Meridian Energy Annual Results – 29 August 2023 – LIVE TRANSCRIPT

+ Speakers:

+ Neal Barclay, Chief Executive

+ Mike Roan, Chief Finance Officer

Neal Barclay

Kia ora tautou and welcome to Meridian's annual results presentation for the financial year ended 30 June 2023. I'm Neal Barclay, Meridian's Chief Executive and I'm joined by Mike Roan, our CFO.

I'll cover off updates on the business and the sector and then Mike to take you through the financial result. I'll then wrap things up, and we'll get into questions.

You'll all note the topic missing from this highlight slide is NZAS. Six months ago, I said discussions with NZAS were continuing. In the intervening six months, those discussions have continued to continue. There is really not much else we can add at this point, and we will inform the market of the outcome as soon as we know what it is.

As for the financial result, at first blush $95m NPAT looks like a bad year, but our Net Profit swings around hugely based on revaluation gains and losses on energy and interest rate derivatives. Mike will help demystify that soon but the number we still focus on internally as a key metric of operating performance is EBITDAF, and pleasingly at $783m, that was 10% up on the prior year. Strong retail performance continues to power our underlying earnings growth, supported by good management of the realised portion of our forward hedge position. That has allowed us to continue to nudge the dividend upwards again this year.

We remain very focussed on supporting customers decarbonise their energy needs. We are now energy supplier to 472GWh of committed process heat electrification projects, and the pipeline of potential projects continues to expand. A recent joint study completed by EECA and DETA found that boilers, larger than 500kw, represent an electrification opportunity of more than 4,500GWh, in the South Island alone.

We are delighted to announce a 27MW demand flexibility agreement with Open Country Diary. The demand flex they can offer will help Meridian manage both seasonal and peaking price volatility. This arrangement is a key part of their electrification project and represents a real win win for the customer and the energy system. The potential for commercial demand response is massive and still largely untapped.

We are the first mover on grid scale battery technology in this country, with construction of our 100MW battery at Ruakaka in Northland.

Our work to reconsent the Waitaki Power Scheme reached a significant milestone last month when we lodged a new consent application. We are seeking a further 35-year operating consent, commencing in April 2025, on the same conditions as we have today. We have been working with many interested people for many years to ensure our application has strong support across the board. Most notably, we've reached agreement with DOC to turbo charge Project River Recovery. And we are developing a strong partnership with the Waitaki Rūnaka of Ngāi Tahu that will deliver environmental and cultural benefits for generations to come.

The Harapaki wind farm has worn the impacts of 3 ex-tropical cyclones and a number of other large rainfall events during the first two years of construction. Cyclone Gabrielle, we all know, caused widespread damage over a large area, including within our construction site. The response from our team, and staff at Transpower, Unison and Waka Kotahi, in and around the areas of destruction, is something I am humbled by, and I am very thankful for. I'd also like to call out our team members who acted as first responders during the flood crisis. They were acknowledged by Red Cross for being there and being able to help when it mattered most. As we signalled to the market in July, all up we've lost around 3 months to the schedule, but the project is now out of the ground and large turbine components are being transported to site. We should get the whole thing stood up and operating by September next year. The Harapaki wind farm will produce enough power to supply around 70,000 homes and just as importantly, will help improve grid resilience into the Hawkes Bay region.

As we mentioned at our interim result, our development team have made strong progress increasing the size of our development pipeline. This pipeline now comprises options totalling 11TWh, which is equivalent to 90% of our existing generation portfolio. This pipeline will undoubtedly change over time, but the key thing is, we are creating a portfolio of development options with real depth, that will support business growth for the 30 years, not just this decade.

Transformers have been something of a headache this year. Most significantly, two of our Manapouri transformers have been showing elevated gassing levels and have been on extended outages. These are relatively new machines, and they shouldn't be misbehaving. Work continues to establish the cause of the issues and whilst we hope not to have to write-off either, the process is underway to procure at least one new Manapouri transformer. Having a diversified high quality asset base really does make a difference and we have enough flexibility across our generation fleet to manage several unit outages like this. However, capacity is becoming more valuable, so the commercial case for carrying spares is making more sense now than it used to.

On the plus side our asset team have found a way to extract additional MWs out of our Benmore and Manapouri units. All up they've added 43 MWs of capacity across both stations and are chasing another 18 MWs. That is the equivalent of a decent sized battery for close to zero real cost.

We are working with credible and committed partners on Southern Green Hydrogen. Woodside and Mitsui are there, and we have secured the option for Ngai Tahu to join the JV at the point of financial commitment. There is complexity in the technical and commercial terms of the development phase, so progress has been careful because we need the JV foundations to be right. What we have here is real, Hydrogen will play a significant part in the future low carbon energy system in New Zealand. So, for me Southern Green Hydrogen represents not only a strong commercial opportunity for our business but even more importantly, potentially a significant step toward energy independence for our country.

Every outcome that Mike and I talk about during this presentation, is directly attributable to our people. So, creating an inclusive culture that allows us to build a diverse and talented team is really priority number one for us.

Over the last 12 months we've focussed on modernising our staff benefits package to include a broader definition of wellbeing leave, higher parental leave, KiwiSaver top ups, better service recognition and free medical insurance, to accompany the life insurance already in place. These improvements have resonated well with our staff.

We have also refreshed our work programmes supporting our Belonging and Te Ao Māori strategies. And we've matured our hybrid working protocols.

In April last year we had to exit our Wellington HQ due to seismic issues. It has taken a while to sort out a long-term solution but last week we signed a lease on premises in the iconic Old Bank Arcade. We expect to move in early next year.

