




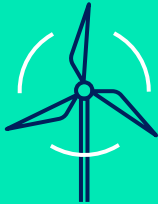

Investor Letter.

For the six months ended
31 December 2020.



Meridian.

Progress on strategy

Strategic theme	<p>Champion</p> <p>Competitive markets Sustainability Climate action</p> 	<p>Optimise</p> <p>Trading and asset management Re-consenting Financing</p> 	<p>Grow</p> <p>Retail Generation Flux</p> 
Highlights	<ul style="list-style-type: none"> • Sustainability leadership • Lower real customer prices • Final Transmission Pricing Methodology (TPM) decision • Climate Change Commission (CCC) draft advice 	<ul style="list-style-type: none"> • 2025 Waitaki re-consent progress • New Zealand Aluminium Smelter (NZAS) extended exit agreement • Green financing 	<ul style="list-style-type: none"> • Growth in NZ and Australian retail businesses • Customer support during COVID-19 • Harapaki construction • New NSW wind option
Challenges	<ul style="list-style-type: none"> • Gas supply uncertainty • Speed of RMA reform and generation consenting • Dry-year support beyond current thermal fuels 	<ul style="list-style-type: none"> • New South Island load beyond NZAS • Timing of thermal plant retirement 	<ul style="list-style-type: none"> • Future COVID-19 uncertainty • Volatile Australian wholesale prices • E.ON's closure of Powershop UK

The six months ended 31 December 2020 saw a 19% increase in net profit, mostly as a result of positive changes in the net value of hedge instruments. Excluding these hedge value movements, Meridian has reported a 9% decrease in EBITDAF¹ compared to the prior corresponding period.

The decline in EBITDAF was largely driven by a 7% fall in generation production due to low inflows to our South Island hydro catchments since October 2020. Also, lower wholesale prices in Australia negatively affected Meridian Energy Australia's interim earnings. Partially offsetting these negative environmental factors was continued growth in customer numbers and sales volumes in both New Zealand and Australia. We note that the electricity sector in New Zealand continues to deliver value for customers, and residential prices in real terms are at their lowest level in the past eight years.

The Board has announced an interim ordinary dividend of 5.70 cents per share, consistent with last year's interim dividend.

The interim ordinary dividend will be paid on 16 April 2021. Meridian's balance sheet remains in a strong position, with the company maintaining a BBB+ credit rating as defined by the agency Standard & Poor's. See the interim results financial commentary for more of Meridian's results.

www.meridianenergy.co.nz/investors/reports-and-presentations/interim-results-and-reports

Tiwai Point Smelter

Last July Meridian's largest customer, New Zealand Aluminium Smelter (NZAS), announced that it would be exiting New Zealand in August 2021.

Subsequently, and recognising the disruption that this might create for our shareholders and the wider economy, we worked hard to come to an agreement with NZAS that would see it stay until December 2024. We were pleased to announce such an outcome to the market in January and we believe that it is value enhancing for the smelter, our shareholders and the Southland community.

Meridian has always planned for the eventual exit of NZAS. We are excited about the opportunities that we now have to accelerate decarbonisation, and we are actively developing new growth opportunities.

New South Island demand

Given this agreement, the next four years will see Meridian focus on encouraging new demand in Southland and the lower South Island. We have a number of new demand options that are progressing well.

We have completed high-level assessments of options to convert fossil fuel heat processes to electricity. This has included looking at small- and large-scale opportunities in a number of industries. There is real interest among these sectors in decarbonising and Meridian is pleased to be playing a part to make this happen. We expect to announce the first of these opportunities soon.

Late last year Meridian announced, in partnership with Contact Energy, a \$2 million feasibility study of green hydrogen. The study will draw on expertise from New Zealand and around the world, and will investigate the export potential, value chain, policy approaches, technical requirements, environmental considerations and practical issues of green hydrogen production. It will also examine the potential dry-year reserve opportunity.

