurred.

Under NZ IAS 16, where a property, plant and equipment 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 and Carbon Bake furnaces at the Company are classified as significant components of the Reduction line asset and Carbon Bake facility assets, and hence are depreciated separately under the componentisation treatment.

2 Summary of significant accounting policies (continued)

(r) Property, plant and equipment (continued)

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 values, over their estimated useful lives, as follows:

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

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

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(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.

The liability arising from the ETS carbon emission obligation is valued as a combination of: 1) grant price for units equivalent to those allocated through the ETS transitional support arrangement; and 2) at fair value on reporting date for additional units required over the allocated units held. If the market price in scenario 1) is lower than the carrying value at period end, the units will be revalued to reflect the lower realisable value.

(t) Borrowings

Borrowings, including bank overdrafts, are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. 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 balance sheet date.

(u) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2 Summary of significant accounting policies (continued)

(v) Employee benefits

Short term obligations

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 are presented as current employee benefit obligations in the statement of financial position.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore 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 entity 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.

Retirement benefit obligations

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

Contributions to the defined contribution superannuation plans are expensed in the statement of comprehensive income when incurred.

Short term incentive plans

The Company recognises a liability and an expense for bonuses based on a formula that takes into consideration key performance indicators including, but not necessarily limited to safety performance and financial performance. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments

The executives and employees of the Company are eligible to participate in various share based payment plans as part of the Company's membership 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. As the Company is a subsidiary of the Rio Tinto Group, 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.

2 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(w) Contributed equity

Ordinary shares are classified as equity.

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

(x) 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.

(y) Provisions for close down, restoration and environmental clean-up costs

(i) Close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and 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.

2 Summary of significant accounting policies (continued)

(y) Provisions for close down, restoration and environmental clean-up costs (continued)

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.

(ii) 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.

(z) 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 highly emissions-intensive and trade-exposed, and the Company therefore qualifies for the allocation of Emission Units (NZUs) at the maximum rate (currently 90%).

The ETS is a domestic-only scheme from June 2015, with the scheme's initial transition measures remaining in place. During this period, ETS participants must surrender one emission unit for two tonnes of carbon dioxide equivalent emissions. Correspondingly, the allocation of units to energy-intensive and trade-exposed activities is halved, but remains at the 90% allocation rate. In order to meet their emission surrender obligation, participants can either provide 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\$25 per tonne of carbon dioxide equivalent.

In late 2016, the Government announced the phase out the one-for-two transitional measure. The surrender obligation has increased to 67% from 1 January 2017, then to 83% from 1 January 2018 and to a full surrender obligation from 1 January 2019 for all sectors in the NZ ETS. The Company's allocations will increase proportionally with the removal of one-for-two transitional measure.

It is the Company's intention to utilise these assets to settle future ETS obligations, and sell any surplus 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 profit or loss.

(aa) Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand dollars, unless otherwise stated.

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.

(a) Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below together with critical judgements in applying accounting policies.

Provision for rehabilitation

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 pot line refurbishment. The total cost in the rehabilitation provision reflects an average annual international processing costs, which is assumed disposal options over the period of the closure provision.

Provision for closure costs

During 2014, a review of the previous closure plan was undertaken. This review identified an alternative approach to closure that improves the sustainable development outcomes whilst remaining within all current Rio Tinto standards, all legal and constructive obligations, and aligns with the actual approach adopted at recent Rio Tinto smelter closures.

The provision for closure costs has been estimated based on closure costs incurred at similar smelters. A detailed assessment of the future costs of closure based on site specific variables was not performed. 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.

These provisions have not been adjusted for the potential impact of the Rio Tinto strategic review.

3 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

Fair value of power derivative

In 2007 the Company entered into an electricity price agreement in relation to the consumption of electricity up to an agreed volume. Pricing structures under the agreement were subsequently amended in 2013. Under the agreement, the energy price the Company pays varies depending on the US\$ London Metal Exchange (LME) price for aluminium in NZD. The energy price and aluminium prices are escalated by NZ CPI with reference to a base CPI index. The reference to the aluminium price creates an embedded derivative that must be measured at fair value and recognised through profit or loss, i.e. a decrease in the aluminium price will increase the fair value of the embedded derivative. Management have made judgements in respect to the NZ CPI rate, the discount rate, the future aluminium price and the probability of any amendments to the contractual terms. The embedded derivative is reviewed quarterly to determine its fair value, which is recognised through the statement of comprehensive income.

