

Better energy



**MERIDIAN
ENERGY LIMITED**
2015 INTERIM RESULTS
PRESENTATION

for the six months
ended 31 December 2014



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The information contained in this presentation should be considered in conjunction with the condensed interim financial statements, which are included in Meridian's interim report for the six months ended 31 December 2014 and is available at:

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

All currency amounts are in New Zealand dollars unless stated otherwise.

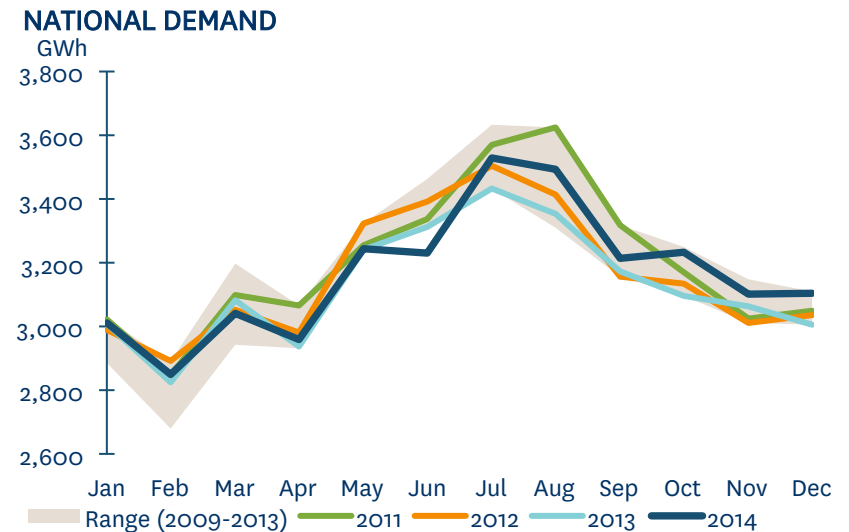
Key financial points

- Interim financials well ahead of last year
 - Operating cash flow +13.2%
 - EBITDAF +20.9%
 - Underlying NPAT +38.3%
- Capital projects completed
 - Mt Mercer and Mill Creek wind farms
 - Generation control system
- Total generation volumes +6.1%
 - 271GWh of new wind production
 - Higher winter inflows this year
 - HVDC constraints last year



Key market points

- Modest demand growth in 2014, up 1.3%
- Retail competition remains fierce
- Aluminium prices and currency rates are assessed as having a positive impact on the Tiwai Point smelter
- Slow progress on major regulatory decisions



Capital management

- Lift in dividend policy to 75%-90% of free cash flow (from 70%-80%)
- In addition, targeting a progressive return of a further \$625m over next 5 years, starting in August 2015
- Mechanism for this additional return will be considered on an ongoing basis
- Ordinary interim dividend of 4.8 cps, fully imputed
- Special interim dividend of 1.4 cps, fully imputed



Regulatory issues

- The Electricity Authority is expected to publish a transmission pricing options paper in the next few weeks
- A second issues paper is due in June 2015
- Currently the proposed changes will mean lower transmission charges to consumers and downward pressure on retail prices
- Uncertainty about the Renewable Energy Target (RET) in Australia has paralysed investment in renewable generation
- Unclear when a stable, bipartisan energy policy that supports renewables may return
- Meridian's focus in Australia is on successfully rolling out a new retail experience



