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meridian

# MERIDIAN ENERGY LIMITED INVESTOR ROADSHOW PRESENTATION

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



# THE NEW ZEALAND ECONOMY

# THE NEW ZEALAND ECONOMY

## Stable, open, market orientated economy

- High ease of doing business and low corruption rankings
- Seven years of economic expansion, now entering a mature phase
- Slowing economic growth as housing market, construction and population growth cools
- Terms of trade are strong and government spending is stimulatory, suggesting middling rates of GDP growth
- Capacity constraints may see wage growth and rising inflation
- Reserve Bank's official cash rate is expected to stay at record low rate until 2020



# THE NEW ZEALAND ELECTRICITY MARKET

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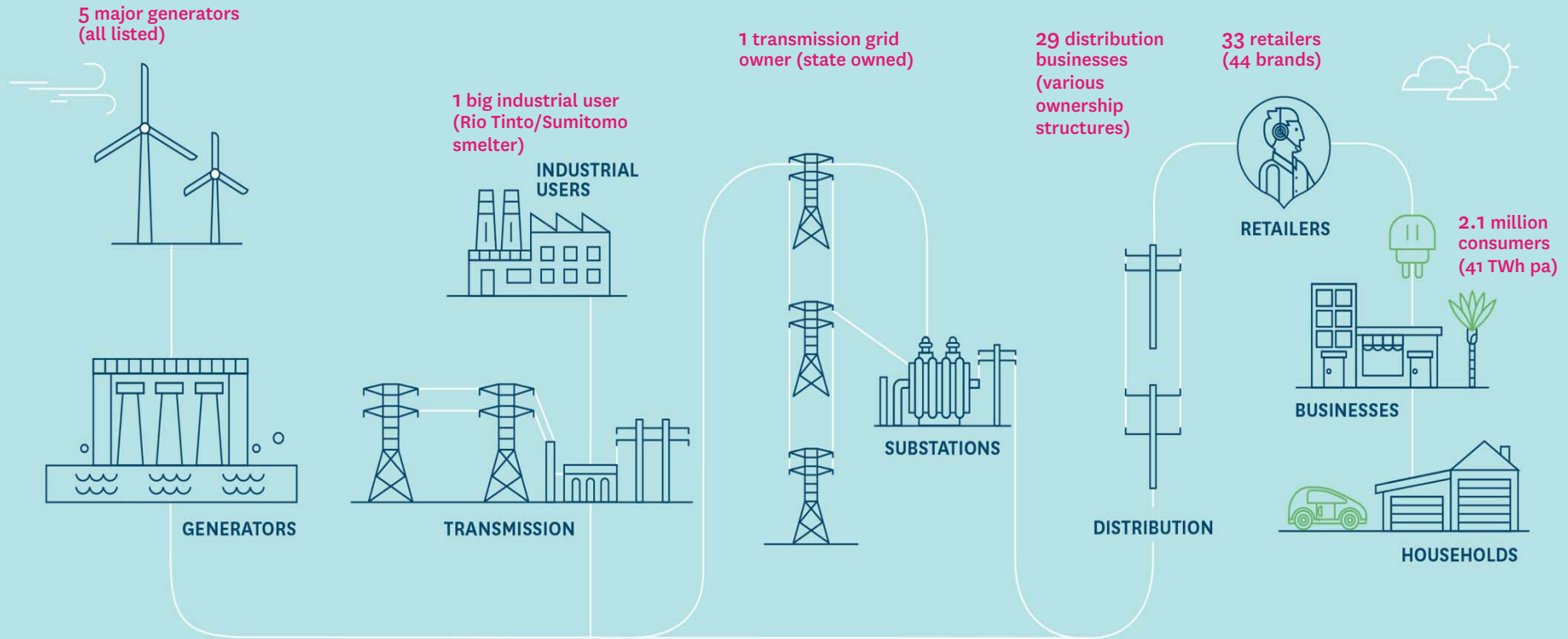
## Delivering a reliable, affordable and environmentally sustainable electricity system

- A well functioning market, characterised by:
  - Quality renewable resources
  - Progressive regulatory settings
  - Stable political environment
  - Rational market competition
- Vertical integration is the prevailing structure
- Wholesale and retail market regulation provided by an independent regulator – The Electricity Authority (EA)
- EA mandate to deliver efficient market operation, security of supply, promote competition
- No price controls, non-competitive distribution sector has regulated rates of return

