



meridian

Interim Results Announcement

For the Six Months Ended 31 December 2008





Agenda

- Highlights
- Results Overview
- Financial Summary / Overview
- Segment Results
- Balance Sheet Strength
- Capital Spending
- Development Environment & Regulatory Update
- Development Portfolio Update
- RTANZ
- Strategic Focus



Highlights

- **\$20.5M reported** loss after-tax and **\$85M underlying** earnings after-tax reflecting our recovery from the challenges from Winter 2008
- Earnings improving and ahead of target due to unprecedented recovery of fuel stocks
- Segment information introduced to improve financial reporting transparency
- \$330M of new funding arrangements put in place – Strong Balance Sheet and ability to invest
- Continue to operate under significant inter-island transmission constraints
- Grew customer base to 187,700 customers (up 3.5%)
- Introduced My Meridian portal for customers and began transforming our Retail business
- Installed a further 25,700 smart meters – 90,000 in Canterbury, 100,000 including Hawkes Bay
- Granted water-only consents for North Bank Tunnel project
- Great progress on construction of West Wind and Ross Island (Antarctica)
- 4 serious harm injuries and 3 other lost time injuries (LTIs) – our goal is zero LTIs



Results Overview

\$M		Dec 08	change
Reported Net (Loss) / Profit after Tax ¹	\$M	(20.5)	down 122%
Underlying Profit After Tax ²	\$M	85.0	down 15%
EBITDAF	\$M	237.4	down 6.7%
EBITDAF per MWh	\$ per MWh	42.30	up 1%
Number of Retail Customers	#	187,700	up 3.5%

Notes

1. Reported Net (Loss) / Profit After Tax includes unrealised gains/losses in the fair value of financial instruments
2. Refer to note 2 of the financial statements for definition of Underlying Profit After Tax
3. EBITDAF is Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments
4. MWh is megawatt hours generated by our hydro power stations and wind farms



Financial Results - Reported

\$M	Dec 08	Dec 07	% Change
Revenue	1,112.6	914.6	21.6
Total Operating Costs	(875.2)	(660.2)	(32.6)
EBITDAF	237.4	254.4	(6.7)
Unrealised Gains (Losses) on Financial Instruments	(150.8)	(8.9)	(1,694.4)
Depreciation and Amortisation	(78.9)	(75.1)	(5.1)
Equity Accounted Earnings of Associate	(1.0)	-	-
Gain (Loss) on Sale of Property, Plant & Equipment	0.7	(0.7)	-
Net Finance Costs	(35.6)	(27.0)	(31.8)
Income Taxes	7.7	(49.0)	-
Reported Net (Loss) / Profit after Tax	(20.5)	93.7	-

