>> OWEN HACKSTON: Thanks for joining us, everyone. It's Owen Hackston speaking, Meridian's Investor Relations Manager. I'm here with Neal Barclay, Chief Executive, and Mike Roan, CFO. For the format of the call, Neal's going to make some comments following our market announcement this morning. We'll then open it up for questions. At that point the call moderator will come on, give you the instructions for queuing our questions. Over to you, Neal.

>> NEAL BARCLAY: OK, welcome, everyone. So as you're aware, the smelter owners, Rio Tinto, are initiating a strategic review of its operations in New Zealand. We understand the review will look at all options to improve the economics of the smelter and it could include exercising the termination provisions of the contracts with Meridian. They've also advised us that at this stage they intend to give an update on that strategic review by the end of the first quarter of 2020.

From our perspective, we continue to engage with the owners of the smelter through the review period but, ultimately, Rio Tinto will decide the outcome of the smelter in New Zealand and its ongoing operations or not. I think it's important to note the smelter owners have the right, have always had the right, to issue 12 months' notice to reduce consumption to terminate their contract with us. And the fact that they haven't done so suggests that they are actively looking for solution.

That said, I think announcing a strategic review is a serious move. It's certainly an escalation. The smelter owners know this will be unsettling for their own set, stakeholders and the wider community of Southland. We know that they wouldn't have taken that decision lightly. But I'd also say that Rio Tinto is a huge, global mining company, a major emitter that's making a lot of noise about cleaning up its operations. It would be a major call for them to close a smelter that produces some of the cleanest and purest aluminium globally.

Now, on top of that, we know they face a significant clean-up bill for the site, and so any decisions to withdraw from New Zealand will be a massive call for them. I'm not saying they won't do it, but they do have a few headwinds in terms of that decision. It's also common knowledge that the smelter leaves the lowest electricity price in the country, but they've been very clear that they're looking for a price that's significantly lower again. It's important to note our electricity generation is only one part of the equation.

We note, given changes and Transpower's transmission costs and the like, that the smelter will see a reduction of $10 million in annualised costs accruing from next year. And if the Transmission Pricing Reform is implemented, as expected, that would deliver another $12 million of annualised costs, probably starting to accrue in 2024. That's the current timeframe for that piece of work.

All-up, we're open to continuing discussions but I think Rio Tinto also knows that the solution will have to be a sustainable one, one that not only meets their needs but one that is acceptable to our shareholders. Like Meridian, we know they take their responsibilities seriously - financial, social environmental. So we remain open to discussions to determine whether we can find a solution and are hopeful that we can. I guess the ball is now in their court.

Rio officials in Australia, will also talk to other energy providers, and the Government, to explore options to find a viable solution for the smelter's future and they'll engage with us when they are ready to do so. I think, ultimately, it's up to Rio Tinto, despite what happens with the operations here in New Zealand. We provide them one input into their review, our contract that gives certainty over their electricity consumption, but there's other factors that obviously impact the ongoing viability of that facility. That's it from me. We can open it to questions now, I think.

>> FACILITATOR: Thank you, ladies and gentlemen. If you wish to ask a question, please press "01" on your telephone keypad. If you change your mind, decide to withdraw your question, simply key "02". So that's "01" if you wish to ask a question. The first question we have is from Aaron Ibbotson from UBS. Please go ahead, sir.

>> AARON IBBOTSON: Hi there, good morning or I guess good afternoon. Thank you for setting up this call. I have a few questions if I may. My first question, basically, I guess, inspired by Brexit. What is Meridian's position here in these negotiations? Are you genuinely willing to sort of walk away if Rio says that they will close it unless they get a major cut in energy prices? And, if so, you know, what would you expect to happen? If I can qualify that second part, would you expect them to exit in a 12-month period, as they have the option to do, or would you expect a more sort of orderly shutdown over a sort of two to four or two to 5-year period? Thank you.

>> NEAL BARCLAY: I think the nature of the negotiations that we've been willing to enter into, Aaron, and put this in the context of we renegotiated the head contract in that came into force in 2013. An element of that contract was repriced in 2017. And then as recently as last year, we contracted for another 50 megawatts of load. They've been willing participants in each of those contracts.