We believe that hydrogen could give New Zealand a superior, low-cost alternative for balancing supply and demand in dry years. It could provide a large amount of New Zealand's dry-year reserve at a fraction of the cost of building new hydro power stations. Having a large amount of demand with the flexibility to turn it down or off during a dry-year is likely to be far more cost effective and reliable than building new generation that only runs during relatively infrequent droughts. As such, we think hydrogen production could be of huge benefit to New Zealand in managing the security of our energy supply.

In addition, when it comes to green hydrogen exports, New Zealand should have a real competitive

advantage given our increasing levels of renewable energy produced. A major hydrogen plant in Southland could ensure that the region's next big industry is renewable energy export in the form of green hydrogen, and a large-scale local plant could also open decarbonisation possibilities for domestic hydrogen-powered industries such as heavy transport.

We have also been working with the Datagrid team since last August on what has the potential eventually to be a 100-megawatt datacentre in Southland, connected by a new fibre-optic cable to the east coast of Australia. It is progressing ahead of plan and the Datagrid team have secured land options and commenced engineering work. The next significant step will be their confirming their first customer.

Harapaki decision

This month the Meridian Energy Board has approved the construction of Meridian's Harapaki wind farm.

The new \$395 million wind farm in Hawke's Bay was deferred last July due to NZAS announcing its intention to exit New Zealand.

But given that NZAS has agreed to a four-year exit deal, Meridian is now confident that Harapaki will support our business's growth plans.

The Harapaki wind farm will be New Zealand's second-largest wind farm, with 41 turbines generating 176 megawatts of renewable energy, enough to power more than 70,000 average households. The construction will take around three years and is expected to create 260 new jobs.

It will also help boost New Zealand's ability to meet its climate change commitments and accelerate the transformation of the economy to clean energy sources.

1. A non-GAAP financial measure representing earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items.¹

Undesirable trading situation

In late December 2020, the Electricity Authority released a final decision confirming an undesirable trading situation between 3 and 27 December 2019. The Authority found a confluence of factors had led to a highly unusual period of wholesale market operation.

The Authority is intending to publish a preliminary “actions to correct” paper for consultation in late March 2021.

We have taken lessons from this process. We accept that even though the scale of flooding we were dealing with was exceptional, we will need to do better in future, and we will remain especially vigilant at times of spill. We also want to support the Authority to ensure the market we work in is continually improved to maintain its world-class reputation of delivering for consumers.

We remain committed to generating 100% renewable energy, and to caring for our customers and the environment.

Transmission

The Authority’s reform of Transmission Pricing Methodology (TPM) continues, with changes expected to be in place by April 2023.

In January 2021 Transpower indicated that its development of the new TPM and the Clutha Upper Waitaki Lines Project are both unaffected by Rio Tinto’s announcement regarding the future of NZAS.

Hydrology

Inflows since October 2020 have been below average. As a result, South Island storage is now well below average.

In contrast, the end of a multi-year drought saw Australian generation 47% higher than the same period last year.

Flux UK

E.ON has announced that it intends to close its Powershop UK business, a client of Flux Federation, during the 2021 calendar year. Flux is now considering new potential opportunities.

The project to migrate all Meridian’s customer base to the Flux platform is progressing well and is forecast to be completed during the third quarter of this calendar year.

Gas supply influences

In New Zealand, declining delivery from the key Pohokura gas field has tightened markets and pushed wholesale electricity prices higher.

In Australia, a combination of lower demand and higher domestic gas supply has pushed wholesale electricity prices lower.

In both countries, future moves away from coal and the use of gas as a transition fuel towards highly renewable energy systems will likely cause disruption to current markets.

To date New Zealand has relied on having some coal and gas-fired generation available to keep the lights on when it does not rain too much and our hydro storage lake levels get low.