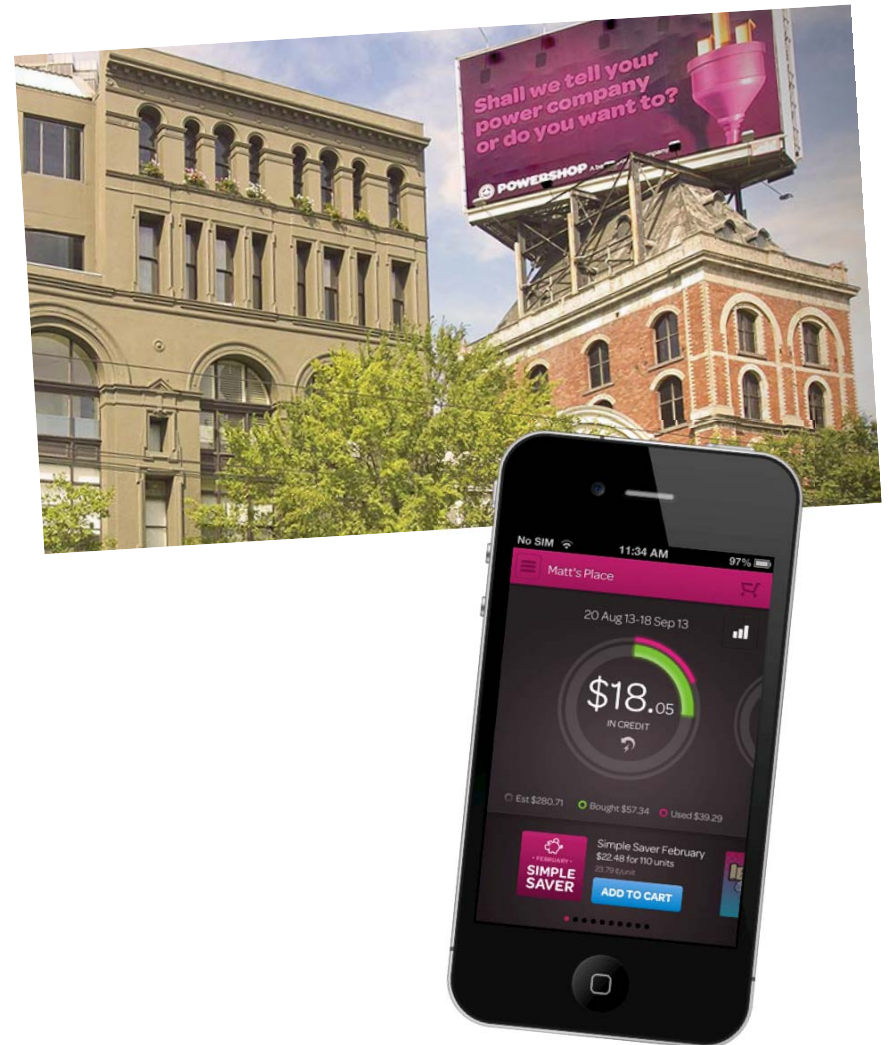
Projects

- Major projects completed on time and under budget
 - Mt Mercer will eliminate half a million tonnes of carbon emissions annually
 - Mill Creek completion means that Wellington wind can now power 100,000 homes
 - New generation control system monitors 50,000 data points around our assets
- Other projects progressing inside the stay in business capital envelope
 - Waitaki refurbishment
 - Manapouri transformer replacement



Powershop Australia

- Over 30,000 customers in Victoria at the end of January 2015
- Leverages existing NZ technology and call centre investment
- Business run out of Melbourne and Wellington
- Customers serviced out of Masterton
- Anticipating NSW launch this quarter



New Zealand retail

- Arc metering business sold and programme commenced to replace remaining 125,000 legacy meters
- New Meridian website launched, improved customer join, move and bill estimate functionality
- Aggressive residential competition has seen a small decline in customer connections
- More successful targeted retention activity: 2.4% improvement in Meridian's rolling retention rate since June 2014



