

Interim Profit Announcement - Transcript

Slide 1 – introduction

Kia ora koutou and welcome to Meridian's interim results presentation for the six months to December 2022.

I'm Neal Barclay, Meridian's Chief Executive and I'm joined by Mike Roan, our CFO. Firstly, I want to acknowledge those people impacted by Cyclones Gabrielle and Hale. To those who have lost their lives, their homes, and the many thousands of kiwis who are doing their part to support our regions get back on their feet. Our thoughts and hearts are with you.

I'll start by talking to some of our business highlights in the last 6 months, then I will hand over to Mike to take you through the financial results. After Mike, I'll be back to provide an update on a few different fronts, and then we can get into questions.

Slide 2 – highlights

We're pleased to announce another incremental lift in our interim dividend on the back of a lift in cash earnings. Mike will provide insight into our earnings lift shortly, and it is fair to say there are a few one offs that affect this result. But importantly the underlying drivers of value have shown improvement over last year.

We're also very happy with the progress we've been making toward our strategic goals.

Committing to the construction of our grid-scale battery at Ruakākā is the first significant milestone for our ambitions in Northland. Over the next few months, we will back that up by progressing the consent for the accompanying Ruakākā grid scale solar farm.

Preparation to lodge consent for the Mt Munro wind farm in the Wairarapa is also tracking well. So, by the end of the calendar year, we expect to have those two projects consented. And at this stage it is likely we will progress both through to construction.

Beyond that, the team has more than doubled the size of our renewable development pipeline. For some context, the new build options available to us are equivalent in size to all the electricity generation this country produces each winter. And it needs to be of that size given Aotearoa's decarbonisation goals.

Just prior to Christmas, we announced Woodside as our preferred partner for our Southern Green Hydrogen Project. They bring extensive capability and experience in operations, process safety, and energy marketing to the development phase of the project. Mitsui are also engaged and offer strong marketing capability with 50 years of experience in the ammonia business, including having the largest share of ammonia imports into Japan. We're working closely too with Ngai Tahu to progress the project activity and to confirm their ultimate involvement in this project.

Our Harapaki wind farm in Hawkes Bay has been plagued by the wettest two summer construction periods in living memory. The actual damage to site, as a result of Cyclone Gabrielle, was less than we feared. But damage to SH5 and the grid means there's still lots to assess, and as of today we don't have a firm read on the impact on our overall project timeline and cost.

But the state of the wind farm has been a second order of importance to us over the last two weeks. The human impact and property damage, as a result of Cyclone Gabrielle, as we all know, has been catastrophic. Meridian's 'on the ground' efforts have been centred in Hawkes Bay, because we are physically there. We've focussed on the safety and wellbeing of our team and the surrounding communities. Through our own people and our construction partners, we've provided support to Unison, Civil Defence and Waka Kotahi taking supplies into remote areas, restoring power and clearing the roads. We're also working to directly support customers through all affected regions and have a dedicated customer team leading these conversations. I want to commend the Meridian team and our partners for doing what was needed in these challenging times. They truly are good humans.

In total, we've allocated around \$1m to our immediate relief efforts on top of the work we are doing on the ground. Some funds will be deployed through KidsCan and the Red Cross and some will be used to provide targeted support to iwi, local communities and of course our customers.

I'd like to call out the Electricity Retailers Association for coordinating the electricity retailers to deliver a consistent response for all affected customers. And Transpower and the network companies (particularly Unison). We have some highly skilled electrical experts in our team, and they have been astounded by the speed of response restoring service to homes and businesses, given the massive amount of damage to the network. Those organisations and their people are doing an amazing job.

There are still many customers without power across the North Island (and without homes), but everything humanly possible is being done to restore service. The conversation around resilience has already started and there will be many learnings for our industry from this event. But that must wait for the time being as the recovery stage still well in progress.

On a more positive note, our push into the public EV charging space has ramped up considerably in the last 6 months. And our customer teams' shift in focus to creating energy solutions that support customers to decarbonise, is also building momentum.

And my final point. We remain in discussions with NZAS on potential contractual arrangements beyond 2024. The discussions are complex, and I expect they will continue for some time. And despite the best intentions of all parties involved the continuation of the smelter beyond 2024 is far from certain. We will update the market once discussions are complete.

I'll now pass to Mike to drill into the numbers.

Thanks Neal, and thanks to everyone for joining the call this morning.

I am going to talk to our financial statements for the next fifteen minutes or so, as you would expect, but before I do that, I want to spend a couple of minutes providing context for them.

Simply put, the electricity industry is in the early stages of a transition that will ultimately flow through to the wider economy. In fact, the industry is preparing to support and drive decarbonisation of the New Zealand economy.

Anyone reviewing the competitive strategies of the listed electricity businesses would see that over the past three or four years, strategic ambition has largely converged.

Each business is now focused on building renewable assets to support decarbonisation and the conversation on thermal fuels is limited to ensuring that security of supply is managed as that transition plays out.

That convergence and reasonably singular focus may worry some, but the reality is that all of the energy that we can individually and collectively muster will be needed over the next thirty years or so if we are to achieve that goal. Our forecasts suggest that there is room for many to participate in the growth that will emerge.

Our commitment to the 100MW Ruakaka battery is an example of how investment commitments are changing – grid scale batteries are new to NZ and this one is being brought to bear to help manage capacity or peak constraints that might emerge as thermal generation exits the system. Neal will talk to this investment in more detail shortly.

Another example that signals the winds of change is the fact that we have not entered into a swaption with Genesis as we enter 2023.

The first incarnation of that agreement was entered into way back in 2009 and it was instrumental in supporting our business and the industry to manage dry year risk.

While large contracts between entities get reasonable scrutiny from time to time, that one did its job remarkably well – from a commercial perspective it was good for both Genesis and Meridian over a long period of time but more importantly, it was largely responsible for eliminating a loss of national confidence in the sector during dry years.

