



RioTinto

Annual Report 2019, Summary  
Rio Tinto Iceland Ltd.

# **Rio Tinto Iceland Ltd.**

**Summary of Financial statements  
for the year ended December 31, 2019**

# Rio Tinto Iceland Ltd. Annual Report 2019, Summary

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## Board of Directors

Jean-Francois Faure, Chairman

Sonia Lacombe

Francois-Pierre de Feydeau

Katrín Pétursdóttir

Brynjólfur Bjarnason

Ingvi Már Pálsson\*

Margrét Sanders\*

\* Representing the government of Iceland

The gender ratio on the Board of Directors is 57% male and 43% female.

## General Manager

Rannveig Rist

## Departmental Managers at year-end 2019

Árni Stefánsson

Casthouse

Birna Pála Kristinsdóttir

HSEQ & Engineering

Einar Aron Einarsson

Electrolysis

Gaukur Garðarsson

Maintenance Services

Jakobína Jónsdóttir

Human Resources

Sigurður Þór Ásgeirsson

Finance & Logistics

## Statutory Auditor

PwC ehf.

# Endorsement by the Board of Directors and the Acting General Manager

## Health, Safety & Environment

Three lost-time incident (LTI) occurred in 2019 compared to one incident in 2018. Such incidents are unacceptable, and we continue to strive to prevent all accidents and to learn from near misses.

Fluoride emissions per ton of aluminum in 2019 was 0,50 kg/t Al compared to 0,57 kg/t Al in 2018. This is the best result since 2010 and well within our operating limits of 0,65 kg/t Al.

Emissions of greenhouse gases in 2019 was 1,59 t/t Al compared to 1,54 t/t Al in 2018. The increase in emission is because of production instability.

In 2019 ISAL had no deviation from the operating license. One deviation was closed during the year. It was related to dust from alumina unloader but a new unloader became fully operational in mid-2019.

The current operating license expires in November 2020 and work on a renewed license, which takes BAT requirements into consideration, is ongoing.

## Markets and operations

The aluminium industry faced serious headwind in 2019 with low LME price and high prices of raw materials. The premium for billets were significantly lower in 2019 than the previous year.

Operations at ISAL in 2019 were affected by a safety-related preventative outage for potline 3 in July 2019. The restart of the potline started in late August and was finished successfully in November.

Potrooms produced 183.637kt in 2019 compared to 212.091kt in 2018. The production reduction is related to the outage of pot line 3.

Casthouse produced 208.542kt in 2019 compared to 227.723kt in 2018. The sale of VAP billets was 205.562kt. which was 26.226kt under plan. Because of lower demand in latter half of 2019 we stopped the remelt of external metal. Despite the shutdown of potline 3, ISAL was able to fulfill all orders to customers on time.

The overall quality of the production has remained high and stable. As a result, evaluations from customer audits shows that ISAL continues to be classified as an A-supplier.

The industry will continue to face challenging conditions in the global markets and policy uncertainty, reflected in low industry profitability. 2020 started with a weak demand and the Covid 19 outbreak will have significant effect on markets and the global economy. How much and for how long remains to be seen but the outlook is bleak.

## Personnel

The number of full-time equivalent (FTE) employees in 2019 was 408 compared to 399 in 2018. Men are 82% and women 18%.

The average years of employment at ISAL was 12,7 years in 2019 compared to 12,8 in 2018.

In 2019 ISAL was certified according to the Equal Pay standard IST: 85 2012. In 2019, two salary analysis were conducted by PwC and only -0,7% unexplained salary difference between genders was recorded with a 94% coefficient of determination.

## Finance

Net pre-tax loss for the year 2019 was 99.1 million USD compared to a loss of 42.1 million USD in 2018.

Net sales amounted to 444.8 million USD in 2019 compared to 555.4 million USD in 2018.

## Non-financial information

Our mission is to produce high quality aluminum with maximum profitability in conformance to customers' requirements, and with the utmost attention to the environment, safety and health. The company has resolved to be a leader in all of its operations, to strive for continuous improvements and to operate in harmony with the environment and society. Our future depends on outstanding employees where equality is a priority. We fully adhere to laws and regulations as well as Rio Tinto's code of conduct. Our vision is to ensure long term growth and competitiveness of the company in a sustainable manner.

Our strategic pillars are based around our 5 Priorities:

- **Safety:** It is our conviction that a strong focus on health, safety and the environment is a precondition for outstanding results.
- **People:** One of our most important resource is qualified, motivated and positive personnel that creates a safe and coveted place of work.
- **Cash:** We want to maximize the firm's profitability and ensure efficiency of all processes through continuous improvements and clearly defined goals.
- **Partnership:** Our objective is to have satisfied customers, for whom ISAL is the first choice. We make every effort to work in harmony with the environment and the community.
- **Growth:** We ensure growth and competitiveness by better utilizing our assets and by investing responsibly in new opportunities.