Ultimately, we want an environment where people can thrive and do their best work. But firstly, we need to avoid causing harm to anyone and whilst all the injuries incurred in our business over the last year relate to slips, trips and strains, some of them had the potential to be much worse. Overall, our safety performance benchmarks well with industry, but our focus needs to be, and is, unrelenting.

The electricity market in Aotearoa continues to rate in the top 10 of the OECD countries in terms of the energy trilemma of affordability, security, and sustainability - it simply works very well. Just imagine for a moment that you are a South African resident, suffering years of daily managed blackouts to avoid grid collapse. Or an Australian customer having copped a 20%+ price increase this year.

After adjusting for inflation, residential and business prices have trended down in New Zealand for the last 10 years. Using a slightly different lens, over that same time frame, electricity costs, as a percentage of average household income have fallen from 2.4% to 1.8% – a reduction of 25%. And whilst industrial prices have risen over recent years, they are still competitive internationally.

However, none of that is any comfort for many kiwi households who are being squeezed by cost-of-living pressures. So, we've launched an Energy Wellbeing programme that will invest $5m over the next two years to provide targeted direct support for 5,000 households. The programme builds on the successes and lessons learned from the pilot we ran in 2022 that involved 134 households. Our teams will work with customers who are struggling to make ends meet, by understanding their needs, setting realistic goals, and offering support that will have the most impact on their circumstances. It requires a high engagement model, specialist skills and a strong network with the many agencies that support those most in need. We have found we can be effective and make a real difference to peoples' lives.

Meridian has been, and intends to always be, fully compliant with the Electricity Authority's customer care guidelines. Our record on customer care speaks for itself, we continue to have extremely low disconnection rates and our credit team operate to a mantra that we do not disconnect any person who genuinely wants to pay their bill, even if sometimes they can't. We were also the first of the large retailers to cease clawing back prompt payment discounts, a few years back now. And I think we are certainly showing leadership with our new energy wellbeing initiative.

Forward prices have been through a crunch and whilst now moderating, there is clearly still significant risk priced in. Peak load management, the role and availability of gas and gas storage, impending thermal plant closure, hydro firming options, NZAS's future operation in this country and political/regulatory risk are live issues for the sector. Ultimately though, wholesale prices should trend toward the marginal cost of new generation, hence, we still expect to see real prices moderate to within an $80 to $90 per MWh long run average range. I think you see that kind of conviction from us and others, in what is occurring in mass market retail prices which have not reflected the lift in near term wholesale forward prices. Most parties take a long-term view. But as I've said before, it is likely to be a bumpy ride as we transition to a more renewable grid and risk management capability is more important than ever.

The good news is the tools at our disposal to help manage price volatility and physical risk are improving. I've mentioned demand response starting to emerge and offering significant value, trading liquidity is as strong as ever and the offtake market is also evolving rapidly. There are enough parties with enough conviction to trade in the futures market at two and half times the system's physical generation.

Environmental policy reform has progressed with the Natural & Built Environment and Spatial Planning Acts now passed into law. As written, these present concerns for the consentability of renewable energy developments against more strongly articulated protections for environmental bottom lines. The government's process to improve the National Policy Statement for Renewable Electricity Generation, which will aid better balance under the new legislation, requires a further round of consultation and that will be a key area of focus for the entire sector. Importantly, as a sector we remain highly aligned and engaged in the ongoing process of consultation to land a Resource Management Framework that supports decarbonisation. I think most people, including the policy and law makers, genuinely understand delaying renewable energy growth is not an option for us in Aotearoa. However, the environmental reform process has been complex and the transition to the new statutory environment will require strong engagement between Central and local Government and the electricity sector.

The Ministry for Business Innovation and Employment completed a pre-election drop of a host of consultation papers on a variety of future energy topics, including gas transition and a hydrogen roadmap. Cabinet have also decided to further investigate the Lake Onslow hydro pumped storage scheme and a more market-based portfolio approach as the two options under the NZ Battery project. All of this activity is meant to inform the NZ Energy Strategy, which is intended to pull everything together into something coherent.

As I mentioned earlier, we have a mature and competitive electricity market in New Zealand that is delivering good outcomes for customers, and I'd be inclined to let it get on and continue to do that. There is no shortage of capital looking for renewable projects and investment is occurring at an ever-increasing rate. So, I'm not convinced all of this central planning activity is necessary, but we will obviously stay fully engaged with the processes.

I think where the Government can, and is, adding value is by being clear and committed to an emissions reduction programme. And there is good momentum being gained here.

Two large scale industrial decarbonisation partnerships have been announced and the GIDI funding programme continues to allocate support for good decarb projects. Earlier this year the Government also tuned up the clean car rebate. This is all needed, when you look at the rate of abatement required to meet our Emissions Reduction targets.

It is critical that we have an ETS, that the country can have enduring confidence in. The incentives need to be there to invest in reducing gross emissions, we can't just offset our way to a net zero carbon economy. So, it is pleasing that the Government's temporary departure from the Climate Change Commissions recommended direction of travel for ETS pricing, looks to have been resolved.

That is true at Meridian too. Our Half by 30 roadmap and Climate Action Plan are focused on reducing our own gross emissions. And for those emissions we can't avoid, our 100% emissions offset target has been expanded to now include one-off construction emissions.

And the quality of our offsets matters, which is why we are building out our Forever Forests program, so that by 2030 our plantings will remove the same level of emissions as Meridian produces.

