

# Better energy



## Dear Investor

The recent announcement of our 2014 annual results included very solid cash flow performance, which supported a higher ordinary dividend than forecast in Meridian's Prospectus. We were also pleased to announce an additional special dividend of 2.00 cents per share for shareholders.



11.01<sub>CPS</sub>

**Full year ordinary dividend**

5% higher than Prospectus

2.00<sub>CPS</sub>

**Additional special dividend**

35.3%

**Average NZ generation market share**

2

**New wind farms generating electricity**

1.7%

**Growth in NZ customers**

6.7%

**EBITDAF ahead of Prospectus**

### UPCOMING DATES

15 OCT 2014

FY2014 FINAL & SPECIAL DIVIDENDS PAID

29 OCT 2014

ANNUAL SHAREHOLDER MEETING

# From our Chair and Chief Executive



**CHRIS MOLLER, CHAIR**



**MARK BINNS, CHIEF EXECUTIVE**

## *This has been an exceptionally challenging, but very satisfying year with the transition from a State Owned Enterprise to a publicly-listed company.*

Strong operating cash flows and the sale of non-core and excess assets has led the Board to declare a final dividend for the second half of the year of 6.82 cents per share and an additional special dividend of 2.00 cps. With the interim dividend we declared in February 2014, the total distribution to shareholders for the 2014 financial year was 13.01 cps. This is equivalent to an 11.7% gross yield on the final IPO share price of \$1.50 and compares well to the 8.9% gross yield in the prospective financial information (PFI) from our Prospectus.

We reached a number of other key milestones during the year, including first power at the Mt Mercer wind farm in Victoria and Mill Creek wind farm near Wellington. We launched our Powershop retail offer in Victoria with 13,400 customers by June 2014, continued our investment into communities and environment projects with another \$3.5 million and continued to strengthen processes to make our workplaces safer.

Our financial performance for the year was strong, outperforming all the key PFI measures from our prospectus. Against the 2013 financial year (FY2013), EBITDAF, a key earnings measure, was flat. FY2013 included

non-repeating earnings from a number of sources; on a like-for-like basis, EBITDAF increased 14.4% in the 2014 financial year (FY2014). This is particularly pleasing as we had challenges managing variable hydro inflow and wholesale market conditions in FY2014. We also grew our customer numbers and total retail sales volumes in New Zealand, in a very competitive retail market with relatively flat demand, while Meridian's residential customers have seen the benefit of reduced energy prices.

These factors also influenced our Net Profit after Tax, which showed a 22.1% reduction against FY2013. However, the major elements behind this decline were the \$101.4 million gain from the sale of the Macarthur wind farm and higher derivative fair value movements in FY2013. Our Underlying NPAT, which excludes these elements, showed a 19.6% increase on FY2013, primarily from lower financing costs.

The Board is aware that the company's gearing is now at a conservative level and it is appropriate that we review possible mechanisms to ensure an optimal capital structure, including potential return of capital to shareholders. Given the industry faces the possibility of potential structural change following the general election and a potential decision by NZAS regarding the Tiwai Point Smelter's future, it would not be appropriate to make any decision on this matter at this time. However, the Board will reflect on alternatives, together with ongoing market conditions, with a view to outlining what, if anything, we propose to do regarding

this matter at the time of the interim results announcement in February next year.

While the landscape in New Zealand and Australia poses some political risks over the short to medium term, we remain focused on delivering the returns to shareholders that were outlined in the prospectus and ensuring we are in the best position to deliver acceptable returns over the medium term. To support this we are continuing to improve the operating efficiency of the business. While we remain open to growth opportunities, until the political backdrop in both New Zealand and Australia becomes more certain and the level of demand for electricity improves, it is challenging to see any immediate opportunities that could produce acceptable returns.

While the electricity industry worldwide is facing significant change as the penetration of renewable energy creates challenges to traditional business models, we feel confident your company is well positioned to cope with the challenges ahead in our part of the world.

We trust this letter provides you with a useful update on what is happening at Meridian. More information about the company's FY2014 financial performance is available on our website:

<http://www.meridianenergy.co.nz/investors/reports-and-presentations/annual-reports/>

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

# Generation

## New wind farms

This year we have been working on two major renewable generation projects - Mill Creek wind farm near Wellington and Mt Mercer wind farm in Victoria. Both wind farms have delivered their first power and are expected to be completed by the end of 2014.

In light of the current market conditions, our focus has been on maintaining the most attractive future wind farm options. This has meant we have continued to rationalise a number of development projects and have sold a number of land holdings for previous hydro developments.

## Market trading

Managing risk is at the core of our business. An increasingly vibrant and liquid Australian Securities Exchange (ASX) hedge market, now complemented by Financial Transmission Rights (FTRs), are becoming important cornerstones of how we manage risk. ASX hedges help us manage market exposures, while FTRs are hedges that help us manage changes in wholesale electricity prices across the transmission network.

We have also replaced a 200MW Swaption contract we held with Genesis Energy with a suite of more flexible options (also with Genesis) to ensure we can support obligations to customers and hedge dry year risks.

## Asset performance

We are working hard to achieve performance efficiencies from our renewable generation portfolio. This year we delivered new control systems for the first of four units at our Aviemore hydro power station, continued the three year generation overhaul of our Waitaki hydro power station and replaced all the high voltage bushings on the transformers at our Manapouri hydro power station.

