



Meridian Energy Limited.  
Investor Letter.



**Mark Verbiest**  
Chair



**Neal Barclay**  
Chief Executive



### **Successfully navigating a range of challenges**

Meridian's commitment to our purpose of Clean Energy for a Fairer and Healthier World continues to be the number one driver of all our business decisions and being closely aligned with this purpose in FY20 was more important than ever.

FY20 was another successful year for our Company and we were particularly pleased with the continued growth in our customer businesses. Financially it was a solid year for Meridian with another record EBITDAF result, although net profit after tax was lower.

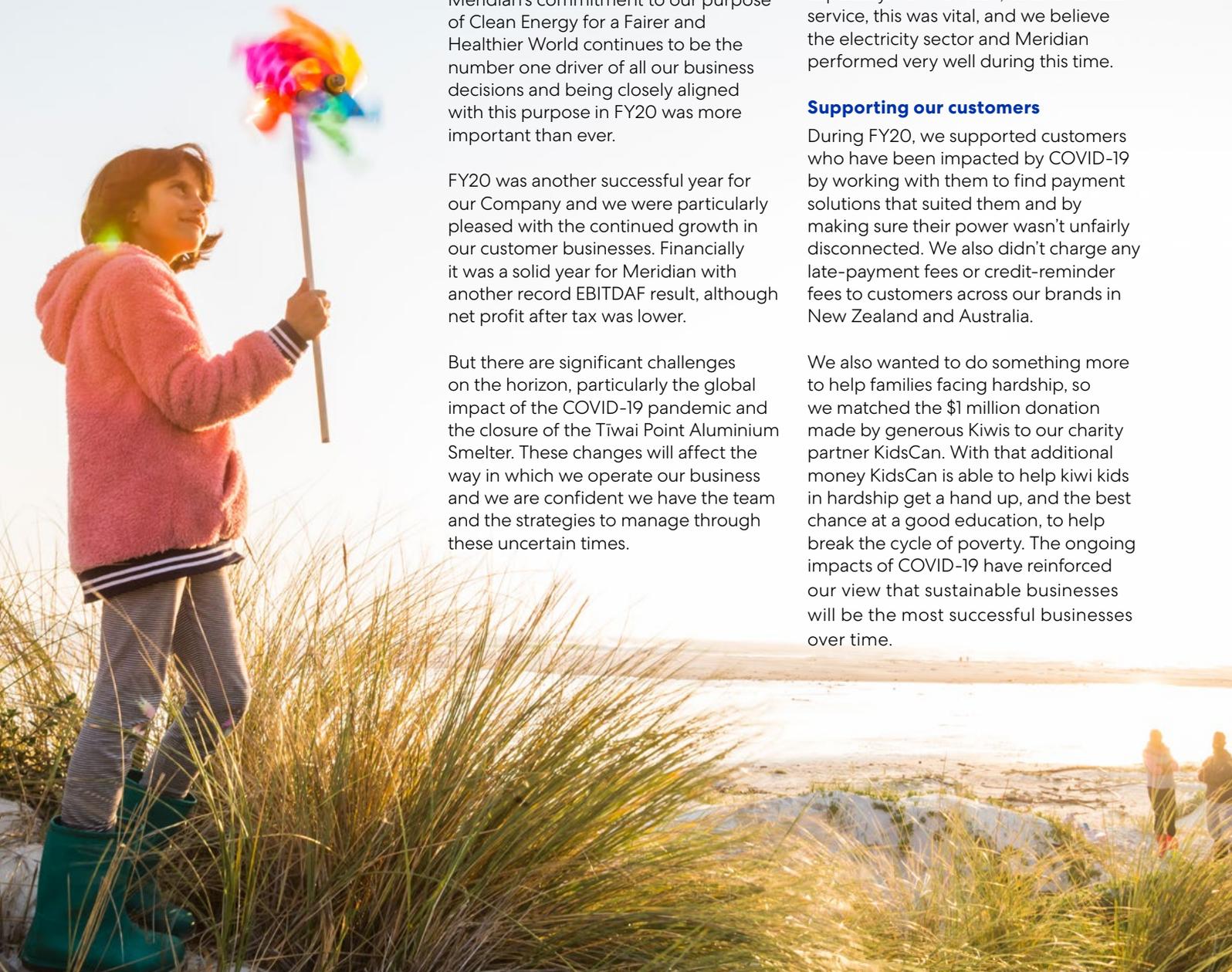
But there are significant challenges on the horizon, particularly the global impact of the COVID-19 pandemic and the closure of the Tiwai Point Aluminium Smelter. These changes will affect the way in which we operate our business and we are confident we have the team and the strategies to manage through these uncertain times.