In the early 2000's, dry years were front page news and potential national calamities.

Dry years did not disappear in 2009, but I can't remember a headline drumming up the same level of hysteria since.

Anyways, and as I noted earlier, the world has moved on.

As we enter 2023, we have two gas backed Swaptions with Contact and Nova while looking to more readily use the demand response provisions contained in the existing NZAS agreement.

Those demand response provisions have always been there but relying on them more heavily seems right as the role that demand response plays in a decarbonized economy will only get larger and the existing NZAS agreement ends in 2024 so relying on those provisions makes commercial sense as well.

Two small but real examples of an industry that is transitioning. There are many others.

So, it is an exciting time for our industry. And improving operational performance is not enough on its own - we are committing investor money to grow while finding new ways of solving challenges.

I am incredibly optimistic about the electricity sector's ability to chart this course, but I am pragmatic enough to know that we will have challenges. Transitions are never linear – but the industry is definitely up for it.

Right, back to results.

Dividends – slide 4

The lift in Interim dividend shouldn't be a surprise.

While we do not provide dividend guidance, what we did say last year 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 Tiwai Point aluminium smelter.

And that is what you see on this slide, a lift in the interim ordinary dividend of 2.6% from 5.85 cps to 6.0 cps.

It will be imputed at 80% and paid to shareholders on the 23rd of March.

Pretty straightforward.

We are also extending the dividend reinvestment plan but as we did for the final dividend payment last year, participants in that reinvestment plan will not receive a discount to market for the shares purchased.

There are no changes to the dividend policy, so on to EBITDAF.

EBITDAF – slide 5

Headline EBITDAF lifted by 8% on the first half of last year.

The graph on the right shows a reasonable breakdown of the drivers behind the lift, but the fourth bullet on this slide is equally important.

That is the \$61m lift in Energy Margin that you see on the graph was supported by \$51m of profitable ASX closeouts.

I will talk to why we were able to close out those positions later but for now, if we remove the \$51m of close outs from the headline figure, then underlying EBITDAF was actually a little lower than last year's result.

I do not want to create a new reporting category, but I do want investors to know that we focus on underlying performance and positive ASX closeouts are not a typical or repeatable component of energy margin delivery for us.

In saying that, there is nothing wrong with realizing \$51m in cash either.

Moving on, I am sure that you will have noticed the \$25m lift in operating costs and you might be scratching your heads a little to reconcile it.

The key is that this graph simply compares categories with the prior period and in that prior period, New Zealand operating expenses did not include \$4m of Masterton call centre costs, but they did capture the reversal of a \$7m holiday pay provision we had held on the balance sheet.

So, the real comparative lift in operating costs for NZ was more like \$14m.

Given I am talking to costs, and to unwind any confusion, it is probably a useful time to say that I remain confident that we will land inside the FY23 operating cost guidance of between \$242m and \$247m for the full financial year.

Right. As the last bullet on the slide says, the second half has started off in a similar fashion to last year (and the year before).

A bit challenging.

While the January operating report showed that we started the second half of the financial year positively, conditions started to bite during the month.

As everyone knows, the NI has been very wet – unhelpfully so.

What may not be as well known is that the same conditions that brought rain to the NI, left the SI basking in sunshine. Ask anyone living in Southland or Wanaka how their Summer has been and they might say too sunny.

Maybe not....and I know that is likely cold comfort to those in Auckland, Northland, and the Hawkes Bay right now but my point is that the Summer storms have hit the NI, not the SI again this year so it has possibly been a bit of a miserable start for everyone.

What might any of this mean for the second half of the year? Well that story will be told in August, for now it is too early to tell.

That said, the graph at bottom left provides insight into the impact of La Ninya on Meridian's financials in the last two financial years.

NZ Energy Margin – slide 6

And that is a nice Segway to Energy Margin where once again customer sales supported revenue delivery while spot exposed generation revenues fell given wholesale prices were \$42/MWh lower than they had been in the previous period.

Operating conditions did support strong production volumes again in the first half. However, we had similar production in the prior period, so generation volumes don't really show up as a factor here.

I have said it at a few results announcements now, but it is worth repeating again.

The lift in fixed price customer volume, which totals approx. 3200GWh over the past five years continues to be the driving force behind growth in energy margin delivery.

As you all know, we initially targeted this growth to mitigate some of the earnings risk associated with a 5000GWh contract terminating at the end of 2024. Over time, it has had additional benefit that I will talk to soon.

It is also where the \$51m in positive ASX close outs fits in. Let me explain.

A lift of 3200GWh of contracted volume is not that easy to accommodate within an existing portfolio.

To support that level of growth, back in 2020/21 the wholesale team turned to the futures market for support – and recognising that our physical portfolio would not support this growth by itself, they bought a sizeable ASX position for both 2023 and 2024.

As it has turned out, the wholesale team has found alternate ways to manage a portion of that portfolio growth so the ASX position has not turned out to be entirely necessary. Hence, that portion was sold and the \$51m in closeouts has been realised.

Hope that was useful.

Anyways, the portfolio rebalance away from wholesale and into retail is important for a couple of other reasons beyond immediate financial return.

In the medium term, and as new renewable generation is commissioned, we expect spot market prices to become more volatile than they already are.

Stepping into new customer relationships will help smooth out any earnings volatility that would otherwise emerge in that environment, all other things being equal.

The last reason is probably the most important of all. In a reasonably short space of time, electricity consumers will begin to directly participate in the wholesale electricity market so that the exit of thermal generation can be managed effectively.

I mentioned demand response from large industrial customers at the start, but demand response from residential, small business and corporate customers is just around the corner as well.

We intend on buying these services from customers in the coming years and while it may seem like 'pie in the sky' stuff right now, there are real world examples of these schemes operating already. In California for example, customers who provided these services were paid up to \$500 over a calendar year for doing so.

This two-way relationship will fundamentally change the way we interact with customers, but you need a decent sized customer base to do it effectively and we have now that scale.