Now, I guess at each point we've looked at the relative merits of doing the deal or not, and where our point of walk away was. So we're open to further conversations but we've been looking for options that provide win-wins. And an example of a win-win was an extension to this termination clause. We could potentially put a bit more in terms of price on the table, and we have done that. But they haven't been really up for taking us up on that type of proposition. We've also been exploring options around demand response where we think there's a lot of value on the table and available to the smelter if they were to provide a more flexibility operation. And that could be contracted by Meridian but by other parties as well.

So they're the sorts of conversations we're interested in having. Ones that aren't just a case of one shareholder writing out a cheque, a big one, to another shareholder. Now, I guess there's a point that, absolutely, if they're not viable and they can't get a reasonable price from the New Zealand market, then they might have to close, and that would be an unfortunate outcome but that would be something that we won't resole from because we're not going to just bend over and write that cheque, as I say. It's just economically not sensible for our shareholders. And the second part of the question?

>> AARON IBBOTSON: Yeah, I guess so,

>> NEAL BARCLAY: Well, we haven't actually had a conversation at any time with them about how they would play out. What we do know is they've got a 12-month termination clause where they can reduce from 572 megawatts down to 400 megawatts. It's a one-time-only option. Or they have a 12-month termination clause where they can go from 572 to zero or from 400 to zero.

You'd have to ask them what their intentions would be, but I don't think they're at the point of deciding to close the smelter. So they probably wouldn't have a clear answer for that. But it's not something I can really comment on, that would be their decision.

>> AARON IBBOTSON: Then finally, can you just update us, I believe on your capital market day a couple of years ago you sort of went through it in some detail, but what would be the infrastructure

transmission investment needed to avoid this power effectively being stuck on the South Island if they indeed exited?

>> MIKE ROAN: Aaron, Mike here.

>> AARON IBBOTSON: Hi, Mike.

>> MIKE ROAN: I can take that question for you. As you say, we provided an update a couple of years back on infrastructure build to facilitate energy from Manapouri and Cluther Power Stations then making their way up through the South Island and into the North Island, to the extent there was an exit of a smelter or a reduction consumption.

Transpower has completed some of the work to facilitate that but there's about three years of work to complete upgrading some of the remaining transmission lines at a cost of about $110 million. So that would help the energy make its way up from Southland to the rest of the South Island. And then Transpower would likely look at the HVDC link and capacity on the link and they do have plans for a fourth cable which would expand the capacity of that link between the South and North Islands.

It sits in their plan as being about five years from date they decided to implement it, and it cost about $150 million. So, potentially some further upgrades that they might do in the North Island between Palmerston North and Hamilton.

It’s not clear what their plan would be yet or how necessary they are but it’s in the same sort of order of time, between five and eight years, and in the order of another 100, $250 million.

>> NEAL BARCLAY: I think the bulk of the issue is dealt with that lower South Island grid upgrade, which can be done in three summers.

>> AARON IBBOTSON: Three summers. OK, thank you.

>> FACILITATOR: Thank you. The next question we have is from Steven Hudson from Securities. Please go ahead.

>> STEVEN HUDSON: Hi, Neal and Mike. I'm not sure how much you can share with me but I'm just interested in your feel for the smelter to stay in business, that has costs. Whether or not you can share a range of where you feel the smelter is at the moment and your confidence in that range. Just as a sort of adjacent question, as you're arriving at that sort of estimation, what your feeling is in terms of long-term for *the purity* as well?

>> MIKE ROAN: Hey, Steve, it's Mike here. I missed that last piece of the question, but,

>> NEAL BARCLAY: Linear for the purity.

>> MIKE ROAN: Our estimates of the smelter's cash position is that, based on the dynamics that we can see in play in forecast LME alumina and their underlying operating costs, we see a positive cash flow position for them this financial year, which is the calendar year' 19 for them. We don't see it as being large, free cash flow position for them but we do see it as being positive, on a standalone basis. That's for the standalone smelter.