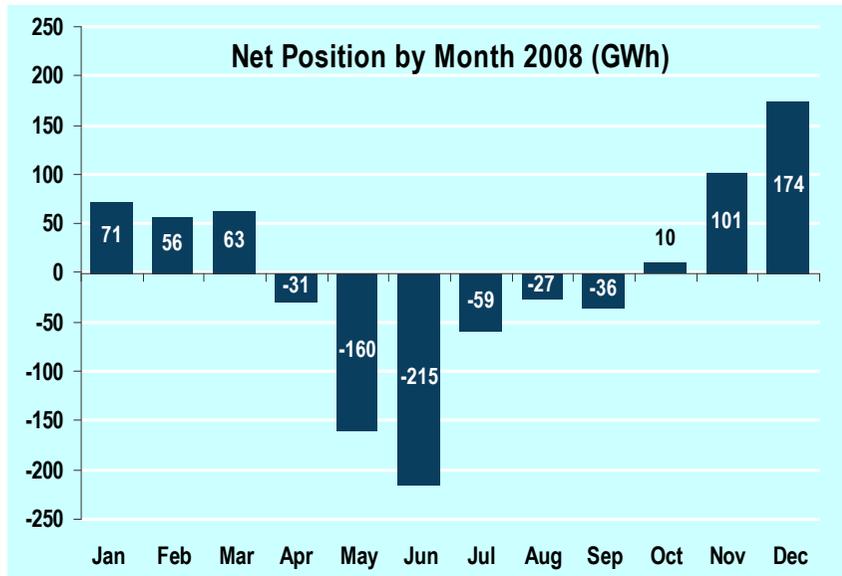
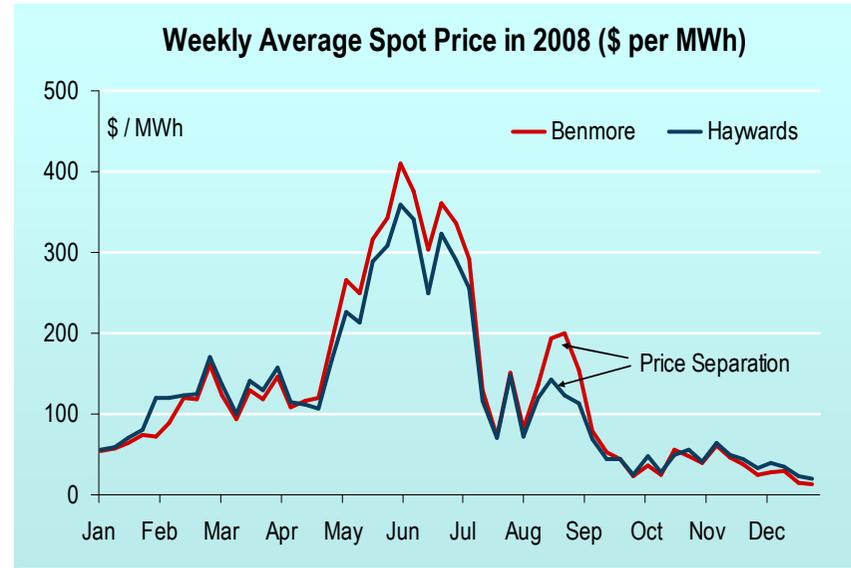
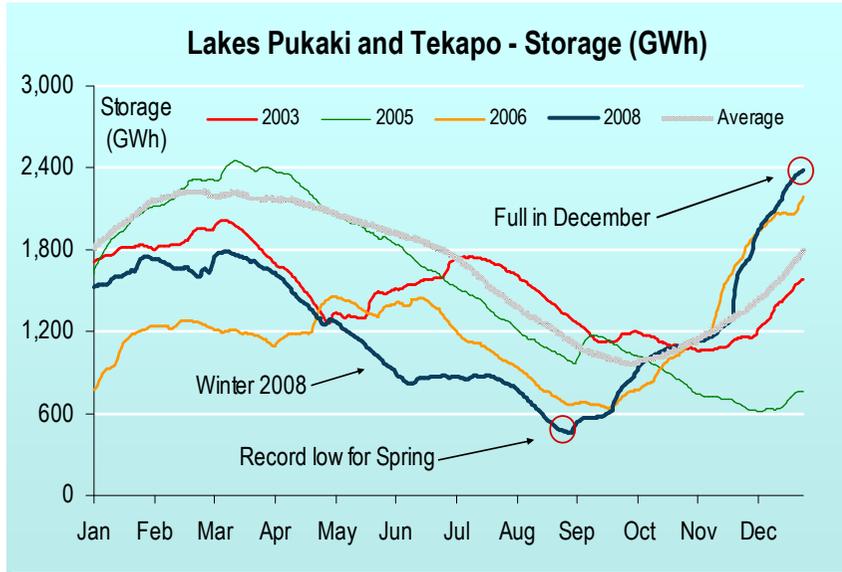


Financial Results - Underlying

\$M	Dec 08	Dec 07	% change
Reported Net Profit (Loss) After Tax	(20.5)	93.7	-
<u>Adjustments:</u>			
Unrealised Gains / Losses on Electricity Derivatives	79.8	10.6	752.8
Unrealised Gains / Losses on Financial Instruments	71.0	(1.7)	-
Adjustments Before Tax	150.8	8.9	1,694.4
Tax Effect on Adjustments	(45.2)	(2.6)	-
Adjustments After Tax	105.6	6.2	1,703.2
Underlying Profit After Tax	85.0	99.9	(14.9)



Emerging from the Dry Winter of 2008



- In August, storage was only 10% above minimum
- In December, storage was near maximum control levels
- Demand 3% lower than last year
- In July, average spot prices at Benmore were \$169 per MWh, by December prices had fallen to \$21 per MWh