“New Zealand serves as a model for effective energy markets and secure power system operation”

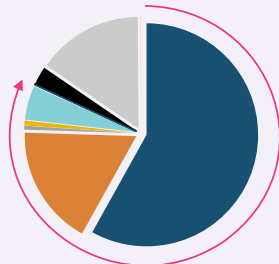
International Energy Agency (IEA)  
New Zealand 2017 Review

# THE NEW ZEALAND ELECTRICITY MARKET



## 2017 GENERATION MIX

- Hydro
- Geothermal
- Biogas
- Wood
- Wind
- Solar
- Oil
- Coal
- Gas
- Waste Heat

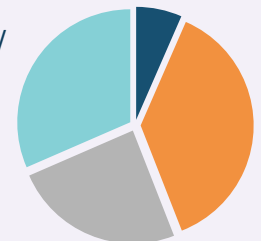


82% renewable

Sources: Electricity Authority and Ministry of Business, Innovation and Employment

## 2017 CONSUMPTION MIX

- Agriculture/ Forestry/ Fishing
- Industrial
- Commercial (incl. Transport)
- Residential



# THE NEW ZEALAND ELECTRICITY MARKET

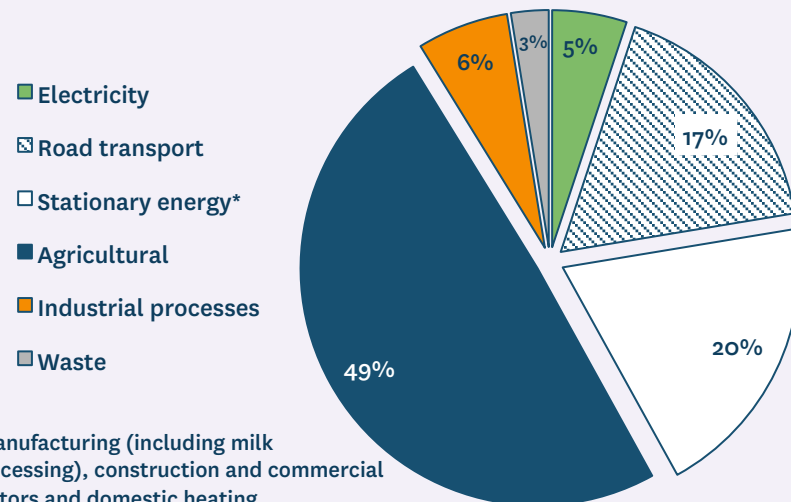
- New Zealand's hydro generation is managed against limited controlled storage
- Bulk of hydro inflow is anti-correlated to winter demand peak
- Thermal capacity and fuel storage manages potential hydro inflow deficit and other renewable intermittency
- Efficient and well-functioning wholesale market manages this supply risk
- Significant oversupply has existed in the market, older thermal plant closure is bringing better balance
- Demand growth in the last decade has only been modest



# THE NEW ZEALAND ELECTRICITY MARKET

- Market will be the key enabler of greater decarbonisation in New Zealand
- 42% of non-agricultural carbon emissions could be removed over time through electrification
- Converting this fossil fuel-based energy use to predominately renewables could add 75% to current electricity demand
- Depending on the rate of future electrification, significant new generation will be needed
- Unsubsidised renewables are likely to form the bulk of new generation

