



meridian

# Better energy future



## DEAR INVESTOR

*It's pleasing to report an increase in the first half of the financial year's EBITDAF of 2% to \$332 million, with both the New Zealand and Australia operations reporting higher operating earnings than the previous corresponding period.*

### EBITDAF



GROWTH

### INTERIM ORDINARY DIVIDEND



CENTS PER SHARE

### SPECIAL DIVIDENDS



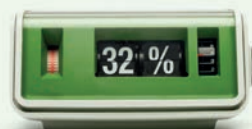
CENTS PER SHARE

### NEW ZEALAND RETAIL SALES VOLUMES



INCREASE

### POWERSHOP AUSTRALIA CUSTOMERS



GROWTH

### POWERSHOP AGREEMENT WITH NPOWER



NOVEMBER

# ***From our Chair and Chief Executive***



**CHRIS MOLLER** *Chair*

**MARK BINNS** *Chief Executive*

Driving the improved performance is a satisfying increase in New Zealand retail sales, with higher corporate and industrial volumes (+4%), higher residential and small business volumes (+6%) and a lift in the overall average retail sales price (+3%). In Australia we saw a meaningful increase in sales volumes. Higher costs were incurred to supply these increased sales volumes and operating expenses increased, with a significant part of these associated with the Powershop growth in Australia and costs associated with the npower initiative in the United Kingdom.

## **Dividend**

We are pleased to announce an ordinary dividend of 5.1 cents per share, up 6%

on last year. This is imputed to 85% and will be payable on 15 April 2016.

## **Capital management**

At the 2015 full year announcement we announced that we would initially pay a special dividend of \$62.5 million (or 2.4 cents per share) as part of our five-year capital management programme. As with any capital management plan, there are diverse views as to the best manner of implementation. We have listened to the views of a wide range of shareholders and remain of the view that the circumstances at the time of any decision will determine the path taken. Given the continued strong trading of the company and there being no known material issue that would clearly affect

performance, the Directors have announced a further special dividend of \$62.5 million (2.4 cents per share). There will be no imputation credits attached to this payment.

This brings the amount distributed under the Capital Management Plan since commencement to \$125 million (4.9 cents per share).

## **Customers**

Total retail sales volumes in New Zealand were up during the six months by 6%, with gains in both residential and small and medium business (SMB) as well as the corporate and industrial segments. This was pleasing given that overall aggregate demand in New Zealand was

only up 0.2% in the same period. Actual customer numbers, measured through Installation Control Points (ICP's), were down by 1% to 274,101. However in the past year we have made a concerted push into the small business segment and it has been rewarding to the team to see customer numbers in this segment improve by 7% since the commencement of the new financial year. In September Meridian finalised an agreement with Xero to allow *MyMeridian*, our online energy management tool, to interface with Xero Business Connect, allowing small and medium-sized businesses to seamlessly download billing data directly to their accounts. This is a real advantage for these customers in terms of both saving time and improving data integrity. Shareholders will see Meridian promote this collaboration with Xero in the next couple of months.

The improvement of customer service remains a core part of our retail strategy, and results of customer experience surveys have continued their upward trend in the past six months. Meridian retail recently won the CRM Contact Centre Award for commercial and business support services, which validates our ongoing investment in customer service.

During the six months ended 31 December 2015, our largest customer, New Zealand Aluminium Smelters (NZAS), saw aluminium prices fall by 8% in New Zealand dollar terms, as markets continue to reflect global economic uncertainty. Notwithstanding cyclically low prices, the smelter continued to consume at full contract volumes.

In Australia, Powershop customer numbers are now in excess of 63,000 and are now higher than those of Powershop in New Zealand. For the second year in a row Powershop Australia was ranked by Greenpeace as Australia's foremost green energy supplier.

## Operations

Total generation in New Zealand was down marginally for the period at 6,858GWh<sup>1</sup>. Hydro generation was down 1% but wind had a 4% increase, with October being the highest production month on record.

Stay-in-business capital expenditure remained within budgeted levels and in line with our view that this would average, in the medium term, around \$65 million per annum.

In Australia, generation volumes were down nearly 5% as a result of some poor wind months and a number of turbines being non-operational at our Mt Mercer wind farm while a safety issue with transformers was worked through to management's satisfaction. Wholesale prices improved during the period in terms of the raw energy price and the market for Large-scale Generation Certificates (LGCs) has also improved significantly. The finalisation of the long-running review of the Renewable Energy Target in June was the catalyst for the improvement in the LGC price.

## Industry issues

Between March and August last year, over 1,100MW of thermal generation was slated for retirement in New Zealand, with 600MW of these closures implemented by end of December. This moves New Zealand further forward in terms of the percentage of the country's electricity needs that are provided by renewables. We currently estimate that at approximately 82% renewable generation, the country is in the top three in the OECD in terms of renewables as a percentage of total generation. However, if all of these retirements take place, new generation will need to be built in the medium term to ensure that the country can meet demand requirements during times of peak electricity consumption as well as when hydro flows are low. This raises interesting issues as to potential solutions in the short and longer term, which we are sure the market will resolve.

While New Zealand is undoubtedly moving to in excess of 90% renewable electricity generation in the medium term, some form of thermal generation will be required for the foreseeable future to cover the country's risk of being exposed to extended droughts. On the positive side, this generation is, and will be, needed less frequently than in the past.