We see that then improving based on those same forecasts as the alumina price and the aluminium price spreads have reverted back to more normalised levels, which alumina costs increased materially at the beginning of this year. And so we see, 2020 free cash position improving from, say, year' 19 or calendar year' 19 for them.

>> STEVE HUDSON: Sorry, Mike, that's useful. Just the second part of the question. I just wondered if you had any clarity on the premium, I think it's hovering around $US 160 per tonne at the moment and stable, reasonably sort of stable at that level, although I know it's come off from 400 a couple of years ago. But is there reasonable confidence that that premium is going to hold at that level? I suppose the second part of the question is, your analysis of the cash flow position, does that also include the ASI allocation, the fact that they're overallocated?

>> MIKE ROAN: Hey, Steven, just on that 160 bucks tonne premium, yep, we see that – in fact our forecast is slightly north of that as being a reasonable approximation of the premium that they receive. At least our forecasts suggests that's stainable. They'll be able to comment on that as well I'm sure. That last piece of the question, when I talk to free cash flow, our forecasts, we do it reasonably conservatively, there was a lot of costs related to the P4 start-up that we have captured in our underlying forecast for their free cash position that actually run into calendar year '19 and calendar year '20. So if we don't have insight into those capital costs, did they expend them all this year or will they roll through on an op-ex basis moving forward. Is that where your question was? >>

Neal Barclay: I think you're also asking about the glide path on the industrial allocations, Steven?

>> STEVEN HUDSON: What you said is useful, Mike, but it is really the glide path. We had a pretty good decision two months ago but, you know, when you read into that - the cabinet minutes, it looks like there's scope for the Minister to take a much more aggressive approach an industry by industry basis. It does look, given the wording, that they could make a more aggressive approach on NZAS if they wanted to, and particularly given they're overallocated.

>> NEAL BARCLAY: We haven't assumed that, Steven. So we've assumed the sort of glide path that's currently public. If you model that through it, there's no material impact on the smelter through to 2030.

>> STEVEN HUDSON: So you're just assuming the one, two, three, glide paths?

>> NEAL BARCLAY: Yes.

>> STEVEN HUDSON: And just one final question, sorry guys and then I'll leave it to somebody else. But in terms of whether you feel this is a specific effort issue or, you know, we can all see what's going on publicly, but, you know, to what extent Rio's going to be moving on Bell Bay and Boyne Island and just as a broader cost-out program, how would you balance the two?

>> NEAL BARCLAY: I couldn't really make a comment about their broader corporate objectives. But what we do know, as I said earlier, this is an escalation. We haven't seen them propose a strategic review of this particular facility before. And, you know, I don't think they've taken that decision lightly given the amount of disruption it cause for that business.

>> STEVEN HUDSON: OK, thanks guys.

>> FACILITATOR: Thank you. The next question we have is from Neville Glass from Jardin. Please go ahead.

>> NEVILLE GLASS: Hi Team, a number of questions from me. I'll start off with what is probably the key one. In the 2012/2013 negotiations, you ended up sort of at roughly an indifferenced price that was emboded in the 2013 deal. I'm just wondering whether the conditions or your outlook for the counterfactual, for the exit, is better or worse than it would have been back in 2012? I'm guessing it would be better. With sort of a higher outlook for gas price, perhaps the decarbonisation growth, becoming a lot higher likelihood. So for a start I'm wondering if you comment on that.

>> MIKE ROAN: Hey Neville. There's no not a material difference. As you say forecast, there is out there are reasonably positive compared to weather forecast was, our view of indifference is around the same level.

>> STEVEN HUDSON: Great, OK that's useful, thanks. That goes to what you would have, the implication being that you have roughly indifference still on the current contract prices prior so there is need to be an exchange. Would you consider a lower price for a lower volume? Is it something you think they would think about?

>> NEAL BARCLAY: I think a smaller smelter, it's hard to see how it would be a more profitable smelter. That said, they do have a significant portion of our coming capex on potline one. And we've got no details around that but they've given us a rough number of 60-plus million dollars, and that will chase out the reg performance, it seems like a lot of cash to be spent on reg performance, but if you take them at their word, there is a chunk of cash to be spent in one of those pipelines and so, it may be logical for them to reduce production and so from our perspective reduce our contract commitment to 400 megawatts.

