

**WE'RE
WORKING
TO BUILD
A BETTER
FUTURE.**



meridian

**MERIDIAN
ENERGY
LIMITED**

INTERIM REPORT
LETTER FOR THE
SIX MONTHS ENDED
31 DECEMBER 2017

A view from our Chair and Chief Executive.



CHRIS MOLLER
CHAIR



NEAL BARCLAY
CHIEF EXECUTIVE

Dear Investor

Meridian delivered an EBITDAF of \$329 million in the six months to 31 December 2017, a 7% decrease on the prior year. While the company achieved solid, customer-led growth across our multiple segments and geographies, low inflows in Meridian's hydro catchments had a negative impact on the company's financial result as the amount of electricity that was able to be generated reduced by 16% compared with the previous year.

Dividends

Meridian has declared an interim ordinary dividend of 5.38 cents per share (cps). Despite some earnings decline in the period, it is pleasing to declare a resilient dividend, up 1% on last year. This is imputed to 88% and will be payable on 17 April 2018.

Meridian is now three years into its five year, \$625 million capital management programme. Included in the interim dividend is the Board's decision to continue the programme and to distribute a further \$62.5 million to shareholders by way of a special dividend of 2.44 cps, in addition to the interim ordinary dividend described above. There will be no imputation credits attached to this payment. This will bring the amount distributed so far under the programme to \$375 million (14.6 cps).

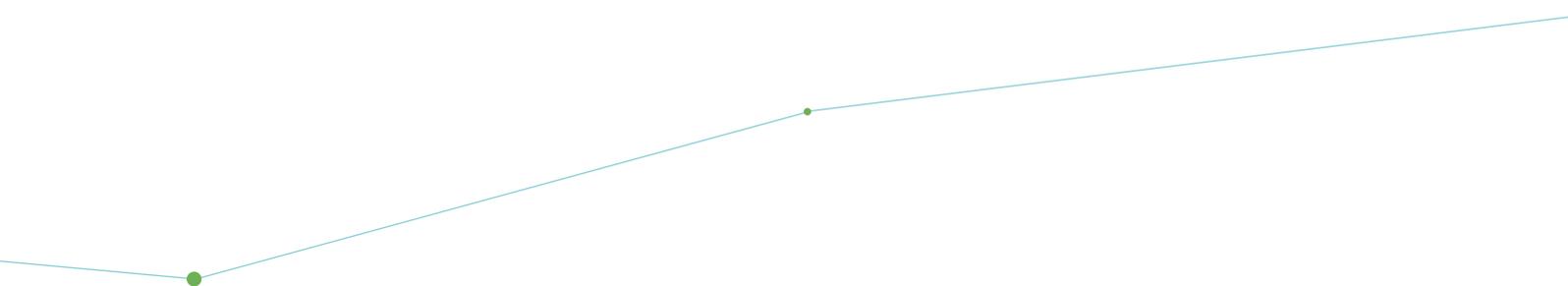
Hydrology conditions

Persistently low South Island hydro inflows characterised the New Zealand market over the past six months. Despite the dry weather, the market continues to function well, with Meridian using a variety of options that enable us to manage low inflow conditions effectively. Prudent use of water storage saw Meridian reduce its physical generation volumes by 16% compared with the same period last year.

The hot, dry weather conditions were responsible for a marked lift in national electricity demand (+1.1% on 2017), with heightened irrigation-based load, particularly in the east of the South Island.

Customer growth

Customer sales volumes were up by reasonable levels in both New Zealand (12%) and Australia (20%). In New Zealand, Meridian delivered further sales growth in small and large business segments (9% and 2% respectively). Growth was higher again in the agricultural and corporate segments



(26% and 22% respectively); however the mixed effect of this growth and continued strong competition in the whole market saw the overall average sales price across all New Zealand segments fall 4%.

In the UK, Flux delivered dual fuel functionality to nPower, with white label offerings now in the market. Our New Zealand-developed platform now supports 19,500 nPower UK customers.

Enablers of future Powershop retail growth in Australia have been put in place in recent months with the acquisition of an additional 749GWh of renewable energy through the purchase of three hydro stations in New South Wales and by securing three 10-year Power Purchase Agreements supporting the build of new solar and wind generation in Australia.

People

With the departure of Mark Binns, Neal Barclay took over as Meridian's Chief Executive on 1 January 2018.

The company has appointed Julian Smith to Neal's previous role of General Manager of Retail. Julian will bring strong digital marketing and leadership experience from a variety of sectors, including retail, banking and technology. In addition, Mike Roan who previously held the role of Wholesale Markets Manager, was appointed to the role of General Manager of Wholesale to drive Meridian's wholesale strategy, a role that now sits on the Executive Team. We know Julian and Mike will add valuable experience and expertise to the Meridian executive team.

Sustainability

With the change in government in New Zealand last year, we have noted a shift in political priorities that resonates strongly with the direction and commitments we have made as a business. We endorse the Government's commitment to climate action, the pursuit of 100% renewable generation and the focus on improving the overall wellbeing of New Zealanders.

Our commitment to sustainability is genuine and enduring and permeates our culture and our approach to all we do. Sustainability, which goes well beyond our commitment to the generation of renewable energy, has seen our impact as a business recognised by the *Colmar Brunton Better Futures Report*, in which we're named one of New Zealand's most sustainable brands for 2017; and for the past two years we have been one of only three New Zealand companies listed on the Dow Jones Sustainability Index.

Leadership

Meridian believes we have a part to play as a business leader in helping shape a sustainable future for our customers, for the country and on the global stage. It is one of the reasons we fully support the Government's plans to set up an independent Climate Change Commission, which will be focused on reducing our country's emissions and transitioning to a low-emissions economy.

