THE LONG RUN

MERIDIAN ENERGY LIMITED INVESTOR LETTER
Clean energy for a fairer and healthier world embodies the core values and the behaviours that lie at the heart of Meridian’s culture.

Dear Investor

OUR PEOPLE. An engaged and committed workforce is really the key to being a successful business. Our engagement survey results tell us that our people genuinely want to make a difference. Accordingly, we have re-defined our statement of purpose ‘Clean energy for a fairer and healthier world’. We believe this statement best reflects Meridian and what we stand for. It is a powerful statement that is consistent with the core values that have been the essence of Meridian’s culture for many years. We have also articulated the behaviours that bind us and allow us to hold ourselves to account – Be Gutsy, Be a Good Human and Be in the Waka. Simply put it is ‘how to be’ in Meridian.

We have a strong and positive culture around safety and we continue to drive for improvement.

Of course, the wellbeing of our people goes beyond managing their physical safety. We have also invested in a multifaceted wellness programme. Meridian also recently became an accredited Rainbow Tick organisation. And we voluntarily extended our parental leave programme top-up for Meridian and Powershop New Zealand employees from 12 weeks to 22 weeks as part of our drive to bring more women into the Company’s senior leadership ranks.

We have a strong and positive culture around safety and we continue to drive for improvement.

Our people are highly committed, so much so that we have 50% of our permanent New Zealand employees as shareholders of the company through our MyShare scheme. We’re proud to have such engaged employees who are committed to creating a fairer and healthier world.

CARING FOR OUR CUSTOMERS. There is no silver bullet when it comes to successfully retailing electricity. Success comes when you focus on what your customers are telling you they value and being absolutely single-minded in delivering that to them in the most efficient or frictionless way possible.

Our ability to innovate and adapt to new customer demands will be key to our continued success.

Powershop New Zealand took a number of innovative new offerings to market. They also won the 2018 Consumer NZ People’s Choice Award and in Australia Powershop was once again recognised as Australia’s greenest power company by Greenpeace.

Providing value for our many different customers is important, and doing this in a way that makes sure that all customer groups are treated equitably has been a focus for Meridian. We continue to ensure that those who struggle to pay their bills from time to time are able to get the most out of their energy by making sure that they know what is available to them.

NZAS is New Zealand’s largest electricity customer and when it approached us in 2017 about the possibility of purchasing a further 50MW, we worked with the industry to put a compelling offer to NZAS. A large user like NZAS could cause a period of disruption to the market if it left and this new deal has demonstrated that NZAS are thinking expansively about the economic future of the facility. All up the NZAS deal was complex as it involved multiple parties and we are very pleased with the outcome.

At the beginning of the financial year we structurally separated the software development arm of Powershop out into a separate organisation named Flux Federation.

Flux has now been operating as a separate Meridian entity for over 12 months and has demonstrated success in scaling its development capability to deliver significant new functionality for Meridian’s Powershop businesses in New Zealand and Australia and to Npower in the United Kingdom. Meridian and Flux have commenced a project to transition Meridian customers to the Flux platform. Flux will enable Meridian to improve its customer experience significantly, allowing us to respond to
WE ARE EXCEPTIONALLY PROUD OF WHAT THE TEAM HAVE BEEN ABLE TO ACHIEVE DURING THE PAST FINANCIAL YEAR.

19.20 cents per share

Strong cash flows have allowed us to declare a 1.5% increase in dividend and maintain the capital management plan the Board put in place in 2015.

None of our people, our contractors or members of the public were seriously injured at any of our sites.

This year we completed one of our biggest ever schedules of hydro asset maintenance work.

We genuinely consider ourselves caretakers of some of NZ’s most iconic infrastructure assets, so our ongoing maintenance programme, which looks forward 20 years, is something on which we will always put a huge amount of focus.

Our diversification strategy to develop a vertically integrated retailer and generator in Australia is starting to show good results, and our Australian business contributed a significant portion of the overall growth in group EBITDAF for the year.

Net zero carbon across our Group Scope 1 and 2 emissions.

We are exceptionally proud of what the team have been able to achieve during the past financial year.

1.4% Increase in EBITDAF as improved inflows into our hydro catchments helped support stronger second half performance.

5% Increased customer connections by 14,000 in NZ. It is also pleasing to see the customer churn rate reducing.

We really amped up our efforts around wellness, diversity and inclusion.

Our Powershop and Meridian brands together had the strongest growth in customer connections in the NZ electricity sector.
customers’ needs and deliver products to market faster than our competition.