Throughout the COVID-19 pandemic to date we have maintained full operational capability. For Meridian, as an essential service, this was vital, and we believe the electricity sector and Meridian performed very well during this time.

### **Supporting our customers**

During FY20, we supported customers who have been impacted by COVID-19 by working with them to find payment solutions that suited them and by making sure their power wasn't unfairly disconnected. We also didn't charge any late-payment fees or credit-reminder fees to customers across our brands in New Zealand and Australia.

We also wanted to do something more to help families facing hardship, so we matched the \$1 million donation made by generous Kiwis to our charity partner KidsCan. With that additional money KidsCan is able to help kiwi kids in hardship get a hand up, and the best chance at a good education, to help break the cycle of poverty. The ongoing impacts of COVID-19 have reinforced our view that sustainable businesses will be the most successful businesses over time.





### Healthy customer growth

Our Powershop business in Australia once again achieved outstanding growth as customers continued to choose cleaner energy options. Customer numbers grew by 24% and there was a 24% increase in the volume of electricity sold whilst gas sales were up three-fold. Powershop's success in Australia means we're looking at new generation options the business will need in the medium term. These include the 130-megawatt Rangoon wind farm development project that Meridian Australia has in northern New South Wales, which could power 58,000 homes a year.

Whilst supporting customers through the COVID-19 pandemic we were also able to continue to grow our retail market share.

In New Zealand across both our Meridian and Powershop brands, we grew customer numbers by 7% and the volume of energy sold by 18%. Even more pleasing, our overall customer satisfaction ratings and our customer retention rates improved and set the benchmark for the industry.

### Rio Tinto to exit New Zealand

In October 2019 Rio Tinto announced that it was undertaking a strategic review of New Zealand's Aluminium Smelter at Tiwai Point in Southland. On 9 July 2020, Rio Tinto announced the termination of its contract with Meridian and its intention to close the smelter by 31 August 2021. Rio Tinto's decision is hugely disappointing for the smelter workforce and the Southland community of which we're a part.

During the Rio Tinto strategic review, Meridian was able to put together a package of contractual amendments that would have delivered a significant reduction in the cost of delivered energy to the smelter, well in excess of \$60 million per annum. We believe that this offer was fair and in the interests of Meridian shareholders and New Zealand. As part of that package we asked the smelter owners to commit to Aotearoa for a period of at least four years. They were unwilling to make that commitment and have instead chosen to close the smelter.

### Electricity Authority preliminary UTS decision

In December 2019, an energy trading company (Haast Energy Trading) and a group of small retailers lodged a claim with the New Zealand Electricity Authority that Meridian and other South Island hydro electricity generators had caused an undesirable trading situation (UTS) in November and December 2019. On 30 June the Electricity Authority released its preliminary decision, determining that a UTS had occurred between 3 and 18 December 2019.

Management and the Board have looked closely at the Authority's preliminary decision and we do not believe our actions constituted a UTS. We believe the preliminary decision failed to adequately consider the enormity of the flood conditions that Meridian was managing during that time.