In determining the value of the derivative balances the Company has considered the recently commenced Strategic review of the Company's operations, as detailed within note 2(a). This consideration has resulted in changes to judgements in respect to the expected term of the derivative. These judgements have led to a reduction in the value of the derivatives of \$370 million. This reduction has been recognised in profit or loss.

In 2018 the Company entered into a 50MW Contract for Difference in relation to the consumption of electricity on Reduction Line 4. Under the agreement, the energy strike price the Company pays is fixed for the term of the contract i.e. no escalation applies. The difference between the contract value and the forward electricity price creates a derivative that must be measured at fair value and recognised through profit or loss. Management have made judgements in respect to the NZ CPI rate, the discount rate and the probability of any amendments to the contractual terms. The derivative is reviewed quarterly to determine its fair value, which is recognised through profit or loss.

Income taxes

The Company is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on the Company's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax asset for carried forward tax losses

The deferred tax assets include an amount of \$24,072,000 of tax losses which have been generated in the current year. The Company has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the forecasted numbers for the Company. The Company is expected to generate taxable income from 2021 onwards, however this may be impacted by the outcome of the strategic review. The losses can be carried forward indefinitely and have no expiry date.

3 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying the Company's accounting policies

Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount exceeds its recoverable amount. The assessment of the carrying amount often requires estimates of future metal prices, cost of raw materials, other key inputs and foreign exchange rates.

Impairment occurs when an asset's recoverable value is less than the amount at which it is recorded.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction. The estimates used for impairment reviews are based on detailed operating plans, modified as appropriate to meet the requirements of NZ IAS 36 *Impairment of Assets*. Future cash flows are based on estimates of:

- future production levels;
- future commodity prices (assuming the current market prices will revert to the Company's assessment of the long term average price, generally over a period of three to five years); and
- future cash costs of production, capital expenditure, close down, restoration and environmental clean up.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income.

After the recognition of an impairment loss, the depreciation/(amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

In assessing value in use, the estimated future cash flows are discounted to their present value. The discount rate applied is based upon the Company's weighted average cost of capital with appropriate adjustment for the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed in the statement of comprehensive income only to the extent that it increases the asset back to its original carrying amount (net of any depreciation or amortisation) before any impairment was recorded. An impairment loss recognised for goodwill is not reversed.

Pacific Aluminium (New Zealand) Limited
Notes to the financial statements
31 December 2019
(continued)

4 Revenue

	2019 \$'000	2018 \$'000
<i>Revenue from contracts with customers</i>		
Sale of goods to related parties	837,766	855,688

5 Other income

	2019 \$'000	2018 \$'000
Net gain on disposal of property, plant and equipment	2,521	1,477
Research and development growth grant	2,087	4,491
Interest income - related parties	-	1,196
Interest income	1,262	1,247
Emissions trading scheme units granted	12,149	8,441
	18,019	16,852

6 Other (losses)/gains

	2019 \$'000	2018 \$'000
Fair value (loss)/gain on derivatives at fair value through profit or loss	(370,402)	258,158

7 Expenses

	2019 \$'000	2018 \$'000
<i>Employee benefits expenses</i>		
Employee expense	69,978	63,587
Defined contribution expense	4,776	4,510
Total employee benefits expenses	74,754	68,097

Pacific Aluminium (New Zealand) Limited
Notes to the financial statements
31 December 2019
(continued)

7 Expenses (continued)

	2019 \$'000	2018 \$'000
<i>Finance costs</i>		
Unwinding of discount	7,608	5,948
Interest paid to related parties	846	-
Interest paid to others	13	17
Interest on lease liability	2,014	-
Interest on finance lease	-	277
Total finance costs	10,481	6,242
	2019 \$'000	2018 \$'000
<i>Depreciation</i>		
Buildings	(165)	555
Plant and equipment	12,499	10,415
Buildings under lease	39	-
Plant and equipment under lease	2,132	-
Total depreciation	14,505	10,970
<i>Amortisation</i>		
Software	59	26
Total amortisation	59	26
Total depreciation and amortisation	14,564	10,996
	2019 \$'000	2018 \$'000
<i>Other expenses</i>		
Donations	14	31
Emissions Trading Scheme obligation expense	13,863	8,597
Foreign exchange losses/(gains) - net	1,742	(489)
Change in rehabilitation and closure estimates	(116)	4,336
Total other expenses	15,503	12,475