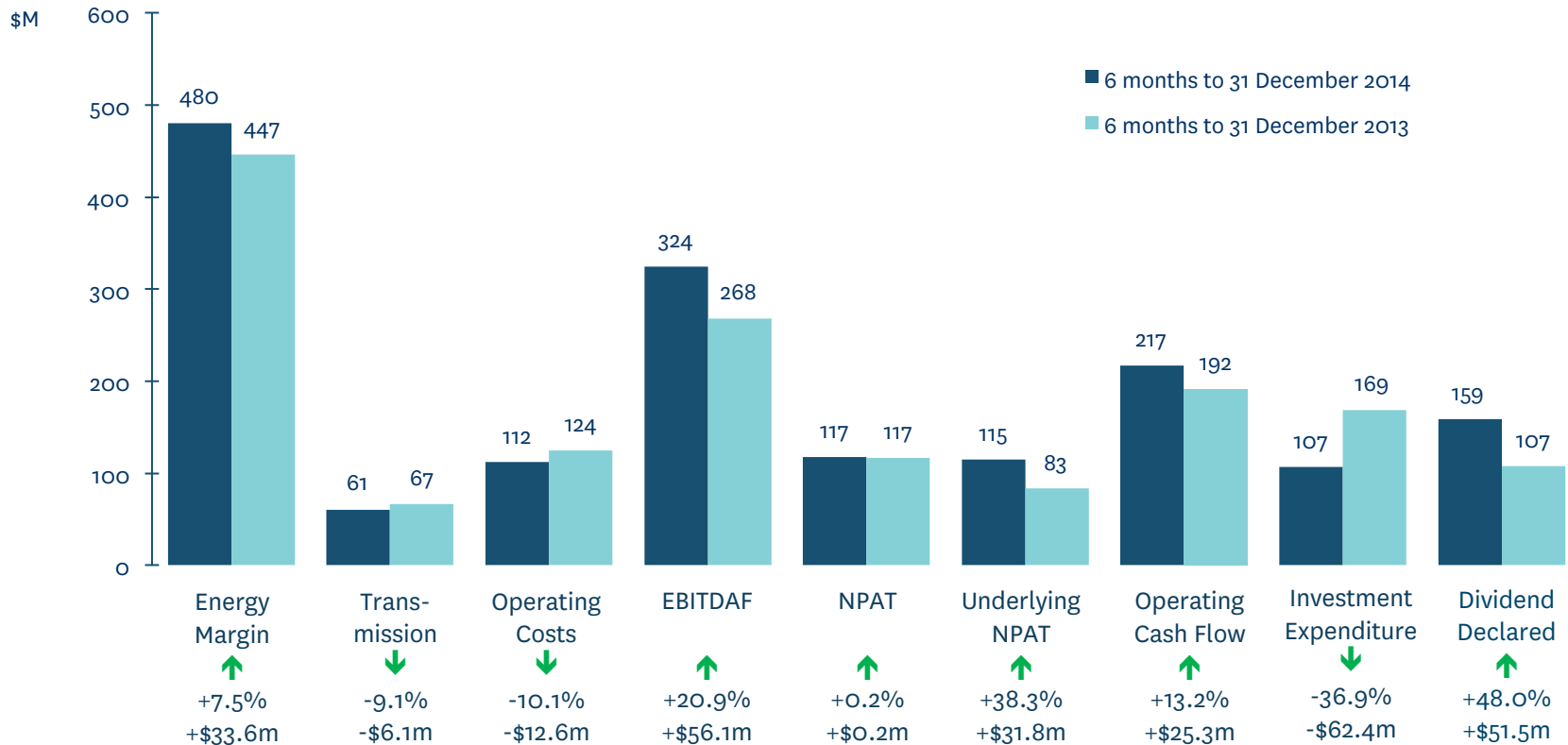
New Zealand retail

- Annual demand up 1.3%, last 6 months up 2.9% on prior period
- Reduced fuel purchase obligations mean that thermal generators are able to reduce output
- The forward market has risen across all quarters, which may benefit commercial and industrial pricing
- No network-wide energy price increases in April this year
- Meridian's residential pricing is close to the lowest in most major networks



Financial performance

FINANCIAL PERFORMANCE AGAINST PRIOR YEAR



- Better than prior year performance on all major financial measures
- 1H FY14 included \$8.3m of IPO costs, not repeated in 1H 14
- 1H FY15 EBITDAF includes \$5.2m of insurance proceeds
- 1H FY15 NPAT includes \$15.2m of gains on asset sales – metering business and farms