>> STEVEN HUDSON: Would you think about making that a condition of a cheaper price?

>> NEAL BARCLAY: We have been exploring options, mainly around terms of price. I don't think a lower price on the lower level of volume is necessarily a good option for us, either. If you think about that, that point of indifference, where we're just about at, there has to be some sort of exchange, and I'm not sure that's one we'll consider.

>> STEVEN HUDSON: Are you assuming in the case you do a deal, third question, that a 2030 closure is likely? How do you think about the doing a deal scenario, the likelihood of the smelter continuing past 2030?

>> NEAL BARCLAY: There are smelters operating in the world that have been there since the 20's, last century. It still produces a fine grade development, hyper purity. I can only see the international competitiveness of the facility and program, but I've got a pretty strong view in terms of the cost of carbon in the future.

>> STEVEN HUDSON: OK.

>> NEAL BARCLAY: It's not a hard closed 2030, that's not our assumption set at all.

>> STEVEN HUDSON: Great, useful, thank you. And I guess I'd better leave room for other questions.

Just one last one from me, in terms of realistic time frame, obviously this brings a bit of uncertainty, and I understand you guys would still be talking to them, but formal negotiations such as that are entertained, don't sound like they would happen until late in quarter one next year or just after. What's a realistic timeframe for this uncertainty to be resolved do you think?

>> NEAL BARCLAY: Well, they've indicated they expect to complete their review by the end of the first quarter of next year so I would read into that, that they would expect to complete key negotiations before that time.

>> STEVEN HUDSON: OK, so you expect formal negotiations and rooms full of lawyers besides happening before March. >>

NEAL BARCLAY: You've been there before, you know what it's like, you might have a period of documentation but I would expect, based on what they've told us, that it's their intention to get a deal done, even if final documentation takes a bit longer, within that sort of timeframe. That deal as I say, it could be with multiple parties. We're just one party to this particular exercise.

>> STEPHEN HUDSON: OK, very clear, thank you.

>> FACILITATOR: Thank you. The next question we have is from Kevin Braun from White House perpetually, go ahead.

>> KEVIN BRAUN: I just want to clarify that you said that you have not any communication with Rio Tinto and they just abruptly put this review into place without communicating with you guys first?

>> NEAL BARCLAY: No I didn't say that, we are always in conversations with NZAS, who are owned by Rio Tinto. Like I say, we did a contract with them for extra 50 Megawatts in the middle of last year, we've had a conversation going on with them around a potential demand-response product. They've been constantly telling us they're economically challenged, so we started talking about a price per term type conversation, so it has been an ongoing conversation. But it wasn't until we got a phone call at six o'clock last night that suggests they would go down this route. So it's the first notice we got that a strategic review on the table.

>> KEVIN BRAUN: Sounds good, thank you.

>> FACILITATOR: The next question we have is from Adrian Essen of Morning Star, please go head.

>> ADRIAN ESSEN: Hi, guys. I'm just wondering if Gentailers are going to put a bit of a pause on new generation capex until the uncertainty is gone?

>> NEAL BARCLAY: Well I can't speak for other generators. We actually received consent of our Harapaki wind option north of Napier yesterday, which is a bit of good news, to give us a higher tip height, that improved the economics of that wind farm massively. Obviously any decision to go forward with the build will be in the context of how this conversation shapes out. But in terms of the other generators, you'd have to talk to them about their build aspirations and plans.

>> ADRIAN ESSEN: OK, thanks.

>> FACILITATOR: Thank you sir, As a reminder, to ask a question, please press 01 telephone keypad. If you change your mind, and would like to draw the question please key 02. Once again if you with to ask a question, please press 01 on the telephone keypad. The next question we have in the follow-up from Aaron Ibbotson, please go ahead.