We are a long away down the road of identifying, quantifying, and managing climate related risks and you'll no doubt gather when you read our annual report cover to cover, as I'm sure many of you will, that there is a huge effort going into appropriately measuring and reporting all aspects of ESG. It is no task for the faint hearted and we are committed to leading in sustainable business practice and sustainability reporting, but the job ain't getting any easier and our ability to prioritise on what will genuinely make a difference will be key from here.

A year ago, we shifted our retail approach from strengthening our market share to focus on Energy Innovation and solutions that support our customers on their decarbonisation journeys. This new approach is starting to show results.

We have quietly built up this country's second largest EV charging network.

We have been working with 15 companies over the last 3 years to support them to reduce their emissions profiles from process heat. The companies listed at the bottom of this slide all have projects that are well advanced, and they are getting on with it. I think they deserve serious accolades for their stance on Climate Action. And there are plenty more businesses still refining their plans.

I keep belting on about demand response, because I believe in it, and it is key to an efficient clean energy transition – it delivers MWs without having to build them. We now have commitments of up to 90MW for seasonal demand response, including the Open Country Dairy arrangement I mentioned earlier and the 50MW deal we concluded with NZAS earlier this year. And being able to offer demand response is a very valuable aspect of the Southern Green Hydrogen proposition.

So, whilst we understand the importance of gas to the electricity system, and we will continue to support gas generation for hydro firming, it is great to have alternate options as part of a more diversified and resilient hedge portfolio. And that also adds value for customers.

We have a lot more to come in terms of distributed generation, storage, and virtual power plant customer propositions. I plan to be able to put more meat on those bones this time next year.

I mentioned at our last results announcement that most of the NZAS exit mitigation opportunities are now squarely baked into our growth strategy. And as you can see from this chart, most have progressed well or have been nailed.

You'll also note some of our competitors have been busy supporting other demand growth opportunities and readying the thermal fleet for retirement.

If the smelter owners decide to wind down operation late next year, our business and the entire sector is now in a much stronger position to manage the potential impact. On the other hand, if the smelter commits to continue beyond 2024, there is a sizable pipeline of South Island generation options, including ours, waiting for investment certainty.

I think from where we are at today, if anything, the risk is balanced to the upside. Undoubtedly it will be a better outcome for New Zealand and the Climate challenge if the smelter remains operating. And from our perspective it looks commercially viable.

But Certainty, one way or another, is what we all need most.

I talked about Harapaki at the start. Suffice to say it was very satisfying and a wee bit of a relief to see turbine componentry delivered to site last month. We expect to produce enough new juice to power all the homes in Napier by September next year and complete the project inside our existing $448m capital envelope.

I talked earlier about the depth we are building in our pipeline of development options. That's great but we are also mindful of the near-term imperative to make a decent hole in Aotearoa's emissions by 2030. So, we are driving hard toward our 7 in 7 objective - meaning getting 7 grid scale renewable projects underway in the next 7 years. Construction is well underway at the Ruakaka grid scale battery site in Northland. A consent application has been lodged for the Mt Munro wind farm in the Wairarapa and we are very close to lodging a consent application for Ruakaka solar. We are also looking to consent our Swannonoa solar option, just north of Christchurch, early next year.

All up, our 7 in 7 plan will consume around $3 billion in capital this decade and our balance sheet can comfortably cope with that.

Now I'll hand to Mike to unpack the financial result.

Mike Roan

Nga mihi Neal, and kia ora tatou everyone... ko Mike Roan taku ingoa. Thanks for joining the call.

As Neal has noted, if you only read the Income Statement it might look like we had poor result last year, but that could not be further from the truth. Meridian had another year of strong performance.

It wasn't straightforward, they never are, but our teams found ways to incrementally lift operating cash flows, while we patiently progressed a number of strategic initiatives.

There is nothing flashy in the result, just lots of good old fashioned hard work. And that shows character in my view, lots of it.

Over the next 15 minutes or so I am going to focus on that result and I will start with dividends.

The lift in the final dividend shouldn't be a surprise.

While we don't provide dividend guidance, what we did say last year, and again at interims, was that we would use some of the proceeds from the Meridian Energy Australia sale to support dividend flow through 2024, or at least up to the point when Rio Tinto makes it clear what it intends to do with the smelter.

And that is what you see on this slide, a 3% lift in the final ordinary dividend from 11.40 to 11.90 cps.

It will be imputed at 80% and paid to shareholders on the 22nd of September.

This lifts the full year dividend from 17.4 to 17.9 cents per share and while that is not back to the heady heights of 2019, it is 1.5 cents per share higher than the ordinary dividend was back then.

We are also applying the dividend reinvestment plan, but as with interims, those that opt in won't see the benefit of any discount to the market price of Meridian's shares.

Now, you can only lift ordinary dividend if operating results facilitate it and as I noted earlier, and as shown on the next slide, they do.

EBITDAF and Operating cashflows

Here you can see that both EBITDAF and operating cashflows continued to grow as our teams, once again, incrementally improved performance.

And while some may say a 10% lift in EBITDAF is more than an incremental improvement, the key point is that it is driven by continuous optimisation by our operating teams.

Said another way, we look for new ways to improve operational outcomes all the time.

These improvements are often small and can look insignificant. But if you make enough of them, they add up and, every now and then, one or two work better than expected.

The energy margin lift you can see here was largely driven by changes made by our retail team as they refined the mix of, and pricing to, customers.

As a result we were able to offset rising costs that I will talk to later.

And while some may report on the Net Profit after Tax figure that comes later in the pack, as it is driven by large non-cash movements, it does not offer useful insight into cash operating performance.

Anyways, the 10% lift in EBITDAF that you see on this slide is not easy to do as our operating teams will attest to.