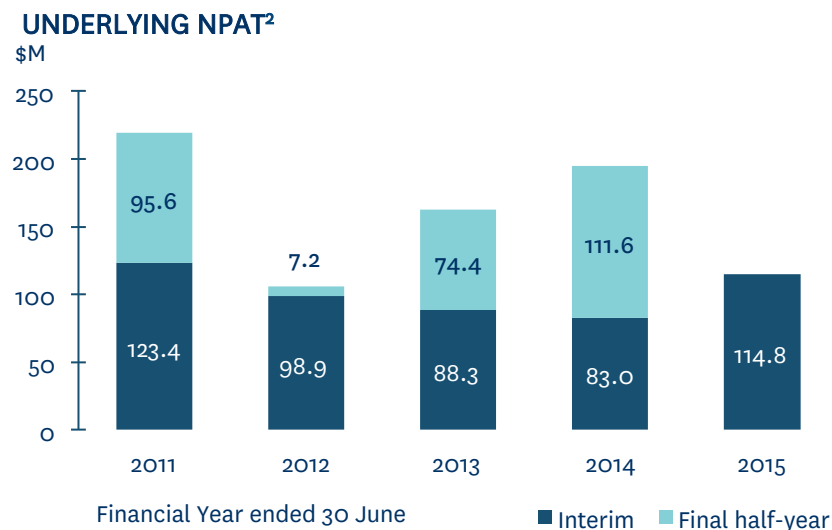
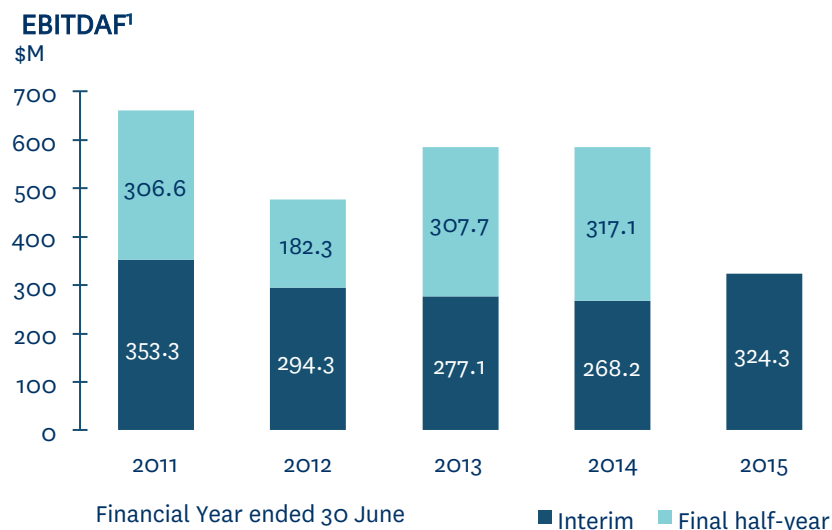
Earnings

- 'Like for like' EBITDAF (excluding insurance proceeds and IPO costs) increase of 15.4% in 1H FY14 from:
 - Additional generation from Mill Creek in NZ and Mt Mercer in Australia
 - Higher residential/SME sales volumes
 - Higher sell-side CFD volumes and lower acquired generation, off the back of higher NZ generation
 - Continued cost savings and lower HVDC charges
- Higher interest costs on connection asset finance leases and end of project interest capitalisation

¹Earnings before interest, taxation, depreciation, amortisation, changes in fair value of financial instruments, impairments and gain/(loss) on sale of assets

²Net Profit after Tax adjusted for the effects of non cash fair value movements and other one-off items

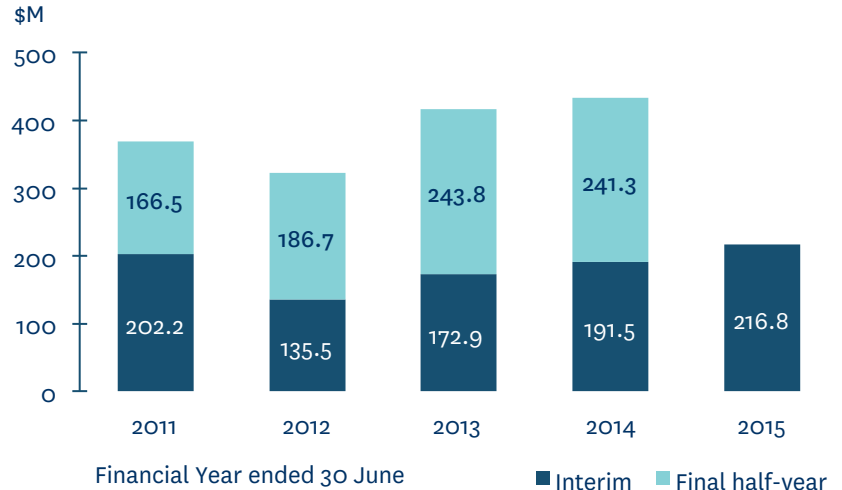
A reconciliation between Net Profit after Tax and Underlying Net Profit after Tax is on p31



