



meridian

Powering today, protecting tomorrow



Stella the kākāpō on Whenua Hou (Codfish Island). Image courtesy of Sabine Bernert.

Dear Investor

Our results for the six months ended 31 December 2016 are now available.

Highlights

 <p>10 YEARS OF COMMUNITY PROJECT FUNDING</p> <p>with over \$6 million invested</p>	 <p>22% growth in New Zealand small and medium business sales</p>	 <p>4.5% growth in interim ordinary dividend</p>	 <p>Powershop ranked as Australia's greenest electricity retailer</p>
 <p>Most New Zealand generation in a six-month period</p>			

1 Net profit after tax adjusted for the effects of non-cash fair value movements and one-off items.

Report from our Chair and Chief Executive

MERIDIAN DELIVERED EBITDAF² OF \$352 MILLION IN THE SIX MONTHS TO 31 DECEMBER 2016. THIS WAS A 6% INCREASE ON THE PRIOR CORRESPONDING PERIOD AND REFLECTED INCREASED EARNINGS IN NEW ZEALAND, BUT MORE PARTICULARLY IN AUSTRALIA, OFF THE BACK OF BOTH STRONG WHOLESALE PRICES AND RETAIL GROWTH.



CHRIS MOLLER
Chair

MARK BINNS
Chief Executive

Generation volumes in both New Zealand and Australia were ahead of the same period last year, with generation in New Zealand (7,029GWh³) at a record level for a six-month period. This saw Meridian with 34% of the generation market in New Zealand. In Australia, wholesale prices were strong but in New Zealand good inflows into most competitors' hydro storage lakes and suppressed irrigation demand saw average wholesale prices around \$13 per MWh less than in the same period last year.

The mild winter and wet spring saw a softening in New Zealand electricity demand, with total national demand down by 2% in the six months to 31 December 2016 compared with last year. These factors, together with churn in larger corporate customers, resulted in Meridian's retail contracted sales being down 12% for the period. A 22% increase in small and medium business sales volumes helped to offset the reduced sales in other segments.

Despite the sales volume reduction, Meridian's customer numbers, measured by ICPs, increased during the six months by 794, but a highly competitive market saw switching levels remain high.

With lower contracted sales reducing both purchase costs and requirements for dry period insurance hedges, Meridian's New Zealand energy margin increased by \$9 million (2%). Australian energy margin increased by \$15 million (43%); this includes

\$8 million of first-half margin due to be reversed on the settlement of forward Large-scale Generation Certificate (LGC) sales in January 2017. Partly offsetting this was a modest increase in operating expenses of \$2 million (2%).

Dividend

We are pleased to announce an ordinary dividend of 5.33 cents per share (CPS), up 4.5% on last year. This is imputed to 88% and will be payable on 13 April 2017.

² Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items.

³ Gigawatt hours. One GWh is equivalent to enough electricity for 125 average New Zealand homes for one year.

Capital management

Meridian is now 18 months into its \$625 million Capital Management Programme, having paid out \$187.5 million to this point in special dividends. The Board has made the 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. There will be no imputation credits attached to this payment. This will bring the amount distributed so far under the Programme to \$250 million (9.8 CPS).

Customers

Meridian's largest customer, the Tiwai Point aluminium smelter, continues to operate in a difficult but improving international aluminium market. In the past six months the aluminium spot price has increased by approximately 4% and the New Zealand dollar has shown some signs of weakness relative to the United States (US) dollar, falling 3% from where it was last July. Our modelling suggests the smelter remains cash positive at current prices and exchange rates. On 1 January 2017 a price increase came into force and the smelter owner now has the ability to exercise a right of termination of the electricity agreement at any time during the remaining contract period, upon giving 12 months' notice. It will be interesting to see if the new US President, with both a pro-growth agenda and a stated intention of addressing perceived unfair trade practices, has an impact, on both the supply and demand sides of the world aluminium market. Initial indications have been positive, with the aluminium price on the London Metal Exchange having improved by 7% from the date of the US presidential election through to the end of January.

In the competitive New Zealand retail market, Meridian is continuing its strategy of providing customers with fair pricing while enhancing the customer experience. We are two years into a three-year, \$24 million

redevelopment of our customer support systems. Wherever we interface with customers, whether it is by providing complex billing information to businesses or ensuring that customers can stay with us when they move home, we are working hard to make the process easy and efficient. Our focus remains on acquiring small and medium-size business customers and it is pleasing to see the growth in this segment.

