



meridian

# Better energy future



## Dear Investor

Our results for the year ended 30 June 2015 are now available.

### Great financial results

<p>FREE CASH FLOW</p> <p><b>\$398M</b></p> <p>+6% on FY2014, +8% on PFI<sup>1</sup></p>	<p>EBITDAF</p> <p><b>\$618M</b></p> <p>+6% on FY2014, +5% on PFI</p>	<p>NET PROFIT AFTER TAX</p> <p><b>\$247M</b></p> <p>+7% on FY2014, +17% on PFI</p>	<p>UNDERLYING NPAT</p> <p><b>\$209M</b></p> <p>+7% on FY2014, +17% on PFI</p>
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### And delivering to investors

<p>ORDINARY DIVIDEND</p> <p><b>12.88CPS</b></p> <p>+17% on FY2014, +12% on PFI</p>	<p>SPECIAL DIVIDEND</p> <p><b>2.91CPS</b></p> <p>From asset sales and one-offs</p>	<p>CAPITAL MANAGEMENT</p> <p><b>2.44CPS</b></p> <p>special dividend</p>	<p>TOTAL SHAREHOLDER RETURN</p> <p><b>+36%</b></p> <p>and +71% since listing</p>
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### CAPITAL MANAGEMENT PROGRAMME

The Board has approved a programme to return capital to shareholders. Provided nothing occurs to impact the company's financial position and no significant growth opportunity presents itself, this will be a five-year programme returning up to \$625 million to shareholders. The directors have decided the initial method of returning capital to shareholders will be via a special dividend of 2.44 cents per share (cps). The Board will reconsider the matter again in February 2016.

<sup>1</sup> Prospective financial information contained in Meridian's prospectus

# From our Chair and Chief Executive



CHRIS MOLLER *Chair*



MARK BINNS *Chief Executive*

## Introduction

Meridian's headline operating earnings measure of EBITDAF was up +6% on last year at \$618 million and this was +5% up on the forecast in the prospectus. All other principal financial metrics were on or ahead of the prospectus forecast.

The fate of Tiwai Point smelter was again at the forefront of the company's attention, as 1 July 2015 was the first date upon which the owner, New Zealand Aluminium Smelters Ltd (NZAS) could give notice to terminate its contract with Meridian. Most shareholders will be aware that Meridian and NZAS signed a variation to the Electricity Agreement.

The review of transmission pricing by the Electricity Authority (EA) took a positive step forward this year. The EA is looking at how transmission costs are recovered from all the parties that benefit from the transmission grid. It was pleasing to see the EA's Transmission Pricing Methodology (TPM) options paper issued in June 2015 set out new options that better align what parties pay with the benefits that they receive from using the national grid.

This year, overall electricity demand in New Zealand was up +3% on the previous year. Growth was evident in nearly all regions, led by agricultural demand in the provinces. While a strong irrigation season helped, we have seen an underlying increase in demand. Significant thermal plant closure is occurring which requires

strategic thought by all market participants. It may mean new investment signals are moving closer.

The competition to attract new customers remains intense. Meridian is competing hard, but providing discounted offers to customers at the levels seen by some of our competitors is unsustainable and unprofitable. We continue to focus on keeping our customers based on fair pricing and excellent service. This year we also saw our Powershop retail offering top 100,000 customers in New Zealand and Australia.

## Dividends and returns

During the year the Board announced that it had changed the Dividend Policy by increasing the percentage of free cash flow paid out from 70-80% to 75-90%. With the declaration of a final dividend of 8.08 cps (imputed to 55%) the total ordinary dividends declared for the year were 12.88 cps, or 83% of the free cash flow as measured by the policy.

In addition to the 2.44 cps special dividend from the capital management programme, the company's cash position has been enhanced by further asset sales and the resolution of a tax liability position in Australia. This has enabled directors to declare a further special dividend for the year of 2.91 cps.

Shareholders were required to pay the Crown the remaining 50% instalment in May 2015. The Instalment Receipt (IR) process worked very well for Meridian, the Crown and shareholders. During the 18-month period during which only \$1.00 was paid up under the IR security, investors enjoyed a gross dividend yield of 26% as well as a capital gain of 95%.

