

Release

Stock Exchange Listings NZX (MEL) ASX (MEZ)

Smelter owner Rio Tinto initiates strategic review

23 October 2019

Meridian Energy has been advised by New Zealand Aluminium Smelters Limited's (NZAS) major shareholder Rio Tinto, that they intend to initiate a strategic review of the smelter. The review will consider all options for the future of the smelter, including the option of closure. Rio Tinto has advised Meridian that it will provide the market with an update on the strategic review by the end of the first quarter in 2020.

The electricity contract between Meridian and NZAS allows for full termination or for NZAS to reduce consumption from 572MW to 400MW, in both cases on 12 months' notice to Meridian.

Chief Executive of Meridian Energy, Neal Barclay, says that the parties have been in dialogue for some time and "NZAS officials have advised us that the economics of the smelter have been challenged due to volatile international prices for aluminium, relatively high energy and transmission costs and an upcoming refurbishment bill to keep one of the potlines operational." During that time Meridian had tabled a number of proposed changes and concessions to its existing contract with NZAS. "NZAS has advised Meridian that the changes we had offered to date on our contract fall short of the pricing for delivered energy that NZAS needs to re-establish its position as an internationally competitive aluminium smelter," says Barclay. "We remain open to negotiating with NZAS and its shareholders on the long-term requirements for the smelter."

History of the smelter contract and remediation

The contract between NZAS and Meridian runs to 2030 and provides price certainty for the smelter on 572MWh per hour (5,011 gigawatt hours per year) of electricity.

Meridian and NZAS entered into the current contract following a renegotiation in 2013. That renegotiation provided the smelter with greater flexibility in its operations, meaning it could reduce its contracted volume from 572MW to 400 MW on 12 months' notice. The deal also gave NZAS the provision to terminate the contract completely on 12 months' notice.

In the 2013 renegotiations the parties agreed to a reduction in the previous electricity price but also allowed for price increases should the NZ dollar value of aluminium rise above agreed levels. This provision was to assist NZAS to establish a competitive cost position for the future.

Meridian agreed a new and separate electricity contract with the smelter in May 2018, providing NZAS with price certainty for an additional 50 MW (438 gigawatt hours per year) of electricity that was utilized to open the smelter's fourth potline.

In the event of closure, the smelter owners would incur significant remediation costs, recently estimated by NZAS to be in the region of NZ\$256 million.

Chief Executive Neal Barclay will host a teleconference at 12pm New Zealand time today.

If you would like to join the call, please dial in prior to the scheduled start time. Details of the call are as follows:

Participant information	
Dial in number(s)	Australia Toll-Free: 1800 093 431 Hong Kong Toll: +852 3005 2399 Japan Toll-Free: 0120 200 683 New Zealand Toll-Free: 0800 452 257 New Zealand Toll: +64 9 307 1606 Singapore Toll-Free: 800 120 6856 UK Toll-Free: 0800 026 1552 US Toll-Free: 1 877 788 9032 International: +61 2 8047 9393
Participant PIN Code	88971190#

Corresponding times:

Sydney/Melbourne 10am 23rd October

Hong Kong 7am 23rd October

Japan 8am 23rd October

London 12am 23rd October

Los Angeles 4pm 22nd October

New York 7pm 22nd October

A transcript and recording of the call will be available following the briefing on Meridian's website, www.meridianenergy.co.nz/investors

ENDS

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