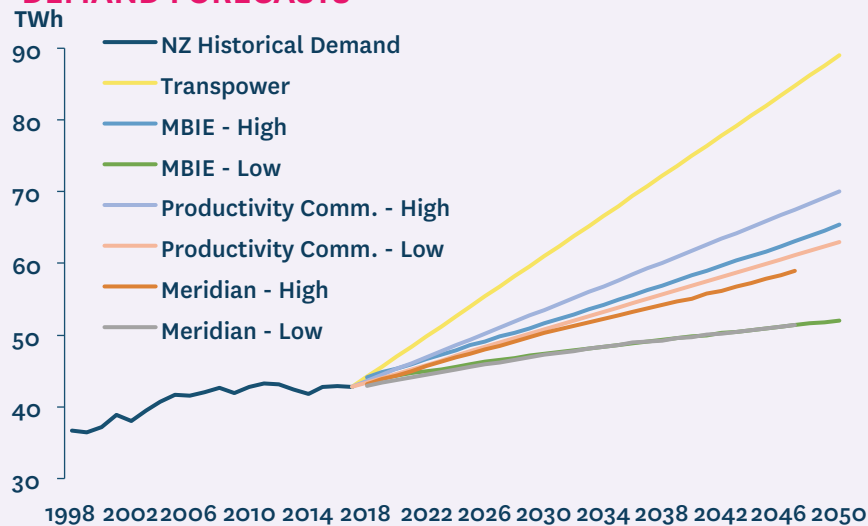
## NZ 2016 SECTOR EMISSIONS



\*manufacturing (including milk processing), construction and commercial sectors and domestic heating

Source: Ministry for the Environment

## DEMAND FORECASTS



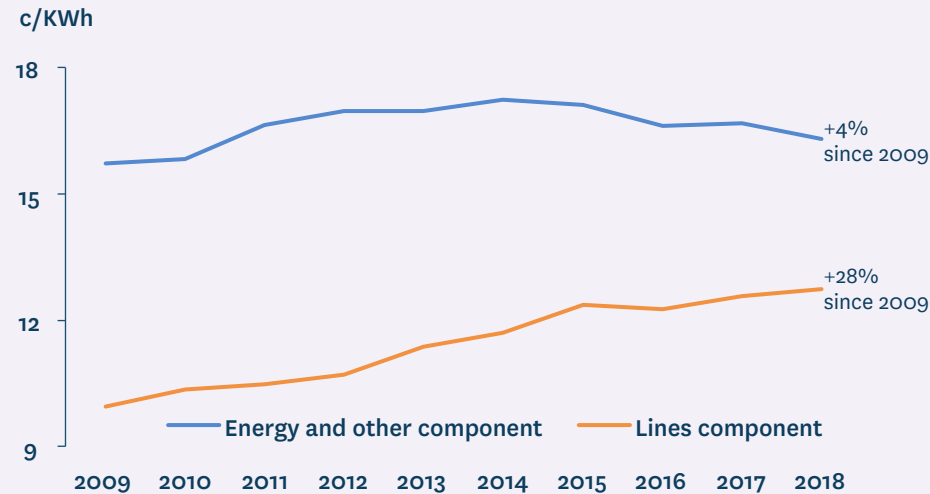
Source: Meridian



# THE NEW ZEALAND ELECTRICITY MARKET

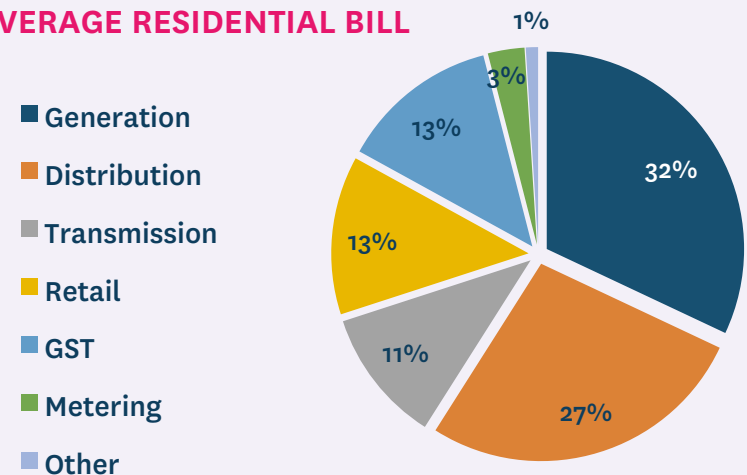
- New Zealand Government is conducting a review of electricity prices
- An initial paper has been released:
  - Energy affordability can be an issue
  - Low income households need better support
  - Competition is high, customer engagement varies
  - Industry delivers high quality supply
  - Distribution and transmission could be more efficient
- New Zealand residential electricity prices are 20% lower than the OECD average and 40% lower than Australia
- Pricing from the competitive parts of the electricity supply chain have been flat in real terms since 2011
- Historical distribution cost increases have resulted in higher residential prices