If the full \$1.50 had been paid at the beginning of the financial year under review, total shareholder return would have been 36% for the year on a closing share price of \$2.16 (23% in share price appreciation and 13% in gross dividends).

## Health and safety

Safety at Meridian is not about numbers. It is about culture and a genuine belief that a high level of staff engagement will make Meridian a safe place to work, or visit.

An audit of our safety systems and processes last year resulted in a project we named *Safety Matters*, the aim of which was to prepare for anticipated changes to health and safety legislation due later in the year. The project has re-evaluated where we have high areas of risk and our processes to handle these risks, using technical experts and the employees who deal with these risks daily. The project has also tackled company-wide attitudes to safety, embedding principles that focus on accountability and fairness in safety reporting rather than on mistakes.

## Risk management

An integral part of our risk management approach is to consider significant potential risks the business may face. This year three significant issues came into focus for the company. The first was the possible termination of the Tiwai Point Electricity Agreement with NZAS. In the lead up to the notice of termination date significant modelling of what a smelter closure would mean to the industry and our company was carried out. Negotiations with generators who may have been interested in entering into wholesale arrangements in the event of a closure were also conducted in order to ensure we were prepared should a closure have come to pass. Liaison with Transpower, the grid owner, meant we understood the timing of the work required to release lower South Island constraints to significant power flows from Southland.

Later in this letter we take a closer look at how we responded to issues with several transformers at our Manapōuri power station. While the response to the problem was exemplary, it did provide us with some important insights. We took a number of longer term risk mitigation actions, including two external reviews of our transformer strategy and condition-monitoring framework. While no serious issues were discovered the lessons learned will serve to strengthen our asset management capability and improve our plant performance.

The other risk we continue to monitor is political uncertainty in Australia over renewable generation investment. While agreement has been reached on a lower target of new renewable generation under the Renewable Energy Target (RET), uncertainty remains and lower projected wholesale prices have resulted in Meridian taking a \$38 million impairment of the value of Australian generation assets.

## Customers

Overall customer numbers for the year declined marginally while actual retail GWh volume sold increased by 4%, reflecting an increase in larger volume business customers and significant irrigation during summer and autumn.

Fair pricing and enhancing the customer experience is our focus. We have continued to improve customers' online experience and engagement with Meridian this year. Our online customer portal *MyMeridian* has been upgraded and enables customers with smart meters to see their energy use over the day, to pay online and to set up personalised alerts to help them manage their power use and costs. Over the last year *MyMeridian* has also been made available to business and agribusiness customers. Overall, *MyMeridian* users have nearly doubled this year and we have experienced a 24% increase in customers joining Meridian online.

## A team effort

Powershop's launch into New South Wales was a highlight this year. Powershop reached another milestone in May by surpassing 100,000 customers across Australia and New Zealand. Our Powershop offering here and in Australia is supported by IT developers in our Newtown office in Wellington and our call centre in Masterton, Wairarapa.

### Outlook

With the future of the Tiwai Point smelter decided at least, in all probability, through to January 2018, Meridian can concentrate on delivering on a significant number of projects to improve customer experience and overall efficiency.

We are committed to supporting the EA in its review of transmission pricing and are hopeful that this time next year we will be able to comment on the EA's decision to implement one of the suggested options. We remain adamant that a beneficiary pays approach is the only rational answer to the multitude of problems with the current TPM.

Despite our unique positioning through both our brands we anticipate retail markets both sides of the Tasman will remain challenging. We anticipate further growth of Powershop in Australia. Powershop also continues to receive interest in its mobile app and platform from offshore retailers and we expect the viability of any such opportunities will be decided this year.

Until growth opportunities become clearer to us, we remain focussed on achieving more from our existing asset base, continuously improving the quality and cost effectiveness of the customer experience we offer and ensuring our shareholders receive appropriate cash returns from their investment in Meridian.

We would like to acknowledge the effort of Meridian's employees in delivering a highly creditable financial result for the year and thank our customers and shareholders for their ongoing and valued support.