Part of showing leadership is being engaged on key sector issues and, like others, Meridian will actively participate in the Government's Electricity Pricing Review. New Zealand is fortunate to have a well-functioning electricity market but there

is always room for improvement. At a time when rapidly evolving technology is providing retailers with many opportunities to better support our customers, it is important that the regulatory framework continues to keep pace with technological change. We believe the review could best add value by focusing on ensuring the regulatory framework is future proofed.

New technologies

Meridian is working with segments of its commercial customer base where it makes sense to create a solar solution for their energy needs. One such company is Kiwi Property who has signed a Memorandum of Understanding with Meridian for a large scale solar installation. Meridian's solar programme will help businesses further benefit from renewable energy, encourage direct business investment and directly contribute to the growth of renewables in New Zealand.

We've also been supporting our residential customers to take advantage of renewable energy at home with sharp electric vehicle (EV) tariffs. This is why we've just launched a nationwide electric car plan which gives our customers 20% off their electricity bill if they have an electric car. We're committed to supporting our customers to embrace new sustainable technology so we're also going to cover the cost of charging their electric car for a year.

Meridian believes in the benefits of driving electric, and we are on target to convert 50% of our passenger fleet to fully electric vehicles by June 2018. We recognise the importance of converting the nation's fleet to electric in order to reduce our country's emissions and reliance on fossil fuels; as this is one of the main actions we can take to help combat climate change.

Maintaining our world-class assets

At Meridian, we're privileged to be responsible for operating world-class assets in beautiful locations. Part of this privilege has also meant that we need to ensure that these assets continue to remain world-class for generations to come which is why we have a rolling maintenance programme to ensure that they remain top-notch. This maintenance is part of our ongoing refurbishment programme.

In the past six months, we completed much of the transformers upgrade at the Manapouri Power Station. The underground power station, which was commissioned in 1967, has seven main transformers. Three were replaced in 2015 and in late November the remaining four units were delivered to the station. We plan to have these units installed and operating by April this year.

Work has also been taking place at Te Āpiti, New Zealand's first wind farm, to refurbish a number of the turbines and extend their operating life time through until the middle of the next decade. These works include a full hub refurbishment and some foundation repairs. The programme of work will take close to two years to complete and is tracking well.

Commercial solar.

Meridian Energy and Kiwi Property to deliver New Zealand's largest commercial solar programme.

In November last year, Meridian and Kiwi Property signed a Memorandum of Understanding with a view to installing the country's largest combined commercial solar installation across at least four major shopping malls.

The installation programme has an estimated capacity of at least 650kW, which means that Kiwi Property will become the country's largest commercial consumer of solar power. Once the programme is complete it is expected that Kiwi Property's combined solar power capacity, including their existing 350kW Sylvia Park system, will exceed 1MW.

"The true advantage of Meridian's solar programme is that it encourages the development of large-scale commercial solar projects that diversify the mix of renewable energy for New Zealand," says Meridian's Chief Executive, Neal Barclay.

Under the agreement, Meridian will invest in the upfront system cost and then charge Kiwi Property for the solar power generated under an innovative Power Purchase Agreement (PPA). At the end of the PPA term, ownership of the system will pass to Kiwi Property.

Kiwi Property is New Zealand's largest listed diversified property company, and has a strong commitment to sustainability.

- "The Meridian initiative will allow us to take advantage of on-site renewable power at grid-competitive prices, while also lowering our carbon footprint and directly contributing to the growth of renewables in New Zealand," says Kiwi Property Chief Executive Chris Gudgeon.

Meridian identified segments of its large customer base where it makes sense to create a solar solution that works for the way the customer consumes electricity at scale.

"The intent is to innovate to grow our retail business in a world where falling distributed energy costs and direct corporate investment in renewable energy is trending. It's an exciting opportunity that is designed to benefit our customers and our business," adds Neal.

Meridian is working with solar business Reid Technology to provide design and installation services for the programme.

David Reid, Managing Director, Reid Technology, says the commercial solar programme is a 'game-changer' for solar power in New Zealand.



Growth in Australia.

- **Hydro assets help Powershop Australia to grow.**

In late December, Meridian entered into a conditional agreement with Trustpower Limited to purchase GSP Energy Pty Ltd, which operates three hydro power stations in Victoria.

In addition, Meridian Energy Australia has signed three Power Purchase Agreements (PPAs) with renewable energy projects in Victoria and New South Wales to support Powershop's continued customer growth. The combination of the hydro, wind and solar projects will add 749GWh to Meridian's portfolio and take Meridian's annual renewable generation to around 1,300GWh in Australia.

- **“Meridian is building our portfolio of renewable generation to support our growing retail business in Australia,” says Meridian Chief Executive Neal Barclay.**

“We have a retail offering that is disrupting the Australian market and we're finding there is a strong and growing desire from Australian electricity consumers to support a 'green' energy retailer,” says Neal.

Meridian has been winning Powershop customers in Australia since 2014, with customer numbers hitting more than 101,000 in January this year.

“The growth of Powershop in Australia also supports regional New Zealand with all Australian-based customers being served through Powershop's Masterton call centre, now one of the largest employers in the region,” says Neal.

Powershop is the only electricity retailer to be certified carbon neutral by the Australian Government and has been ranked by Greenpeace as the greenest power company in Australia.



Right: Victoria hydro power station
Below: Sylvia Park courtyard





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On behalf of the Board and the Executive Team, we want to thank our shareholders for entrusting us with their money, our customers for doing business with us, all our stakeholders for collaborating with us and our staff for their dedication and loyalty to help Meridian create a sustainable future through renewable energy.

VISIT [MERIDIAN.CO.NZ/INVESTORS](https://www.meridian.co.nz/investors)

TO DOWNLOAD THE FULL MERIDIAN INTERIM REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017.