Pacific Aluminium (New Zealand) Limited
Notes to the financial statements
31 December 2019
(continued)

8 Income tax (benefit)/expense

Income tax (benefit)/expense

	2019	2018
	\$'000	\$'000
Current tax expense	-	1,674
Deferred tax (benefit)/expense	(131,289)	67,995
	<u>(131,289)</u>	<u>69,669</u>

Income tax (benefit)/expense is attributable to:
(Loss)/profit from continuing operations

	<u>(131,289)</u>	<u>69,669</u>
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	2019	2018
	\$'000	\$'000
(Loss)/profit from operations before income tax expense	(444,181)	277,119
Tax at the New Zealand tax rate of 28% (2018: 28%)	(124,371)	77,593
Other items	(188)	(162)
Non-deductible expenditure	1,115	706
Impairment adjustment	(8,239)	(8,301)
Functional currency adjustment	107	107
Non deductible rehabilitation	287	(274)
	<u>(131,289)</u>	<u>69,669</u>
 Income tax expense	 <u>(131,289)</u>	 <u>69,669</u>

Pacific Aluminium (New Zealand) Limited
Notes to the financial statements
31 December 2019
 (continued)

9 Current assets - Cash and cash equivalents

	2019	2018
	\$'000	\$'000
Cash at bank and in hand	2,188	5,416

(i) 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:

	2019	2018
	\$'000	\$'000
Balances as above	2,188	5,416
Amounts owed to Rio Tinto Finance plc	(60,813)	(38,127)
Balances per statement of cash flows	(58,625)	(32,711)

10 Current assets - Trade and other receivables

	2019	2018
	\$'000	\$'000
Amounts due from external parties	1,621	1,621
Amounts due from related parties	84,244	130,188
	85,865	131,809
GST receivable	809	7,296
Other receivables	2,351	2,154
Prepayments	753	297
Energy Clearing House security deposits	161	160
	4,074	9,907
Total trade and other receivables	89,939	141,716

11 Current assets - Inventories

	2019	2018
	\$'000	\$'000
Raw materials and stores	75,022	89,475
Work in progress	28,955	26,103
Finished goods	41,763	73,347
Operating supplies	13,122	12,170
Total inventories	158,862	201,095

12 Current assets - Assets held for sale

	2019 \$'000	2018 \$'000
Emissions Trading Scheme units ("NZUs")	21,536	21,631

The Board has 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. A commitment currently exists to sell approximately 90% (2018: 75%) of these units.

13 Derivative financial instruments

	2019 \$'000	2018 \$'000
Current assets		
Power contract - fair value measurement	37,650	21,198
Total current derivative financial instrument assets	37,650	21,198
Non-current assets		
Power contract - fair value measurement	21,828	408,682
Total non-current derivative financial instruments	21,828	408,682
Net derivative financial instrument assets	59,478	429,880

Power contract

The embedded derivative on the Company's joint operation, New Zealand Aluminium Smelters Limited's ("NZAS") power contract is impacted by movements in LME, foreign exchange, the NZ CPI rate and the probability of any amendments to the contractual terms (Note 3a).

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14 Current assets - Current tax receivables

	2019 \$'000	2018 \$'000
Tax receivable from New Zealand IRD	-	6,877
Total tax receivables	-	6,877

15 Non-current assets - Other receivables

	2019 \$'000	2018 \$'000
Environmental restoration account (New Zealand IRD)	35,615	35,614
Other deposits	1,530	1,530
Other receivables	9	9
Total receivables	37,154	37,153

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.

