Release

Stock Exchange Listings NZX (MEL) ASX (MEZ)

Meridian lifts financial performance and lays foundation for future growth

28 August 2024

Meridian Energy has reported operating cash flows of $667 million for the year ending 30 June 2024, up from $509 million the previous year, with net profit after tax up from $95 million to $429 million. The growth in net profit after tax was influenced significantly by net gains on hedge instruments of $249 million in the 2024 financial year. In the prior year the company recorded net losses on hedge instruments of $351 million.

EBITDAF[1] was up 16% to $905 million and underlying net profit[2] rose 14% to $359 million. Both of these are non-GAAP measures.

"This is a strong and improved operating result that allowed us to invest $349 million in new and existing generation assets during the year," says Chief Executive Neal Barclay.

The Board declared a final ordinary dividend of 14.85 cents per share. This brings the total ordinary dividends declared in FY24 to 21.00 cents per share. The Board has approved the continuation of the Dividend Reinvestment Plan at a 2% discount.

The company notes that, while the operating result for the last financial year was strong, the operating environment shifted dramatically during May as a drought emerged. Inflows into Meridian's hydro catchments from May 2024 through to mid-August 2024, have been the lowest on record and, as a result, the 2025 financial year currently looks to be far more challenging.

"Record low inflows have combined with a shortage of gas and unseasonally low wind, causing wholesale prices to lift materially. As a result, Meridian called on hedge arrangements to ensure our hydro lakes were managed within consent conditions to maintain security of supply," says Neal Barclay.

---

[1]Earnings before interest, tax, depreciation, amortisation, unrealised changes in fair value of hedges, impairments and gains or losses on sale of assets. 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 amortisation. 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.

[2]Net profit after tax adjusted for the effects of changes in fair value of unrealised hedges, electricity option premiums and other non-cash items and their tax effects. 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 5.

“The wider sector took several steps to address the situation, including exercising demand response options, buying gas from Methanex for electricity generation and securing access to contingent hydro storage, should we need it. These actions have already resulted in wholesale prices reducing by more than half from their peaks, although they are still sitting above $300/MWh.”

“While a very small number of electricity users have direct exposure to the wholesale market, unfortunately some of them have been significantly impacted. It’s a tough economic environment and this is not an outcome this sector wants for any business,” says Neal Barclay.

“Less than 0.01% of Meridian’s customers have been impacted by these wholesale prices because the Company offers fixed prices to all customers. Meridian has also taken steps to look after our larger commercial and industrial customers rolling off their existing contracts, by offering to extend their current pricing through to 1 November 2024.”

“We are a renewable energy company so, when nature doesn’t deliver our fuel, we must buy energy from other sources and pull all the levers available to meet our customer commitments. This affects us financially and the impact of this activity will show up in our operating results over the next few months. Ideally, the rain forecast for our catchments over the next week or so will arrive, but regardless Meridian’s ability to manage through this situation is sound and our balance sheet is geared to provide for this eventuality. We are looking after our customers by insulating them from high wholesale prices and we’re contributing financially into the whole system.”

The Year in Review

“We had a year of milestones. The signing of 20-year agreements with New Zealand Aluminium Smelters (NZAS), the commissioning of Harapaki wind farm, construction underway on our first grid scale battery and the development of exciting new strategies across our Retail and Generation businesses, all combined to create a strong platform for us to execute on our strategy and deliver future growth,” says Neal Barclay.

Retail

Meridian grew customer connections by 2% and customer sales volume (GWh) by 4% during the year. We remain the country’s largest supplier of retail electricity, with sales of more than 9,500 GWh.

“This is another strong Retail result, but rather than resting on our laurels we have developed a new strategy to stimulate demand and further accelerate our growth, while also protecting the wellbeing of our most vulnerable customers,” says Neal Barclay.

“We are testing new ways to support customers to further electrify their energy use and to pass value onto customers where they can manage their demand flexibility and avoid the electricity system’s peak demand periods.”

Meridian’s Process Heat Electrification Programme has made a real difference for many industrial customers. To date, a cumulative 525 GWh of process heat conversion from fossil fuels to electric is complete or under MOU. These projects will remove around 140,000 tonnes of CO_2 from the atmosphere each year. The company is targeting total conversion of 1,000 GWh by 2030.

Meridian.

Meridian's Energy Wellbeing Programme was expanded this year with the goal of helping 5,000 Meridian and Powershop households out of energy hardship through a $5 million investment. To date, the programme has helped over 1,400 households to improve energy efficiency and sustainably manage their bills.

For the seventh time in 10 years, Powershop took the top spot in the Consumer NZ customer survey, earning it the People's Choice award. The Meridian retail brand also saw an improvement in its satisfaction score from 46% in 2023 to 57% in 2024, putting it ahead of all the other large retailers.

Renewable Development

Meridian remains focussed on its goal to develop enough new renewable energy to support the country's transition to a resilient net zero economy and retain a generation market share of at least 30%.

Harapaki, the 176 MW wind farm in the Hawke's Bay, began generating on schedule and was completed in July. The 100 MW grid-scale Battery Energy Storage System (BESS) at Ruakākā Energy Park near Whangārei is progressing well and is expected to be online by early 2025.

