Changing Step. Together.

Meridian.

Meridian Energy Limited. **Investor Letter.**

There's a powerful future ahead

The 2021/2022 financial year was challenging, but one that proved successful in positioning us for growth. We continued to make good progress in supporting decarbonisation and doing all we can to bring new reliability and capacity to the electricity sector as a whole. A prolonged drought, particularly around Lakes Te Anau and Manapōuri, was a clear reminder that the ongoing vagaries of the weather will only become more volatile – and that our response must blend significant climate action with active and agile risk management and mitigation.

We have pushed ahead with our transition to a more sustainable energy sector, deepening our partnerships, building our development pipeline, supporting our commercial and industrial customers to electrify and making good progress with alternative use of our Southland resources, particularly in the area of hydrogen where interest has really gathered pace in the past year.

A generational opportunity

We continue to plan for an exit of New Zealand's Aluminium Smelter (NZAS) from Southland in 2024. While we note that NZAS has said publicly that it is reassessing its position in light of stronger aluminium prices globally, the eventual outcome remains uncertain. Importantly, the proposed closure of the smelter has created a generational opportunity, in both senses of the term, to re-energise Aotearoa/New Zealand and decarbonise our economy. We've done what we can to minimise the disruption to the local economy, negotiating an 'extended exit' deal that encouraged this large regional employer to stay on for three years longer than it had proposed. That deal bought the electricity sector time to enhance the transmission network in the lower South Island and enabled us to explore innovative arrangements with emerging industries that will change where and how our generation capacity is utilised. It also bought time for NZAS to work on an environmental mitigation plan and business model that may see it continue to operate in New Zealand beyond 2024.

Irrespective of what NZAS ultimately decides, re-orienting our strategy in response to its original exit decision has brought to light opportunities we literally hadn't thought possible just a short time earlier. The feasibility of a large-scale green hydrogen plant in Southland has evolved into an opportunity that could well redefine New Zealand's energy independence and position New Zealand as a leader at the heart of an exciting new global industry. Our goal for FY23 is to choose the right partner for this hydrogen opportunity and advance the project to the development stage.

At the same time, we've progressed our Process Heat Electrification Programme and we're making a real difference in supporting industrial customers to convert their fossil-fuel-based processes to electricity. Again, this is an opportunity that was not even on our radar 18 months ago, and one that we believe will only gain greater traction given the recent increase in Government Investment in Decarbonising Industry (GIDI) Fund support.

Strong customer gains

We continued to make excellent progress in growing our customer base this year, with both Powershop and Meridian adding strong sales volumes and, in the case of Meridian, maintaining the best customer retention rate of all electricity retailers in New Zealand. Powershop once again proved to be a real winner with consumers who enjoy the ability to buy their power, their way, from a retailer with an attractive personality. At the same time, Meridian's appeal to environmentally conscious customers saw another uplift in customer numbers this year.

We're well advanced in the digitalisation journey for most of our customers, which means that all our household and small business customers are being served from our Flux customer care and billing platform. This world-class, integrated platform has lifted the experiences we can offer New Zealanders and made it simpler than ever before for us to be responsive in market. The migration of our more complex commercial and industrial customers is taking a bit longer than expected, but we're confident that we'll have all our customers on the Flux platform by the end of the calendar year.

We remain conscious too that many customers are facing significant cost-of-living increases, making it even harder to make ends meet. While cost pressures meant we had to raise residential prices this year, we managed to keep the average price increase to around half that of the consumers price index increase across the whole economy. And we continue to offer energy wellbeing support for our most vulnerable customers and Level Pay for those wishing to manage their energy bills evenly throughout the year. This year we also commenced an Energy Wellbeing pilot. More details can be found on page 74 of the 2022 *Integrated Report*.

Our sponsorship of the amazing work done by KidsCan now includes both a cash contribution to its running costs and direct assistance with its fundraising activities. Two years ago we increased the contribution we make to KidsCan to $1 million per year. We're proud of the difference that this funding support makes to under-privileged children in Aotearoa.