16 Non-current assets - Property, plant and equipment

	Land and buildings \$'000	Plant and equipment \$'000	Construction in progress \$'000	Total \$'000
At 1 January 2019				
Cost or fair value	127,093	674,603	24,400	826,096
Accumulated depreciation	(126,937)	(570,796)	-	(697,733)
Net book amount	<u>156</u>	<u>103,807</u>	<u>24,400</u>	<u>128,363</u>
Year ended 31 December 2019				
Opening net book amount	156	103,807	24,400	128,363
Adjustment for change in accounting policy (i)	-	(4,949)	-	(4,949)
Additions	-	-	45,236	45,236
Disposals	(273)	(14,543)	-	(14,816)
Depreciation on disposals	184	12,037	-	12,221
Depreciation charge	165	(12,499)	-	(12,334)
Transfers to/(from) construction in progress	184	38,670	(38,854)	-
Increase/(decrease) in ARO provision	-	(1,075)	-	(1,075)
Closing net book amount	<u>416</u>	<u>121,448</u>	<u>30,782</u>	<u>152,646</u>
At 31 December 2019				
Cost	127,005	692,214	30,782	850,001
Accumulated depreciation	(126,589)	(570,766)	-	(697,355)
Net book amount	<u>416</u>	<u>121,448</u>	<u>30,782</u>	<u>152,646</u>

(i) *Leased assets*

As at 31 December 2018, plant and equipment included the following amounts where the Company was a lessee under finance leases. From 2019 leased assets are presented as a separate line item in the balance sheet, see note 18. Refer to note 35, for details about the changes in accounting policy.

	2018 \$'000
Plant and equipment	
Cost	5,437
Accumulated depreciation	(488)
Net book amount	<u>4,949</u>

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

	Land and buildings \$'000	Plant and equipment \$'000	Construction in progress \$'000	Total \$'000
At 1 January 2018				
Cost or fair value	127,001	656,334	25,349	808,684
Accumulated depreciation	(126,606)	(573,155)	-	(699,761)
Net book amount	395	83,179	25,349	108,923
Year ended 31 December 2018				
Opening net book amount	395	83,179	25,349	108,923
Additions	22	-	31,104	31,126
Disposals	-	(16,131)	-	(16,131)
Depreciation on disposals	-	12,987	-	12,987
Depreciation charge	(555)	(10,399)	-	(10,954)
Transfers to/(from) construction in progress	294	31,759	(32,053)	-
Increase/(decrease) in ARO provision	-	2,412	-	2,412
Closing net book amount	156	103,807	24,400	128,363
At 31 December 2018				
Cost or fair value	127,093	674,603	24,400	826,096
Accumulated depreciation	(126,937)	(570,796)	-	(697,733)
Net book amount	156	103,807	24,400	128,363

17 Non-current assets - Intangible assets

	Internally generated software \$'000	Emissions trading scheme units \$'000	Total \$'000
At 1 January 2019			
Net book amount at 1 January 2019	402	7,473	7,875
Units acquired	-	33,307	33,307
Additions	13	-	13
Units utilised	-	(8,160)	(8,160)
Units surrendered	-	(8,691)	(8,691)
Amortisation charge	(59)	-	(59)
Transfer to assets held for sale	-	(21,536)	(21,536)
Net book amount at 31 December 2019	356	2,393	2,749

At 31 December 2019

Cost	9,941	2,393	12,334
Impairment	(1,545)	-	(1,545)
Accumulated amortisation	(8,040)	-	(8,040)
Net book amount	356	2,393	2,749

	Internally generated software \$'000	Emissions trading scheme units \$'000	Total \$'000
At 31 December 2018			
Cost	9,928	7,473	17,401
Impairment	(1,545)	-	(1,545)
Accumulated amortisation	(7,981)	-	(7,981)
Net book amount	402	7,473	7,875

Emission Trading Scheme units ("NZUs") are classified as intangible assets and are carried at cost. Intangible NZUs assets are not amortised or subject to impairment as the economic benefits are realised from surrendering the rights to settle obligations arising under the ETS. It is the Company's intention to utilise these assets to settle future ETS obligations, and sell any surplus units when required.

18 Leases

This note provides information for leases where the Company is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019 \$'000	2018 \$'000
Right-of-use assets *		
Buildings	87	-
Plant and equipment	32,416	-
	32,503	-
Lease liabilities		
Current	2,514	-
Non-current	29,756	-
	32,270	-

- In the previous year, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under NZ IAS 17 *Leases*. The assets were presented in property, plant and equipment and the liabilities as part of the Company's finance lease liabilities. For adjustments recognised on adoption of NZ IFRS 16 on 1 January 2019, please refer to note 35.

Additions to right-of-use assets during the 2019 financial year were \$nil.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 \$'000	2018 \$'000
Depreciation charge of right-of-use assets		
Buildings	39	-
Plant and equipment	2,132	-
	2,171	-
Interest expense (included in finance cost)	2,014	-

The total cash outflow for leases in 2019 was \$4,424,000.