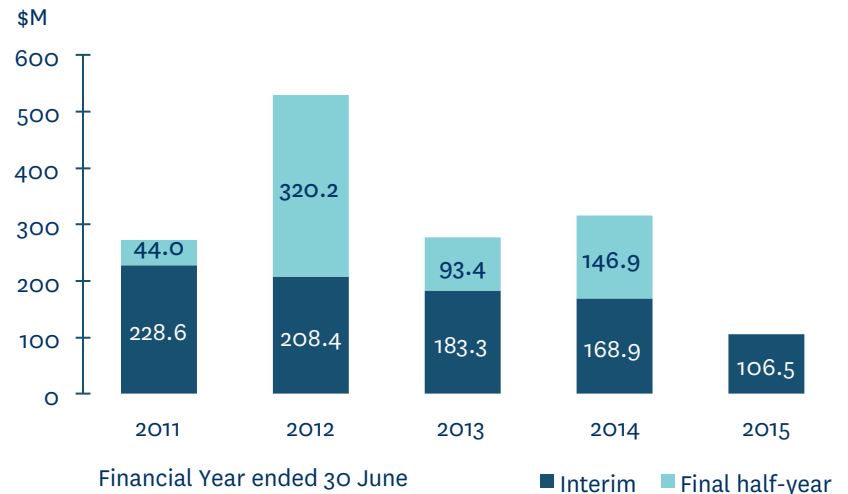
Operating cash flow and investment expenditure

- Net cash flow from operating activities was \$25.3m (13.2%) higher than 1H FY14
- Reflects the higher energy margin and lower operating costs in 1H FY15
- Includes higher income tax payments on improved EBITDAF
- Investment expenditure was \$62.4m (36.9%) lower than 1H FY14
- Reflects completion of Mill Creek and Mt Mercer wind projects
- Both projects were completed under budget
- Stay in business capital expenditure of \$23.9m in 1H FY15