As a part of Rio Tinto, *The way we work* applies to Rio Tinto Iceland Ltd. *The way we work* outlines how we deliver both our purpose and strategy. It makes clear how we should behave, in accordance with our values of safety, teamwork, respect, integrity and excellence. *The way we work* provides a clear framework for how we should conduct our business, no matter where we work or where we are from. It applies to each employee as well as to our consultants, agents, contractors and suppliers. We also want these principles to be respected by our joint venture partners and non-controlled companies. The way we work is our Code of conduct and has clear vision on following elements: Safety and health, Employment and inclusion, Human rights, Data Privacy, Conflict of interest, Fair competition, Bribery and corruption, Confidential information and insider trading, Communities, Governments, International organizations, Civil Society, Transparent communications, Environment, Intellectual property and finally Company property and records.

*The way we work* is accessible in Icelandic through our website [www.isal.is](http://www.isal.is) and in English on [www.riotinto.com](http://www.riotinto.com).

Furthermore, Rio Tinto Iceland Ltd, publishes before May 1st each year a Sustainability report and Green account in accordance with regulation 851/2002. The report has detailed information about our environmental performance but has also extensive information about other parts of our operation including our social presence and economic footprint. The report includes a GRI table and is available through our website [www.isal.is](http://www.isal.is) as well as other relevant information.

ISAL has the following certifications: ISO 9001 since 1992, ISO 14001 since 1997, OHSAS 18001 since 2003, Rio Tinto HSAEQ Management Standard certification and IST: 85 2012 since 2019.

## Miscellaneous

ISAL celebrated the 50 year anniversary of Aluminium production in Iceland in 2019 but production started on July 1st 1969 at 09:42.

A new board member was appointed in 2019. Ingvi Már Pálsson, representing the Government of Iceland, replaces Þórður Reynisson.

## Events occurring after reporting period

Rio Tinto announced in February 2020 that the company would conduct a strategic review of ISAL to determine the operation's ongoing viability and explore options to improve its competitive position. ISAL is expected to remain unprofitable in the short to medium term in the challenging conditions facing the aluminium industry, due to the smelter's uncompetitive energy costs and historically low aluminium prices. The strategic review will consider all options including curtailment and closure and will be complete in the first half of 2020. Although the review will consider curtailment and closure, ISAL is expected to be in operation throughout 2020 even though a decision on either could be taken in mid-2020.

The Covid 19 virus has had and will affect the global economy and the management of the company believe this will affect the company's operations but there is uncertainty as to whether it will be significant. The company has detailed emergency plans in various areas and is working on further responses.

## Appropriation of net loss

The Board of Directors refers to the Financial Statements regarding the appropriation of the year's net loss. The Board of Directors will suggest at the General Meeting that no dividend will be paid.

## Ownership

At year-end Alcan Holdings Switzerland owned all shares in Rio Tinto Iceland Ltd.

The Board of Directors and the Acting General Manager hereby confirm the annual report for Rio Tinto Iceland Ltd. for the year 2019 by means of their signatures.

Straumsvík, March 31st 2020

Board of Directors

Acting General Manager

# Independent Auditor's Report

## To the Board of Directors and Shareholders of Rio Tinto Iceland Ltd.

### *Opinion*

We have audited the financial statements of Rio Tinto Iceland Ltd., which comprise of an endorsement by the Board of Directors and the Acting General Manager, balance sheet as at December 31, 2019, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Icelandic law on annual accounts and that the directors report includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the financial statements.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of matters*

Without modifying our opinion, we draw attention to the discussion of events occurring after reporting period in the Endorsement by the board of directors and the acting general manager and in note 17 to the financial statements, where the management discuss the uncertainty that the Covid-19 epidemic could have on the company's operations.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic law on annual accounts and adopted accounting rules, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### *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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



## Independent Auditor's Report

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Reykjavík, 31 March 2020

**PricewaterhouseCoopers ehf.**

Ljósbrá Baldursdóttir  
State authorised public accountant

## Income Statement for the year ended December 31<sup>st</sup>, 2019

	2019	2018
<b>Sales</b>		
Net sales .....	444.810.464	555.429.835
Other income .....	919.066	826.261
	<u>445.729.530</u>	<u>556.256.096</u>
<b>Cost of sales</b>		
Raw materials and energy .....	388.733.240	443.274.943
Personnel expenses .....	43.542.098	46.642.239
Administration cost .....	8.307.147	10.118.694
Sundry manufacturing cost .....	52.339.241	57.882.141
Depreciation of assets .....	48.577.933	45.641.935
Changes in inventory .....	2.804.016	(3.925.157)
	<u>544.303.675</u>	<u>599.634.795</u>
<b>Operating loss</b>	(98.574.145)	(43.378.699)
<b>Financial income (expenses)</b>		
Financial income .....	94.087	346.431
Financial expense .....	(1.014.778)	(48.250)
Exchange income .....	372.319	979.378
	<u>(548.372)</u>	<u>1.277.559</u>
<b>Loss before tax</b>	(99.122.517)	(42.101.140)
Income tax .....	(5.524.318)	(2.538.728)
<b>Net loss</b>	<u>(104.646.835)</u>	<u>(44.639.868)</u>