Meridian is playing its part in working to a greater reliance on renewables and has recently completed the re-consenting of both its Maungaharuru and Central Wind development opportunities. We will also look at the available courses we can take to ensure that Meridian has

sufficient cover and is prudently positioned should we experience low lake inflows in the future.

## Tiwai Point

It was flagged that NZAS had a termination right exercisable on 1 July last year. Suffice to say this matter had a lot of media coverage but the termination right was not exercised and a variation of the agreement was signed. The net effect was that Meridian remained contracted for the full 572MW currently used at the plant, and from 1 July 2017 will achieve a modest increase in the price we receive. NZAS retains the right to terminate the agreement on 12 months' notice at any time from 1 January 2017. Contemporaneously with the NZAS negotiations we negotiated financial arrangements with other generators, providing Meridian with some back-to-back cover that made the amended position with NZAS viable.

Given the aluminium industry's difficult trading environment, and the likelihood that the direction forward on the Electricity Authority's Transmission Pricing Methodology Review will be known this year – having a potentially significant impact on NZAS's cost position – it is shaping up to be a seminal year for our largest customer.

## npower

In November Powershop signed an agreement with npower – one of the six largest electricity retailers in the UK – to franchise its operating system and brand material. This is an exciting opportunity for the Powershop team as it seeks to find new markets for its unique retail offering. Work is well underway to complete the software modifications to meet UK regulatory and npower's market requirements. Powershop already has personnel on the ground in the UK and it has been actively hiring new software developers for some time, in anticipation of the deal being concluded.

## Hydro conditions

Decent inflows in late January 2016 lifted our catchment storage to near average levels, following a two-month period of lower inflows. Storage in our key Waitaki catchment was 93% of average at the end of January 2016, 12% higher than at the same time last year.

<sup>1</sup> Gigawatt hours. One GWh is equivalent to enough electricity for 125 average New Zealand homes for one year.

# Powering small businesses

AS A SMALL BUSINESS OWNER, WILLOW SHOES' GEORGIE FALLOON KNOWS A BUSINESS RELIES ON GREAT CUSTOMER SERVICE.

The service that she received from Meridian after the first big earthquake in Christchurch stuck with Georgie. "It's that human touch you get with Meridian," she says. "The city's infrastructure was so broken, everything was so hard.

"Meridian went out of their way to get our new premises up and running. You just don't forget service like that," says Georgie.

Running a busy small to medium business of four outlets nationally means that Georgie doesn't always have a lot of time to get into the detail when it comes to her electricity usage. The information that she gets from Meridian's online energy tool *MyMeridian* is just the right amount when it comes to monitoring her electricity usage and spend.

"I'm not a huge user of electricity. I spend under \$10,000 annually mainly on heating and lighting. Power bills have never been easy to monitor in detail. I don't want to be overwhelmed with information about my energy use.

"*MyMeridian* offers something really new that's right for small businesses like mine - I can login and set up alerts and notifications to manage my power in seconds with a quick glance at my emails. Managing power, is not something I want to spend time on unless there is an issue," she says.

Meridian's recent partnership with accounting software company Xero has also made a difference for her business. Meridian is the only electricity retailer to be connected to Xero.

"In my view, Meridian's doing for power what Xero's done for accounting. I'd even go as far as saying it makes it fun! It's the *MyMeridian* interface that makes managing my energy use a positive experience," says Georgie.

The integration between *MyMeridian* and Xero means customers no longer have to manually enter their electricity bill details into Xero. They now get easy to understand information about their usage that highlights any changes that may need attention. The Xero integration is the first of many other time-saving innovations Meridian has been working on.

"Having my power bills and data fields flow through automatically saves me so much time, and I don't need to worry about errors. Getting alerts means that I give power some thought from time to time otherwise I just let it flow through each month. My Regional Partner at RightWay sees this as a great accounting management tool too," she says.



**"We're a small business and we look to partner with innovative companies like Meridian who make doing business more efficient for us"**

## Better energy for Britain

MERIDIAN SUBSIDIARY POWERSHOP KEEPS POWERING AHEAD WITH OVERSEAS GROWTH OPPORTUNITIES WITH A RECENTLY-ANNOUNCED PARTNERSHIP WITH NPOWER - ONE OF BRITAIN'S LARGEST ENERGY COMPANIES, WHICH IS PART OF THE RWE GROUP.

In a market that is largely dominated by six electricity retailers that service over 50 million electricity and gas users, Powershop's unique online offering will bring a new level of innovation and competition to the British electricity market.

"This is a fantastic New Zealand innovation story - we've offered this technology to Kiwis and Australians and we're now giving the British the opportunity to save money on their power bills through the Powershop application," says Powershop Chief Executive Ari Sargent.

"This is also a great growth story for Meridian and Powershop. We're using Kiwi know-how and talent to give the British a better energy deal," he says.

The opportunity should also help job growth here as all Powershop development will remain in New Zealand.

The agreement will see Powershop customise its brand and online platform for use by npower in the British market. It is planned that the new operation will be based in Birmingham, in England's West Midlands region.

Over the next few months Powershop will customise, rigorously test and integrate their systems for the British market and supporting operations before making products available to customers to ensure a smooth launch and great customer experience.

The Powershop brand is expected to be launched publicly in the UK in late 2016 or early 2017.



**THE FULL MERIDIAN INTERIM REPORT CAN BE DOWNLOADED FROM**  
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