But once again, they delivered superbly this year.

And lest we forget, the wholesale team faced down another year of La Nina drought, but as it was the third in a row, I won't do my normal soliloquy here.

Summer droughts are becoming BAU I guess.

So $783m of EBITDAF and $509m of operating cashflows it was. Not bad team, not bad at all.

NZ Energy Margin

This slide provides a little more colour on the $110m lift in Energy Margin that was summarised on the previous slide.

You can see my point regarding retail customer mix and pricing optimisation as retail revenue lifted by $151m.

It did not hurt that spot prices were lower than they were last financial year, as while generation revenue fell, the cost of supplying customers fell faster.

Of course, if we hadn't hedged that wholesale exposure, we could have locked in the full $244m lift in physical energy margin shown here, but that's not how we roll, so our hedge contracts caught the flip side of lower spot prices and cost us.

And before you think that my comment might suggest that we are considering adjusting our hedging practices, we are not. It is the net result that matters and prudent hedging is what you would expect from a mature business like ours. We will learn from this experience, of course, and incrementally adjust if that makes sense.

Customers

Talking of customers, the retail team has once again worked hard to secure and grow valuable relationships across the customer segments that you see here.

Total sales volumes continue to grow – but at slower rates than they did in the past three or so years – and pricing has lifted as well.

I have said it before and I will say it again, we are fortunate to have the best retail team in the sector and they improved performance again while continuing to grow our business.

Generation

I touched on generation volumes earlier so won't dwell on this slide other than to say that while inflows were strong on average last year, the past three years have consistently locked in droughts over the Summer months.

A SI Summer drought is unusual when you look at the long term rainfall pattern and three in a row is black swannish – maybe not quite but you get the point. Unusual.

The upside is that the La Nina weather pattern has been interrupted by a timely return to El Nino and if anything our wholesale team is now used to managing its way through whatever the prevailing weather pattern throws at them.

The downside is that the wholesale team was once again hampered in its efforts in 2023.

That said, this has upside as well. If we get a series of Summer storms this year, the wholesale team should be able to add a little more upside to energy margin delivery. Time will tell whether that plays out.

Last thing on this slide worth talking to is the advent of the doldrums. FY23 represented the lowest annual yield from our wind farms since 2016.

Lightning does not strike twice they say – so the doldrums should be over - and La Nina has completed its "threepeat" so it is onwards and upwards from here.

Operating Costs

As shown on this slide, operating costs were slightly above the operating cost forecast range presented this time last year. This is obviously a little disappointing as we pride ourselves on cost discipline and hitting outcomes but there were a couple of late breaking contractual washups in June that had not been well signalled.

That said, cost increases were focussed in the areas I talked to last August and again in February – salaries, Flux and the development team (largely people).

Insurance was challenging but I know we are not alone there – global reinsurers are not lining up to supply NZ right now and that is reflected in lifting insurance premiums for our business and every other kiwi that owns property or assets. We are looking for new ways to mitigate this cost but it is difficult without asking shareholders to self insure (and we are not near that point yet).

Finally, the Masterton call centre costs landed as expected. As a reminder, Meridian gets paid $6m for providing a service to Shell so the Australian Call Centre costs are only "new" in the sense that previously, both costs and revenues for Masterton were eliminated as MEA was consolidated.

Capital Expenditure

Capital costs landed materially lower than forecast last August.

We provided updated capital forecasts in May and June so this should not be news to anyone.

However, this slide makes it clear that SIB capex remained steady and while growth capital ramped up to support Harapaki and the Ruakaka battery construction programs, we did not use the funds put aside to support potential land acquisition and Harapaki was obviously disrupted.

As Neal noted, we are confident in the reforecast dates for Harapaki and with the banishment of La Nina, lets hope that the Hawkes Bay and other parts of the NI get a Summer this year.

Cost Guidance

As presented in this slide, I expect operating costs to land between $268m and $274m this financial year. That suggests a year on year lift of between $19m and $25m.

The waterfall chart shows where we intend on investing that cash.

Staff costs will continue to lift but at about half the rate of last year. This is driven by the same factor impacting everyone – inflation – but unlike last year where we continued to build our development team, this year that team is at the level we feel we need to compete so the lift here is largely to ensure people are properly compensated.

We will also continue to invest in the Flux platform. That business is slowly, but successfully growing its offering in Australia with two new customers secured and a pipeline that is building.

Not sure if I have mentioned our finance transformation program before. The title is probably a little grandiose in that we are replacing our finance, procurement and commercial systems that are at the end of their respective lives but it is an important initiative as when complete in FY25 it will provide the first layer of enterprise wide platforming that Meridian will have undertaken. And as it is a cloud based platform, replacements should no longer be necessary. But as it is cloud based, investments are treated as operating costs as opposed to capital hence you see its impact here.

I don’t want to talk about insurance again but we may also need to lift our resourcing in the sustainability space this year if we are to keep making the progress that we feel is required.

And it is important to pickup on the theme that Neal mentioned in relation to energy hardship.

We have committed to providing a multi year, meaningful and dedicated service for customers that are in hardship.

It could be that we invest further in this space in time but for now we are making sure that current efforts are resourced and supported properly.

All other operating costs will be held flat to last year.

A couple of other notes from this slide.

I am forecasting total capital expenditure of between $420m and $445m this financial year.

As you can see from this slide that largely reflects cash being invested in Harapaki and Ruakaka but it is also is driven by a lift in SIB capex given there is a generation control system replacement project that is getting underway, we should have moved the Wellington team (including this fella and I) into a new premise by the time the FY is complete and there are a couple of asset projects underway that will lift SIB capex. One of them noted here is the replacement of all electrical and automation technology at Manapouri. It is a multi-year initiative that will be complete in 2028 all going well.