"We have close to 700 MWs of wind, solar and battery projects at the advanced stage of design and close to being consented, and we expect to invest more than $3 billion in new renewable energy by 2030, that's the equivalent of more than 5% of current system demand," says Neal Barclay.

"We will need all of that because we estimate that for Meridian to meet our share of the country's renewable energy needs by 2050, we will have to build the equivalent of 20 Harapaki-sized renewable generation assets. That is an important challenge that our business needs to tackle. We have resourced up accordingly and we are getting on with it."

Meridian applied for direct referral to the Environment Court, supported by Environment Canterbury, to reconsent the Waitaki Power Scheme for another 35 years. The process for public submissions on the reconsenting application closed on 21 August.

Southern Green Hydrogen

The Southern Green Hydrogen project has been put on hold. The economics of producing green hydrogen at scale in New Zealand have become more challenging and this is consistent with what we are seeing in other hydrogen projects overseas. Markets have been slow to resolve the gap between the cost of producing green hydrogen and potential customers' willingness to pay for it.

"So, the project will hit pause, and we have agreed to conclude our partnership with Woodside. We will continue to actively monitor our target markets as we believe Southern Green Hydrogen remains well placed to be a competitive green hydrogen opportunity, compared to other projects and jurisdictions. We will review the opportunity to progress the project when the time is right," says Neal Barclay.

Electricity Generation

Maintaining asset availability is critical to Meridian's success and this year our Generation team adopted an innovative approach to managing scheduled maintenance, using more people to compress maintenance windows and moving as much maintenance as possible outside of peak periods.

In addition, Generation set a goal of delivering 500 MW of restored and new capacity over the next four years from Meridian's generation portfolio. Initial progress this year included an increase to the maximum capacity of the Benmore Power Station (from 540 MW to 552 MW) and the capacity of each of the seven Manapōuri units (from 125 MW to 128 MW).

"These are very positive innovations, but we have also had setbacks this year with transformers. A prolonged outage of one of the transformers at West Wind Farm in Wellington has reduced capacity to 98 MW from the usual 143 MW. We expect to have this resolved by October 2024. We also have two Manapōuri units parked due to transformer failures. One replacement transformer will be delivered late this calendar year and a second is due late 2025," says Neal Barclay.

New Zealand Aluminum Smelters

It was very pleasing to settle the uncertainties around the aluminium smelter at Tiwai Point. At the end of May 2024, Meridian announced a package of long-term contracts with NZAS covering part of their electricity needs for a further 20 years. These agreements ended a long and stressful period of uncertainty for many people in Southland and provide much needed certainty for the electricity sector to invest in renewable energy.

"The smelter's ability to reduce consumption when the energy sector is stressed is already making a material contribution to resolving the current energy challenges the sector is managing. But they are, to some extent, a last resort and as a sector we need to find solutions to increase gas availability to support continued growth in renewable generation," says Neal Barclay.

Sustainability

This year Meridian set a target to reach net zero by 2050. This has been submitted to the Science Based Targets initiative for independent verification in FY25. The target is consistent with the company's purpose, strategy and focus on doing its bit to limit global warming to within 1.5 degrees. It is a natural extension of Meridian's 'Half by 2030' operational emissions reduction target.

"Our Half by 2030 programme created the impetus to this year purchase the world's first electric hydrofoil ferry to replace our current boat at Manapōuri in late 2025. Other areas of our Half by 2030 goal remain more challenging, like managing the growth of emissions in our supply chain and further reducing our emissions from travel," says Neal Barclay.

Meridian was also included in the Dow Jones Sustainability Asia Pacific Index for the ninth successive year. The index provides independent validation of the Company's ESG performance for investors and other stakeholders.

Segment earnings statement

Financial year ended 30 June $M	2024	2023
Energy margin	1,276	1,132
Other revenue	36	29
Energy transmission expense	(73)	(80)
Hosting expenses	(4)	(3)
Electricity metering expense	(49)	(46)
Employee and other operating expenses	(281)	(249)
EBITDAF	**905**	**783**
Depreciation and amortisation	(334)	(294)
Asset related adjustments	(18)	(10)
Net change in fair value of energy hedges	102	(333)
Net finance costs	(57)	(44)
Net change in fair value of treasury hedges	(4)	24
Net profit before tax	**594**	**126**
Income tax expense	(165)	(31)
Net profit after tax	**429**	**95**

Underlying net profit after tax

Financial year ended 30 June $M	2024	2023
Net profit after tax	429	95
Underlying adjustments		
Hedging instruments		
Net change in fair value of energy hedges	(102)	333
Net change in fair value of treasury hedges	4	(24)
Premiums paid on electricity options net of interest	(23)	(17)
Assets		
Asset related adjustments	18	10
Total adjustments before tax	(103)	302
Taxation		
Tax effect of above adjustments	33	(82)
Underlying net profit after tax	**359**	**315**

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:
Lachlan Forsyth
Media & Content Manager
021 243 5342