18 Leases (continued)

(iii) The Company's leasing activities and how these are accounted for

Pacific Aluminium New Zealand Limited, the Company, leases office space. The consolidated entity also incorporates the Group's share of New Zealand Aluminium Smelters Limited's leased assets; which include warehouses, vehicles, a wharf and power supply interconnection. Rental contracts are typically made for fixed periods of 2 to 25 years.

Contracts may contain both lease and non-lease components. For property and marine leases, the Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for all other leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see note 2(h) for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

18 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

19 Net deferred tax assets/(liabilities)

	2019 \$'000	2018 \$'000
The balance comprises temporary differences attributable to:		
Tax losses	24,072	-
Deferred tax assets/(liabilities)	17,981	(89,236)
Net deferred tax assets/(liabilities)	42,053	(89,236)

Movements:

Charged to profit or loss:

Tax losses	24,072	-
Derivative financial instruments	106,784	(67,226)
Property, plant and equipment	(409)	35
Rehabilitation provision	(1,151)	(713)
Lease liability	238	-
Other	1,755	(91)
Net movement	131,289	(67,995)

Pacific Aluminium (New Zealand) Limited
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20 Current liabilities - Trade and other payables

	2019	2018
	\$'000	\$'000
Amounts owed to external parties	48,389	76,937
Amounts owed to related parties	2,493	16,150
Accrued expenses	23,138	24,184
ETS obligations payable	12,561	7,389
Other payables	4,248	2,104
Total trade and other payables	90,829	126,764

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.

21 Current liabilities - Borrowings

	2019	2018
	\$'000	\$'000
Amounts owed to Rio Tinto Finance plc	60,813	38,127
Total current borrowings	60,813	38,127

22 Current liabilities - Employee benefit obligations

	2019	2018
	\$'000	\$'000
Annual leave	6,781	6,789
Long service leave	838	728
Employee benefits - other	11,433	10,371
Total current employee benefit obligations	19,052	17,888

23 Current liabilities - Current tax payable

	2019	2018
	\$'000	\$'000
Current tax liabilities	987	-
Total current tax liabilities	987	-

24 Non-current liabilities - Employee benefit obligations

	2019 \$'000	2018 \$'000
Long service leave	5,599	6,294
Total non-current employee benefit obligations	5,599	6,294

25 Provisions

	2019 \$'000	2018 \$'000
Rehabilitation and closure - current	5,531	4,933
Rehabilitation and closure - non-current	189,297	184,188
Total provisions	194,828	189,121

Movements in the rehabilitation and closure provision is set out below:

(a) Movement in rehabilitation and closure provision

Movement in each class of provision during the financial year, other than employee benefits, are set out below:

	2019 \$'000	2018 \$'000
Carrying amount at start of year	189,121	178,730
Additional provision charged to plant and equipment	1,075	2,412
Change in rehabilitation and closure estimates	(116)	4,336
Current year unwind of discount	7,608	5,948
Amounts used during the year	(2,860)	(2,305)
Carrying amount at end of year	194,828	189,121

This provision represents the present value of the estimated costs for rehabilitation and closure assuming activities are terminated at the end of the current power supply contract in 2030.

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.

26 Finance lease liabilities

	2018 \$'000
Current lease liability	837
Non-current lease liability	3,680
	4,517

From 1 January 2019, the Company has recognised lease liabilities and corresponding right-of-use assets from all leases that had previously been distinguished as operating and finance leases, except for short-term and low-value leases. See note 18 and note 35 for further information.

27 Contributed equity

(a) Share capital

Consolidated and Parent

	2019 Shares	2018 Shares	2019 \$'000	2018 \$'000
Ordinary shares				
Fully paid	425,327,001	425,327,001	600,654	600,654

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

28 Accumulated losses

Movements in accumulated losses were as follows:

	2019 \$'000	2018 \$'000
Balance 1 January	(92,595)	(300,045)
Adoption of new accounting standard	(437)	-
Net (loss)/profit for the year	<u>(312,892)</u>	<u>207,450</u>
Balance 31 December	<u>(405,924)</u>	<u>(92,595)</u>

29 Remuneration of auditors

Fees for services rendered to the Company by the auditors for auditing the Company's financial report are paid by Rio Tinto Aluminium Services Pty Limited, a related entity. No other benefits were received by the auditors in relation to the Company.