In Australia, Powershop was named the greenest electricity supplier by Greenpeace for the second year in a row. Customer numbers grew by 16% to more than 90,000 in the six months to 31 December 2016 and the Powershop brand was launched in Queensland. Powershop also partnered with Hepburn Wind, a community-owned wind farm in Victoria, to manage the maintenance and market services of the wind farm.

Operations

Meridian's New Zealand generation volumes were 3% higher than last year, despite wind generation being down slightly compared with last year. This is a record level of generation for any six-month period since the commencement of the company, even in the pre-2011 period when it also owned the Tekapo A and B stations.

In Australia, total generation volumes increased by 19% in the period but with a high level of volatility from month to month. In September, South Australia saw the electricity grid go down as a result of a severe storm blowing over 24 transmission towers. The Mt Millar wind farm met its performance obligations; however, it was taken out of operation for a total of three days and production was limited for an extended period after this. Regrettably, this event has been politicised in Australia and has led to a polarisation of views around the fit of renewable energy in the generation mix, as Australia continues to grapple with how it will transition to a lower-carbon economy. This inability to provide political certainty for

investors is seeing the build rate to meet Australia's 2020 Renewable Energy Target rise to a point where most commentators do not deem it realistically achievable. The flip side to this has been a strong price for LGCs, which has been a contributor to improved generation prices.

In October 2016 the decision was made to undertake a unit refurbishment programme on the Ōhau A, B and C stations, commencing in the current year and finishing in 2023 at a total cost of \$41 million. The investment in this project should peak in 2020. Stay-in-business capex for the half-year remains in line within expectations.

Regulation

The Electricity Authority (EA) continues to progress the transmission pricing review and, while progress is slow, we remain encouraged that it is maintaining a principled approach to resolving this long-standing issue. Despite being hopeful that a way forward could be resolved this year, we note that some parties are advocating a review of the process by the courts that could further affect progress.

As previously noted, the South Australia blackout in September was the catalyst for the re-emergence of political debate as to the efficacy of the Renewable Energy Target. It now seems unclear if the bipartisan support afforded to the Target remains intact as conservative elements of the ruling coalition agitate for change. Our long-term confidence in the Australian market remains, but these factors require us to be cautious when we consider any new investment in the short term.

Communities

October 2016 marked a decade of Meridian's Community Funds programme. In this time over \$6 million has been channelled into regional community projects. The funding, allocated in partnership with nominated community representatives, has seen some significant projects deliver real benefits for the long term.

Among many worthy projects, highlights include being a major funder of the new Twizel Medical Centre and supporting the restoration of Lake Manapōuri's Rona Island to a pest-free sanctuary for endangered bird species.

In June 2016 Meridian also became the new National Partner of the Kākāpō Recovery Programme in partnership with the Department of Conservation. Meridian also continued its partnership with KidsCan and sponsorship of South Island Rowing.

In addition to supporting communities with funding, where possible, Meridian supports regional communities with jobs. In December Meridian's Retail arm decided to establish a satellite to its main Christchurch call centre, bringing four new jobs to Twizel, while Powershop's Masterton office has increased by five staff since June 2016.

In October 2016 Meridian also reaffirmed its commitment to Christchurch by moving its 330 permanent employees back into the central business district. This move fulfilled a promise made to the city following the 2010/11 earthquakes that displaced Meridian staff for a period to temporary accommodation.

Powershop in the UK

Just prior to Christmas, Powershop completed the first milestone in its franchise agreement with npower, one of the Big Six retailers in the United Kingdom (UK). This provides npower with the core IT platform to launch the Powershop brand in the UK. Work is now continuing to accommodate dual fuel sales and a white label product.

Hydrology conditions

As at 31 January 2017, Meridian's storage lakes were at good levels with the Waitaki catchment at 118% of average at that point in the year and higher than in any of the previous nine years.

Promoting EVs means working together for a better energy future

HARNESSING PARTNERSHIPS AND RENEWABLE FUEL.

Electrifying transportation is known to be one of the biggest opportunities New Zealand has to reduce emissions by displacing the use of fossil fuels. As a company that is 100% committed to generating renewable energy, and with around 84% of New Zealand's electricity generated from renewable resources, it makes sense that Meridian helps New Zealanders understand the benefits electric vehicles (EVs) can bring – and also give them a go.

Meridian has been converting its corporate fleet to electric. To date we currently have 20% of our passenger fleet powered by EVs, with plans to push this to over 50% by the end of the next financial year.