There is a bit of water to flow under that bridge to facilitate it, but the role of, and relationships with, electricity consumers are changing and we want to be a big part of that change.

Overall, and to sum up this slide, we have improved portfolio resilience, seen small but meaningful improvements in energy margin delivery and will develop a stronger, broader relationship with customers that will benefit us all in the long run. Not bad.

Customers – slide 7

Talking of customers, you can see from this slide that overall customer sales volumes grew by 218 GWh when compared to the first half of the last financial year. That volume growth has slowed markedly on previous periods and signals that we have reached our portfolio targets, but it is clear that products and services offered by the Retail team continue to hit the mark.

So we may re-engage our retail team to grow depending on how the future unfolds.

Average prices also lifted although I will note that for mass market customers, this was largely due to folk coming off fixed term contracts.

Corporate market pricing continues to reflect strong ASX prices – and Neal will talk to that soon.

Generation – slide 8

As I noted earlier, inflows were surprisingly strong in the first half of the year and while that didn't show up in the Energy Margin graph on slide 6 as a differentiator, the timing of those inflows was pretty important as SI hydro storage entering winter 2022 was well below average.

So the early, largely unexpected winter rain really set the business up to hedge customer sales.

And while \$51/MWh spot prices used to be normal when I ran the wholesale business if you look at this chart, you can see that they look a little depressed today.

Even though it will be a small percentage of folk, those that chose not to hedge via the OTC or ASX markets will be happy for a bit of relief.

As the slide says though, as we stepped away for some chrispy cake and a bit of rest and relaxation over the holiday period, spot and ASX prices began to climb as SI hydro storage started to fall. In January, for example, the average generation spot price lifted to \$114/MWh.

And if that feels a bit like *deja vu*, you are right. As I mentioned earlier, the last two financial years have had very similar trajectories.

I also want to provide an update on volumes traded on the ASX over the past 12 months. As I noted a couple of minutes ago, this market has become increasingly important to us and others as a mechanism to manage risk and it continues to go from strength to strength in terms of volumes traded.

While we haven't shown a table here that captures ASX trading volumes, over the past 12 months 113 TWh was transacted on that platform. That is up 40 TWh on the previous 12 months and represents more than two and a half times annual physical consumption of electricity in NZ.

That market remains liquid.

Operating Costs – slide 9

As noted, observed here and signalled last August, operating costs have lifted.

For those that weren't on the August call or do not remember the reconciliation, I will quickly summarise it here:

– we, like all businesses, need to attract and retain good people and the employment market was pretty tight entering the financial year. So, we put \$9m aside to make sure we paid people appropriately.

We also wanted to continue to build capability in our development team and within our subsidiary Flux, so we committed an additional \$7m to those two activities.

Finally, this year is the first year where \$6.6m of Masterton call centre costs flow through the NZ cost line (as opposed to Australia previously).

It is not a new cost, as such, but as the graph shows a YoY comparison of NZ costs, and the Masterton cost only sits in the 2023 bar, that distinction is important.

Of course, the Masterton call centre cost is recovered through a contract we have in place with Shell, so costs are offset by revenue, but they show up in operating costs nonetheless.

The key point I want to leave you with is that other than for retaining people, we are putting funding into growth activities – Flux and our development team. And our development pipeline is benefitting from this lift in capability, as Neal has talked to and will continue to expand on soon.

As I said earlier, I continue to expect group opex to fall in the \$242m to \$247m range this financial year so not too much more to add to the slide.

Capital Expenditure – slide 10

As for capex, at the start of the year, I suggested we might spend between \$410m and \$435m.

That remains a valid forecast subject to where we land in relation to Harapaki.

And for the first time we have broken out generation team total cash costs, or operating and capital costs combined, and they totalled \$40m in the first half of the year.

Given this level of spend, the forecast range provided in August might seem a little high, but the generation team workload tends to accelerate as the year progresses, so the market forecast of \$83m to \$88m for generation team total cash costs remains reasonable.

Below EBITDAF – slide 11

There is plenty on this slide for the pointy heads amongst us.

First off, NPAT lifted by \$56m or 39% over the previous comparable period.

However, as NPAT contains fair value movements of derivatives (which is a non-cash item and moves materially period on period) we also present underlying NPAT which in my view allows both better comparability with prior periods and insight into business performance.

So, the value of this slide is the table on the right.

It shows that while NPAT lifted by 39%, Underlying NPAT lifted by 25%.

We are pretty happy with those outcomes but please remember that EBITDAF and by definition NPAT and UNPAT also included the one off \$51m injection from the ASX closeouts, so the result is skewed a little.

A couple of other things to note

- The value of generation assets lifted by \$740m. We do not typically revalue assets during the Interim period but over the past six months there was enough movement in the likely cost of new investments to warrant an update to price paths. The adjustments to price paths drove that asset value lift.
- the balance sheet also remains healthy with the net debt to EBITDAF ratio sitting at 1.3x at end of December
- we agreed to surrender the lease of our Wellington premise at the end of October 2022 – as you can see here the impairment cost to the business was \$6m
- and we are considering a Green Retail Bond issue in the coming weeks that will replace an expiring Green Bond while supporting growth.

Look out for confirmation of that Green Bond offer on the 6th of March.

Last but not least, the operating cashflow graph is there to confirm that cash delivery and the accounting metrics are heading in the same direction. They are.

From my perspective, the operating business continues to perform well and that, alongside the progress we are making to grow the business means it was another sound six months.

I will now hand back to Neal so he can shine a torch on growth, the regulatory environment and other elements that drive our strategic ambition and will influence performance over time.

Slide 13 – Wholesale prices

Thanks Mike.