30 Contingencies

Contingent liabilities

The company had contingent liabilities at 31 December 2019 in respect of:

Guarantees

- (1) Contractual commitments for the supply of electricity to NZAS from Meridian Energy Ltd amounting to \$110,310,000 (2018: \$110,310,000)

31 Commitments

(a) Non-cancellable operating leases

The Company leases premises, plant and equipment. Operating leases held over properties give the Company the right to renew the lease subject to a redetermination of the lease rental by the lessor.

There are no options to purchase in respect of premises, plant and equipment held under operating leases.

There are no sub-leases from the above.

	2018 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	
Within one year	2,298
Later than one year but not later than five years	9,394
Later than five years	<u>39,859</u>
Total non-cancellable operating leases	<u>51,551</u>

31 Commitments (continued)

(b) Finance leases

	2018 \$'000
Within one year	837
Later than one year but not later than five years	2,807
Later than five years	873
	4,517

From 1 January 2019, the Company has recognised lease liabilities and corresponding right-of-use assets for all leases that had previously been distinguished as operating and finance leases, except for short-term and low-value leases. See note 18 and note 35 for further information.

(c) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019 \$'000	2018 \$'000
Property, plant and equipment	20,712	12,190

(d) Other commitments

Fair value of power derivative

On 3 August 2015 NZAS varied its Electricity Agreement with Meridian Energy Limited for the period to 2030. The amended contract revises the price for electricity for the period from 1 January 2017. The electricity contract is not a physical supply contract, but relates to the pricing of the supply which NZAS sources direct from the wholesale market. Under the terms of the Initial Tolling Agreement and the Participants Agreement, the participants fund the payments NZAS has to make under the Electricity Agreement. If NZAS decides to give notice to terminate the Electricity Agreement or curtail its electricity load in accordance with the terms of the Electricity Agreement, NZAS is expected to continue to consume the required electricity volumes under the Electricity Agreement for a period of at least 12 months after the date of any notice. Any additional power above the contracted quantity can also be purchased directly from the wholesale spot market based on usage and may be contracted separately.

In 2018, NZAS entered into a 50MW Contract for Difference in relation to the consumption of electricity on Reduction Line 4. Under the agreement, the energy strike price NZAS pays is fixed for the term of the contract i.e. no escalation applies. The difference between the contract value and the forward electricity price creates an embedded derivative that must be measured at fair value and recognised through profit or loss. Management has made judgements in respect to the NZ CPI rate, the discount rate and the spot power price. The embedded derivative is reviewed quarterly to determine its fair value. NZAS is entitled to terminate the 50MW Contract for Difference by giving Meridian Energy not less than 2 months notice.

31 Commitments (continued)

(d) Other commitments (continued)

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 Maitava Paper Mill and other facilities.

Since 2016, the ownership of the Premix material is with the Crown (the New Zealand government), following the bankruptcy of Taha, a company that had responsibility for processing the material into the Ouvea Premix.

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.

32 Related party transactions

(a) Key management personnel

Key management personnel ("KMP") associated with the Company are not employed by or compensated by the Company. The Company does not pay any service fee for KMP to any associated entity.

(b) Transactions with other related parties

The following transactions occurred with related parties:

	2019 \$'000	2018 \$'000
<i>Purchases of goods</i>		
Rio Tinto Marketing Pte Limited	(325,098)	(339,376)
<i>Sales of goods</i>		
Rio Tinto Marketing Pte Limited	837,766	855,688
<i>Other transactions - Income/(expenses)</i>		
Rio Tinto Finance plc	846	(1,196)
Rio Tinto Marketing Pte Limited	112	101

32 Related party transactions (continued)

(c) Outstanding balances

The following balances are outstanding at the end of the reporting year in relation to transactions with related parties:

	2019 \$'000	2018 \$'000
<i>Outstanding balances - Receivable/(payable)</i>		
Advances from Rio Tinto Finance Plc	(60,813)	(38,127)
Advances to Rio Tinto Limited	(63)	-
Advances to Rio Tinto Marketing Pte Limited	66,866	98,019
Advances from Rio Tinto Aluminium Services Pty Limited	(602)	(344)
Advances from/to Rio Tinto Aluminium (Bell Bay) Limited	(32)	100
Advances from/to other related parties	(11)	64
	5,345	59,712

The parent company of the Company is RTA Pacific Pty Limited, a company incorporated in Australia (the former parent company was RTA Pacific (NZ) Limited).