## REAL RESIDENTIAL ELECTRICITY COST



Source: Ministry of Business, Innovation and Employment

## AVERAGE RESIDENTIAL BILL



Source: Electricity Authority

# THE NEW ZEALAND ELECTRICITY MARKET

## Tiwai smelter is 12% of national demand

- CfD contract with Meridian on NZAS perpetual 12-month termination right
- Meridian's modelling suggests smelter is currently making healthy cash profits
- Additional 50MW contract signed in May 18
- Aluminium remains a commodity exposed to cycles and Chinese supply decisions
- Meridian not expecting smelter closure, change in ownership may occur
- A smelter closure would trigger further South Island grid investment (majority of lower South Island generation can be dispatched now)
- Greater HVDC capacity and North Island line uprating possible in the medium term

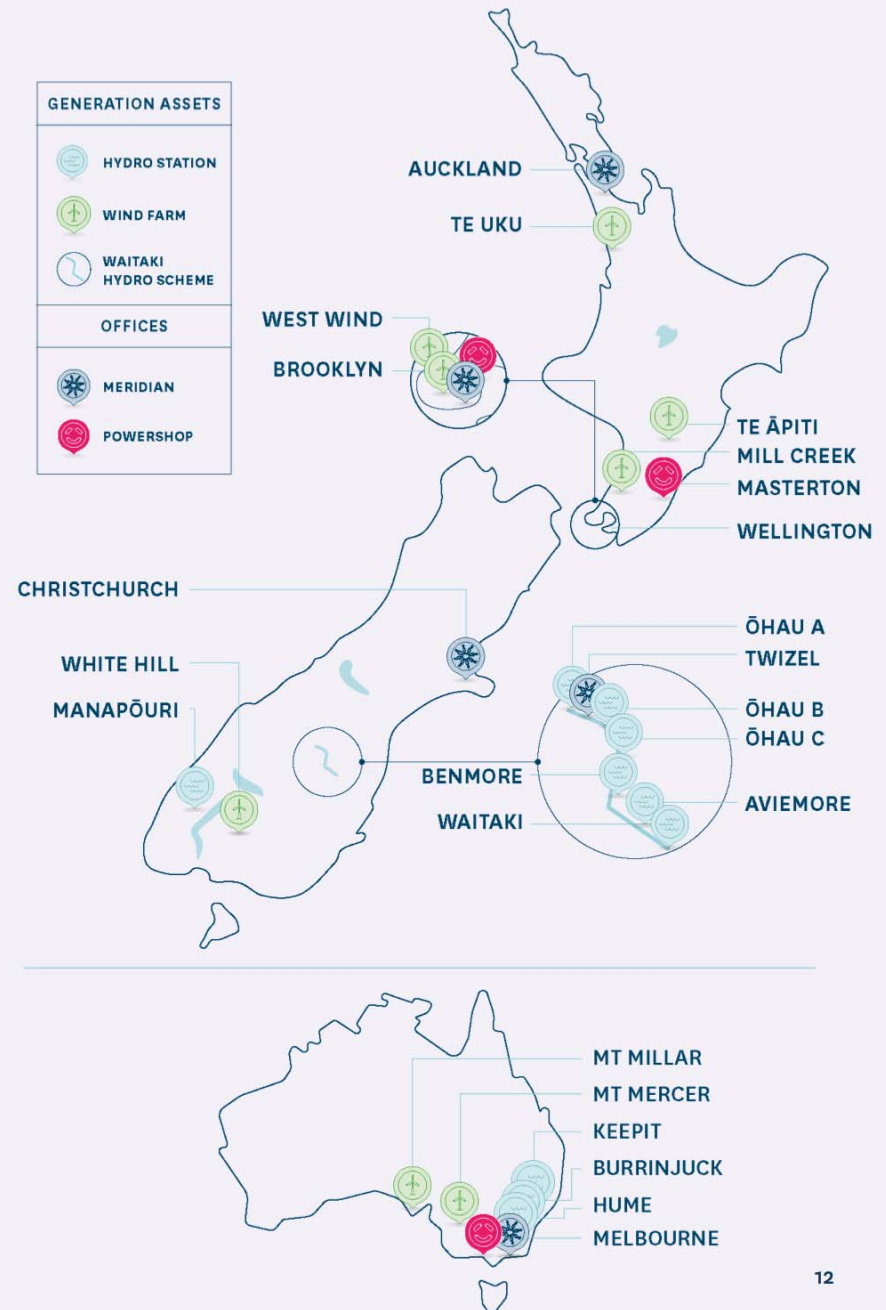


# MERIDIAN ENERGY



# ABOUT MERIDIAN ENERGY

- NZ\$8b company, listed in 2013, 51% Government owned
- Largest and most liquid of five listed New Zealand retailer generators
- The only New Zealand electricity company with a customer and asset base diversified across different countries
- Strong environmental, social and governance focus
- 40% of New Zealand generation covered by a price guarantee contract with Rio Tinto/Sumitomo's New Zealand aluminium smelter