CASH FLOW FROM OPERATING ACTIVITIES



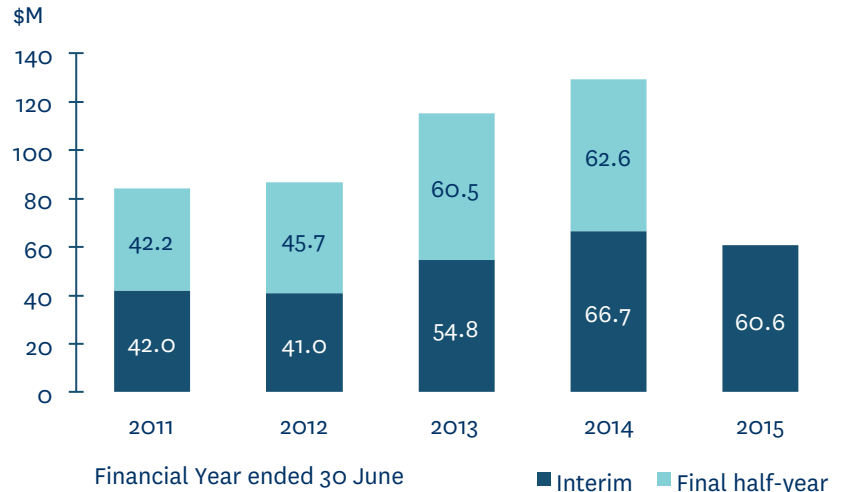
INVESTMENT EXPENDITURE



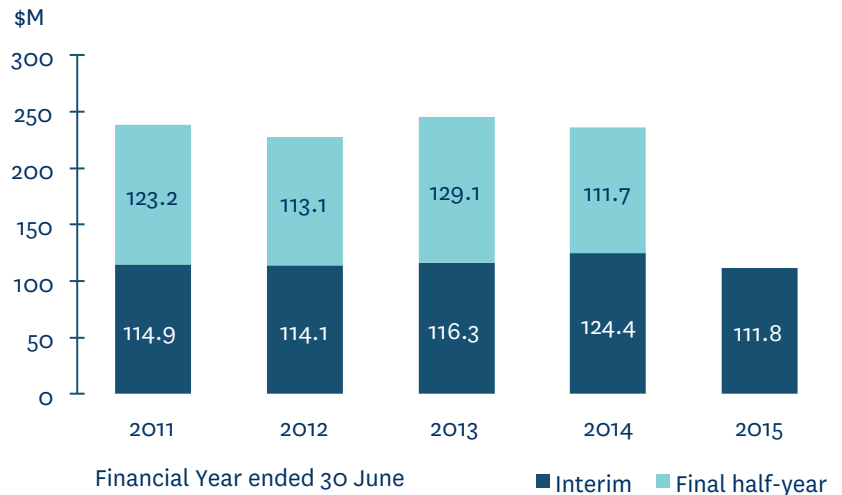
Costs

- \$6.1m (9.1%) decrease in Transmission costs in 1H FY15
- Benefiting from lower final costs on HVDC Pole 3 project
- 5% increase in 2015/16 transmission costs coming
- \$12.6m (10.1%) decrease in reported Operating costs in 1H FY15
- Adjusting for IPO costs, Operating costs have decreased \$4.3m (3.7%) in 1H FY15
- Absorbing costs from growth projects – new wind farms and Powershop Australia

TRANSMISSION COSTS



OPERATING COSTS



Concluding remarks

- Higher energy margin and lower costs has driven a lift in profits and operating cash flow
- Inflows into catchments have been consistent, with Lake Pukaki storage (as at 17 Feb) 93% of average. Position is not adversely affecting generation outlook
- Tiwai Point decision
- Amended dividend policy the first step in a capital management programme, with further update in August 2015
- Final instalment receipt payment of \$NZ0.50 per share due in May 2015, more details at:

www.treasury.govt.nz/statesector/soes/meridianenergyinstalmentreceipts



Additional information



New Zealand retail

Customer connections

- Small decline in ICP numbers since June 2014, reflecting aggressive residential sales activity

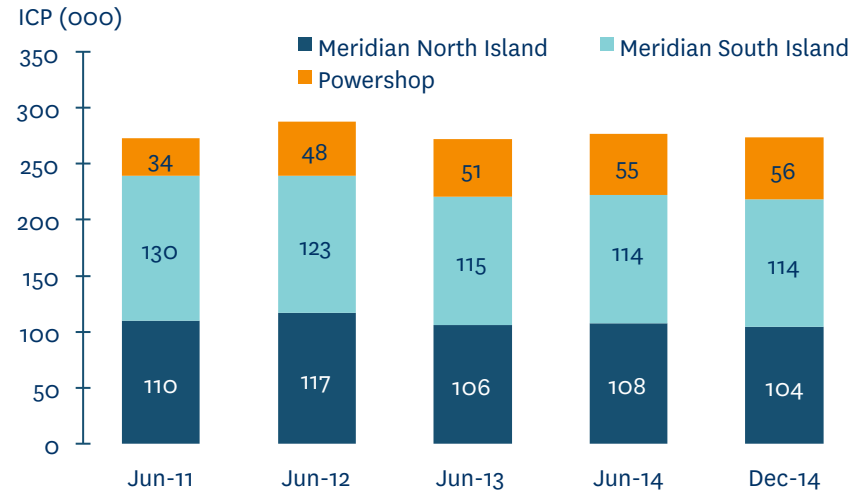
Residential, SME, Agri segment

- 6.2% increase in volumes largely from growth in SME and agribusiness customer base
- Average price is stable

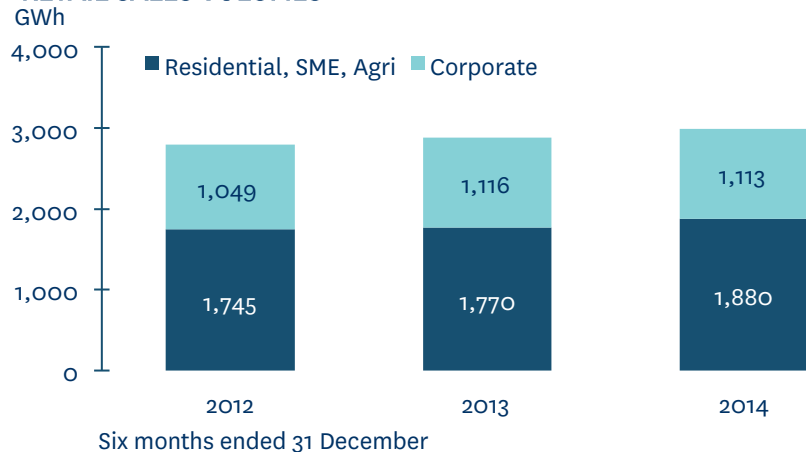
Corporate segment

- 4.2% decrease in average price, reflecting corporate and industrial customers rolling off fixed term contracts
- Increasing ASX prices may feed through into C&I pricing

