

A close-up photograph of a person's hand holding a single drop of water just above the surface of a body of water. The background is a blurred landscape with a blue sky and water. The text 'Change needs energy.' is overlaid on the left side of the image.

**Change
needs
energy.**

Meridian Energy Limited.
Investor Letter.



Meridian.



Pushing forward with change

This has been perhaps the most challenging year for Meridian since the Company was listed. The announcement very early in the year of the planned closure of New Zealand Aluminium Smelters (NZAS) at Tiwai Point in Southland, the prolonged drought through the second half of the year and of course from COVID-19, all required close and careful management. Despite the challenges we were very pleased that our underlying business performance remained strong. And the opportunities for the future that are starting to take shape appear promising.

An exit becomes an opportunity

NZAS accounts for 13% of our country's electricity demand and they are a large employer in Southland. So, the quick exit of the smelter by August of 2021, originally proposed by the owners, would have been very disruptive for the Southland community and the electricity sector. Consequently, we negotiated a discounted price with the Smelter's owners in exchange for an extension to our contract to December 2024.

The expiry of the supply contract to NZAS in late 2024 has created a 'once in a generation' opportunity to help grow Aotearoa and decarbonise our economy. Meridian's strategy to take advantage of the 5,000 GWhs per annum of energy that becomes available when NZAS closes, is multi-faceted and can be summarised as follows:

- We have supported and appreciate that Transpower agreed to speed up the upgrade of the lower South Island grid to ensure any surplus energy in the region can

be exported to the rest of New Zealand. That work should be complete by May 2022.

- We are exploring the feasibility of a grid scale battery, located in the North Island. The battery will provide reserve energy and therefore increase the effective capacity over the Cook Strait Cable and allow a greater flow of power from the South Island to the North Island.
- We continue to grow our retail customer base to, in part, offset the loss of our largest customer, NZAS.
- We have developed and launched a Process Heat Electrification Programme to support industrial customers to convert their fossil fuel based processes to renewable electricity.
- We are exploring new demand opportunities that will grow economic value and jobs for the country including green data centres and the production of green hydrogen for both export and domestic use.

Focusing on our customers

Our focus on delivering great value for our customers continued to pay off this year and at a headline level we saw strong growth in our customer numbers on both sides of the Tasman.

In New Zealand, our dual brand strategy and focus on customer satisfaction is resonating, reaching a wide group of New Zealanders by offering products for different market segments and making it easier to work with us. Powershop led the industry engaging with customers and evidenced by the winning the Canstar and Consumer New Zealand awards for customer satisfaction and trust.

In Australia we continue to set the benchmark for a great customer proposition. Powershop Australia was once again recognised by Canstar Blue, Finder and Roy Morgan for customer satisfaction and market leading products and service.

We have made very good progress on our digitalisation journey and around 95% of customers' accounts have been successfully migrated onto our Flux customer care and billing platform.

