

Better energy



Dear Investor

Our interim results for the six months ended 31 December 2014 are now available and show a lift in profits and operating cash flow, which supports an enhanced dividend.

4.8 CPS

Interim ordinary dividend

1.4 CPS

Additional special dividend

13.2%

Growth in operating cash flow

38.3%

Growth in underlying net profit after tax

3.7%

Higher retail sales volumes

3.8%

Higher NZ generation

Payment of the final instalment receipt

If you hold Meridian instalment receipts on 4 May 2015, you will be liable to pay the final instalment receipt of NZ\$0.50 per share

Payment must be made between 6-15 May 2015

More information can be [downloaded here](#)

From our Chair and Chief Executive

Meridian continued to perform well, with the New Zealand market showing some small signs of overall growth. All key measures of financial performance were ahead of the same period last year.



CHRIS MOLLER, CHAIR
MARK BINNS, CHIEF EXECUTIVE

Total generation for the six months was up by over 6% on the previous corresponding period, reflecting strong first quarter hydro generation in New Zealand and the contribution made by the completed Mt Mercer (Victoria) and Mill Creek (Wellington) wind farms. This, together with strong irrigation demand and favourable business sales compared with last year, saw Meridian's total Energy Margin increase by 7.5%.

A tight rein was kept on operating costs and these were down 10.1% on the same period last year.

This all flowed through to strong operating cash flows that were 13.2% ahead of last year and EBITDAF that was 20.9% ahead.

We are pleased to announce a dividend of 4.8 cents per share, which is in excess of the forecast provided in the prospectus. In addition, the Board has taken the opportunity to declare a special dividend of 1.4 cents per share. Both these dividends will be imputed to 100%.

We are pleased that the instalment receipts have continued to perform well, with an increase of 76% from listing through to 31 December 2014. In the 2014 calendar year the company was first on the NZX 50 in terms of total shareholder return (which includes dividends).

Instalment receipt holders will be aware of the second instalment (50 cents) being due for payment on or before 15 May this year. This is a payment to the Crown. However Meridian is working with the Crown to implement a seamless process to manage these changes. Holders should expect to receive initial communications in early April 2015.

In August last year we announced that the Board would review the capital structure of the company, given its conservative gearing ratios. Over the period Meridian has continued to perform well financially, the risk of wholesale change to the electricity market structure has receded and there are limited attractive growth opportunities that would require significant capital in the foreseeable future. In these circumstances, the Board believes it is appropriate to signal an intention to return capital to shareholders, provided the Tiwai Point smelter owners do not terminate their electricity agreement. The first step the Board has taken is to amend the company's dividend policy by increasing the percentage of free cash flow paid out (as defined in the policy) on average from 70%-80% to 75%-90%. All other elements

of the dividend policy remain unchanged. Furthermore, the Board intends to return an additional \$625m to shareholders over the next five years.

The Board will remain flexible as to how capital is returned but at this point it is envisaged that this will be by either an annual on-market share buyback programme, special dividends, or a combination of both.

The Board intends to advise shareholders of the programme for the 2016 financial year at the full year results announcement in August. At that point the decision of New Zealand Aluminium Smelters (NZAS) regarding the Tiwai Point electricity agreement will be known, and clearly, if the decision is to terminate, or there has been a material adverse change to the company's financial position, the Board will revisit its decision to proceed with all or part of the planned capital distribution.

The Mill Creek and Mt Mercer wind farm projects were closed out during the last six months. In aggregate they were delivered with exemplary health and safety performance and 4% under their original budgets.

In line with our stated aim of improving the core business, Meridian's metering business was sold in December 2014 to a subsidiary of Vector Limited and commitments were entered into to replace all our New Zealand customers' legacy meters.

While Australia provides challenges in the generation space, we continued the push into the Victorian retail market with the Powershop brand. Customer numbers are now over 30,000 and we will start operations in New South Wales commencing in the first quarter of this year.

The launch of our new website in December 2014 reflects our strategy to move customer engagement online to improve service, reduce overall cost and to continue our position as a leader in sustainability.

In the interim report last year we noted that it was unlikely there would be any network-wide increases in the energy component of our New Zealand customers' bills before at least June this year. This will prove correct. We continue to review our pricing.

One issue that arose during the period was a problem with the coolers on some of the Manapōuri power station transformers, which led to the decision to replace two transformers and procure

a third as a spare. The replacement programme is well underway. The first transformer, which was delivered immediately before Christmas, was made operational on 12 January. The second transformer is expected to be installed in early March 2015, which will restore the station to full capacity.

The Electricity Authority's (EA's) transmission pricing review is on track and we look forward to the publication of the EA's final issues paper on this topic mid-2015.

The other regulatory issue we are closely monitoring is the Australian Government's review of the Renewable Energy Target (RET). The RET is mired in politics and the political parties involved have been unable to reach any compromise that might deliver some degree of certainty for participants in the Australian renewable energy industry.

As previously advised, the Tiwai Point smelter owners have the option to give Meridian notice of their intention to terminate the electricity agreement on 1 July this year, in which case the current supply agreements would cease on 31 December 2016. On balance, we remain hopeful that the smelter will continue in operation but the decision is not ours. The reality is that uncertainty around the future of the smelter is something the industry just has to live with as NZAS has ongoing termination rights under the contract.

As we write, the farming communities in both the North and South Islands are going through a difficult period as a result of drought conditions but our storage lakes are still getting reasonably regular inflows from small weather systems. So while always watchful, at this point we do not see anything in our current hydro position that is of concern.

More information on the company's latest financial performance can be downloaded [here](#).

We thank you for your continued support as an investor in Meridian Energy.