### Harapaki decision

The Board made the tough decision in August to defer the build of our Harapaki wind farm. While the business case for Harapaki is very sound, the market needs time to adjust to Rio Tinto's decision to exit New Zealand. We are still confident that we will build Harapaki in the future.

### Transmission Pricing Methodology

Just before the end of the financial year the Electricity Authority released its final decision on the Transmission Pricing Methodology guidelines.

We're pleased with the outcome and that a benefits-based approach to transmission pricing was adopted by the Authority. It will provide certainty, be fairer and enable a more efficient investment in and use of the transmission grid. This new approach will be positive for Meridian financially.

### Climate action

We believe that in FY20 policies progressed well. There was considerable progress at the policy level to support Aotearoa to meet its zero-carbon aspirations. The Climate Change Response (Zero Carbon) Amendment Bill was passed, the Climate Change Commission was established, and we also now have the package of Emissions Trading Scheme reforms that are the key policy tool driving emission reductions. In June a water reform package outlined changes to how freshwater is managed and steps to improve water quality within a generation. These changes protect the flexibility and output of existing large hydro to support further decarbonisation, aim to improve the health of our waterways and, importantly, better recognise the values and perspectives of tangata whenua.

Most of the energy New Zealand consumes still comes from burning fossil fuels – the fuels that power our cars and provide heat for industries, homes and public infrastructure. Combined, these energy sources account for 41% of New Zealand's greenhouse gas emissions. About half of that's from transport.

The opportunity to electrify these energy uses and to power our nation with renewable electricity is massive for our country and, once done, will go a long way to eliminating our non-agricultural emissions. Meridian remains totally committed to working with government, industries and our customers to support the future electrification and decarbonisation of the New Zealand economy.

### Our employees are committed

Our survey in May 2020 saw employee engagement scores across Meridian, Powershop and our Australian companies lift to 85%, demonstrating that our people are proud to work for Meridian and committed to the company.

### We introduced Learning Teams

The most important thing at Meridian is that our people go home safely at the end of each day – but in FY20 we had too many significant injuries for our liking. We made changes to ensure that our health and safety culture continues to evolve and improve, and to ensure that our people are as physically and mentally protected as possible.

### Refreshing our executive

During the year there were four new appointments to Meridian's Executive Team. Lisa Hannifin was appointed as Chief Customer Officer, Claire Shaw was appointed as General Manager

Corporate Affairs and Sustainability, Jason Woolley was appointed as General Counsel and Company Secretary and Jason Stein, who was previously Meridian Energy's General Counsel and General Manager of the Office of the CEO, was appointed CEO of Meridian Energy and Powershop Australia. All these roles were filled internally after recruitment processes that included external candidates. These appointments show we have talented people in our organisation, that our people are encouraged to step up, and that the skills and leadership we're developing here test very well against the market.

### Flux

We are increasing Flux's capability in New Zealand to better support the migration of Meridian customers to the platform. However, this increase and the associated complexity with Meridian's customer base meant that the migration project, that commenced during 2018, was extended by nine months, and it is now scheduled for completion during September 2021. The benefits of and business case for the project remain very positive.

The ongoing relationship between Flux and Powershop UK is now uncertain. Powershop UK is owned by npower who in turn are now part of the E.ON Group. In the U.K, E.ON and Kraken Technologies, part of Octopus Energy Group, entered a strategic agreement regarding E.ON's UK residential and small and medium-sized business (SME) energy retail businesses. It is our understanding that E.ON intend to migrate their customer base (including the npower customer base) to the Kraken platform. At this stage we are unsure of npower's intentions in relation to the Powershop UK brand.

## 2020 financial results

Meridian Energy has reported a strong financial outcome for the FY20 year powered by record generation and strong retail sales growth on both sides of the Tasman.

Group EBITDAF<sup>1</sup> increased by 2% to \$854 million. Net profit after tax decreased 48%, reflecting higher depreciation on previously revalued assets and movements in forward prices and rates on financial instruments used to manage risk (non-cash, fair value movements). Underlying net profit after tax<sup>2</sup> (which removes these fair value movements) decreased by 5%.