Operating Results - Wholesale

\$M	Dec 08	Dec 07	% change
Wholesale Revenues	601.7	465.6	29.2
Wholesale Electricity Purchases & Other Energy Costs	(221.6)	(139.6)	(58.7)
Transmission, Distribution and Levies	(45.5)	(58.1)	21.7
Employee Costs and Other Costs (excludes unallocated corporate costs)	(25.5)	(29.6)	13.9
Total Operating Expenses	(292.6)	(227.3)	(28.7)
Wholesale Segment EBITDAF	309.1	238.3	29.7
Average Price of Electricity Generated (\$ per MWh)	79.0	48.4	63.2
Hydro Generation (GWh)	5,360	5,821	(7.9)
Wind Generation (GWh)	252	253	(0.4)



Operating Results - Retail

\$M	Dec 08	Dec 07	% change
Retail Revenues	504.6	441.4	14.3
Retail Electricity Purchases	(342.2)	(199.9)	(71.1)
Transmission, Distribution and Levies	(155.7)	(146.8)	(6.1)
Employee Costs and Other Costs (excludes unallocated corporate costs)	(30.3)	(24.9)	(21.7)
Total Operating Expenses	(528.2)	(371.6)	(42.1)
Retail Segment EBITDAF	(23.6)	69.8	-
Average Retail Electricity Sales Price (\$ per MWh)	84.20	75.00	12.3
Average Retail Electricity Purchase Price (\$ per MWh)	82.9	51.9	(59.7)
Fixed Price and Spot Retail Electricity Sales (GWh)	3,965	3,788	4.7
Retail Electricity Customer Numbers (000's)	187.7	181.3	3.5



Operating Results – Other Segments

\$M	Dec 08	Dec 07	% change
Total Revenues	11.3	10.8	4.6
Total Operating Expenses	21.9	25.6	14.4
Other Segments EBITDAF	(10.6)	(14.8)	28.4

- \$170M invested to date in a portfolio of companies at various stages of incubation and development:
 - Arc Innovations (smart metering)
 - Powershop (independent on-line electricity retailer)
 - Whisper Tech (micro-combined heat and power)
 - Righthouse (home energy efficiency products and services)
 - Dam Watch Services (dam consultancy services)
- Improving EBITDAF trend but subsidiaries are very much at incubation stage



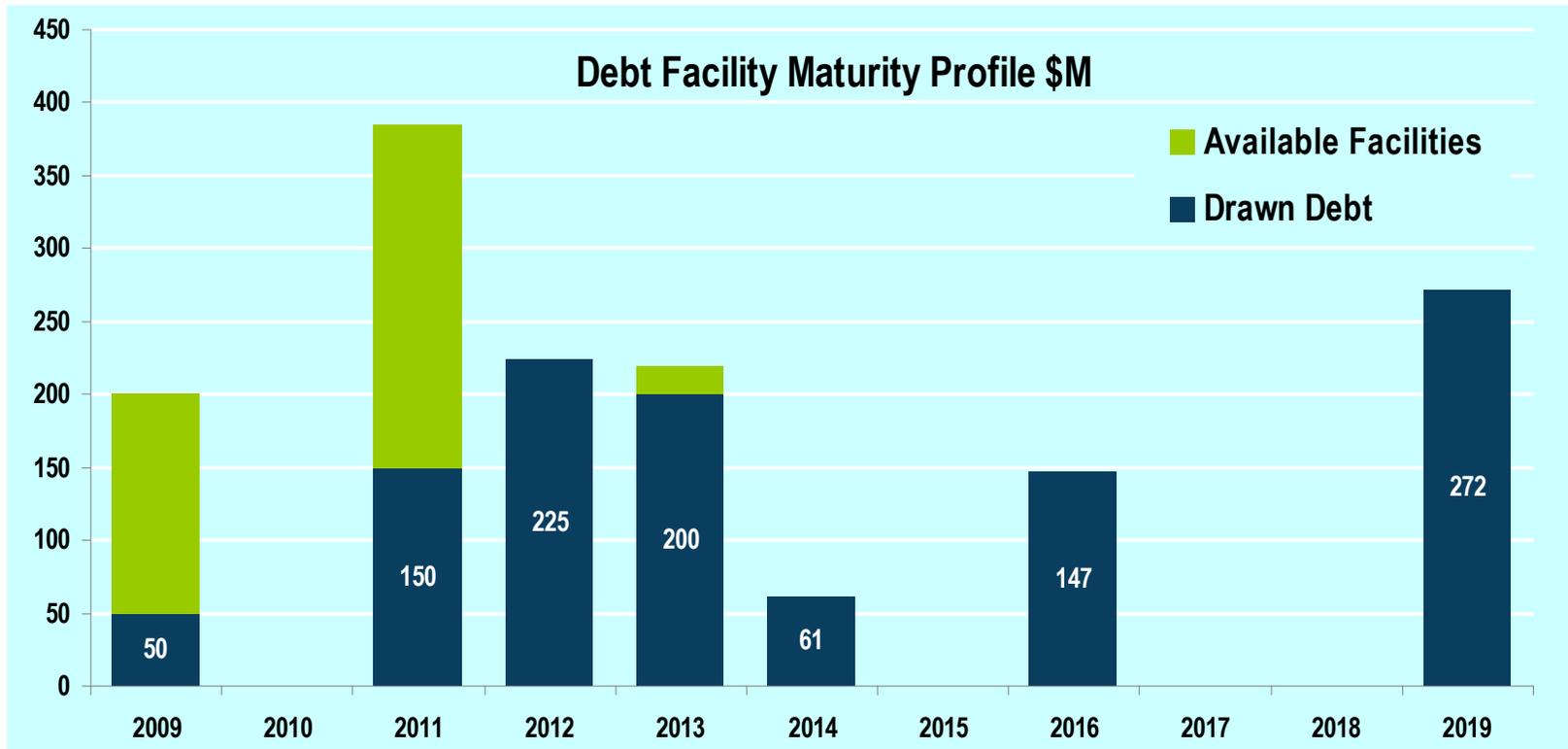
Balance Sheet Strength - How is Meridian Placed