Last, the generation team did spend more money in the second half of last year as I suggested they might at Interims and the FY24 total cash forecast for that team is for between $90 and $95m subject to decisions on what plays out with the Manapouri transformers.

I will update you if anything changes.

BELOW EBITDAF

The graphs on these slides show the difference between net profit after tax and underlying net profit after tax.

The reconciliation between the two is shown on slide 45 of this pack but as we are sticking with this slide for now, the difference is largely unrealised fair value movements in derivatives as those relate to future years and are non-cash items.

This year, those non cash fair value movements were negative $309m, so if you add them back to net profit after tax you can see why underlying net profit after tax rose while net profit after tax fell.

This also makes sense as underlying net profit after tax should reasonably follow the EBITDAF and operating cashflow trend and if you go all the way back to slide 16 of this pack, you will see that it does.

I tend to suggest that investors look beyond net profit after tax when it comes to operating results.

But, take your pick.

What I can assure you is business performance lifted last year even as net profit after tax fell materially.

Last, but not least, there was a $1.1b lift in the value of generation assets over the year. This was primarily driven by a $10/MWh lift in long run price paths.

Fair Value Movements

This is a new slide this year.

It is here to provide a little more insight into why net profit after tax moves around materially year on year – demystify it a bit as Neal said.

As mentioned a minute or so ago, the reason is pretty straightforward.

We use derivatives to manage risk and for the most part incrementally improve the results I talked to earlier.

As shown on this graph, the impact on net profit after tax from using those derivatives was negative $351m last year whereas it was positive $402m in 2022. Substantial but divergent outcomes driven by the same factors, rising and falling forward market prices.

But not all derivatives are treated equally as some have cash impacts while others have non-cash impacts.

I am going to attempt to describe this by focussing on energy derivatives.

Energy derivatives that are settled in the operating year have a cash impact on business performance. We call these realised energy hedges in the financial statements and for context, the cash impact of settling them in FY23 was negative $42m.

However, as those derivatives hedged retail sales, we collected the margin between those retail sales and the cost of the hedge. That is, the derivative allow us to lock in energy margin.

The impact of this was summarised on slide 17, energy margin.

But we also hold energy derivatives to hedge sales that have been made over the next 2-3 years. These derivatives are valued at the end of each financial period and the change in "fair value" is also captured in the financial statements. It was negative $333m in FY23 and reflected the fall in ASX futures prices Neal mentioned earlier.

However, this is a non-cash cost as those derivatives have not yet been settled. The amount may flow into operating revenues or costs in future years but it will depend on what energy prices do between now and then.

The total, and separate, impact of realised and unrealised energy derivatives is captured on the Income statement and in the notes to our financial statements to ensure investors know that we have these obligations.

And if I bring this commentary back to the graph, if the total impact of energy derivatives was negative $375m in FY23, the fair value movement of interest rate derivatives must have been positive $24m.

As forward energy and treasury prices move materially over time, the change in fair value of these derivatives in any year can be substantial.

Of course, if forward markets were stable, the impact would be negligible but we are talking electricity so that is unlikely.

Anyways, I hope that helped a little.

One further complication this year is we have changed how we present energy hedge balances because of an interpretation of how the derivatives that I have just talked to should be framed under IFRS 9.

This does not change our non-GAAP EBITDAF or underlying NPAT calculations, however it does change the way the GAAP Income Statement now looks.

A reconciliation of those changes is on slide 30 and the Notes to the Financial Statements explain this clearly and in detail.

Debt and Funding

This slide shows that our balance sheet remains particularly flexible.

Net debt has lifted on FY22 but the key S&P rating metric, net debt to EBITDAF remains well below the bottom of the BBB+ threshold of 2x.

We did issue a new $200m Green Bond during the year as an existing $150m Green bond expired.

As we have another $150m Green Bond expiring this year, it is likely that we will replace that as well. But all going well, that should not create too much drama.

As I don't have too much more to add, I will finish as I started.

We have delivered another sound result for investors in our business and have rewarded them by lifting dividend again.

At the same time we remain well placed to navigate future challenges with a strong balance sheet and a growing development pipeline.

There is plenty of action yet to play out in FY24, but I will hand back to Neal so he can make a few closing comments.

Back to this fella.

Neal Barclay closing remarks

Thanks Mike, not a bad effort for an engineer to explain that accounting gobbledygook so to say.

To sum up:
It's been a solid year and we produced a good underlying earnings result. Retail growth continues to be the main driver of our incremental financial improvement, but that trend will run out of steam and building out a stronger customer product set whilst delivering renewable generation infrastructure to support Aotearoa's transition is our mission.

To that end we have a clear strategy for long term growth and are tracking to plan. We have lot's more work to do to ramp up the build of our development pipeline but the growth in the depth of that pipeline of opportunities has been very pleasing.

The green shoots of a transition to a low carbon economy are starting to show and importantly customers will have a strong part to play in how the electricity systems evolves. I think when we look back in 10, maybe even 5 years, we'll be stunned by how critical demand response has become in terms of system security and efficiency.

NZAS and Southern Green Hydrogen remain big ticket options for our business. Our objective is to support both to co-exist as the NZ Inc. benefits are strong for both. For New Zealand the opportunity is to fully leverage our renewable advantage and Grow our Economy to Zero Carbon. Whilst that phrase rolls of the tongue easily, it'll certainly be harder to deliver, but if we don't, we will have continued to fail future generations of kiwis.