Successful sale in Australia

We successfully completed the sale of our business in Australia this year after 10 years building that business. The original intention was to continue investing there until FY25, but the market itself has become a lot more volatile in recent years and our sense was that our risks there were increasing. With those factors in mind, we began looking at our options mid-2021.

The sale of Meridian Energy Australia delivered a healthy gain on sale as well as a sizeable amount of cash to reinvest in renewable energy and, potentially, technologies like hydrogen in New Zealand. Our balance sheet is healthy and will ensure our ongoing participation in New Zealand's decarbonisation efforts.

Advancing decarbonisation

We were pleased to see the Government largely adopting the Climate Change Commission's recommendations and setting in place the country's first Emissions Reduction Plan with the first three carbon budgets. Globally we see carbon prices lifting. We continue to advocate for an effective and all-encompassing emissions trading scheme to support New Zealand's decarbonisation journey, but we also recognise well targeted policy support will help build momentum. The 10-fold lift in the GIDI Fund to $650 million is a powerful catalyst and a clear signal to the market of Government endorsement for industrial decarbonisation. The Clean Car Discount also seems an effective policy lever.

Clearly, electrification is the key enabler of a net-zero-carbon economy in New Zealand. A massive amount of investment in electricity infrastructure will need to take place in the next 30 years to support the country in meeting its climate goals. In that context, it's critical that the resource management framework in Aotearoa appropriately allows consenting authorities to balance localised environmental impacts and mitigations associated with renewable electricity projects with the positive climate benefits those projects bring. Responsible developers must take account of the views of the communities they affect and also appropriately mitigate the environmental impacts they may cause. But balance is key, and we believe the current direction of travel for the resource management reform process may cause many renewable projects to run into environmental 'bottom lines' that will materially slow or halt developments. Renewable developers are presenting a united view of the issues we see emerging through that process to Ministers and Government officials. We have identified and put forward pragmatic suggestions that will provide balance and allow for appropriate trade-off discussions to occur.

All that said, we're getting on with it. Progress in building the Harapaki wind farm has been very challenging given the record-setting wet weather the project team has encountered during the first year of construction, but overall the project remains on schedule. We have experienced some inflationary cost pressures and have had to make some changes to the roading design due to the sodden ground conditions, so the forecast cost to complete has escalated by $53 million (13%). We still believe the project represents a sound investment for Meridian and much-needed renewable generation for New Zealand as it will power the equivalent of 70,000 Kiwi homes when complete. We'll start producing that power from as soon as 2023.

Harapaki is one of a number of renewables projects started by major energy companies in the past two years, as the New Zealand electricity sector continues to phase out existing fossil-fuel-based power stations.

Alongside these new developments, we've been rethinking how we use our renewable generation assets to best effect. Aotearoa currently generates around 80–85% of its electricity from renewable sources (mostly hydro), supported by coal- and gas-fired generation as needed. But as those fossil-fuel generators are phased out and replaced by wind, solar and geothermal we'll need to flex our hydro generation capability and storage differently from how we have in the past to offset the intermittency inherent in wind and solar generation.

Flexible demand will also become more valuable as a means of managing renewable intermittency. That's a key part of the value proposition of a large-scale hydrogen production facility in Southland. Producing hydrogen from electrolysis is inherently flexible, and if the hydrogen producer can reduce production at times when the electricity system is stressed, the electricity it would have consumed can effectively be reallocated to other energy consumers. We believe this creates a win-win scenario, as the hydrogen producer benefits by being recompensed for forgone production, other electricity consumers benefit from a more reliable, cost-effective supply and there is less need to produce carbon emissions from coal or gas. This type of demand response is part of wider discussions on how new, and potentially existing, industry can align their energy requirements with the nation's needs. If we can make such flexibility commercially viable, that will deliver a very cost-efficient solution to renewable intermittency in the electricity system.

During FY22 we developed a refreshed *Climate Action Plan*. The Plan sets out a roadmap for delivering our Half by 30 and Forever Forests programmes. It also accounts for the work we're doing to support our customers in their decarbonisation efforts.