\$M	Dec 08	Dec 07	% change
Net Debt (Fair Value)	1,077.7	716.5	50.4
Net Debt / (Net Debt + Equity)	20.6%	13.9%	(48.2)
EBITDAF Interest Cover (# of Times)	5.1	8.8	(42.0)

- S&P BBB+ credit rating re-confirmed
- \$405M of surplus committed bank facilities at December 31
- Renewable Energy Notes launched – good take-up so far
- New credit policy and new processes and procedures to improve awareness of staff of the effects of the economic downturn on our customers
- Bad debts expense expected to increase to ~ \$4M (less than 0.5% of Retail book) for this financial year (up 40% from last year)
- No material counterparty risk – but, we are closely monitoring our exposure within certain industry segments more at risk (manufacturing, hospitality, construction and small businesses)



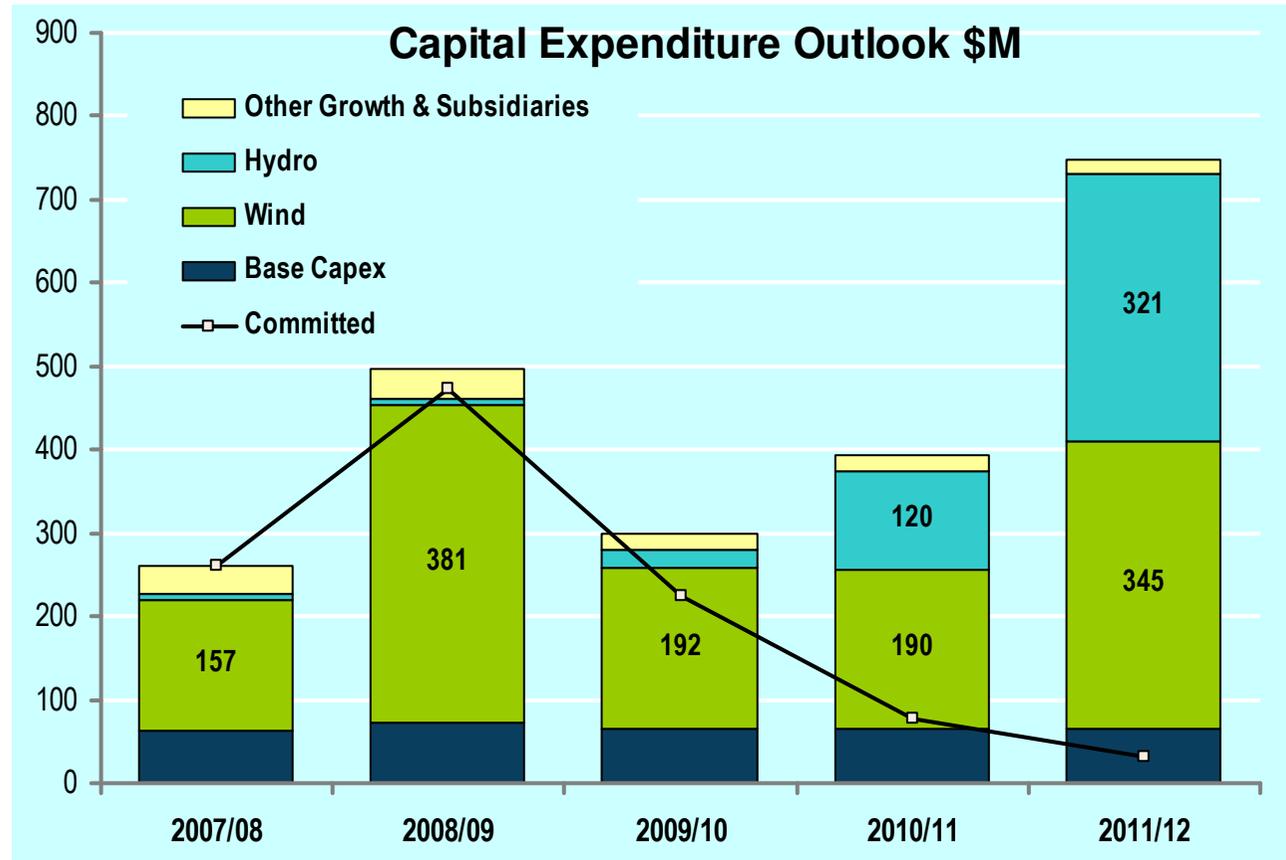
Funding and Liquidity



- Increased borrowings during the period by drawing down a further \$100M from committed bank facilities
- \$235M of committed 3-year bank facilities put in place July 2008
- \$330M of bank lines matured in December 2008
- \$150M of bank lines extended to December 2009