In March 2014 an issue was discovered during the maintenance of an oil cooler in one of the Manapōuri power station's seven transformers. The remaining transformers were checked and while five returned to service, a second transformer was found to have a similar fault and was decommissioned.

So a large project with a number of work streams began involving dozens of people from Meridian, transport companies, manufacturers, environmental, regulatory and biosecurity agencies and, of course, local authorities and businesses.

As it's the largest hydro power station in the country, any issue that could affect Manapōuri generating electricity needs to be treated seriously and as quickly as possible. Thanks to Meridian's engineering team we quickly worked out what was needed, and after choosing a company to help design and manufacture the transformers we were well on our way to finding a solution. The procurement process for new transformers typically takes 18 to 24 months, so having a commission target date of just six months from business case approval was always going to provide a few challenges for the project team.

As a company that relies on generating electricity from renewable sources, Meridian has a special connection with the environment, and Manapōuri is no exception. Located within a National Park and part of a World Heritage Site, the area is home to native flora and fauna such as bottlenose dolphins and Fiordland crested penguins, which are some of the rarest of New Zealand's mainland penguins. The location and fragility of the local environment meant that we had to take special care and be well prepared before transporting and delivering such a large amount of material.

One such precaution that we took to minimise the impact on the local environment was the use of a self-ballasting vessel to ensure that no ballast water was discharged into Doubtful Sound – avoiding the risk of introducing any contaminants. Biosecurity inspections of the hull involving divers were also carried out before the ship entered New Zealand waters to ensure that it did not pose a risk to marine biosecurity.

The two separate deliveries of transformers coincided with two of the busiest times in the tourist season – Christmas and Chinese New Year – when large numbers of tourists visit West Arm, Deep Cove and Doubtful Sound. This often sees over 30 coachloads travelling over Wilmot Pass each day.

The existing relationships with local authorities and businesses also helped us get the necessary approvals quickly and with little fuss. We worked closely with local tourist operators to time loads to minimise delays across Wilmot Pass and disruptions to the use of Deep Cove wharf. Local operator Real Journeys greatly assisted with planning and on-the-ground communications with other operators during deliveries.

"By including us early in the project and maintaining high levels of communication throughout, Meridian helped to minimise the disruption that this caused our operations and other operators in the area," says Assistant Operations Manager for the Manapōuri/Te Anau divisions of Real Journeys, Bruce Nicol.

"I believe this has strengthened our relationship with Meridian and the high level of consideration, planning and cooperation allowed for a smooth operation," he says.

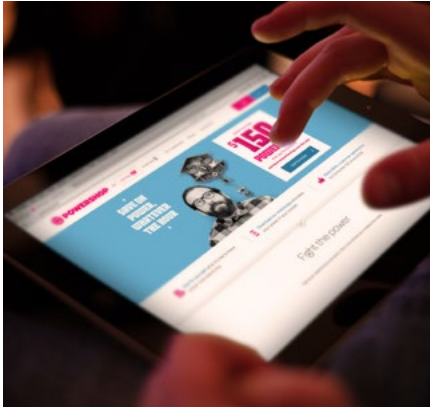
The location of the project and the constraints under which we were working meant that Meridian project manager Brett Horwell had to move to Manapōuri from Christchurch with his wife for nearly six months.

"This was one of the most challenging projects I have ever worked on and definitely the most rewarding," he says.

"This was a disruptive project for Meridian and we couldn't have done it without everyone diverting their attention to support the project. Our real success came from the 'can do' attitude presented by everyone right across the team and our ability to work together to overcome the numerous challenges that presented themselves along the way," says Brett.

"The experiences I gained from being part of the Manapōuri community during this project have set me in good stead for future projects in the area."

# Powering communities



After opening its Masterton operations in 2009 with just 14 staff, Powershop now employs 60 expert contact centre staff. Based on Powershop's continued growth in Australia, the company expects to hire up to 70 extra staff in the next few years.