Difficult operating conditions in Australia

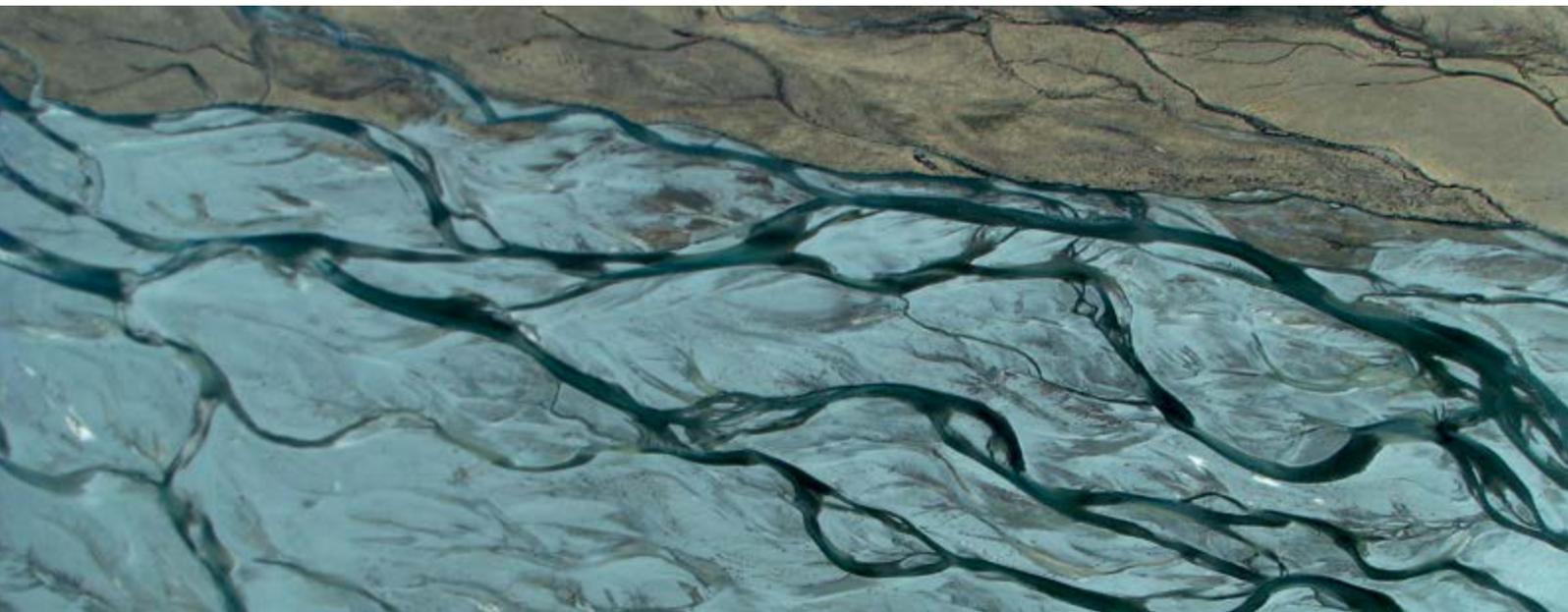
While our retail sales volume increased, wholesale prices in the Australian market fell to unsustainably low levels and this impacted the performance of our generation assets. Overall, the Meridian Energy Australia group result was down on the prior year even though we had more hydro generation available as the drought conditions, that had been a feature for the last few years, began to ease. Recently, Australian wholesale prices have lifted from the low levels during the 2021 financial year.

Towards year end, we announced we are revisiting our growth strategy and our ownership of Meridian Energy Australia (MEA). This review will consider a full range of options including accelerated growth as well as partial or full divestment. The ownership review is expected to take a number of months and no decision will be made on the future direction or options for MEA until the completion of that process.

The road to decarbonisation

We are supportive of the direction of travel in the Climate Change Commission's final advice to Government. If adopted, these measures can help enable Aotearoa to change course with sufficient pace and scale to set us on a path to achieve our climate commitments.

Aotearoa currently generates around 80–85% of its energy from renewable sources and as we move toward a fully renewable future and we reduce the amount of coal and gas fired generation available, we will need to find alternate ways to meet New Zealand's demand for electricity when the hydro lakes run low. The work that Meridian and Contact are jointly leading on the opportunity to establish a large-scale green hydrogen production facility based in Southland is a good example of one of these. If the hydrogen producer is willing to reduce production and their demand on the electricity system at times when the hydro lakes are low, then it helps balance supply and demand across the whole system without introducing carbon emissions from coal or gas. We believe this kind of demand response is likely to be commercially viable for flexible processes like hydrogen production and would deliver a very cost-efficient outcome for the system as a whole and ultimately the end consumers of electricity.





Our people have done great work

We want to pay tribute to the hard work and successes of all of our people this year. Our teams responded positively and quickly to the demands of working with COVID-19 restriction and our business never missed a beat. We'd like to particularly acknowledge our teams based in Victoria who have endured more than a year of COVID-related restrictions – their commitment and resilience has been amazing.

Our Team's overall engagement scores have remained high, and we know we have a committed, resilient team who are up for seizing opportunities, looking after our customers, and doing right by each other.

Disappointingly, our health and safety stats slipped, with an increase in our reportable injuries, more injuries overall and more time off work due to injuries. Whilst none of the injuries suffered by our people were serious or long lasting in nature, the Board and Management are not accepting of our level of performance and we continue to be have an absolute focus on keeping our people safe from harm.