So, on that cheery note, we can move to questions.

And I think we will start with questions in the room first before heading to the phone lines.

Q+A

Andrew Harvey-Green - Forsyth Barr

Good morning. Thanks for that. A few questions. First, no big surprise, a couple of questions around opex and capex. Looks reasonable the changes we are saying in the opex side. Anyone offs in there thinking 25 and beyond or as you move to more cloud computing are you going to see another step up in FY25?

Mike: A good question. The finance transformation initiative will spend 24 and 25 but to the second part of your question, more and more platforms are becoming cloud-based platforms. It is possible we move from operating cost-based to opex as we look to redeploy systems, cloud-based. The cost as I noted is a one off but it will span 25 as well.

Andrew: Thanks for that. Then on the capex there is a step up. Should be going back to that kind of level for FY25 and beyond and moving, talking about the move away or towards cloud computing, does that reduce IT capex?

Mike: It should see a reduction in IT over time because it is moving to opex to capex. programme and that will run through 2028 capex but it will come off. The medium to long-term price $80-$90 - is it real? A common topic of conversations and if you are a higher estimate out there. The question is your confidence in terms of seeing that drop going back down there particularly given... Thinking about the civil costs have gone up quite materially, think about the cost of new build.

Neal: We have seen costs increase over the last few years but you have to believe the tech... will drive the long-term trend. You have to believe that manufacturing around the globe will gear up, scale up and meet future demand, so the civil costs are a bit of a challenge at the moment but again, as supply comes online, efficiencies, scale operations, those sort of things, there is no reason to suggest it would not revert back to something more like the long-term trend.

I will make one more thing. We are talking about a long-term price forecast, not the next few years, not even necessarily the next five, we are talking the next 30 years in that context.

Andrew: OK. And I guess the flow and consequence from that... Pointed to it, but it does imply wanting to forward sell as much as you can... The relative price also occurs.

Neal: We have grown our retail book significantly over the last for five years. That was not all just taking advantage of a market opportunity. We wanted to grow the scale of that market business. We thought we had a compelling proposition for customers and we have been very successful with it.

We are still expecting to continue to grow our retail business but it will be more in terms of value add products that support customers and their decarbonisation efforts.

Mike: It has been interesting. I have one little piece, a really interesting interaction with consumers impacted by higher prices. They tend to want -- to want to contract over longer periods of time, particularly in the space to manage the short run of costs, so the duration of sales in our C&I book has lifted quite materially over the last couple of years, between two and three years, to just over four, which is kind of a natural consequence of people being exposed to high prices and us being able to contract with them over longer periods of time.

Andrew: Just last question from me. Net debt, there is a reasonable step of this year, certainly more than expected and it looks like a big part of that reason is a big increase in restricted cash which has gone from circa 50 on averaged almost 300. Can you talk to that a wee bit and what we can expect going forward on that?

Mike: It is driven by a position we have got on ASX. And I think we have been really open that we have bought position to facilitate the sales that the retail team have made and as ASX prices have come off, the collateral requirements to maintain that position on ASX have grown, so that is what is driving it.
How temporary is it? I mean, I think anyone could have a guess as to what prices are doing, but we do intend to use ASX to manage the position, but collateral requirements will change as the wholesale team enters into new contracts that are antimarket, they don't have as big an impact on the collateral requirements that Macquarie, who are is our clearing participant, might need from us. I would say over the long run they will moderate, but it does depend on what wholesale prices do.

<u>Nevill Gluyas</u>
Morning team, three from me. I'm looking at the medium-term perspective. We talked about the DETA, how much of that you think will go to electrification by 2030? What number should we have in our minds for that?

Neal: It's hard to say, biomass is part of the equation. Electrification looks like a strong option, particularly in the South Island. I would expect it to play out in the next 10 to 15 years. By 2030, some projects need to get up and running. I wouldn't want to put a number on it, but it would have to be in place, it would have to make strong progress to the conversion by 2025. And to get anywhere near the country mission. Yes, because of the amount of work it takes, the involved in the business case, a conversion activity itself. It naturally takes a bit of time.

Mike: Numbers have moved around a bit, right? A lot of conversion was slated to biomass. It’s not so clear now that biomass or the electric are away to convert, and we took too many customers converting to the electricity, and we saw the RFP from Fonterra in relation to its activities. They’re obviously thinking about biomass or electricity, and if you saw the conversion from Fonterra, it would accelerate that change. It's a bit uncertain at the moment, and New Zealand needs to deliver the outcomes.

Nevill: Great, thanks for that. Next one, we’re clear about demand response, possibly the potential for demand response from Southern Hydrogen. I'm wondering about the need in the market elsewhere for gas peakers and storage. Obviously the gas transition plan is up. Do you have a house view as to what needs to happen over the next, up to 2030?

Neal: Over the next 10 or 15 years we need to have continued and reasonably significant investment in the gas industry. I guess both in storage and incapacity. From what I understand it degrades reasonably quickly, so from about 2028 onwards, we can start to expect the current deliverability of gas being further constrained. And to drive good business cases to invest in the underlying infrastructure and deliver a reliable service and underpin an efficient transition.

Nevill: You obviously resolved how to replace this swaption. Would you still consider an offtake, or Cover of some kind?

Neal: We have contracts with Nova, and we would continue to support gas based options alongside a sweet of demand response type options. And we talk about it, southern green hydrogen is a game changer in that regard. And that big slab of demand that could respond to Hydro scarcity situation.

Nevill: Last one for me, looking at the potential supply that could come to market, getting a fast track consents for, looks like there's a lot of it planned for between 2025 and 26? Do you think the future is aware of that? Do you think it prices it in? Do we see some kind of change and the outlook for that on the medium term? As the supply comes in and is bankable and is producing?