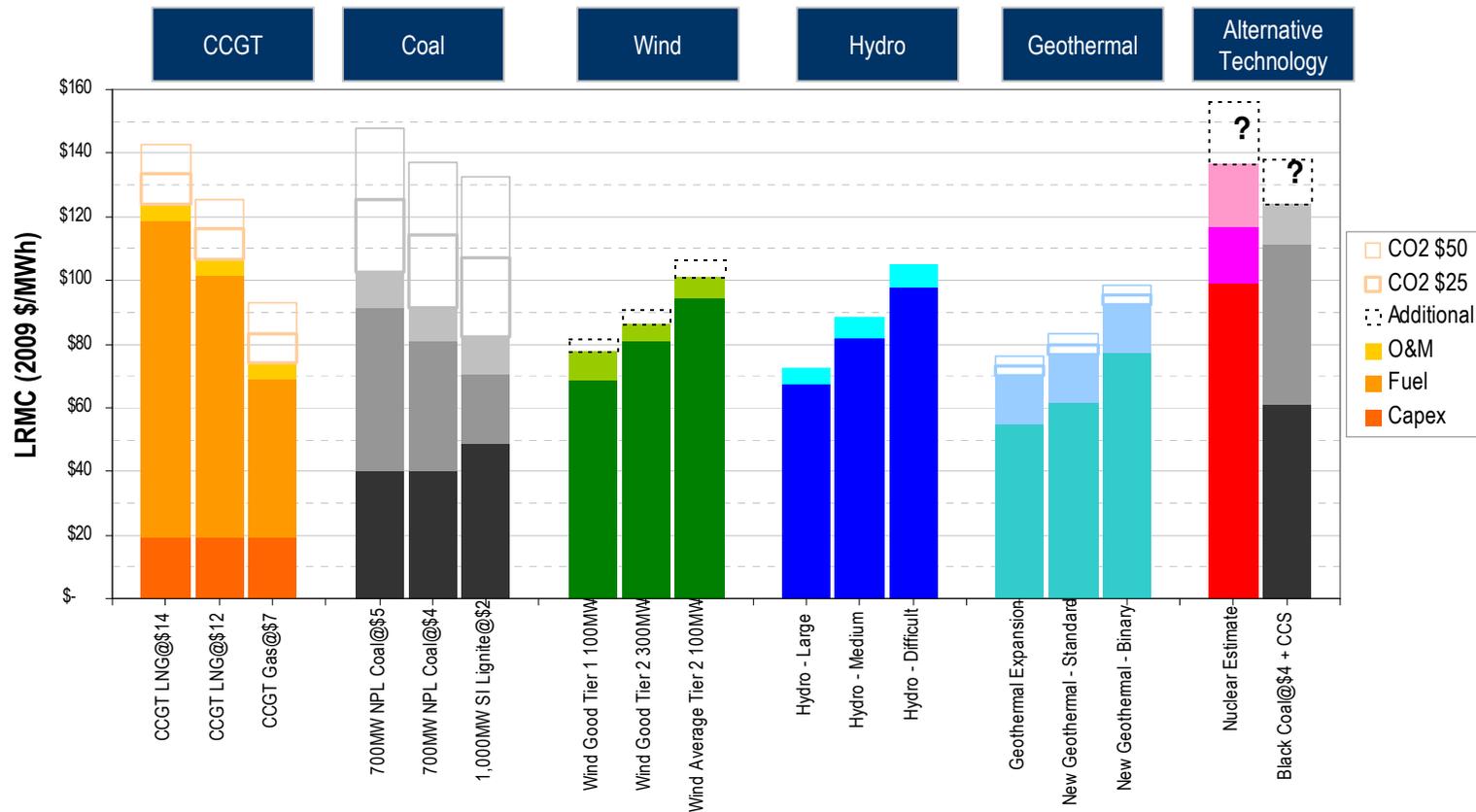
Capital Spending



- 6-month spend \$223M vs. \$116M last period
- \$167M (75%) invested in new generation projects
- ~ \$2.5B of forecast capital spend over the next 5 years
- Short Term focus - Te Uku, Central Wind, Mill Creek



Long Run Cost of Generation Capacity



- Wind, hydro and geothermal are economically effective as development technologies
 - High fixed cost of development but lower operation and maintenance cost
 - Little or no fuel cost
 - Cost varies based on size of development and “richness” of site



Regulatory Update

Resource Management Act Amendments	<ul style="list-style-type: none">• Phase 1 amendments before Select Committee to be implemented by Aug 09 – includes priority consenting and creation of EPA• Phase 2 to be announced in Aug 09 – to deal with substantial reform of water management (move to market allocation signalled)
Emissions Trading Scheme	<ul style="list-style-type: none">• Review underway. Uncertainty over start date for electricity sector, and timing of wholesale price uplift could result in delays or deferment to renewable project investments
Independent Winter Review	<ul style="list-style-type: none">• Continued focus on market-based mechanisms. Recommended that prices should not be capped (rise to reflect scarcity), and clarity on Whirinaki's role
HVDC Pricing Methodology	<ul style="list-style-type: none">• Review of transmission pricing is about to start. Electricity Commission's process should be complete by 2012 (ie. when HVDC upgrade is complete)
Government Policy Statement	<ul style="list-style-type: none">• Draft revisions to Government Policy Statement released for consultation. Removes references to NZES and NEECS. Reduces Electricity Commission involvement in transmission upgrades below \$20m
Ministerial Working Party	<ul style="list-style-type: none">• Terms of Reference has not been released• Meridian welcomes review of overlaps between Transpower, Electricity Commission and Commerce Commission
Commerce Commission	<ul style="list-style-type: none">• Part II investigation into wholesale and retail markets is underway. Wolak wholesale report expected to be released soon• CarboNZero - Fair Trading Act investigation underway



Transmission

- Pole 1 unexpectedly removed from service November 2007
 - Constrains how much power can be moved between the South and North Islands (both ways) on the HVDC Cook Strait cable
 - Resulted in price separation between the two islands – the two islands now operate like separate markets
- Transmission constraints north of Wellington during August
- Lower South Island transmission constraints in the half-year period
- Loss of 180-200MW of Tiwai Point demand contributed significantly to lower South Island spill