## Balance Sheet as of December 31<sup>st</sup>, 2019

<b>Assets</b>	<b>2019</b>	<b>2018</b>
<b>Fixed assets</b>		
<i>Intangible assets:</i>		
CO2 Emission allowances .....	97.269	1.308.976
Computer software .....	1.306.564	2.595.015
	<u>1.403.833</u>	<u>3.903.991</u>
<i>Property, plant and equipment:</i>		
Buildings and land .....	102.587.107	104.435.675
Machinery and equipment .....	289.925.716	303.688.479
Asset under construction .....	23.262.292	25.548.596
	<u>415.775.115</u>	<u>433.672.750</u>
<i>Investments and deferred assets:</i>		
Shares in other companies .....	21.683	23.048
Deferred tax asset .....	0	5.524.318
	<u>21.683</u>	<u>5.547.366</u>
<b>Total fixed assets</b>	417.200.631	443.124.107
<b>Current assets</b>		
Inventories .....	55.314.790	62.378.811
Trade receivables, Rio Tinto Group .....	28.337.748	39.683.727
Other receivables .....	13.535.595	23.604.900
Cash and cash equivalents .....	431.761	506.274
	<u>97.619.894</u>	<u>126.173.712</u>
<b>Total assets</b>	<u><u>514.820.525</u></u>	<u><u>569.297.819</u></u>

## Balance Sheet as of December 31<sup>st</sup>, 2019

<b>Equity and liabilities</b>	<b>2019</b>	<b>2018</b>
<b>Shareholders equity</b>		
Share capital .....	4.905.580	4.905.580
Share premium .....	234.023.522	234.023.522
Legal reserve .....	1.195.202	1.195.202
Retained earnings .....	128.794.264	233.441.097
	<u>368.918.568</u>	<u>473.565.401</u>
<b>Liabilities</b>		
<i>Contingent liabilities</i>		
Pension liabilities .....	2.667.532	3.418.315
<i>Long-term liabilities:</i>		
Long-term liabilities .....	6.695.849	0
<i>Current liabilities:</i>		
Trade payables, Rio Tinto Group .....	10.020.992	31.826.923
Other liabilities, Rio Tinto Group .....	85.037.635	5.107.913
Other current liabilities .....	40.679.794	55.379.267
Current portion of long-term liabilities .....	800.155	0
	<u>136.538.576</u>	<u>92.314.103</u>
<b>Total liabilities</b>	145.901.957	95.732.418
<b>Total equity and liabilities</b>	<u>514.820.525</u>	<u>569.297.819</u>

## Cash Flow Statement for the year ended December 31<sup>st</sup>, 2019

	2019	2018
<b>Cash flows from operating activities</b>		
Cash generated from operations:		
Net (loss) .....	(104.646.835)	(44.639.868)
Items not affecting cash:		
Depreciation .....	48.577.933	45.641.935
Other items .....	7.050.492	3.242.994
	<u>(49.018.410)</u>	<u>4.245.061</u>
 (Increase) decrease in operating assets:		
Trade and other receivables .....	21.415.281	(3.713.290)
Inventories .....	7.064.021	(8.939.413)
Increase (decrease) in operating liabilities:		
Change in other payables, Rio Tinto Group .....	(21.805.931)	8.097.975
Current liabilities .....	<u>(14.714.125)</u>	<u>12.964.862</u>
	<u>(8.040.754)</u>	<u>8.410.134</u>
 <b>Net cash from operating activities</b>	 <u>(57.059.164)</u>	 <u>12.655.195</u>
 <b>Cash flows (to) from investing activities</b>		
Investment in property, plant and equipment .....	(22.324.895)	(22.879.307)
Investment in intangible assets .....	0	(1.269.327)
Disposal of property, plant and equipment .....	1.272	30.143
Change in other receivables, Rio Tinto Group .....	0	4.599.408
	<u>(22.323.623)</u>	<u>(19.519.084)</u>
 <b>Cash flows from (to) financing activities</b>		
Short term loan, Rio Tinto Group .....	79.929.722	5.107.913
Payments of long-term lease liabilities .....	<u>(621.448)</u>	<u>0</u>
	79.308.274	5.107.913
 <b>Increase (decrease) in cash and cash equivalents</b>	 (74.513)	 (1.755.976)
Cash and cash equivalents at beginning of year .....	506.274	2.262.250
<b>Cash and cash equivalents at end of year</b>	<u><u>431.762</u></u>	<u><u>506.274</u></u>
 <b>Non-cash investing and financing activities</b>		
Lease asset recognised .....	8.384.737	0
Lease liabilities recognised .....	(8.384.737)	0

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