>> AARON: Hi there, since no-one else asked, I have to ask, have you guys considered buying the smelter yourself or potentially cooperating with somebody else? Somebody who knows about steelmaking or aluminium making or indeed, some of the gentailers. Are those type of discussions entertained at all?

>> NEAL BARCLAY: Not today. It's fair to say that we're an electricity generator, we don't know too much about aluminium smelting, so that conversation has not taken place. Certainly not with Rio Tinto or NZAS, or any other party in the market from our perspective. But, hey this strategic review and we're not running it, but it will be an interesting exercise and who knows what will come out of it.

>> AARON: OK, thank you.

>> FACILITATOR: Thank you, The next question is from Grant Swanepoel, from Craigs Investment Partners, please go ahead.

>> GRANT SWANEPOEL: Good afternoon, quick question, you said you wouldn't take one for the team, as per your predecessor, but you have been negotiating directly, or at least putting offers into NZAS. Have you been collaborating or at least putting offers in with some of your competitors who would be negatively impacted? Or has this just been in your own bat in the first part?

>> NEAL BARCLAY: We have invited other parties to engage with the smelter, but our understanding is no-one has wanted to participate in those conversations. So the conversation that we've had going with them has been of equal value to Meridian and the smelter from our perspective. So we’re looking after our own interests. But as far as we’re aware no other party is willing engage.

>> GRANT SWANEPOEL: Thank you. In a follow-on from some of Neville's questions, this next 3-4 months, or four to five month period, during the period, would you be considering going to the area with a lot of options about $500 million just to rebalance the grid, if it wasn't for TY exit.
That potentially might not be needed in the future, and you can go to put to them an exit clause on three or four year’s time with a far deeper discount on the electricity price to give them a whole lot of options to think about or is this just, you keep playing your hand close to the chest and they keep playing their hand close to the chest?

>> NEAL BARCLAY: Ah we have a pretty frank and open conversation with them Grant. We are open to any ideas but they've got to be a fair exchange of value. And you started your question with ‘we're not going to take one for the team’. I want to make really really clear, I absolutely hold firm to that view. Meridian has underwritten the contract price for the smelter for a long time now. We continue to play our part, but we’re not going to take one for the team.

>> GRANT SWANEPOEL: But even the team, should be getting together and trying to put something in place on the counterfactuals or something, something to take us to that three year exit as opposed to a 1-year exit. Put that in place and you could potentially give away the fuel for almost free for three years as long as they stick around and keep taking it.

>> NEAL BARCLAY: Well we think there's value for a lot of other parties, within that conversation. You can't get together Grant because there's Commerce act law that doesn't really allow them to do that but there are other methods for people to engage with the smelter and do what we think is sensible. What you might think is sensible.

>> MIKE ROAN: We have successfully entered into arrangements with other parties in 2017 and then as Neal mentioned, for the connection of the extra 50mw in 2018, so there is a track record, but we can only do our piece and then open up the live communications.

>> GRANT SWANEPOEL: And I think you indicated that they had already spoken a bit to the government a little while ago, this was continued. Now in 2013 the government took them $30 million and I think at the time they said that it. Do you think the government has got their head around some of these issues and would engage in a meaningful way?

>> NEAL BARCLAY: I understand that they have been speaking the government and ministers regularly over recent times. You might have noticed the press release from the Minister of Energy this morning, she said opening line, basically that there's no way the government will bail them out. Now, I think the conversation can be directed towards Transmission Pricing Methodology because as we all know, they do pay a greater portion of the transmission costs of this country than is fair and reasonable. That will actually help their economics, reasonably significantly.

And it's a process that's under way anyway. The EA have come up with logical reasons and there's lots of benefits across the country for a reformed TPM. And if they deliver the outcomes that they're suggesting they'd like to, then it's a reasonably significant reduction in transmission costs to the smelter. But that starts to recoup in 2024 so it's a long-winded process. If we could speed up that process in some way, it could ease the burden and improve the outlook for the owners.

>> GRANT SWANEPOEL: Thanks that's it from me, thank you for your answers.

>> FACILITATOR: Next question we have is from Matt in, please go ahead.