The Board has declared a final ordinary dividend of 11.20 cents per share, 4% higher than the previous year. This brings the total ordinary dividends declared in FY20 to 16.90 cents per share, 3% higher than last year's, and represents a 75% payout of free cash flow. Meridian also declared a final special dividend of 2.44 cents per share (\$62.5 million) in February 2020 under the company's capital management programme. With Rio Tinto's announcement of its intention to close the Tiwai aluminium smelter, the Board has now ceased this programme.

The smelter decision also saw rating agency Standard & Poor's change Meridian's credit rating outlook from stable to negative.

↑  
**1%**

NZ Energy Margin

↑  
**2%**

EBITDAF

↓  
**48%**

Net profit after tax

↓  
**9%**

Total Dividend

<b>Underlying net profit after tax reconciliation (\$M)</b>	<b>FY20</b>	<b>FY19</b>
Financial year ended 30 June		
Net profit after tax	176	339
<b>Underlying adjustments</b>		
Hedging instruments		
Net change in fair value of electricity and other hedges	113	(58)
Net change in fair value of treasury instruments	48	63
Premiums paid on electricity options net of interest	(20)	(17)
Assets		
(Gain)/loss on sale of assets	-	(3)
Impairment of assets	58	5
Total adjustments before tax	199	(10)
Taxation		
Tax effect of above adjustments	(58)	4
<b>Underlying net profit after tax</b>	<b>317</b>	<b>333</b>

1. EBITDAF is a non-GAAP financial measure comprising of earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges, impairments and gains of losses on sale of assets.

2. Underlying net profit after tax is a non-GAAP financial measure comprising net profit after tax adjusted for the effects of changes on fair value of hedges and other non-cash items.

## Undaunted in our pursuit of our long-term goals

All in all, FY20 was quite a year, but our commitment to 100% renewable energy and helping New Zealand to achieve its zero-carbon goals remained our focus.

The electricity sector is a big part of the solution for Aotearoa's greenhouse gas emissions. The industry can and will build the renewable generation and transmission assets required to power growth in the number of electric vehicles on our roads and the electrification of stationary energy uses, ending our country's current dependence on fossil fuels. Meridian will play its part in moving rapidly to that future.

We also need to preserve our backbone of hydro generation in Aotearoa, which can flex and fill the gaps between intermittent wind and solar generation. It's the key to renewable expansion.

We need to do all this while keeping electricity affordable – both to ensure that we're playing our part to reduce energy hardship and to ensure the right priority is put on vital decarbonisation projects. We need to focus on projects that will help to transform our society and economy in the next decade as we reduce our reliance on fossil fuels and transition to clean energy to respond to the climate emergency facing us all.

We are most definitely on the right path. New Zealand's electricity market is globally recognised as world-leading and well-functioning. The International Energy Agency says New Zealand is a success story for the development of renewable energy without the aid of government subsidies and recent Ministry of Business, Innovation and Employment (MBIE) data shows the average New Zealand household electricity bill is at its lowest in real terms since 2009.

On behalf of the Board and the Executive Team, a sincere thank you to our shareholders, our customers, communities and partners, and the Meridian team for your continued support for and investment in cleaner energy for a fairer and healthier world.

This year's Integrated Report aims to provide a concise summary of the year in review, and the way in which Meridian takes care of its customers, people, local communities, iwi and the environment which in turn supports our ability to continue delivering shareholder returns. This way of reporting is significantly more meaningful and engaging than typical reports, and we encourage you to read it and would love your feedback which you can email to [investors@meridianenergy.co.nz](mailto:investors@meridianenergy.co.nz).

Visit [meridian.co.nz/investors](https://meridian.co.nz/investors) to download the full Meridian Integrated Report for the year ended 30 June 2020.