The wholesale market continues to see a forward price curve significantly higher than historic levels. While some of underlying drivers, such as carbon prices and coal futures, have moved off the high levels seen last year, gas supply risk still appears to be priced in. Ahuroa storage degradation, Methanex running near full capacity, both reduce marginal gas availability and, despite the Maui infill programme delivering production gains, new upstream exploration has yet to be proven. The recent year's reliability issues remain a risk, as does the timing around aging thermal retirement and this country's ability to attract the capital it needs for future gas exploration. We're also seeing a cyclical commodity pricing uplift and an element of that is likely to be sticking to the forecasted marginal cost of new renewable builds. At the end of the day the Energy Futures on ASX, as Mike said, are liquid and trading around 2 and a half times the volume of the physical market. We have 5 market makers engaged in price discovery, so it is difficult to suggest that forward prices reflect anything other than the value of risk that buyers and sellers are accepting.

All of that said, as momentum continues to grow in new renewable investments and as dry year firming solutions emerge, Meridian's inhouse wholesale market outlook still has long run price expectations in the \$80-\$90 per MWh range – in real terms. That may be cold comfort to corporate customers recontacting their electricity supply for the next few years as prices

are significantly higher than that at present, but we still see the transition of the energy sector to electric being affordable and cost effective for consumers in the long run.

Slide 14 – Policy and regulation

The legal framework governing resource management in this country is complex and I've heard no one suggest that it wasn't overdue for reform. We believe it is an intention of Government and officials, through the current reform process, to support efficient renewable energy development that will enable New Zealand's low carbon future. But it's difficult to see that intention in the suite of legislation changes currently working through Select Committee. In fact the Natural Built Environment Bill puts natural values ahead of climate change. And in the absence of a National Planning Framework that has yet to be developed, and that may help guide local government to look to the greater good, we do have concerns with how this reform will be delivered.

Accordingly, Meridian is working with the other large generators through the Select Committee consultation process, to ensure Aotearoa gets a good outcome. And to be clear, I don't believe anyone expects renewable developments to get a free hit. Developers must work with communities and environmental agencies to mitigate the local effects of large-scale infrastructure development. But we do expect those affects to be balanced against the climate benefits that renewable energy brings.

And now to what I hope is a final mention of TPM changes. Final pricing, under the new TPM framework has been confirmed by Transpower for the 23-24 pricing year. For Meridian that means a \$12M reduction to transmission costs on a like with like basis. But that starts to get eaten into with a \$5M increase in Transpower's assets replacement costs also flowing into that pricing year.

Slide 15 - Manapōuri transformers

During December we identified an abnormal gas signature in the unit 6 transformer at Manapouri. The observation was part of our condition monitoring regime, and it potentially indicated a high temperature fault within

the transformer. Because of the risk of transformer failure in an underground powerhouse environment, we have taken the unit 6 generator out of service, and it will remain that way until the issue, and a resolution to it, are fully understood. Indicatively, that could be an outage of up to 6 months. Most importantly the work we have done over the last couple of months suggests we are not dealing with a fault that is likely affect all 7 units, and the loss of this unit can be managed comfortably within our portfolio. Also, as Mike indicated earlier, the Waiau catchment has gone through another very dry patch, and we don't have the water to generate from all 7 Manapouri units, even if they were available.

The Unit 1 transformer had previously indicated a similar gas signature issue, although not nearly as significant. Following inspection, that unit was returned to service in late December as it was safe to do so.

Slide 16 – Harapaki construction

As I mentioned earlier, wet weather has been our major issue at Harapaki. Even before Gabrielle, Cyclone Hale dumped around a metre of rain at the site. The good news is the enhanced roading design that we signed off in August last year seems to be standing up well to the conditions. And whilst the first set of turbines are sailing to New Zealand now, our ability to get them from the Port in Napier to the site is our next big problem to solve. We'll have to wait to see how quickly State Highway 5 can be restored and how quickly Transpower can complete the Hawke's Bay remediation works before they can turn their attention to commissioning the Harapaki 220kV substation. I do really feel for our construction team as they have been doing an amazing job managing through very difficult conditions. But, for the time being at least, further progress is mostly out of their hands. We'll inform the market of the impact on project timing and cost as it becomes clear.

Slide 17 - Ruakākā battery energy storage system

The Ruakākā BESS, situated just south of Whangārei, will be New Zealand's first large-scale grid battery and adds significant versatility for Meridian, and

the system as a whole. As you may be aware, the market for battery componentry became white hot last year and it took considerable effort to stitch a supply deal together, but we and Saft got it done.

A North Island Battery was originally part of our response package to the NZAS contract termination. And as we developed the opportunity, the BESS business case proved to be an economic investment for Meridian, irrespective of Rio Tinto's future in New Zealand.

The BESS offers multiple new revenue streams, providing the ability to load shift between price periods and to participate in the North Island reserve market. Site works are due to start in mid-March.

We also have an adjoining 120MW solar farm planned. The grid connection assets built to connect the BESS to the grid can be shared with the solar farm, and that materially improves the economics of that project.

Slide 18 – Southern Green Hydrogen

It was great to select our partners for Southern Green Hydrogen. Woodside and Mitsui are heavyweight partners with massive capability and together we are moving into the detailed design stage.

We're also working closely with Ngāi Tahu through Murihiku Regeneration as the project aligns with their energy vision for the region. We have in principle reserved combined equity participation rights for Meridian and Ngāi Tahu of up to 40% of the eventual project.

We're assessing both domestic and export markets for Southern Green Hydrogen products. Assuming a 600MW facility, Southern Green Hydrogen will be capable of producing around 500,000 tonnes of green ammonia for export each year.

Importantly the facility could meet up to 40% of our electricity system's dry year flexibility needs by providing flexible demand response. Demand response will be a significant feature of our future low carbon energy system

and for those industries that can provide flexible demand over a season, we believe the market will reward them well.

We expect to reach a final investment decision during 2025.

Slide 19 – Retail initiatives

The next two slides focus on changes in our retail strategy.

2022 marked 5 successful years of organic customer sales growth – for context, that growth is equivalent to around 65% of the current NZAS contract volume.

That means our sales portfolio has become fairly full, and we're now executing a shift in our retail strategy toward growing the size of the pie, not just our share of it.