Changes at Executive and Board level

During the year there was one change announced to our Executive Team. Jason Stein has signalled his intention to step away from the role of CEO of Meridian Energy Australia and Powershop Australia in December 2021. Jason has done an exceptional job of steering our Melbourne based team through a prolonged lockdown and difficult trading conditions.

The Board too has worked hard this year to oversee our strategy and provide guidance in testing times. Two members of our Board will be retiring at our Annual Shareholder Meeting in October. Peter Wilson, Deputy Chair, and Anake Goodall, have both served on the Board

since 2011. Peter and Anake have been strong supporters of our sustainability leadership position and we thank them for their significant contribution and guidance over the past decade.

The Board will appoint Tania Simpson as an independent director effective from the date the Electricity Authority's approval is Gazetted. Tania will bring extensive governance experience across many industries, including Tainui Group Holdings, Ngāi Tahu Tourism and Auckland International Airport. She will be standing for election in October along with Mark Cairns who will stand for re-election.



Financial results

Our previous two years saw record results powered by strong generation and growing retail sales volumes. This year the company maintained that strong retail sales growth with New Zealand volumes up 14% on the prior year. Drought conditions during the second half of the financial year dampened our cash earnings by reducing generation and increasing hedge costs – that is just the nature of our business and the variable New Zealand weather. The price we negotiated with the owners of Tiwai Point Aluminum Smelter to extend operations to 2024 reduced during the second half of the year. Whilst both events impacted financial performance, the underlying drivers of future business value remained strong, in particular growth in customer sales and our commitment to build the Harapaki wind farm.

Noting that the last financial year was a record year for earnings generated through generation, Group EBITDAF decreased by 15% to \$729 million. Net profit after tax was impacted by fair value movements on its hedge instruments, increasing

to \$428 million. Underlying net profit after tax decreased 27% to \$232 million.

Our balance sheet is resilient. Last year the smelter decision saw rating agency Standard & Poor's change Meridian's credit rating outlook from stable to negative. However, on the first day of the new 2022 financial year, S&P Global Ratings reaffirmed Meridian Energy's corporate credit rating as BBB+/Stable/A-2.

The Board has declared a final ordinary dividend of 11.20 cents per share, unchanged from the previous year. This brings the total ordinary dividends declared in FY21 to 16.90 cents per share, also unchanged from the previous year. This year, for the first time, we are introducing a dividend reinvestment programme and the Board has determined that shares issued under the Plan in respect of the 2021 final ordinary dividend will be issued at a discount of 2.0% to the market price. The programme will enable investors to invest effortlessly in our future at the same time as it will enable us to reduce our debt position and manage our debt more prudently.

↓
11%

NZ energy margin

↓
15%

EBITDAF

↓
27%

Underlying net profit after tax

↑
145%

Net profit after tax

–
16.9 cps

Ordinary Dividend

Underlying net profit after tax reconciliation (\$M)	FY21	FY20
Financial year ended 30 June		
Net profit after tax	428	175
Underlying adjustments		
Hedging instruments		
Net change in fair value of electricity and other hedges	(169)	113
Net change in fair value of treasury instruments	(79)	48
Premiums paid on electricity options net of interest	(20)	(20)
Assets		
(Gain)/loss on sale of assets	1	–
Impairment of assets	(6)	58
Total adjustments before tax	(276)	199
Taxation		
Tax effect of above adjustments	77	(58)
Underlying net profit after tax	232	316

An exciting new context

Aotearoa's imperative to decarbonise the economy and the expiry of our contract to supply the aluminium smelter at Tiwai Point in late 2024 have reset the playing field for Meridian and the electricity sector as a whole. We believe our brands; our people and our renewable asset base serve as strong sources of competitive advantage for Meridian. Leveraging these advantages, whilst staying true to our sustainability values means Meridian can execute on our customer and renewables generation growth strategies and continue to deliver value for all our stakeholders.

Finally, a sincere thank you, on behalf of the Board and the Executive Team, to everyone we work with and are our customers, those who invest in us and everyone in our teams for helping us to continue delivering cleaner energy for a fairer and healthier world.



Visit meridian.co.nz/investors to download the full Meridian Integrated Report for the year ended 30 June 2021.