(d) Joint arrangement

The Company has a 79.36% interest in NZAS, the principal activity of which is the conversion of alumina into aluminium. NZAS is considered a joint operation and the Company is accounting for its share of assets and liabilities within the Company results in order to comply with NZ IFRS 11.

	2019 \$000	2018 \$000
Balance sheet (79.36%)		
Current assets	228,704	228,814
Non-current assets	450,895	788,129
	679,599	1,016,943
Current liabilities	(302,495)	(310,556)
Non-current liabilities	(317,857)	(365,064)
	(620,352)	(675,620)
Share of net assets included in the Company results	(59,248)	(341,323)
 Statement of comprehensive income (79.36%)		
Income	229,562	834,300
Expenses	(619,221)	(590,107)
Net contribution to the Company operating profit	(389,658)	244,192

33 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years.

34 Reconciliation of (loss)/profit after income tax to net cash outflow from operating activities

	2019 \$'000	2018 \$'000
(Loss)/profit for the year	(312,892)	207,450
Depreciation and amortisation	14,564	10,996
Net gain on disposal of property, plant and equipment	(2,521)	(1,477)
Other non-cash movements in property, plant and equipment and intangible assets	(19,947)	(11,550)
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	51,776	(2,368)
Decrease/(increase) in other current assets	95	(8,424)
Decrease/(increase) in inventories	42,232	(69,709)
Decrease/(increase) in income tax payable	7,865	(19,405)
(Decrease)/increase in payables	(35,935)	27,375
Increase in provisions	5,707	10,391
Decrease/(increase) in net derivative	370,402	(258,158)
(Decrease)/increase in deferred tax liabilities	(131,289)	67,995
Increase/(decrease) in employee benefit obligations	469	(1,867)
Net cash outflow from operating activities	<u>(9,474)</u>	<u>(48,751)</u>

35 Changes in accounting policies

This note explains the impact of adoption of NZ IFRS 16 'Leases' and Interpretation 23 'Uncertainty over Income Tax Treatments' on the Company's financial statements and also discloses the new accounting policies applied from 1 January 2019, where these differ from those applied in prior periods. The adoption of other minor changes to NZ IFRS applicable to 2019 do not have a significant impact on the Company's financial statements.

The impact on Equity attributable to members of Pacific Aluminium (New Zealand) Limited (the Company) as at 1 January 2019 from the adoption of NZ IFRS 16 and Interpretation 23 is as follows:

	\$'000
Equity attributable to members of the Company as at 31 December 2018	(92,595)
NZ IFRS 16 net impact from recognising lease liabilities, right-of-use-assets and other items after tax	(437)
Interpretation 23 recognition of provisions for uncertain tax position on a weighted average basis	0
Restated equity attributable to members of the Company as at 1 January 2019	(93,032)

35 Changes in accounting policies (continued)

Impact of transition to AASB 16 'Leases'

The Company implemented the standard as at 1 January 2019. For contracts in place at this date, the Company continued to apply its existing definition of leases under the previous standards, NZ IAS 17 'Leases' and Interpretation 4 'Determining Whether an Arrangement Contains a Lease' ('grandfathering'), instead of reassessing whether existing contracts were or contained a lease at the date of application of the new standard.

For transition, as permitted by NZ IFRS 16, the Company applied the modified retrospective approach to existing operating leases which are capitalised under the new standard (i.e. retrospectively, with the cumulative effect recognised at the date of initial application as an adjustment to the opening balance of retained earnings with no restatement of comparative information in the financial statements). For existing finance leases, the carrying amounts before transition represented the 31 December 2018 values assigned to the right of use asset and lease liability.