Our certified renewable energy product is now well established and provides meaningful value for customers, particularly those involved in export markets.

In our drive to support enabling light vehicle electrification, we are committed to being a substantial EV charging infrastructure owner. And we are building out a broader customer proposition alongside our EV plans.

The cost of living is a major pressure point for so many kiwi households and the energy hardship problem has become wide spread and complex to solve. I'm committed to seeing our Company lift its level of support for customers experiencing hardship. We completed our energy wellbeing pilot during 2022, and we learnt that we can make a long-term, meaningful difference to households who are struggling. So now we are now working to scale the Programme up to reach a sizable portion of our customers who are dealing with energy hardship.

Slide 20 – Evolving our customer approach

We have bold ambitions to grow our energy solutions focus and to be a major electricity retailer to electric vehicle owners and distributed generation customers.

We also plan to grow customer value and support security of supply by landing industrial demand flexibility, alongside what we are already targeting in terms of process heat conversion.

We'll start sharing our KPIs for this shift in retail strategy later this year.

Slide 21 - Renewable development pipeline

As I mentioned at the start, we have more than doubled our renewable development pipeline since the middle of last year. The portfolio comprises mostly on shore wind and solar options. I have trebled checked that claim because I was struggling to believe it myself, and it turns out our prospecting crew have been doing an amazing job.

We are committed to getting on with Ruakaka developments and the Mt Munro wind farm. The gap on this slide between 2026 and 2029 reflects the risk of an NZAS exit. Obviously if 13% of this country's demand gets turned off at the end of 2024, the timing of all new builds beyond then, including ours, may face reassessment. On the other hand, if NZAS continues and Southern Green Hydrogen also gets to financial close, then Meridian (and the market most probably) will look to further accelerate developments. Certainly, we are working hard on options to do that.

Slide 22 - NZAS contract termination – portfolio response

And this slide should be familiar to you. Two and half years down the track, I think we have done a pretty good job mitigating against the planned closure of NZAS.

The Transmission solutions, including the Ruakaka battery, have been, or are targeted to be, delivered before the smelter's closure date.

Whilst the actual sign up of process heat volumes has plateaued over the last six months or so, the pipeline that our sales teams are looking at is improving.

So, while our forecast still sits at 600GWh, I think we will land more than that. And as the \$650 million GIDI funding gets released we expect the number of announced thermal to electric conversion opportunities to increase quickly.

The data centre opportunity is the most challenged of our mitigation plans. Whilst DataGrid submitted a land use consent application in October last year, we note that Remi Galasso, their founder, and apparent passion behind the concept has left the business. So it is fair to say our confidence in this project is diminished.

And of course the big-ticket new demand opportunity in Southern Green Hydrogen, is still well on track for delivery in 2028.

Slide 23 – Closing comments

So, to wrap up.

Cyclone Gabrielle and before it, Cyclone Hale, have had a devastating impact on many homes and businesses. I am confident that as an industry we are working hard, and in a coordinated fashion to help support people through the crisis. There might be an impact on Project Harapaki but it is too soon to quantify it in terms of time and cost.

We had a strong financial outcome for the half year and Hydro storage is about average for this time of year. But the forecast in Southland looks dry again, and NIWA's outlook suggests a La Niña influence prevailing into autumn. It will be what will be, but we have done a good job securing our risk position with appropriate hedge cover. And as Mike indicated you can expect us to lean on our existing smelter contract more directly, should hydro storage continue to decline.

We've made a lot of progress moving our strategic agenda forward and that will continue. From Meridian, you can expect to see:

- Consents lodged for the Ruakākā solar farm and the Mt Munro wind farm, this side of June.
- A decision to build one or both of those projects by mid-next year.

- The Ruakākā battery will be operational by 3rd quarter of 2024.
- All going well, we will have made an investment decision on Southern Green Hydrogen early in 2025.
- And our Energy Solutions customer strategy will be gaining strong traction.

And, I guess at some point over the next year, it is likely to become clear on whether NZAS will continue to operate in New Zealand or not. And on what terms. And you'll know all about that almost as soon as we do.

It's certainly an exciting time to be in this Industry and in this company. The potential for growth and to make a real difference to people and the environment by living to our purpose of Clean Energy for a Fairer Healthier World, has never been greater.

Thank you all for your attention – Now starting with those in the room I will go to questions?

Q+A

Thank you for your attention. We can move to questions, and we will start with those in the room first. Andrew?

Andrew Harvey-Green - Good morning, Neal and Mike. A few questions from me, first of all, we understand the issues around Harapaki and not knowing when you can get back on site, but can you give us a bit of colour in terms of, at what point does a delay become problematic? How much can you handle and at what point does it start being a real issue for you?

>> We have got appropriate laydown space in and around the port of Napier so we can absorb the machinery out of Asia where it is coming from. It just becomes a time thing as the road opens up and we can get access to the site, then we can get the kit up there and stand it up. And the forecast on when that road will be available for heavy transport, to the extent of 80 m blades, it's just an unknown at the moment. I thought they were doing quite well but we saw a picture the other day of a big washout that occurred just after the weekend. So, we're exploring alternative routes as well. But we don't have a clear handle on that yet.

>> Next question, a couple of questions around the development pipeline. That's the biggest change we have seen in this set of results. I would just be interested to know in terms of those advanced prospects which have increased quite considerably, can you give us a bit more colour in terms of what an advanced prospect actually means? And then in terms of, what is the expectation around these actually being built? And I presume time frames we are looking into the 2030s before any of that pipeline would be coming to market.

>> An advanced prospect is where we have a landowner agreement in place, and we have a good handle on the resource. We have it pretty well modelled in terms of the potential economics. In terms of timing, Andrew, there are so many things at play and we have been in this game long enough to know that particular list of projects will change around. Some will come further forward; some will get pushed back. But we are confident because we are starting to show that we can build to a development pipeline in line with the projections on that page. A bit early to call out exactly how it will play out in 2030 -40 at this stage.