NEW ZEALAND CUSTOMER NUMBERS



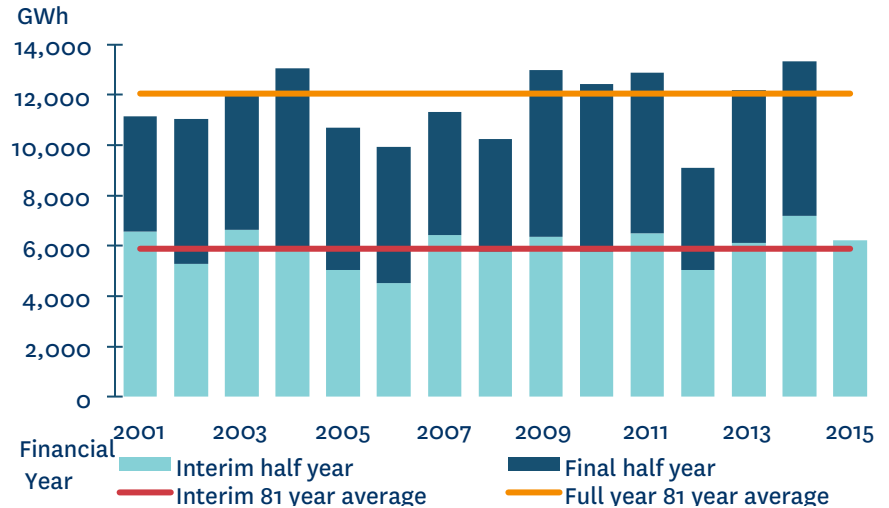
RETAIL SALES VOLUMES



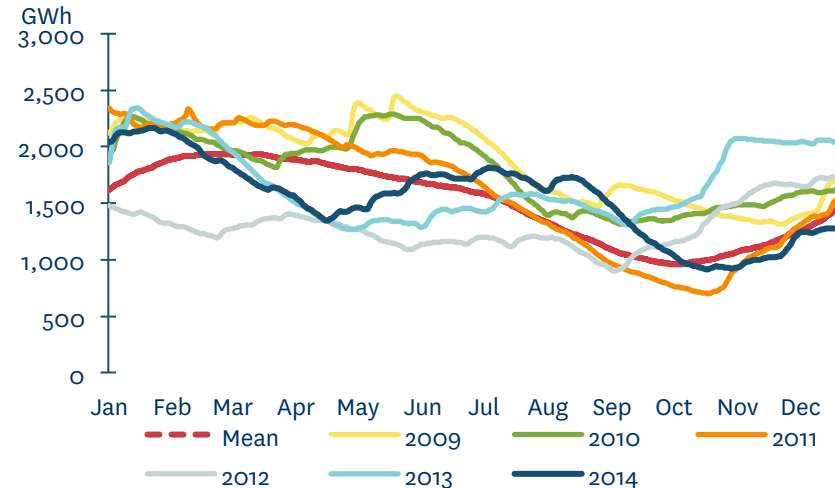
Hydrology

- Inflows for the 6 months to December 2014 were 106% of historical average
- This reflects comparatively high inflows in July and August 2014
- January 2015 inflows were 77% of historical average
- Meridian's Waitaki catchment storage at 31 December 2014 was 91% of historical average
- By 31 January 2015, this storage position was 83% of historical average