While the company is known for its innovative technology and brand, much of this success is due to the efforts that Powershop has put into customer service, achieving scores of between 90% and 96% in the annual Consumer NZ survey for customer satisfaction for seven consecutive years. Powershop has also been a regular winner

of the Canstar awards and it won the Roy Morgan Electricity Provider of the Year award for 2014.

Much of this is due to the call centre's philosophy of treating customers like people rather than just numbers. "We operate differently from other call centres in New Zealand," says Powershop Customer Service Manager Rod McIntyre. "We don't have flashing screens telling us how long we have spent on the phone or how many calls have come in, and we don't have hourly call targets.

"We know that trying to reach call quotas can rush conversations and mean customers become just numbers. At the Powershop call centre we listen to each customer's story to get to the bottom of the issue. We don't follow scripts and we explain things in our own words even if they're not grammatically correct," says Rod.

The Powershop customer service crew does most learning 'on the job', with new crew members sitting with experienced and established people. Lessons learned with real-time training tend to stick and it allows staff to develop their own voice, alongside their listening and problem-solving skills.

"The service crew has had the real privilege of a made-to-measure customer relationship management system, where all of the information regarding a Powershop customer is in one place.

This has allowed us to aim for a seamless service experience where each service crew member is a one-stop shop," says Rod.

Powershop has also seized the opportunity to use social media as a service channel, welcoming the chance to communicate directly with its customers on Facebook and Twitter.

"More and more customers are aware that they can pop a question or comment up on Facebook and get a personalised and informed answer very quickly. A great advantage of this is that other customers can see these interactions and be informed by them too," Rod says.

Powershop currently bases a large part of its operations in Masterton's Departmental Building but it recently announced plans to move to a new purpose-built building in the town. Powershop is so invested in Masterton that it plans to work with a local developer to build a 1,200-square-metre site to support its growth plan for the next five or six years.

Basing a large part of its team in small-town New Zealand could be viewed as a risk by many, but in Powershop's case it has proven to be a great decision. The company has access to a skilled and reliable workforce and good services and facilities.

## Smarter energy



The first step in controlling energy use is to better understand when you use it. Smart meters and related technologies mean customers can check bills remotely and track power consumption. This offers better energy management and monitoring, resulting in energy efficiencies and savings.

To date, more than one million smart meters have been installed in homes and businesses nationally. The final piece of Meridian's smart meter roll-out programme is currently underway and is expected to be completed in early 2017.

To date, around 120,000 Meridian customers have smart meters. Some of the advantages of having smart meters are immediate, such as accurate billing without the need for physical meter reading, while other benefits will be realised over the next few years.

Monitoring usage online is also an important advantage of smart meters. Like Meridian residential customers, small business and agribusiness customers can now use our online electricity management tool *MyMeridian*. With smart meters, *MyMeridian* customers can track usage in dollars or units, monitor usage, pay online and even receive texts or email alerts when they are using more electricity than planned.

Following the installation of 50 smart meters, Meridian customer Victoria University of Wellington noticed immediate benefits. With electricity being the University's biggest utility cost, any efficiencies or savings that could be realised were welcome.

Andrew Wilks, Environmental Manager, Campus Services at Victoria University, says that once smart meters were installed they gained immediate information about how much electricity they were using at all times of the day, rather than just a monthly total.

"This gave us insight into where to look for opportunities to save power. It was also useful having all of our sites billed for the same consumption period, because without smart meters the consumption periods varied between sites depending on when the meter reader visited. This made it much easier to compare sites," he says.

Reducing energy use is also a key focus for the Campus Services team in support of the University's wider sustainability objectives. "Smart meters help to support Campus Services to deliver their energy efficiency targets," says Andrew.

The University uses the majority of its energy on heating, and smart meters have also enabled it to identify sites that had heating running longer than necessary.

In the more immediate future, innovative time-of-day pricing plans are likely to be more widely available. Customers will be able to choose a plan that offers a cheaper rate for electricity at certain times of the day, for example during off-peak times, in the evening or on the weekend. Being on the right plan and shifting the time that intensive consumption of electricity takes place will deliver further savings and efficiencies.

[Click here](#) to download the full Meridian Annual Report for the year ended 30 June 2015