The Company made the following additional choices, as permitted by NZ IFRS 16, for existing operating leases:

- not to bring leases with 12 months or fewer remaining to run as at 1 January 2019 (including reasonably certain options to extend) on balance sheet. Costs for these items will continue to be expensed directly to the income statement.
- for all leases, the lease liability was measured at 1 January 2019 as the present value of any future lease payments discounted using the appropriate incremental borrowing rate. The carrying value of the right of use asset for property, and certain other leases was generally measured as if the lease had been in place since commencement date. For all other leases the right of use asset was measured as equal to the lease liability and adjusted for any accruals or prepayments already on the balance sheet. The Company also excluded any initial direct costs (e.g. legal fees) from the measurement of the right of use assets at transition.
- an impairment review was required on right of use assets at initial application of the standard. The Company elected to rely on its onerous lease assessments under NZ IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', as at 31 December 2018 as permitted by NZ IFRS 16. Any existing onerous lease provisions were adjusted against the right of use asset carrying value upon transition.
- to apply the use of hindsight when reviewing the lease arrangements for determination of the measurement or term of the lease under the retrospective option.
- to separate non-lease components from lease components for properties for the first time as part of the transition adjustment.
- in some cases, to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The impact of transition to NZ IFRS 16 on the Company's 1 January 2019 balance sheet is an increase in lease liabilities (debt) of \$30,162,000, an increase in right of use assets/net investments in leases of \$34,674,000, net reduction in property, plant and equipment of \$4,949,000, and a charge of \$437,000 to retained earnings.

The weighted average incremental borrowing rate applied to the Company's lease liabilities recognised on the balance sheet at 1 January 2019 ranges from 4.3% to 7.1%.

35 Changes in accounting policies (continued)

	2019 \$'000
Operating lease commitments reported as at 31 December 2018 under NZ IAS 17	51,551
Exclude/deduct	
Leases expiring in 12 months or fewer	-
Committed leases not commenced (undiscounted)	-
Components excluded from the lease liability (undiscounted)	-
Revised operating lease commitment amount (undiscounted)	(1,620)
Other	6,353
Include/add	
Finance lease commitments reported as at 31 December 2018 under NZ IAS 17	4,517
Other	-
Sub total	60,801
Effect of discounting on payments included in the calculation of the lease liability (excluding finance lease balances)	(26,122)
Lease liability opening balance reported as at 1 January 2019 under NZ IFRS 16	34,679

The Company's activities as a lessor are not material and hence there is not a significant impact on the financial statements on adoption of NZ IFRS 16.

Contracts signed, or amended, after 1 January 2019 are assessed against the lease identification criteria under NZ IFRS 16. This may increase or decrease the number of contracts which are deemed to be leases compared with assessments of similar arrangements under NZ IAS 17. Practical application of NZ IFRS 16 continues to develop and the Company continues to monitor this.

Impact on adoption of Interpretation 23 'Uncertainty over Income Tax Treatments'

Interpretation 23 changed the method of calculating provisions for uncertain tax positions. The Company previously recognised provisions based on the most likely amount of the liability, if any, for each separate uncertain tax position. The interpretation requires a probability weighted average approach to be taken in situations where there is a wide range of possible outcomes. For tax issues with a binary outcome, the most likely amount method remains in use.

The adoption of Interpretation 23 did not have a material impact on the provision for uncertain tax positions.

Upon implementation of Interpretation 23, the Company changed its accounting policy for current tax (refer to note 1(f) to reflect adoption of the probability weighted approach).

Implementation of the interpretation did not result in any changes to the Company's accounting policy for deferred tax.



Independent auditor's report

To the directors of Pacific Aluminium (New Zealand) Limited

We have audited the financial statements, which comprise:

- the balance sheet as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Pacific Aluminium (New Zealand) Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Material uncertainty related to going concern

We draw attention to Note 2(a) in the financial statements, which indicates that Rio Tinto plc as the ultimate holding company of the Company, commenced a strategic review of the Company's 79.35% interest in the operations of New Zealand Aluminium Smelters Limited (NZAS) in October 2019. The strategic review is considering all options for NZAS's future, including, but not limited to, continued operation and closure. These events or conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on NZAS's intention to continue as a going concern and therefore impacts on the Company's ability to continue as a going concern, given the range of options being considered by Rio Tinto plc in its strategic review. Our opinion is not modified in respect of this matter.



Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

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 to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 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 and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the financial statements is located at the External Reporting Board's website at:

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

This description forms part of our auditor's report.



Who we report to

This report is made solely to the Company's directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an 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 Company and the Company's directors, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Michael Crowe.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 February 2020

Brisbane

I, Michael Crowe, am currently a member of Institute of Chartered Accountants Australian and New Zealand and my membership number is 46982.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Pacific Aluminium (New Zealand) Limited for the year ended 31 December 2019. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 24 February 2020 and an unqualified opinion was issued.

Michael Crowe

Michael Crowe