MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Noranda's ratings (CFR to B3); outlook stable

Global Credit Research - 07 Mar 2014

Approximately $650 million in rated debt affected

New York, March 07, 2014 -- Moody's Investors Service ("Moody's") downgraded Noranda Aluminum Acquisition Corporation's ("Noranda") corporate family rating to B3 from B2 and probability of default rating to B3-PD from B2-PD. At the same time Moody's downgraded Noranda's senior secured term loan rating to B2 from B1 and senior unsecured debt rating to Caa2 from Caa1. The speculative grade liquidity rating remains unchanged at SGL-3. The outlook is stable. This concludes the review for possible downgrade initiated on December 11, 2013.

Downgrades:

..Issuer: Noranda Aluminum Acquisition Corporation

.... Probability of Default Rating, Downgraded to B3-PD from B2-PD

.... Corporate Family Rating, Downgraded to B3 from B2

....Senior Secured Bank Credit Facility Feb 18, 2019, Downgraded to B2, LGD3, 42% from B1

....Senior Unsecured Regular Bond/Debenture Jun 1, 2019, Downgraded to Caa2 LGD5, 86% from Caa1

Outlook Actions:

..Issuer: Noranda Aluminum Acquisition Corporation

....Outlook, Changed To Stable From Rating Under Review

RATINGS RATIONALE

The downgrade to a B3 corporate family rating considers the company's weak debt protection metrics and high leverage as evidenced by its negative EBIT/interest coverage ratio at December 31, 2013 and debt/EBITDA ratio of 9.3x (all using Moody's standard adjustments). Weak aluminum prices in 2013 together with increasing cost pressures, particularly from energy costs, contributed to a material deterioration in Noranda's performance in 2013. We expect these challenging headwinds to continue over the next twelve to eighteen months. While we expect LME aluminum prices to remain range bound around current levels, the increasing Midwest premium being achieved enhances the overall price realization. However, it is questionable as to the level at which such premiums can be sustained.

In response to market and cost challenges, Noranda has initiated a number of measures to lower its cost base and enhance its cash flow. The company recently launched a new CORE savings program targeting $225 million in savings from 2014 to 2016. As part of this program, the company has implemented workforce reductions covering 190 employees and contact workers with expected annual savings of approximately $15 million. Additionally, on February 13, 2014, the company announced that it filed with the Missouri Public Service Commission a request to reduce and limit price increases of electricity rates at its New Madrid Smelter. Moreover, in October 2013, Noranda reduced its quarterly dividend to $0.01 per share from $0.04 per share. The successful execution of these measures should improve Noranda's competitive position, however we believe that it will not be until sometime in 2015 that the full benefits are achieved. For 2014, we anticipate that EBIT margins (including Moody's standard accounting adjustments) will trend in the low single digits at best while debt-to-EBITDA and EBIT-to-interest will stay above 5.5 times and around 1.0 times, respectively.

The SGL-3 speculative grade liquidity rating reflects our view that Noranda will maintain adequate liquidity over the next four quarters. We expect that free cash flow will be negative during this period as a result of weak earnings generation and capital expenditures that the company must invest to improve the reliability of its operations given its reliance on both a single-location smelter and refinery. Given the company's limited cash balance of approximately $79.4 million at December 31, 2013, we believe that the some borrowings under the company's revolver (ABL) may be required over the next four quarters.

The B2 senior secured term loan rating reflects its priority position in the capital structure and the benefit of the loss absorption provided by the unsecured debt below this instrument. Borrowings under the term loan are secured on a first priority basis on assets other than inventory and accounts receivables, which are pledged on a first lien basis to the ABL ("ABL priority collateral"). The term loan has a second lien position on the ABL collateral. The Caa2 rating on the senior unsecured notes reflects the effective subordination of these instruments to a substantial amount of first lien secured debt and priority accounts payables, and the expectation of a considerable loss in value in a default scenario.

The stable outlook incorporates our expectation that aluminum price deterioration has bottomed and that premiums will remain at relatively high levels in 2014 compared with historical levels although reduction in the Midwest premium in 2015 is viewed as likely. The outlook also anticipates that Noranda will successfully execute its cost savings program, achieve a more favorable energy supply contract, and maintain adequate liquidity.

Noranda's rating could be downgraded if LME aluminum prices were to further decline from currently weak levels and Midwest premium prices retreat significantly, if production costs were to remain high, or the company's operations encountered disruptions leading to a sustained deterioration in operating performance and credit metrics. Furthermore, the rating could be downgraded should the company resume aggressive financial policies that result in a material impact on its leverage profile, as has been evidenced in the past. Quantitatively, the rating could be lowered if credit metrics do not begin to show improvement from currently weak levels such that adjusted debt-to-EBITDA is likely to be sustained above 6.0 times, EBIT-to-interest below 1.0 times or if free cash flow remains negative over a longer than expected time horizon.

At this point, a positive outlook or upgrade is unlikely, given a) our expectations for weak profitability and credit metrics over the next twelve to eighteen months, b) the company's relatively small size, c) its reliance on one smelter and one refinery, and d) its exposure to the cyclicality of aluminum price and demand swings.

The principal methodology used in this rating was the Global Steel Industry published in October 2012. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Franklin, Tennessee, Noranda Aluminum Acquisition Corporation (Noranda) is involved in primary aluminum production at its New Madrid, Missouri smelter and in downstream operations through four rolling mills. In addition, Noranda has a 100% interest in an alumina refinery in Gramercy, Louisiana and through its wholly owned subsidiary, St. Ann Bauxite Holdings Ltd., ultimately owns 49% of a bauxite mining operation in St. Ann, Jamaica. During the fiscal year ending December 31, 2013, Noranda shipped approximately 504.8 million pounds of primary aluminum to external customers and 372.5 million pounds of fabricated products, generating revenues of $1.3 billion.

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