Development Portfolio

Development Project	Type	Capacity	Status
West Wind	WIND	143 MW	Under construction
Ross Island (Antarctica)		1 MW	Under construction
Te Uku		65 MW	Consent received – in detailed design
Project Hayes		Up to 630 MW	Environment Court Appeal closed, decision pending
Central Wind		120 MW	Consent received, now under appeal
Mill Creek		67 MW	Consent received now, in Statutory Appeal period
Gumfields		60-90 MW	DOC concession pending
North Bank Tunnel (water consents)	HYDRO	220-280 MW	Water consent received, under appeal
Mohikinui		85-100 MW	Hearings adjourned till Apr 2009
Manapouri Amended Discharge		90 MW	Resource consent lodged Mar 2009
Hunter Downs (water consents)	IRRIGATION	-	Awaiting resource consent



Wind Development – Projects Under Construction

West Wind (Wellington)



- Well on our way to completing our 62 turbine wind farm development at Makara in Wellington
- West Wind will put Meridian on the global stage in terms of its generation capability
- Will generate enough power for the equivalent of 70,000 homes

Ross Island (Antarctica)



- “The World’s ***Coollest*** Wind Farm”!
- Three turbines will enable a large reduction in the use of diesel at two Antarctica bases
- This will be a showcase for our commitment to renewable energy generation



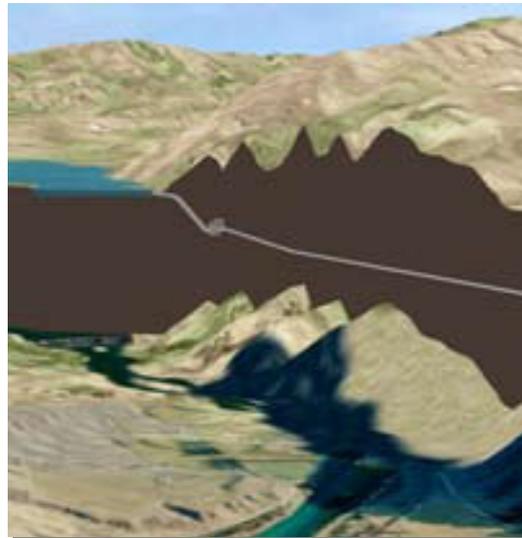
Renewable Generation Projects – Consent Stage

Project Hayes (Otago)



- Up to 176 turbines
- Maximum capacity of 630MW

North Bank Tunnel Concept



- Innovation with Waitaki hydro to increase our generation capacity by 220-280MW

Hunter Downs Irrigation



- Partnership with the South Canterbury Irrigation Trust
- Up to 40,000 hectares of irrigation on the South Canterbury plains



Renewable Generation Projects – Consent Stage

Mill Creek (Wellington)



- In statutory appeal period, after having received consent for 29 of 31 turbines proposed

Central Wind (North Island)



- Consent granted and in appeal
- Capacity for up to 52 wind turbines (120MW)

Mokihinui Hydro (West Coast)



- Proposed Hydro Dam
- Capacity to meet the current and future needs of the West Coast



Background

- Rio Tinto Alcan Power NZ Limited (RTANZ) is Meridian's largest customer
 - Meridian provides physical delivery of electricity under the current contract which expires in 2012
- New Pricing agreement entered into 18 months ago:
 - Commences January 2013 for a period of up to 18 years
 - Agreement based on 572MW of continuous consumption at the smelter
 - Includes a contract for difference (CfD) – a financial arrangement only
 - CfD is revalued each reporting period (per accounting rules)
 - Meridian will likely experience earnings volatility due from the CfD valuation

Current Status

- A transformer at NZAS failed on 9 November 2008 leading to the disconnection of a potline at the smelter
- This has reduced electricity demand by 180-200MW
- NZAS has advised Meridian that it is working to restore the transformer



Strategic Focus

- **Outlook for the Full Year:**

- On track to meeting full-year Statement of Corporate Intent targets
- Demand dropping off as economic slowdown effects are felt
- Current hydrology conditions are favourable but still some risk

- **Meeting the Market:**

- Pure renewable generation play
- Strong contribution to Energy Security needs through:
 - Quality pipeline of consented and economic generation projects
 - Access to demand-side participation through Arc Innovations smart metering
 - Increased competition through competitive value-based retail products and an alternative internet-based Powershop market
 - Energy efficient, safe and healthy homes through Righthouse
 - Certified CarboNZero™ energy supply
 - Emissions reduction services to industry through Energy For Industry
 - Introduction of electric transportation (zero emissions transport and component of smart grids)



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