Neal: I think the participants in the market can read and hear all of the options come in potentially to market over the top. Also, as we say looking at risks associated, particularly with the gas market you would expect as we deliver more or renewable generation that they would put pressure on that future price curve. But a lot of that still needs to be committed and delivered and we will look at every business case and ensure it meets the commercial investment hurdles before the time of commitment. But certainly, we will not build anything that we have not created an option and something that's consented and ready to go. Will see how these things to get deployed in reality, but everyone is in a hell of a rush to get to the front of the queue and invest into the right conditions.

Mike: Thank you for that. Don't invest in the futures market unless you are willing to lose your shirt.

Neal: Anyone else? We can go to phones.

To register question press star on your telephone and wait. The first phone question is Cameron Partners from Craig Investment Partners.

Cameron: Yes. Just in regards to the customer growth expectations over the next few years, I wonder if you could talk to growth expectations and customer mix and what you are seeing in the market.

Neal: We are comfortable with the market share, we will continue to compete actively but it is very difficult to maintain a flat customer position. You're either going backwards or forwards, and you maintain a competitive stance in the market as we always have. Like I say, the focus is on developing a product set that supports customers, and growing growth demand the same time. In terms of price expectations, we review prices every year, and I wouldn't want to provide guidance around that. But we will respond to the market and we will be sure we will be competitive across both brands.

Cameron: Thank you. With rising costs and so forth, in the business units people are struggling with the moment. Will we see Meridian's cost to serve and customer platforms, will you see any benefits come through flow through from the IT platforms?

Mike: We do obviously track our cost to serve very carefully over time and the best estimate I would have is it would remain relatively flat, and looking for opportunity all of the time to reduce the cost to serve. Certainly the systems they use have helped them manage the inflationary pressures, but the best estimate would be to hold them flat and the gradual rise but long-term it so difficult to tell. The best estimate is to hold them flat.

Neal: Cost to serve on the customer per megawatt sold as trended down in the last few years. As we have grown the size of the business. So, we have picked up some reasonable efficiencies from technology deployment and done things across the business. We have two deployed some capital into developing energy solutions to support customers, but it's right, we can do that within the existing operating cost and envelope. Hopefully.

Cameron: Great, thank you. You've warmed the group of construction, what you see in terms of solar development. I don't know if you can give arrange on that. And with regards to battery, expected to decline and cost over the medium term, are you worried you went too early? 1st to market, that would be great.

Neal: We haven't gone to market yet, we have had RFI and we are about to move through the process, probably if Ruakākā sold first. So that's the back end of the share early next year. We'll discover more about where solar prices got to. The market Intel suggests prices go back to pre-covid levels. And that is optimistic. Certainly battery technology, you can continue to expect that to decline, and the Ruakākā.

We signed up to a reasonable highpoint in the market. The business case was so strong for us, and the imperative to get on and do it was so strong that it makes sense we think. So, I guess we will see. Like a said we are starting to see signs that unit costs are getting back to where they were before COVID. Hopefully they diminish. From the economics, it comes down to is much around the location and scale. Being large, being close to and having strong transmission options are a big difference to economics.

Cameron: Thank you, that's useful.

Thank you, the next question comes from Stephen Hudson from Macquarie securities. Please go ahead.

Stephen: Thank you, firstly that future close for FY23, it's a Pandora's box. Can you tell us how that normalises over 2024. Maybe, Neal, on Te Āpiti, can you give us a feel for how the net cost is washed out, and whether it has the competitive edge through doing it? And just on that, with the alto a couple of months ago, it's relatively opaque. And we encounter 150 million operating and the ballpark of what you are thinking. And the final one is on the revalue of price path, can you share numbers there?

Mike: Good question, Steve. Start with the future closeouts and I will probably treat them as one-off. In saying that, everyone in the room is aware that there are a few more closeouts and as I say treat them as one-off as opposed to streamers. The reason we had the closeouts is because we had bought a wholesale position to support the growth and the retail business. And the retail group grew to a level where we got comfortable, and we bought a bigger wholesale position than we needed. So, we thought we were hedging a large exposure that were created, then we liquidated that position. It's not something we , as I said at interims, we don't make money by trading derivatives. It's a key point. As the optimisation goes on as mentioned between wholesale and retail team, you do see some further capacity for closeout in 2024. 25 is too early to tell. Too many things moving around for 25. If I come back to where I started, the best way to frame it is to treat it as one-off. We don't try to make a heap of money by trading derivatives.

Neal: I will answer the other question. We were in-house Te Āpiti after we in-housed West Wind, and then in-house the maintenance and service teams in White Hill. The driver of the strategy, as we couldn't, at that time, get an extended availability warranty that included main components on any of the O&Ms that were involved in it. Certainly, the cost from a purely service perspective was far cheaper and effective and a better outcome for us to do that ourselves. What we've seen is the market mature quite a lot. we do is OEM is offering long term warranties on the main components and that... Physically in the second half of their lives as things are to wear out, so we have signed a 30 year availability agreement and that is outsourced for the duration.

We have also extended the availability of warranty at Mill Creek, which was the last of our wind farms produced in the last decade. From I think it was originally five years after 30 years out as well, so that is the model at the moment but these things go in cycles I think we are quite well position because we can effectively we have a hedge against our model because we have a well-functioning, capable, in-house service and maintenance operation that can do the job and do it well.