Our Half by 2030 target means we plan to halve our gross scope 1, 2 and 3 operational emissions by FY30 on an FY21 baseline. We were pleased to recently get approval from the Science Based Targets initiative (SBTi) that our near-term emission reduction targets are science-aligned*. So far we've electrified all our light passenger vehicles and made good progress with the rest of our fleet.

We also continue to make good progress with our Forever Forests initiative, and are on track to cover our remaining gross operational emissions by 2030.

Between our Half by 2030 and Forever Forests initiatives our overall aim is to manage the relationship between Meridian's operations and climate change directly and ensure that relationships are net zero.

From a customer perspective, our Process Heat Electrification Programme is targeting 600 gigawatt hours (GWh) of industrial

* The SBTi has approved that Meridian's underlying target to reduce absolute scope 1 and 2 GHG emissions by 50% by FY30 from a FY21 base year is in line with a 1.5°C trajectory, with our further commitment noted to also reduce absolute scope 3 GHG emissions by 50% within the same timeframe (excluding all one-time construction emissions from major projects and all activities that are capitalised as part of renewable energy projects).

heat electrification. We're building our own public electric vehicle (EV) charging network, with 61 chargers now installed, as well as establishing EV charging products for business and residential customers to make it as simple as possible for New Zealanders to drive away from fossil fuels. Our Certified Renewable Energy product has also enabled more than 80 customers to purchase more than 660GWh of Renewable Energy Certificates this year. Further, we have made a commitment to reinvest all the Renewable Energy Certificates into decarbonisation projects.

Partnerships are vital

The many changes ahead of us can seem daunting. New Zealand's response to decarbonisation must be nuanced, sensitive, intelligent and bold. The needs and priorities of many different stakeholders must be assessed wisely, and decisions made that work in the best interests of the country and the world collectively. We don't presume to tackle such challenges alone.

And we're determined that our partnership and stakeholder relationship model will be robust and as effective as possible. Our approach stems from a key word in our purpose – fair. As we work with all stakeholders around consents for natural resources, and in particular iwi, we aim to improve the economic, cultural and biodiversity impacts of our business. Our overriding goal is to create fair outcomes for all.

Our working style continues to evolve

Our people have continued to deliver great work. Their responses to COVID-19 restrictions have helped reshape how we think about our working styles, and as a result we've developed a framework for flexible working that we believe works for individuals and the company.

Flexible working arrangements are a core part of our strategy to support diversity and inclusion in our teams, but it is clear that the stresses and strains on many of our people living in this changing world are becoming more significant, not less. That's why we've put considerable effort into supporting our people's general wellness and, in particular, their mental wellbeing. It was pleasing to see our efforts recognised at the Safeguard Awards (New Zealand Workplace Health and Safety Awards), where Meridian won the Wellbeing award for our 'Care Team' process. Our Care Teams take a structured approach to wrapping support around people who need time to heal and help to return to work.

We have a comprehensive safety-improvement plan in play across the business, and our key lagging safety measure of total recordable injury frequency improved this year. More importantly, we're confident that our staff and contractors are as actively engaged in safety as ever, evidenced by a noticeable lift in positive safety observation and incident reporting in the past year. The Board and Management recognise that building a strong and positive safety culture must continue to be our number one priority, and we intend to intensify our focus on keeping our people safe from harm, particularly as we embark on more construction as part of our development programme.

We have noted an overall dip in our staff engagement scores this year, so we have more work to do. The Board and Management are committed to supporting our people and ensuring our overall employee proposition remains strong and keeps pace with market developments. As such our remuneration-review process this year was costed to keep pace with the cost of living. We were pleased to award to staff an across the board, special bonus of $1,000 after tax.

Changes at Executive Team and Board level

Our Board is now more diverse than it has ever been and has the relevant capabilities to oversee Meridian's strategy and guide the business through the decisions that lie ahead. The appointment of Tania Simpson in particular will help us grow our iwi relationships.