# ABOUT MERIDIAN ENERGY

- New Zealand's largest generator, all production from renewable sources
- Seven big hydro stations – flexible plant with the country's largest storage
- With low operating costs and capital needs
- Five New Zealand wind farms and proven success operating in a high wind environment
- Backed with more than a decade of construction and operational experience
- Typical long generation position to manage variable hydro inflows
- Generation portfolio of wind, hydro and renewable offtake in Australia



# STRATEGIC FOCUS



## Champion benefits of competitive markets

- Competing vigorously
- Leadership in sustainability in New Zealand and Australia
- Supporting wholesale liquidity



## Support retail growth & protecting our generation legacy

- Contribution of hydro to 100% renewable aspiration
- Maintaining a best in class generation portfolio
- Best placed renewable energy pipeline

## *Clean energy for a fairer & healthier world*



## Grow overseas earnings, through

- Expansion of challenger brand
- Strengthening our vertically integrated position
- Flux client success



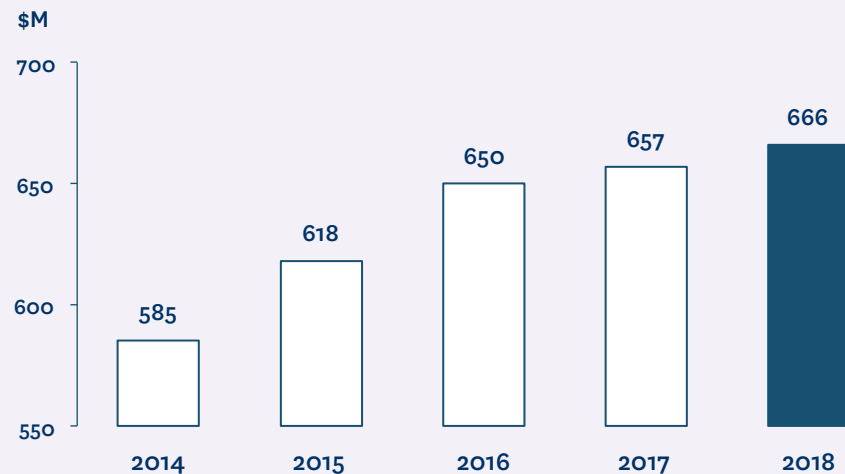
## Grow New Zealand retail, through

- Simpler systems
- Reduced cost
- Faster adoption
- Relentless focus on customer experience

# SHAREHOLDER HIGHLIGHTS

- Five successive years of earnings and dividend growth since listing
- Double digit shareholder returns every year since listing
- High free cash flow, high payout ratio, progressive ordinary dividend policy
- Structured capital management programme running to 2022
- Strategic focus on potential market growth in three countries