The journey for Flux is far from limited to our existing businesses. We are presently focussed on capability to drive an international sales and business growth strategy.

**LEADERSHIP IN SUSTAINABILITY.** At Meridian we’ve long held the view that companies that understand and manage their key risks across environmental and social issues, and can articulate the social purpose they fulfil, are more successful in the long term than companies who solely pursue financial growth at all costs. Our business plays an essential role within New Zealand society and we recognise that by creating value for others in sustainable ways, we create value for our organisation.

This year we’ve focused on areas where we believe we can shift the dial in terms of sustainability, and are channelling much of our effort in line with SDG13, Climate Action and SDG7, Affordable and Clean Energy.

**TAKING ACTION ON CLIMATE CHANGE.** Most of the electricity produced in New Zealand already comes from renewable sources, and there are many more renewable options available to be built. So Meridian and the electricity sector are very well placed to support reductions in our country’s carbon emissions and the Government’s target for New Zealand to be net zero carbon by 2050.

New Zealand’s hydro generation assets, which make up a large portion of total electricity generation (typically around 55% in any year), provide a great deal of flexibility, which means the electricity system as a whole can integrate a lot more intermittent generation like wind and solar efficiently. Also, the cost of rooftop solar and grid-scale wind generation continues to fall, so we see new renewable generation being the most obvious and economic outcome to meet potential demand growth in New Zealand.

Our commitment to renewable energy isn’t limited to New Zealand. This year we purchased the Hume, Burrinjuck and Keepit hydro power stations in Australia, and we have entered a number of Power Purchase Agreements with renewable developers. We have aspirations to grow our customer base in Australia significantly and believe that growth will be underpinned by new renewable generation. We see this growth as a differentiator from the other New Zealand electricity companies.

From now, we are net zero carbon across our Group for Scope 1 and 2 emissions, through purchasing and cancelling carbon credits (NZUs from forestry). We’re currently reviewing all the data that we have for our value chain and suppliers, looking for more ambitious ways to reduce our emissions. Realistically, we know that we cannot eliminate all use of carbon from our operations which is why we have committed to native forest planting this year where possible on our land. By 2025, we plan to be offsetting emissions from across the full value chain of our operations (including Scope 3 emissions) using carbon credits we have grown ourselves.

We’re supporting a number of New Zealand businesses to achieve their long-term plans to convert their coal-fired boilers to electricity, and we believe the electricity industry can play an important role in converting other industrial users of fossil fuel technologies to renewables.

We believe New Zealand must lead the way in converting our light transport fleet to electric. With New Zealand’s mostly renewable electricity system, it just makes so much sense environmentally and would create a source of competitive advantage for our country. We’ve successfully achieved our target of converting 50% of our passenger fleet to full electric. We have now set ourselves a more ambitious target of converting 90% of our passenger fleet to electric in 2020. We have been actively working with Drive Electric and other partners to provide support for New Zealand businesses that are wanting to convert their car fleet to electric. As businesses change their procurement practices to buy electric, New Zealand will start to build a second-hand EV fleet that will make EVs more assessable for everyday kiwis.

Meridian’s position as a leader in sustainability has allowed us to attract and retain customers who have similar values to ours and are deeply concerned about the environment. This year Meridian was again named as one of New Zealand’s most sustainable brands in the Colmar Brunton Better Futures report. Meridian has been ranked as one of the top five most sustainable brands by Colmar Brunton for the past four years.

Underpinning all of this is our role as a responsible generator. We strive to make sure that the people, groups and communities working and living near our wind and hydro assets feel included and consulted, and trust our record as a respectful steward of the environments of which we are a part.

**HYDROLOGY.** Our New Zealand generation business is founded on our seven hydro stations in the Waiau and Waitaki catchments, so hydrology (how much it rains) in those catchments can have an impact on our year-to-year earnings. Dry conditions, like the ones we experienced at times during this financial year can create a commercial risk. This can create high wholesale market prices during times when lake levels are low. Conversely, when the lakes are full, wholesale market prices can fall to low levels due to the surplus of water and hydro capacity.

We use our vertically integrated business model to manage this commercial risk and achieve as much price certainty as we can for our customers and reliable returns for our investors. In addition, we have agreements with stakeholders that provide us with increased flexibility in how we use lake water storage, and we transact a range of financial instruments with counterparties as forms of ‘dry-year insurance.’
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Drought and floods are part of our business and we continue to learn and adapt our risk management practices to get better at managing difficult trading conditions. We think this is apparent in the relatively stable and strong cash flows that the business has produced over a number of years irrespective of the weather.