Mike: If I pick up NZAS and correct me if necessary. June 21, 22, 23 good start. They are in a commodity cycle as well. Aluminium is a commodity has come off. The question is will they be here post 24? That is the big question. We do not know. We honestly do not. What we do know is what they tell everybody - as they are committed to decarbonising their aluminium portfolio and that sits in Pacific... Australia New Zealand. So what they like to be able to retain TY and enter into any arrangement for Bell Bay? Fisher. They like to decarbonise remainder of the aluminium smelter is? Absolutely. Can they do it economically? Only and they know the answer. As we said, we have provided them with agreement on terms we thank support that in the long run and we think it is in their interests, our interests and New Zealand's interests the way we have structured the proposal, but we don't know and there is a good line that Neal used is that conversation has continue to continue. I think that is what you said.

There are obviously challenges in making that play out but the conversations are constructive. We will see. I think we will find out in the reasonable near term, whatever that means, what they intend to do.

I hope you got some of that question, Steve.

Neal: And as you know, we are not the only counterparty that they are talking to around an energy contract, so they are trying to pull together a portfolio solution that will meet their needs and that is obviously more complex than what they have had to do in the past, which is probably driving the time frame.

Mike: Steve, I will grab that last question which was the revaluation and I mentioned that was driven by a $10 lift in a longer price paths. We have talked to 80 to 90 bucks real. That tells you is the movement in price paths is probably closer to the 90 bucks level than the $80 level over the last driven by some stuff we were talking about before. Civil construction costs, manufacturing base and just how long that takes to normalise.

Steve: That is really helpful. Thanks.

Thank you. A question from Grant Swaneopol from Jardens. Please go ahead.
Grant: Good afternoon. The first question on demand growth. So... FY23 for EBITDAF. Should we start seeing plus type growth?

Neal: Was that when should we start to see that demand growth materialise?

Grant: Yes please.

Neal: We are starting to see those conversions in terms of process heat. It is very difficult. We all know what is happening with that increase. We would start to expect demand to increase over the next few years and by the back end of that decade our model is not vertically will see a couple of percentage points per annum type live. We are nowhere near the today. In fact, as I think you just mentioned, it has been sluggish this last winter, but as these conversion opportunities take place, and there will be pics likes of As well. We still don't know what Frontera will do but if they do transact something in the electricity market there is quite a lot of volume there and like I say, we are making good progress on the other process heat opportunities and EVs seem to be taking off. It is not quite to be a hockey stick I hope that we will have to wait a few more years to see that really strong demand starting to emerge.

Grant: OK, thanks. Then you indicate you have 40MW of demand flexibility with the 50MW of demand response from Tiwai and who knows what will happen beyond 24. It is there a number you are working towards in demand response that may be mitigate the open, 50 MW used to have with Genesis? I know you have that replace with Contact... And Nova. Could you talk about demand response for your portfolio?

Neal: It is of that order. If you put aside southern green hydrogen which is potentially 600MW of demand response right there and about 40% of New Zealand's Hydro firming risk management could be delivered through that project, which is why we think it has legs, even in a NZAS stay scenario as well as but across the rest of the board the way we are talking about it internally is the retail team in particular would like to be able to present to the business and eight grid scale project within eight years and that would turn up in the form of demand response, so we think somewhere between 100 and 150MW is not unreasonable to go after and could well be achievable and apart from corporate customers there are also the virtual power plant opportunities starting to emerge in more mass-market parts of the market.
The technology is evolving as solar batteries and electronic vehicle start turning up in households. If you can collect that demand and traded back into the wholesale market, we think that could be significant as well. So yes, we see our retail business as being certainly complementary to our generation growth business and we think that will emerge within the next five years, so it is going to be this decade that we will start to see those sorts of developments.

Steve: Thanks. My final question is costs, obviously. It looks like the whole sector has got this 9% plus cost coming through on the opex side of things. Can you talk to what is controllable and what is not controllable for things you are doing that are innovating, maybe the cloud based etc so we can get some idea what is inflationary and probably is a lot of cash sitting around and taking advantage of opportunities that your voice wanted to do? And following on from that you are talking about Flux converting to the new system that this was going to reduce costs by $10 to 15 million. That seems to have disappeared. Has this Powershop conversion been a disappointment or with costs have moved to nowadays? Thank you.

Mike: I think I will take the first one. You might have answer the question there which is costs have IT businesses have listed lifted like anything else, so some of the savings, don't know if we would see 10 to 15, but I would have to look through the record to see what they said. Owen is nodding at me saying that we did.

Neal: Just actually to clarify because I was signed off on that business case and have signed off on the recent PIR, a lot of those benefits have been delivered. They were avoided costs in terms of future capex costs and as pointed out if you look at our retail business it has increased in scale by about 58% in the last five years but costs have remained flat, so that is part of the Flux story. The issue with the particular Flux deployment was it was a couple that for three years late and so the MPV value of those benefits dissipated because of the delay whilst we were spending money on the conversion. But overall, the business case was still strongly and positive.

Mike: On the costs, grant, we generally, you sit controllable, uncontrollably. The way I would frame that is everybody has been impacted by inflationary costs, which have flowed into salary uplift. It is -- has also flowed in the cost of this in that goods and services to run the business but it has moderated so those impacts are moderating and the second but for us that has driven cost increase has been the growth of our development effort and as I suggested today, we have got a team that we feel is right size to prosecute that space now and you have seen it in the way they have delivered on our pipeline, so again I would expect moderation in cost increases moving forward.

Grant: Thanks for those answers.

Thank you. This time we are showing no further questions from the phones.

Neal: OK, well, thank you all for your attention. I look forward to doing it all again in another six months. Thank you, all. Goodbye.