While our industry is working hard to find alternatives to coal and gas generation, and good options are starting to emerge, eg. flexible hydrogen, those options will take some time to develop. It is likely that New Zealand will need a relatively small amount of gas and/or coal generation for at least another decade.

In short, the industry needs to migrate away from fossil-fuel-based generation while still relying on these in very dry years. Market-based solutions need to be found to ensure the providers of that generation have enough certainty to continue to invest in a reliable level of service.



Committed to combating climate change

As a 100% renewable energy generator that is committed to protecting the environment, Meridian is supportive of the Climate Change Commission's and Government's recent announcements to further accelerate our efforts to combat climate change.

We believe that the electricity sector has a huge part to play in decarbonising our economy and supporting New Zealand businesses and individuals to make the changes they need.

We know that we play a part in bringing our customers along too and that we need to make sure we support all our customers, from large businesses that need to invest in technology and transition from fossil fuels, to everyday New Zealanders who are more and more likely to adapt their behaviour and drive this change.

These are not just statements. We have been working hard for many years to ensure that our own house is in order. At the heart of Meridian's offering is a deep and all-encompassing commitment to being a sustainable partner for shareholders, stakeholders and customers.

Since we made the commitment to generate electricity only from renewable sources, we have developed more new renewable electricity than any other generator in New Zealand. In the past 15 years Meridian has invested around \$2.2 billion in new renewable electricity generation that removes 1.9 to 4.6 million tonnes of carbon from the environment every year.

For several years now we have used the Integrated Reporting Framework for our annual reports, and we have reported our greenhouse gas emissions since 2013. We also report our climate-related risks through the Task Force on Climate-related Financial Disclosures and Carbon Disclosure Project frameworks.

Last year we launched our Green Finance programme and committed to halving our own emissions by 2030. To achieve this we will continue to grow our own carbon sinks by planting native and exotic forests, convert 100% of our passenger fleet to electric, and continue to support our communities through our Power Up funds and by being the Principal Partner of KidsCan. We are getting recognition from international shareholders in this regard, with the BlackRock Sustainable Energy Fund becoming a substantial shareholder in the past few months.

Our people

In the past six months our executive team have continued to go from strength to strength. We are very fortunate to have such a great talent pool at Meridian.

On 1 January 2021 Guy Waipara took on the newly created role of General Manager Development. Guy's job is to progress a range of opportunities to support New Zealand industries in reducing their dependence on fossil fuels for process heat, and to grow demand for electricity in the South Island (given the impending NZAS exit).

Guy has taken on the role as a 12-month secondment, and as a result Mat Bayliss and Richard Griffiths have been appointed to the role of (Acting) General Manager Generation, sharing a 12-month term and each taking the lead for six months.

Both Mat and Richard have worked for Meridian for decades and bring a wealth of asset management expertise and leadership to the executive team. Mat will take the lead for the first six months and Richard will take the second half of the 12-month term.

In late January 2021, Jason Stein, Chief Executive of Meridian Energy Australia and Powershop Australia, made the tough decision to step down from his role. Due to the ongoing impacts of COVID-19 on travel and personal arrangements, Jason has been unable to relocate with his family from New Zealand to Australia.

Under Jason's leadership Powershop Australia has significantly increased Australian customer numbers and has refreshed its Australian renewables strategy. This work has set a solid foundation for future growth in Australia. Management will now seek to commence a recruitment process. Jason will continue until mid-2021 to allow an orderly transition of accountabilities for Meridian's Australian business.

Closing thoughts

The future is of course unknown. However, we are proud to be doing things that we feel will positively shape the opportunities not only for our shareholders but also for our employees, our customers and our communities.

We are in for an exciting and challenging few years as we look to invest in our business and support New Zealand's and Australia's efforts to reduce carbon emissions while maintaining high standards of living for us all.

On behalf of the Board and the executive team, we would like to thank our shareholders, our customers and our stakeholders for their continued support to help Meridian deliver clean energy for a fairer and healthier world.



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