THE FINANCIAL RESULTS. The two periods of dry conditions during the first half of the financial year meant year-on-year earnings were down for that period. Improved inflows into our hydro catchments supported a stronger second-half performance and all up New Zealand Energy Margin for the year was 0.4% higher than the previous financial year.

Our operations in Australia also delivered good growth and demonstrated the value of our strategy to diversify the Meridian business geographically. Australian energy margin growth of $12 million was a significant driver of the overall Group EBITDAF growth.

EBITDAF was 1.4% higher than the previous financial year. Resilient cash flows enabled dividend growth, with the company declaring a final dividend 3% higher than last year. Total dividends paid during the 2018 financial year were 18.96 cents per share, 2% higher than in FY17. Combined with the 7% increase in share price during FY18, this amounted to a total shareholder return (TSR) of 14% in the year to 30 June 2018.

Meridian has also declared a final special dividend of 2.44 cents per share ($6.25 million) under the company’s existing five-year capital management programme to return $625 million to shareholders. While the company’s existing five-year capital management programme runs through to 2020, the Board is considering the medium-term outlook and future capital requirements of the business. Under current circumstances the Board considers it appropriate to signal now its intention to pursue a further two years of capital management beginning in August 2020, seeking to return a further $250 million to shareholders.

The Board will continue to consider its intention to extend the capital management programme in light of possible future impacts to the financial position of the company and alternative uses of capital.

NEAR TERM OUTLOOK. We finished the year in good shape from a hydro storage perspective. We are well positioned to see out the remaining winter months before the spring snow melts start to arrive in the lakes.

In March, the Government released terms of reference for a review of the price of electricity in New Zealand. Meridian believes that the New Zealand electricity market is largely delivering fair, efficient, reliable and sustainable outcomes for New Zealand consumers. We believe distribution pricing reform should if possible be accelerated to ensure that economic price signals are in play to support appropriate investment in new technologies such as rooftop solar and EVs, and to avoid the risk that those who can least afford it end up paying for more than their share. Overall, we are supportive of the review and look forward to the outcome in due course.

But we do think the Government (through the review) needs to take a considered approach when attempting to fix wider social and affordability issues to ensure that it doesn’t negatively impact on competition or the investment needed to maintain security of supply and thereby delay transition to a low-emissions economy.

This year the Productivity Commission released its draft report on how New Zealand can transition to a low-emissions economy. The report suggests that New Zealand climate change policies to date have not been effective in reducing domestic emissions.

We agree with the Productivity Commission’s warning that we need to be wary of changes in the electricity sector that have the unintended impact of driving price increases that slow down the electrification of transport and the transformation of the thermal-powered industrial plant in this country.

Separately and collectively, these initiatives indicate a commitment through Government policy and a range of user groups to increase the pace of change when it comes to New Zealand’s climate change actions.

We welcome this new tone of commitment from Government and the ambitious targets that it looks set to implement. We look forward to our role in supporting and enabling other sectors to decarbonise and reduce their emissions through renewables.

We were disappointed to see the Electricity Authority further delay the transmission pricing review. Whilst it now seems likely the review will be delayed into next year, we remain supportive of its purpose, logic and goals.

Australia, unlike New Zealand, generates most of it’s electricity by burning fossil fuels and faces some difficult policy decisions when establishing some form of clean energy target. We are supportive of and engaged in the Federal and State Governments’ political and regulatory attempts to improve the electricity market in Australia.
On behalf of the Board and the Executive Team, we would like to thank our shareholders for continuing to invest with us, our customers for their relationships and loyalty, our stakeholders for the interactions we have had with you throughout the year and of course our people for their energy and enthusiasm in helping Meridian deliver a sustainable future through renewable energy.

This year’s Integrated Report aims to provide a concise summary of the year in review, and the way in which Meridian takes care of its customers, people, local communities, iwi and the environment which in turn supports our ability to continue delivering shareholder returns. This way of reporting is significantly more meaningful and engaging than typical reports, and we encourage you to read it and would love your feedback which you can email to investors@meridianenergy.co.nz.

VISIT MERIDIAN.CO.NZ/INVESTORS TO DOWNLOAD THE FULL MERIDIAN INTEGRATED REPORT FOR THE YEAR ENDED 30 JUNE 2018.

1 Financial years ended 30 June 2014-2016 as reported. 2017-2018 include effects from the adoption of NZ IFRS 15 Revenue from Contracts with Customers.