>> MATT Louder: Hi, I'm not sure if this is a question that you're in a position to answer, but to the best of your understanding, what would need to change for Rio Tinto to stay? Is it just an issue of transmission pricing, is it something else? Or is this just more of an empty threat threat to get a better deal on transmission pricing?

>> NEAL BARCLAY: It's difficult for us to say exactly but we were looking for a reduction in the delivered cost of energy to the smelter, and they're looking at it across the energy component and the transmission component. That's only 30% of their costs though so they also have to look at other aspects of their operation. They are looing across the full gambit of their operation and when it comes to energy, it's energy as well as transmission that they're concerned about. As we see it today, the cost of energy to the smelter is certainly the top thing off the boat.

>> MATT: Thank you.

>> FACILITATOR: Thank you. The next question we have is from Reweti Kohere from the National Business Review. Go ahead.

REWETI KOHERE>>: G'day gentlemen, I just have two questions, the first one just picking up on the investment answer around the Napier wind farm. I just wanted to confirm that I heard it correctly and that consents have been received yesterday on that wind farm?

>> NEAL BARCLAY: Yes, we have consent to increase the tip height, it was a that viable wind farm anyway but that makes it well on the money, so and certainly a buildable option.

REWETI KOHERE>>: And as a result of the strategic review today, the decision to go ahead with that wind farm will then have to be made in the context of the review?

>> NEAL BARCLAY: Yes, I'd say that's the short answer. The reality is we are still absorbing the call from last night and we need to think through how we manage to deliver the kinds of decisions we need to make over the next few months, but short answer would be yes.

REWETI KOHERE>>: My second and final question, should the smelter close from Meridian's point of view, how will that impact on electricity prices?

>> MIKE ROAN: So, it's less than obvious in the long run for Meridian, the smelter close, how it's likely to play out is in the transmission build as I mentioned, and the... What that likely does is see a change in the way that electricity is supplied. Off the back of a termination, we would probably terminate an agreement that we have with Genesis, what people will refer to as a swaption, and there are a number of other arrangements that we have in place that might get terminated as well which would see, I would say, many parties look at the generation assets and resources that they utilise and likely see quite a different electricity system than we see today. So there will be a short run reduction in prices in southland until transmission is built out, and then as that re-termination of supply resources plays out there, we would likely see prices being lower than they would otherwise be but as that plays out, it's likely to equalise over time.

>>REWETI KOHERE: Sure, great thanks gentlemen

>> FACILITATOR: Sorry the next question we have is from Neville Glass from Jardan. Please go ahead.

>> NEVILLE GLASS: Hi, Team, sorry just one more follow-up from me, just pursuant to the last question, what kind of timeframe do you think is involved before you renormalise. Should we think, 2-3 years, 3-5? 5-8 What roughly kinda timeframe do you think the impact would have be in effect?

>> MIKE ROAN: Nev it does come down to those two things. One is reasonably clear, which is the build of the transmission line between Southland and the rest of the country, and that is three years, three summers. And the second one just comes down to, how quickly is there a reset in the build generation base, so however long that takes is how long it would take for prices to normalise.

>> NEVILLE GLASS: So if I were to suggest three to five, that's not really out of bounds?

>> MIKE ROAN: Yep, no I'd say people can make some pretty immediate decisions, subject to us, as I mentioned, providing notice under contract and then others making decisions in their own right. Yes, three years seems realistic, five years since like the outside of the envelope.

>> NEVILLE GLASS: Great, thank you.

>> FACILITATOR: As a reminder, ladies and gentlemen if you were to ask a question, please press 01 on the telephone keypad. If you change your mind, and decide to ensure question press 02… A final reminder... No further question.

>> NEAL BARCLAY: Everyone's had a good chance to ask their questions, we'll wrap it up there. Thank you for your attendance, no doubt there'll be more information flying over the next few months as the strategic review plays out and we get a better handle on how this is going to end up. Thanks.

>> FACILITATOR: Thank you ladies and gentlemen, that concludes your conference call for today, we thank you for joining ask that you disconnect alliance. Have a good afternoon, morning or evening.