Neal Barclay, General Manager for Retail at Meridian says, "There's an opportunity for organisations like ours to build EVs into their fleets, and over time these corporate initiatives will help increase vehicle availability and affordability for everyone."

"Meridian's role is to demonstrate the benefits of going electric. We're supporting our customers that drive EVs with sharp overnight charging rates, we're helping provide vehicle charging infrastructure and we're working with like-minded organisations to encourage more people to experience EVs," says Neal.

In September Meridian partnered with Kiwi Property to provide free



“Meridian’s role is to demonstrate the benefits of going electric...”

NEAL BARCLAY, GENERAL MANAGER FOR RETAIL

electric car charging stations to its Lynn Mall Shopping Centre in Auckland, The Plaza in Palmerston North, Northlands in Christchurch and Sylvia Park in Auckland.

This year Meridian partnered with Mevo, an electric-hybrid car share service in Wellington that connects its members to vehicles around the city that they can use as they need

them; the fleet is owned and maintained by Mevo.

“Mevo is providing another way of getting people into electric and hybrid vehicles – so more people get a chance to give these vehicles a try,” says Neal.

Currently operating the car share service in the capital, Mevo plans to

expand its offering further, including branching out to Auckland.

“We want to make sure we grow awareness of electric cars and celebrate the advantages of harnessing New Zealand's renewable fuel. We'll also be looking for ways to provide some extra benefits to our customers – so watch this space!” says Neal.



Stella the kākāpō. Image courtesy of Sabine Bernert.

We're about renewing species too

WE'VE PARTNERED WITH THE DEPARTMENT OF CONSERVATION
TO SUPPORT THE KĀKĀPŌ RECOVERY PROGRAMME.

Last year Meridian became the new National Partner of the Kākāpō Recovery Programme (KRP), in a partnership with the Department of Conservation (DOC). Kākāpō are a prized taonga (national treasure) and one of New Zealand's most endangered species, with the total population now sitting at around 160 birds.

The KRP is a world class conservation effort that has been in place since 1990. The programme, also supported by Ngāi Tahu which has strong cultural, spiritual and traditional associations with the kākāpō, aims to bring kākāpō back from the brink of extinction from a low of just 50 birds in 1995.

Fortunately 2016 saw a bumper breeding season that has made for some great opportunities to see and view these amazing animals for Meridian staff. We've also provided some unique opportunities for customers to get involved and become a 'kākāpō ranger for a day' to assist DOC rangers in their important conservation work and experience first-hand the great work that they do.

CEO Mark Binns is pleased that Meridian is able to contribute to the ongoing conservation of the rare and iconic kākāpō.

"Meridian is dedicated to helping protect our natural environment and we are proud to be raising awareness of the plight of these beautiful birds," says Mark.

The partnership contributes to the future growth of the kākāpō

population, by helping DOC to fund research and pioneer conservation techniques relating to genetics, nutrition, disease management and finding new breeding sites.

"From the start people have reacted very positively to Meridian's involvement with the KRP," says Mark. "The announcement of the partnership through our social media channels saw us receive an unprecedented level of engagement, reaching more than one million people.

"We're also proud to have seen the impact that our partnership has

had, with a steady increase in donations/adoptions since the partnership began. The KRP team have seen spikes in kākāpō adoptions during campaign activity, including a week when the programme received more adoptions than they would usually receive in a month!"

"Key to the success of this programme is the strength of the partnership between Meridian and Ngāi Tahu, as we continue to foster understanding and support of each other's views and long-term aspirations," says Mark.

The KRP supports breeding populations on three predator-free islands: Whenua Hou/Codfish Island, off Rakiura/Stewart Island; Pukenui/Anchor Island in southwest Fiordland; and Hauturu/Little Barrier Island in the Hauraki Gulf.

For more information on the partnership or to adopt a kākāpō visit the Meridian website www.meridianenergy.co.nz/kakapo

For more on DOC's Kākāpō Recovery Programme visit www.kakaporecovery.org.nz

**"Meridian is dedicated to helping
protect our natural environment..."**

MARK BINNS, CEO MERIDIAN ENERGY



Kevin Beaumont, from Meridian, meets a kākāpō.

NOTICE OF FMCA EFFECTIVE DATE

Under the Financial Markets Conduct Act 2013 (FMCA), we are required to notify you that from 1 December 2016, all the requirements of the FMCA apply to Meridian. The FMCA is a New Zealand statute governing the operation of financial markets. The FMCA requirements include financial reporting, governance of financial products, and dealing with financial products on regulated markets.