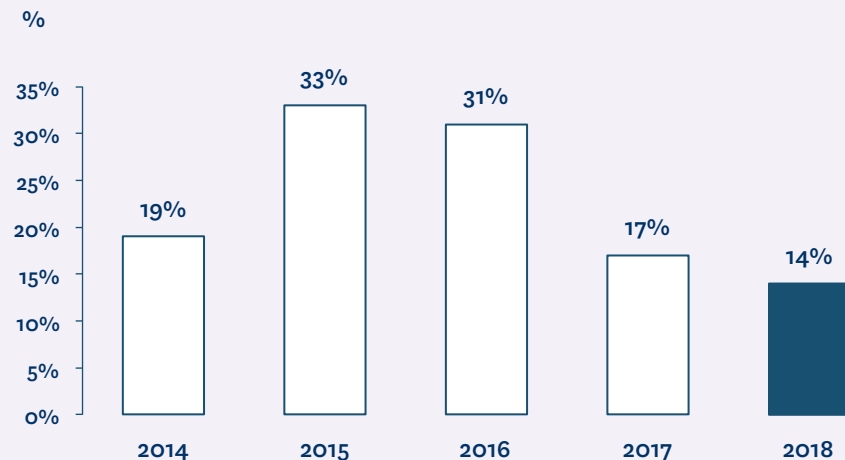
## EBITDA



Financial Year ended 30 June

Source: Meridian

## TOTAL SHAREHOLDER RETURN



Financial Year ended 30 June

Source: Meridian

# NEW TECHNOLOGIES

- Solar uptake increasing in New Zealand as economics slowly improve
- New Zealand residential capacity factors are low (13%-15%) and payback high (13 years)
- Commercial solar opportunities are being developed
- Grid scale solar unlikely in New Zealand in the near term with competing land uses and winter peak demand
- Solar uptake is much higher in Australia with subsidy support
- Residential capacity factors and paybacks are better in Australia
- Grid scale development is happening in Australia as costs decrease significantly





# NEW TECHNOLOGIES

- Battery value for energy management is in load shifting (high to low price periods)
- Grid scale unlikely in New Zealand due to large hydro storage
- Grid scale possible in Australia with subsidy support
- Solar and batteries to achieve residential off-grid in New Zealand remains very expensive (20 year payback)
- Batteries also offer other value:
  - Back-up power
  - Grid and transmission support
  - Avoided infrastructure costs

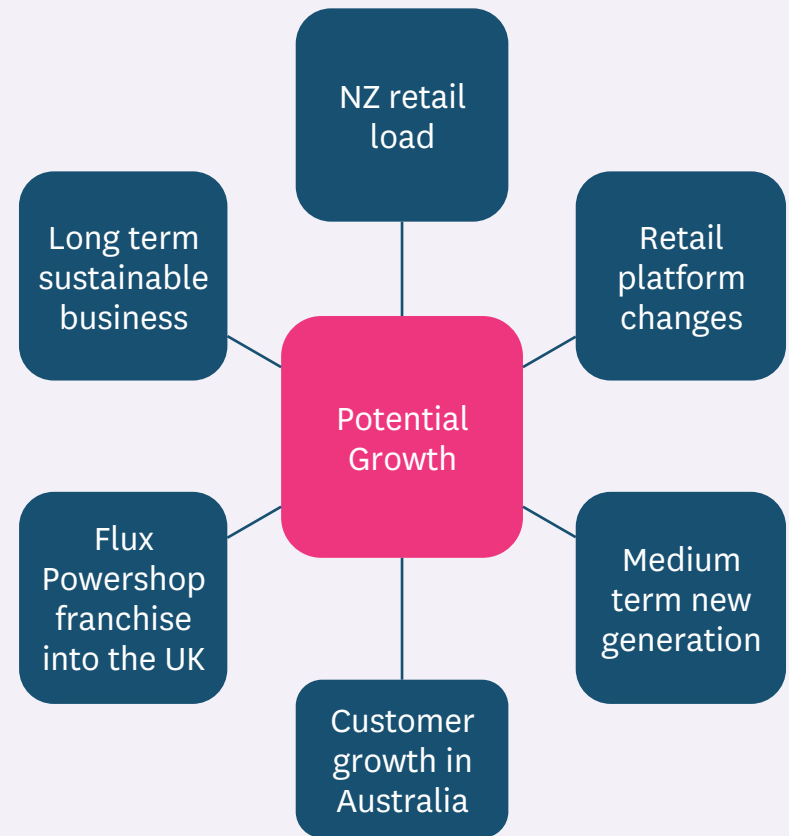


# NEW TECHNOLOGIES

- Electric vehicle levels are growing in New Zealand
- Government and company fleet conversions increasing
- Meridian will have converted 80% of its passenger fleet by 2020
- New Zealand uptake dependent on the second-hand import market, so expected to be gradual
- Uptake may have system impacts, particularly network resilience in high peak periods
- Tariffs to incentivise off peak charging now in the market
- Technology may change with a move to fast charging infrastructure
- High fossil fuel generation in Australia limits electric vehicle environmental proposition



# MERIDIAN'S INVESTMENT PROPOSITION



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[WWW.MERIDIANENERGY.CO.NZ/INVESTORS/](http://WWW.MERIDIANENERGY.CO.NZ/INVESTORS/)

ALL CURRENCY AMOUNTS ARE IN NEW ZEALAND DOLLARS UNLESS STATED OTHERWISE.