Graham Cockroft was appointed as Non-Executive Director on 26 July 2022. Graham brings a strong finance and energy industry background to the Board and will add to the Board's skills and expertise following the retirement of longstanding Director Jan Dawson, whose term will conclude at our next Annual Shareholders' Meeting.

This year has also seen important changes in our Executive Team. Tania Palmer shifted from Chief People Officer to head up our Generation team. Her proven sector experience and people-leadership skills are well suited to leading that part of the business and making strong changes that will future-proof the business. Meanwhile Jason Stein, who had been Chief Executive of our Australian operations, took over the Chief People Officer role, in which he will continue to focus on enhancing our safe and inclusive culture. Finally, our long-time Chief Information Officer (CIO) Bharat Ratanpal has joined the Executive Team, adding his invaluable technical skills to how we think about deploying technology to improve our customer propositions and our business performance as well as protecting our technology systems. It's a sign of the diversity and breadth of skills in our leadership ranks that we have been able to make all these key appointments from within our existing talent pool.

A strong financial result

Despite challenging hydro conditions in the Waiau catchment, this year's financial result was still strong and exceeded our expectations. The result was once again powered by good generation numbers and a surge in retail sales volumes, with our customer base up by more than 18,000 on the prior year.

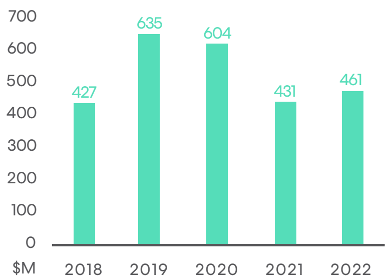
The sale of our Australian operations bolstered our balance sheet and gave us the cash to push forward confidently with our development options. With Harapaki due to be completed in the next year, developments like the Ruakākā Energy Park and Mt Munro wind farm are well advanced and the prospects for hydrogen are looking encouraging. The Board and Management believe that Meridian is well placed to make a sizeable contribution to the decarbonisation of New Zealand.

Meridian Energy has reported $664 million of net profit after tax for the year ended 30 June 2022, including the benefit of $214 million gain on the sale of its Australian business and $281 million of positive non-cash movements in the value of hedge instruments.

The Board has declared a final ordinary dividend of 11.55 cents per share, up 3% from the previous year. This brings the total ordinary dividends declared in FY22 to 17.40 cents per share, up 3% from the previous year. The Dividend Reinvestment Plan remains available for those investors wishing to take advantage of it.

S&P Global Ratings has recently reaffirmed Meridian Energy's corporate credit rating as 'BBB+'/ Stable/A-2.

Operating cash flow



Underlying net profit after tax reconciliation ($M) Financial year ended 30 June	FY22	FY21
Net profit after tax	664	428
Underlying adjustments		
Discontinued operations	(213)	(13)
Hedging instruments		
Net change in fair value of electricity and other hedges	(145)	(157)
Net change in fair value of treasury instruments	(136)	(79)
Premiums paid on electricity options net of interest	(20)	(20)
Assets		
(Gain)/loss on sale of assets	–	–
Impairment of assets	2	–
Total adjustments before tax	(512)	(269)
Taxation		
Tax effect of above adjustments	81	72
Underlying net profit after tax	**233**	**231**

3%
NZ energy margin

3%
EBITDAF

$233m
Underlying net profit after tax

7%
Operating cash flow

17.40cps
Ordinary Dividend

Developing a better future, together

Our momentum to contribute to decarbonising the economy continued to grow this year as we looked forward to an exciting future. Building our partnerships is part of forging a strong, shared pathway for the future along with an active development programme. We're working with our customers to make it possible for them to evolve to a renewable future as well. The strength of our brands and the resilience of our people remain key advantages in our bid to do right by New Zealand and continue to deliver value for all our stakeholders.

On behalf of the Board and the Executive Team, we would like to thank our customers, our partners, our investors and everyone in our teams for your commitment to cleaner energy for a fairer and healthier world.

Visit **meridian.co.nz/investors** to download the full Meridian Integrated Report for the year ended 30 June 2022.