>> In terms of solar developments in particular, are all of those prospect's things that Meridian staff have found themselves? Or are we looking at effectively acquiring other projects that other developers have got to a certain point and may be looking to monetise their work to date?

>> We have had an extensive study going on for years across the country in terms of the best resources. We've developed most of that ourselves with landowners, but we are also looking to procure some, and some of those we are looking to procure are not on the list yet. We are open to procure in good options as and when they become available.

>> Thank you. Last question from me. Your comments around the marginal cost of generation in real terms being 80-90, unfortunately we have inflation so I would be interested in trying to anchor that statement a little bit. I'm assuming if we roll forward five years, you are looking around current CPI may be another 10%-15% on that and the mid to late 2020s, looking at 90-100 or thereabouts.

>> Probably. I wouldn't like to try to predict inflation outcomes at this point. And we have probably got relatively conservative assumptions in terms of

when things will start to settle down and trend more towards the long-term. -- Long-term trend. But I think of that order, it seems about right.

>> OK, that's all from me. Thanks.

Nevill Gluyas - Hi, team. Three from me and following on from Andrew's question to start. The \$80-90, you probably said it, are we thinking of that as a time weighted average price or is that the range of cost for new projects breaking ground?

>> It's a long-range average price.

>> Thank you.

>> I will just mention, that has lifted a bit from where we have been in the past. It was probably \$75-\$85 range, so we have seen what we consider to be a more permanent shift upwards.

>> That's very helpful, thank you. Two more questions, no mention about demand outlook. Tiwai and hydrogen are the big swingers, but if you take that out, what is your view on demand growth underlying from here to the rest of the decade?

>> I was going to say no real change from what you have seen in the past, Nev. The time in demand is probably the most -- timing demand is the most challenging. Neal spoke to the changes in government policy and how legislation drives changes. We have good engagement in the South Island through the process heat initiative and we provide stylised graphs of demand growth through 2050, but the timing of that over the next seven years through the end of the decade is always a little more challenging to pinpoint. But the key point is nothing has changed from what we have presented previously.

>> No concern or optimism from the track you are seeing to date. Thank you. Last question, just to get some idea, not necessarily asking for a number, but do you see the net back you could get from a hydrogen project as sufficient to pay for new renewables? Is it at that level?

>> That is clearly the objective and what gets it into the zone is largely around the ability to provide flexibility back into the market which, depending on your view, is circa \$20-\$30 per megawatt hour -- circa associated with that level of response.

>> Great, thank you. That's it from me.

David Fear - Appreciate the sensitivities around Gabrielle and the extreme weather events. But when you look across your asset portfolio, an event that extreme, how close did that come to stressing or potentially stressing the assets?

>> It did not stress Meridian's assets. The event that would cause us stress is probably a major earthquake in the Southern Alps, primarily. Or one of the related fault lines in the region. This one didn't stress our assets. It certainly stressed the overall region as a transmission distribution asset primarily, but I think Genesis have been called out for bringing Waikaremoana capacity on very quickly. That really helped. So, it wasn't a generation issue, but it was certainly a transmission distribution asset issue.

>> The other thing to add is how developments face increasingly large floods and events like we have just seen? Ruakākā is a good example of largely at sea level, but we have had the opportunity to go back to our engineering analysis that already incorporates climate change and its impacts and assess the flooding levels and the development and design of the concrete plinths to house battery and/or the solar park. We are confident in the analysis we have done but it does make you stress test those decisions as well. So future development, it does impact the decisions that you might make and where you place your assets.

>> We also look at maximum flood potential in the South Island Hydro catchments. That has been an ongoing exercise and has been part of our asset management planning and programming for ever. No one else in the room? I think we can go to the phones.

>> Thank you. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press *2. We have our first question, please go ahead.

Grant Swanepoel - Good morning, can you hear me?

>> We can, loud and clear.

>> Thank you. First question on hydrogen, all these long-term studies support a view that gas should be part of what may change agent. (INAUDIBLE)

>> Grant, could you say that again?

>> Gas supplies the capacity shortfall in the market so therefore the does that kill the hydrogen metrics?

>> I think we will need a range of particularly seasonal, dry-year response measures, Grant. We see, and a lot of commentators see gas continuing in the New Zealand market for the foreseeable future. At much lower levels than today obviously. I think a larger demand response like this hydrogen producer will bring huge ability for us to manage through those dry-year events. It is complimentary, it's not either/or. At this stage, I think demand response is going to have to be part of our future. And at this stage, from what we are seeing, this is the most sizeable and realistic demand response opportunity available to the New Zealand sector.

>> Next question, the smelter needs to cut back, how many megawatts is that and how long can you do that for?

>> The existing smelter demand response provisions allow us to request the smelter to reduce consumption by 250 GW hours over a six-month period. So, the smelter makes the decision in relation to what they actually do. We get the relief as it relates to contract position.

>> What triggers that, Mike?

>> So, it is only exercisable if New Zealand's storage falls below certain trigger levels. So, largely driven and available to us as Hydro storage levels fall.

>> They are disclosed in the contract on our website, too. Plus, typically when we're getting close to it, we will start flagging that with some sort of chart so that the market can understand where it is at.

>> Thank you, can I push you for one more on Tiwai? Are we talking negotiations for 3-6 months to expect something? Unlike pushing for a hard close on that deal.

>> I think 3-6 months would be ideal. Even that might be optimistic. Because there is a lot of work to be done on behalf of the smelter. They are dealing with more parties than just Meridian this time round. It is complex. They have a range of contractual positions to put together. And it will all come down to

price at the end of the day as well. There is still no certainty we can reach agreement on that.