The technological advancements made on our turbines at the new Mill Creek wind farm have been applied to its neighbouring wind farm, West Wind.

We also continued to deliver a major project to replace our Generation Control System, with the project successfully completed in August 2014. This new software will ensure we can continue to run all of our generation assets efficiently from a central hub in Wellington, while also providing disaster recovery facilities at the Ohau B power station.



# Customers

## Meridian Retail customer focus

With 14 electricity retailers and high industry churn rates, the New Zealand retail electricity market has become the most competitive in the world in terms of switching. At Meridian, we have been working hard to make sure we get the customer experience right and that has involved rethinking some of the basics of our business. We have made important changes to how our Meridian retail team operates and made targeted technology investments to help our customers engage better with us online. This focus on customer engagement is a key part of our customer retention strategy.

The high level of competition is evident in recent Electricity Authority data, which shows energy prices for residential customers have increased at significantly less than the rate of inflation in the last three years. Meridian's own residential customers have seen the benefit of reduced energy charges in the last year. Overall retail contracted sales were largely flat in FY2014, from this improved customer focus and better targeting of customers, including targeted growth opportunities in the North Island agribusiness sector.

## Powershop New Zealand smart phone application

Our Powershop retail brand launched New Zealand's first electricity self-service smart phone application this year. This innovation is making it even easier for customers to manage their power on the go. After just a few months, almost 20,000 Powershop customers are using the app, which keeps them informed through a range of automatic notifications including discounted electricity packages, automatic payment alerts and when meter readers will make their next visit. The app also makes it easier to monitor electricity usage and compare costs.

## Taking Powershop across the ditch

Australians are starting to join the Powershop revolution following our launch in late 2013 in Victoria. We have established a solid beachhead, with more than 13,400 customers having chosen to move to Powershop, who now enjoy information about how much energy they are using and how much it is going to cost them, before they are asked to pay for it. This is matched by quality customer service from New Zealand - the friendly customer services team in Masteron are now servicing both our Australian and New Zealand Powershop customers.

Australian customers can also choose to buy power from specific renewable generation sources using Meridian and third party wind farm operators and even community renewable generation projects.



**Thanks for investing in us. We'd love you as a customer too.**

Sign up at [meridian.co.nz/join](http://meridian.co.nz/join)



# Environment



## Responsible water management

The vast majority of electricity we generate is from our seven South Island hydro power stations. The catchments surrounding these assets are a focal point for our commitment to the environment. We view effective water management as a balance between achieving renewable electricity generation, maintaining environmental conditions and engaging with stakeholders on the issues that matter to them the most.

As a hydro operator, we operate under a suite of legislative and regulatory requirements, including the Resource Management Act (RMA), our operating consents and a number of local government planning requirements.



Our approach to operations and environmental management includes the precautionary approach of the RMA. These requirements cover all our operations and include river flows, lake levels and our impacts on flora and fauna.

## Biodiversity

Our approach to biodiversity is to understand the effects we have as an electricity generator, to monitor change and work with stakeholders on initiatives to mitigate these impacts.

This year we continued our ongoing support of Project River Recovery, run by the Department of Conservation, which preserves flora and fauna in braided river habitats in the Upper Waitaki basin. We also continued extensive monitoring at Manapōuri, located in a National Park and UNESCO World Heritage area. This included lake, river and marine environments and the information is provided to Environment Southland annually as part of our resource consent requirements.

We monitor native birds and bats at the Te Uku wind farm and karearea and red tussock at the White Hill wind farm. These impacts were identified and assessed at the planning stages of these wind farms and are monitored throughout the lifetime of the assets.

# Community

## KidsCan

We are proud to invest our time and resources into KidsCan, which offers practical, hands-on assistance to thousands of children in schools throughout New Zealand. The partnership, which is our biggest national sponsorship, is our way of supporting KidsCan in reaching its goal of giving every child the chance to succeed.

After launching the partnership in June 2013, more than 60 schools came off the waiting list to receive support. This year, our support

has helped the charity with distributing raincoats, shoes, socks and food for Kiwi kids. Staff have also embraced the charity with fundraising and volunteer work.

## Sustainable Coastlines

A key part of our commitment to creating a better energy future is protecting and supporting the communities and environments where we operate. We support Sustainable Coastlines in their work to educate Kiwis about marine debris and to motivate schools and communities to look after the coastlines we all love. This year Meridian staff have been involved in cleaning up the Wellington waterfront and the coastline near our West Wind farm.

## Community funds

Our community funds help support a range of initiatives and activities for communities living near our hydro power stations and wind farms. A panel of community representatives and Meridian staff manage the funding allocations to ensure Meridian supports projects that meet genuine community needs. This includes a significant contribution towards Twizel's new medical centre.

In addition to the community funds and our major corporate sponsorships, we sponsor a number of smaller events in local communities.

In total, we have invested \$3.5 million into communities and environmental projects in the last year.

(Meridian's best kept secret)

# TAKE A PECK AT THE FUTURE



**POWERSHOP**  
A better power company

[www.powershop.co.nz](http://www.powershop.co.nz)