

Release

Stock Exchange Listings NZX (MEL) ASX (MEZ)

Meridian delivers sound results, underlying drivers of business value remain strong

25 August 2021

Meridian has reported underlying net profit after tax¹ for the Group of \$232m, down \$84m or 27% on the prior year. EBITDAF² for the year was \$729m, down \$124m or 15% on the prior year. With the benefit of \$248 million of positive non-cash movements in the value of hedge instruments, Meridian Energy has reported \$428 million of net profit after tax for the year ended 30 June 2021.

The 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. Challenging drought conditions prevailed through much of the second six months of the year and as a result New Zealand hydro generation was down 12% on the previous year. Notably the inflows into Meridian's hydro catchments from November 2020 to April 2021 were the third lowest on record during that period.

Chief Executive Neal Barclay says, "We certainly experienced some challenges in FY21. Drought conditions during the second half of the financial year dampened our cash earnings by reducing generation and increasing hedge costs but that is just part and parcel of being a hydro generation company in New Zealand. Also, 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 were significant and 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."

The ordinary dividend remains stable with the Board declaring 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 last financial year. This year, Meridian announced the introduction of a Dividend Reinvestment Plan, that will apply from this year's final ordinary dividend. The Board has resolved to apply a 2.0% discount to this dividend under the DRP.

¹ Net profit before tax adjusted for the effects of changes in fair value of hedges and other non-cash items. Underlying net profit after tax is a non-GAAP financial measure. Because they are not defined by GAAP or IFRS, Meridian's calculation of such measures may differ from similarly titled measures presented by other companies and they should not be considered in isolation from, or construed as an alternative to, other financial measures determined in accordance with GAAP. Although Meridian believes they provide useful information in measuring the financial performance and condition of Meridian's business, readers are cautioned not to place undue reliance on these non-GAAP financial measures. A reconciliation of underlying net profit after tax is included on page 3.

² EBITDAF is a non-GAAP financial measure but is commonly used within the electricity industry as a measure of performance as it shows the level of earnings before impact of gearing levels and non-cash charges such as depreciation and amortization. Market analysts use the measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector.

Customers

Meridian has continued to focus on customers first. “It was pleasing to see that our commitment to excellent customer service is being recognised. In New Zealand, Powershop won the Canstar and Consumer New Zealand awards for customer satisfaction and trust, and over in Australia Powershop was recognised once again by Canstar Blue, Finder and Roy Morgan for customer satisfaction,” Barclay says.

Alert Level 4

Meridian’s staff are again proving resilient and flexible to the greater COVID-19 restrictions New Zealand is now experiencing. “We are thankful to our staff for their hugely positive response to the lockdown, particularly those helping customers who may be facing greater hardship from the current restrictions. Early indications suggest system demand has again reduced with Alert Level 4, although not to the same extent that was seen in 2020,” adds Barclay.

NZAS exit

Meridian announced in January 2021, that it had reached an agreement with its largest customer, Rio Tinto, who operate the Tiwai Point Aluminium Smelter in Southland, to support the smelter to remain operational for a further four years. Some terms are more favourable to the smelter owner in exchange for creating time for the Southland economy and the electricity sector to transition to life without the smelter in an orderly fashion. Meridian is gaining good traction on South Island load alternatives such as the Southern Green Hydrogen project, for when the smelter exits at the end of 2024.

“We are working on a number of opportunities that have the potential to not only enhance the value of our business, but also create lasting long-term value for New Zealand,” adds Barclay.

Climate action

“As a 100% renewable electricity generator who is committed to protecting our environment, we’re supportive of 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. More than \$7 billion of new renewable generation must be built to enable New Zealand to achieve its climate goals and at Meridian we are committed to delivering our share of that build programme. The \$395 million Harapaki wind farm that our Board approved in February this year is a tangible step on this path.

“Aotearoa’s imperative to decarbonise the economy along with 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 by staying true to our sustainability values and by continuing to strengthen our brands, our people and our renewable asset base, Meridian can deliver on our customer and renewables generation growth strategies and continue to provide value for all our stakeholders,” says Barclay.

Income statement

Financial year ended 30 June	2021	2020
\$M		
New Zealand energy margin	994	1,122
Australia energy margin	97	122
Other revenue	29	27
Energy transmission expense	(87)	(123)
Electricity metering expense	(39)	(36)
Employee and other operating expenses	(265)	(259)
EBITDAF	729	853
Depreciation and amortisation	(303)	(312)
Impairment of assets	6	(58)
Gain/(loss) on sale of assets	(1)	-
Net change in fair value of electricity and other hedges	169	(113)
Net finance costs	(84)	(84)
Net change in fair value of treasury instruments	79	(48)
Net profit before tax	595	238
Income tax expense	(167)	(63)
Net profit after tax	428	175

UNPAT

Financial year ended 30 June	2021	2020
\$M		
Net profit after tax	428	175
Underlying adjustments		
<u>Hedging instruments</u>		
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)
<u>Assets</u>		
(Gain)/loss on sale of assets	1	-
Impairment of assets	(6)	58
Total adjustments before tax	(273)	199
<u>Taxation</u>		
Tax effect of above adjustments	77	(58)
Underlying net profit after tax	232	316

ENDS

Neal Barclay
 Chief Executive
 Meridian Energy Limited

For investor relations queries, please contact:

Owen Hackston
 Investor Relations Manager
 021 246 4772

For media queries, please contact:

Polly Atkins
 External Communications Manager
 021 174 1715