>> I was going to say, Grant, someone asked a similar question at the August results, and I said three months was a long time. The target at that stage was December 22. I said three months was a long time if you put a lot of effort and time into it, and we didn't deliver on that outcome. So, we are committed to the negotiations. The best people to answer the question are Rio. It's really hard for us to say three or six months. We took heart from what Contact said. What we took from that is they are looking to take a leading position in that negotiation, so whether that gave Rio confidence or not, certainly we sat there and said, "Contact is pretty enthused and keen to deliver that outcome." So, we expect them to provide a sizeable part of that price.

>> Thanks, Mike. Can I just put the Harapaki potential delay in context? You're looking about 448 million, and first Power around June this year. Are we talking about a delay of one month or two months, not something that will blow out of proportion and cause material disruption to earnings?

>> I can't see it being a material disruption to earnings, Grant. We are guessing, but we hope it is no more than a month or two. And if that is the case, then it's not particularly material to either the business case and certainly not to the company. But, you know, it really does come down to the state of that road. Because we are testing it, we're looking at alternative options, but there aren't many, if any, viable options to get that size kit up to the site other than State Highway five and as we all know, it's a mess at the moment.

>> A jigsaw puzzle for you. My final question, the other companies are talking about duration moving from three towards five years, but some are now talking about moving to 10 years. You find you are also rolling over too much longer durations than that, becoming 10 years?

>> Yeah, Grant, we might have stated our average duration of contract in the C&I space we are working to extend. We have signed a 10-year deal with participants in the C&I market, a number of them are looking at five years but the duration of our C&I book has extended and that was done purposely as part of our mitigation framework. So, we would like that contract volume sewn up as we approach 2025.

>> Thank you both for the update.

>> Thanks, Grant.

>> Thank you, once again, if you wish to ask a question, please press *1 and wait to be announced. The next question is from **Stephen Hudson** from Macquarie securities, please go ahead.

>> Four from me, if I could. Firstly, active trading and market making, can you give us a feel for what contributions, Mike, your team paid there? And what we have seen historically. Secondly, on the revaluation, I saw the assumption has come down 130 GW. I don't know if that is a mechanical thing or if there is something behind that but a comment there would be great. Or from the revaluation, do you assume a go or stay, or is it blended, some sort of weighted probability assumption? And lastly, you have given a EBITDAF range of 25-35, can you explain the ancillary services contribution?

>> Steve, I will do my best. If I miss one of them, I can catch you afterwards and follow-up. Market making, or what we have seen, our contribution in that market stays reasonably steady. Numbers were presented where we are 25-30% of the market. What we have seen, the volume left is driven by nonmarket makers -- lift., the active trading going on in that market has driven growth and volume, so our traders have had to get better at what they do over time to make sure that they manage the exposure we have. And we release the numbers each month through the operating report, what the cost of providing that liquidity to market is. But there is no doubt nonmarket maker participation has grown massively. On the scenario and the assumption for price path in revaluation, that is the NZAS exits in 2024. So, no change to the assumption we have used. The only change really is the cost of investment. The cost of the investment over time. I missed the piece on the 130 GW, and I didn't write down the last part of your question so you might have to repeat it.

>> It looks like you have lost 130 GW hours out of your generation asset.

>> Hey, that will be... I can take that off-line.

>> Let's take it off-line, it will be a natural variation. The way we model and forecast generation participation, the average outcome across your 85 odd scenarios changes marginally every time you do an update so it will be driven by noise in the update as opposed to anything else.

>> Not your snowpack gradually or anything. Just to clarify, you have assumed the NZAS exit which feeds into the \$80-\$90 wholesale prices long-term -- \$80-\$90... If that stays, it would be a very different number I assume.

>> That's right. The way to think about modelling is NZAS has a short run impact on prices but over the long run we expect demand will replace it and as it is replaced, you approximate long-run equilibrium again.

>> Steve, just to be clear, even in the NZAS exit, we still see long run average cost coming out in the \$80-\$90 range. There would be some disruption either down or up if southern green hydrogen was suddenly to be launched into the market but over the long run, we still think the market will find its way back to the marginal costs of new renewable generation plus firming costs.

>> Your last question was on the BESS, but we split the revenue potential for that asset across three different categories. Arbitrage revenues, reserve revenues -- Arbitrage, participation in the North Island market, and what we call portfolio revenues, using the battery to ensure prices between the North Island and the South Island did not diverge. We ran it across any number of scenarios. So, it is hard to break down the actual percentages for each. But I will do a little bit of that in a scenario where NZAS exits, where the battery is most valuable to us. In that scenario about 50% of the revenue potential is from portfolio benefit and the other two are split equally. But even if NZAS stays, that battery still creates value for the business. They are split more evenly, though, across that scenario. As I say, we tested that one pretty thoroughly across our normal modelling. We even updated our modelling framework to look at what we call Hind casting, so testing the modelling framework against what we have seen in the past to test the arbitrage revenues carefully because the battery is reasonably new in New Zealand, and we want to make sure we are making an investment that benefited investors.

>> That's useful. I might be cheeky and put in one more for Neal. We have seen news recently around renewable contractors, in particular, Downer. I know it is a shallow market here with Higgins, Fletcher and Downer, but are you confident today there is capacity and appetite to provide contracting services for winning projects on fixed prices?

>> I think, there is currently because we are building quite a few around the country, but more are coming online. Capacity will have to build -- more are coming online. Capacity has to build to meet the growth plans that we and

others in the market have. There is no doubt about that. Probably one of the issues for the industry is ensuring that we can support that level of capacity growth through the lulls and the upsets that may slow down a project or two, or speed them up. We need a consistent delivery path over the next 30 years if we are going to get anywhere near achieving the sorts of outcomes we need to help this country decarbonise. A lot of work in front of us in that regard, Steve.

>> OK, thanks. That was useful.

>> Thank you, your next question comes from **Cameron Parker** please go ahead.

>> Just a couple from me. Just wondering if you had any observations on the level of traction for the GIDI fund, the first round of funding being transferred into upward demand and any traction on the \$650 million fund that was issued last year, I believe? And also, your opinion on (INAUDIBLE) risks.