Waitaki - powering on

The Waitaki hydro power station is still going strong 80 years after it first started producing electricity - and thanks to a \$40 million refurbishment programme, it will continue to power New Zealand for generations to come.

Set on the border of Canterbury and Otago, the Waitaki dam has stood the test of time, which is a tribute to those who designed and built the power station with pick, shovel and wheelbarrow back in the 1930s.

Now about halfway through the four-year programme, the refurbishment project has three major goals: to refurbish plant and infrastructure in order to reduce maintenance costs and improve performance, to upgrade critical safety systems to modern standards and lastly to implement improvements that will limit the interruption to Meridian and our customers in case of a major earthquake.

The equipment has remained steadfast over 80 years of use, with the two original 15MW generators, which were enough to meet almost half of the South Island's electricity demand back in the 1930s, still operating at the original output. These two generators, G1 and G2, were cleaned, tightened and rebalanced, and are now operating more smoothly than ever.

'Generator 3', or G3, which was one of the five additional generators installed between 1940 and 1954, is undergoing a major refit and repair after seizing up in 1998. This is not an easy task considering its rotor weighs nearly 120 tonnes and the turbine weighs in at around 38 tonnes. Once recommissioned, G3 will bring the total station capacity back up to its rated 105MW or enough electricity for about 60,000 average homes.

Other important works have included making sure that the powerhouse, where all generators are located, is stable enough to withstand a major earthquake. Using 3-D modelling, we were able to see how the powerhouse's walls and roof would perform under the massive stress of an earthquake. Rather than just strengthening the powerhouse's walls, we took a more innovative approach. The outer wall will have the ability to flex independently of the roof, avoiding the possibility of the roof collapsing.

After 80 years of wear and tear from the constant flow of water, erosion work is also being carried out, both downstream of the power station below the switchyard and on the jetty that protrudes out of the powerhouse.

Another important piece of work has involved replacing the old carbon dioxide fire system with a new, safer system. The new fire system is a major improvement for health and safety as it is designed to suppress a fire while also providing breathable oxygen.

An important design feature of the dam is the function of its under-dam drainage systems. A multimillion dollar upgrade is underway to enhance the extent of this drainage and ensure that the pumping systems and dam galleries remain serviceable and accessible following a large seismic event. This work will ensure that the time taken to reinstate electricity production from Waitaki dam following a significant earthquake will be as short as possible.

The Waitaki power station is a tribute to the skills and energy of our forbears and with the efforts of our current team, the station will continue to power on for many years to come.



Keeping the lights on

Ensuring that we provide electricity from our hydro dams and wind farms reliably and safely is one of our main priorities. We recently completed an upgrade of the system that controls all of our generation assets around the country to make sure that we continue to do so.

The Generation Control System (GCS) is a critical piece of information technology infrastructure as it monitors and controls all of our hydro and wind generation assets (except Te Āpiti wind farm) and lake and canal control gates from a central hub. The system works around the clock to make sure we reach

our commitments and responsibilities as the largest generator of electricity in the country.

Long gone are the days when we had staff on the ground monitoring and operating our hydro dams around the clock – these days, it is all done centrally by one generation controller. The current system that the controller operates now monitors some 50,000 data points around our assets such as water flow, water levels and vibration in machines. The controller also works closely with our energy traders who offer generation capacity to the market and the system operator at Transpower, so that Meridian can dispatch energy into the national grid for supply into people's homes, farms and businesses.

Completed in July of this year, the \$19 million GCS upgrade gives Meridian a greater level of safety and reliability when controlling our assets.

The three-year project was delivered on time and on budget while meeting all of its performance and testing objectives. Meridian was only the third company in the world at the time to get this system upgrade.

"It's a testament to the hard work, dedication and exceptional team work by people at Meridian and our vendor partners that we delivered such a high quality result. It was also impressive that we achieved such a complicated project on time, on cost and on scope with zero impact to our generation and customers," says Meridian General Manager of Markets and Production, Neal Barclay.

The project team consisted of Siemens, which supplied the software, PSC, our New Zealand-based GCS integrator, Fujitsu, our ICT supplier, and a number of other contractors and consultants.

A powerful partnership



When it comes to customers like meat processing company Wilson Hellaby Ltd (WHL), they are discovering that Meridian has a lot more advice and expertise to offer their business than just supplying power.

Bruce Fyfe, WHL Group General Manager Commercial, says that he was originally of the belief that electricity was "the ultimate in commodities", meaning that the price of power was the sole determinant behind choosing an electricity supplier. Since becoming a Meridian customer two years ago, he has since changed this view.

WHL uses the same amount of electricity as around 2,300 typical New Zealand homes per year. It uses much of its electricity on cooling chillers and freezers, mostly during the day. The company's total utility bill is second only to its labour costs, which means that any advice or tools that can help it become more energy efficient the better.

One of the key factors that has changed Bruce's mind is the value that Meridian has added through its approach to account management. "Our account manager has been proactive in working

with us to address opportunities to improve our performance. His electrical engineering background is very useful and we value the input.

"As a customer we do not need an account manager that wants to take us out for lunch, what we need is an expert that will help us save money and operate more effectively - in Meridian we have found that," says Bruce.

This approach has changed Bruce's perception of purchasing power. "I now value the account management role and the 'value' our electricity supplier can add to our business through their knowledge and expertise in the market and industry. This is a significant change for me and the experience with Meridian was not matched by our previous suppliers," he says.

Together with Meridian, WHL has been able to address energy efficiency issues and is now working on a full site energy audit with a list of recommended options to improve. The company is also looking to redevelop its site and will be working closely with Meridian when it comes to designing a new factory to optimise electricity efficiency and heat recovery.

[Click here](#) to download the full Meridian Interim Report for the six months ended 31 December 2014