>> I don't know if we got that last piece of the question.

>> What sort of risks you see around the industry at the moment and potentially industry finding it pretty tough with energy prices and under pressure, and potentially closing down.

>> The GIDI, the 650 million, we are coming up to a funding round in March and that will release a decent chunk of that. We expect it to progress from there. The projects we are working with and the pipeline of sales that we have got which exceeds the 600 GW target are all leaning into the fund with applications, so that will become clear over the next year. But there hasn't been an uplift in funding allocated from where the GIDI fund was previously at 65 million and then it got ramped up to 650 million, so there's quite a bit of work to get some momentum behind that.

>> Just industry generally, it's probably hard, it's a hard one for us to answer at a very specific level.

>> I would say, you know, we are all very concerned around capacity constraints, any sort of outage or impact on customers. That's a massive risk for the industry. If we lose confidence -- if we lose confidence in our ability to deliver a reliable service and a fairly priced and efficiently priced service to our customers, then the decarbonisation thing will become an issue for some other generation. So, I guess that is pretty key for us. Obviously, you know, I looked into the risk from an asset management perspective, large-scale disasters of any sort of nature cause chaos. The price of new renewables and our ability to

access them going into... Going into the future, I think the world has got to grow capacity to deliver. The next couple of years might be quite challenging. We haven't been to market for a while. We went to market on the battery and that moved on us in a hell of a hurry. Things are settling down again but that will continue to be a reasonably... It's a challenging market out there globally. Anything else you would add?

>> I would say our job ultimately is to drive competitive advantage to New Zealand businesses that compete globally. There has been a hollowing out of the manufacturing base that has had exposure. When you look at electricity prices in New Zealand, they are high by historical standards but when you look at electricity prices in Australia, Europe, the US, wherever, they are worse. So, there are challenges everywhere internationally for folk. I think we are doing what we need to both to help them decarbonise their businesses over time and ensure that they are and remain profitable over the long run. We talked about the length of contract we have been entering into with customers to help them manage through the current challenges they face. So, I am probably optimistic in that regard. Certainly, our job is to support business ultimately that needs to compete internationally.

>> Great, thanks, guys. Last one, obviously the OMV asset sale, the declining market and your thoughts on medium-term tri-year risk -- dry-year, if the gas market is falling wages that present more of a risk to you, and what do you see towards 2030?

>> It does represent a risk, clearly. I think we would all be more confident if there was more investment going into gas exploration and storage capacity in particular. I know there are plans afoot. We are not part of any of those directly because we are not engaged in anything other than renewable asset generation. But we certainly can, we do, and we are interested in contracting with partners who are building capacity. Certainly, we need to see more investment in the gas industry in the near term to help manage this transition in a way that works for all New Zealanders.

>> Great. Thanks, guys, that's all from me. Well done on a great result.

>> Thank you.

>> Thank you, your next question comes from **Vignesh Nair** from UBS. Please go ahead.

>> Good morning, can you hear me OK?

>> Yes.

>> Perfect. Thank you for taking my questions. Just a couple today, largely aimed at Mike. Firstly, on Cyclone Gabrielle and Harapaki impact, you talk about length, and I know it's early days but on the cost front from potential site remediation and other related expenses, is that all applicable for insurance cover? Is this a cost issue, a timeline issue or both?

>> We are working through, again, a lot of it is too early for you a definition but we are working through insurance claims. The site is actually in pretty good shape. I think it had 1.6 m of water since the start of the year. We made a pretty fundamental decision with that site last year to lift the cost base by \$50 million so we could install routing up -- roading, there I'm about to use a pun, that could weather a storm. That was pretty bad. But the decision played out really well for us. So, I think from a site perspective, the costs largely come down to now what plays out with State Highway five and the transmission infrastructure. Because we have worked to get our team, to make sure the team is available, and to ensure they are ready to go back to site. But it is simply getting them back to site via State Highway 5 and ensuring that we can commission the substation, as Neal mentioned. It's just too early to provide some substance and frame to costs and/or time.

>> But I think, it's more of a time issue for us than a cost issue. Of course, time has a cost angle because you are not getting the revenues flowing into the project as soon as we would like. But it is certainly more time that we are concerned about than a massive remediation job up at the site.

>> OK. Secondly, on operating cost inflation, is this as high as it will go? And the guidance number for the full year, is anything embedded that may not continue into FY24?

>> That's a great question. We will definitely continue to put money into our development business. And we will continue putting money into Flux as a business to the extent it delivers new sales which is what its opportunity in future looks like. Those two businesses rely on good people, and as Neal and I mentioned the expansion in our pipeline has been due to the people that work within our business, phenomenal to see. I have no hesitation in continuing to

present more cash to the extent the values there in that regard. The only other place that we are seeing costs, as everybody is, again, is all of us sitting in the room and on the phones, it's the cost of everything we buy that goes up, we look for support from our employers. Again, we have got great people and you want to keep them, so we will be driven by the employment market, immigration, and the cost-of-living index as it relates to future costs. Beyond that, the operating business is very, very disciplined. As an example, which we used last year, the retail business has grown its volume under contract by over 3000 GW hours which Neal and I mentioned today. So, they are a very disciplined bunch of people on the cost front within the business, but we do have exposure to the employment market and no apologies for trying to grow the value of the business. Hopefully that's useful. Probably longer than you needed.

>> Yes. Thank you. One final thing, I think you mentioned Data Grid. I missed that, I just wanted to clarify the commentary around that contract.

>> My main point was that project is not progressing as we anticipated 1.5 years ago when we started this. They have lodged for a consent. We understand if the project gets up, it will be done in 10 MW increments. We were talking 100 MW back in the day. But our main concern is the main guiding force behind Data Grid, the person we got to know, the person we built a relationship with, has left the business. So, I am not confident it will occur. But if it does, it will be incremental volume. Probably not 100 MW type of scale. We will treat it as a normal customer type arrangement.