MERIDIAN'S COMBINED CATCHMENT INFLOWS



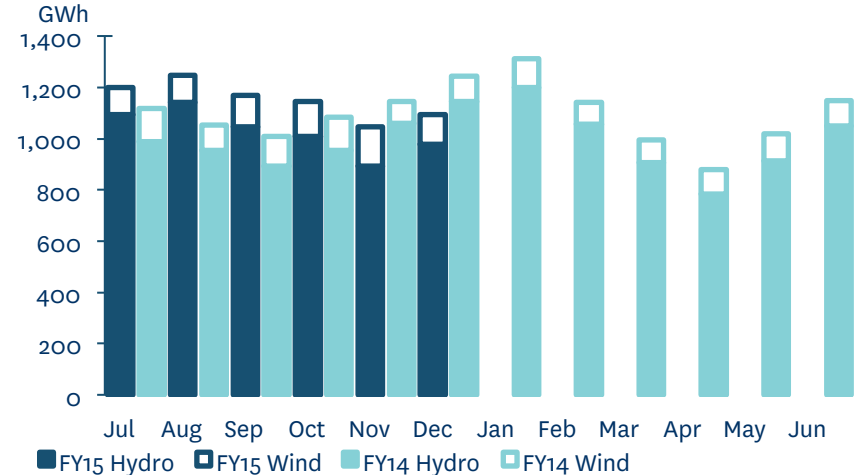
MERIDIAN'S WAITAKI STORAGE



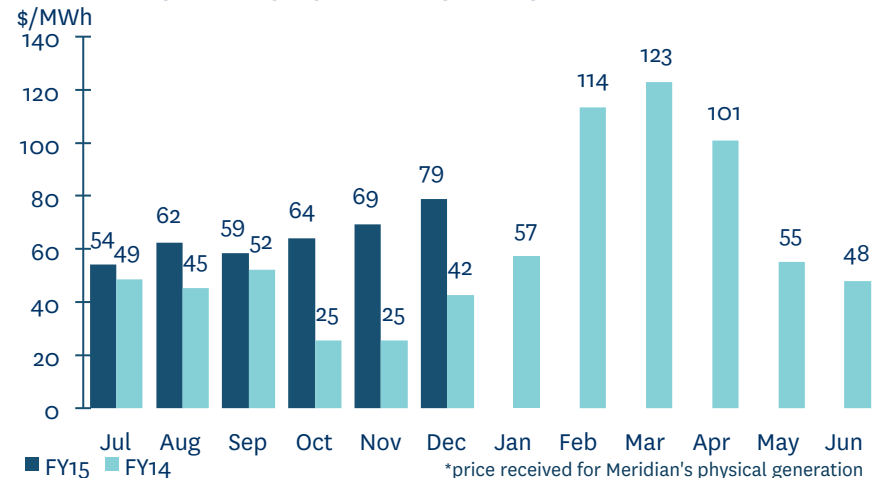
New Zealand generation

- For the 6 months to December 2014, Meridian's New Zealand generation was 3.8% higher than the same period last year
- For the 6 months to December 2014, the average price Meridian received for its generation was 61.7% higher than the same period last year
- Similarly, the price Meridian paid to supply contracted sales in the 6 months to December 2014 was 60.4% higher than last year

MERIDIAN'S NEW ZEALAND GENERATION



MERIDIAN'S AVERAGE GENERATION PRICE*

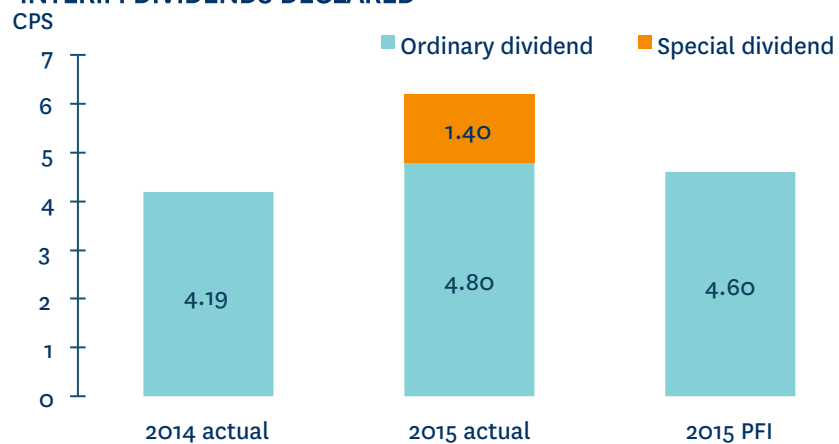


*price received for Meridian's physical generation

Dividends

2015 DIVIDENDS	DATE ANNOUNCED	DATE PAID	AMOUNT CPS	IMPUTATION %
Interim Ordinary Dividend	18 February 2015	15 April 2015	4.80	100%
Interim Special Dividend	18 February 2015	15 April 2015	1.40	100%
Total Interim Dividend			6.20	100%

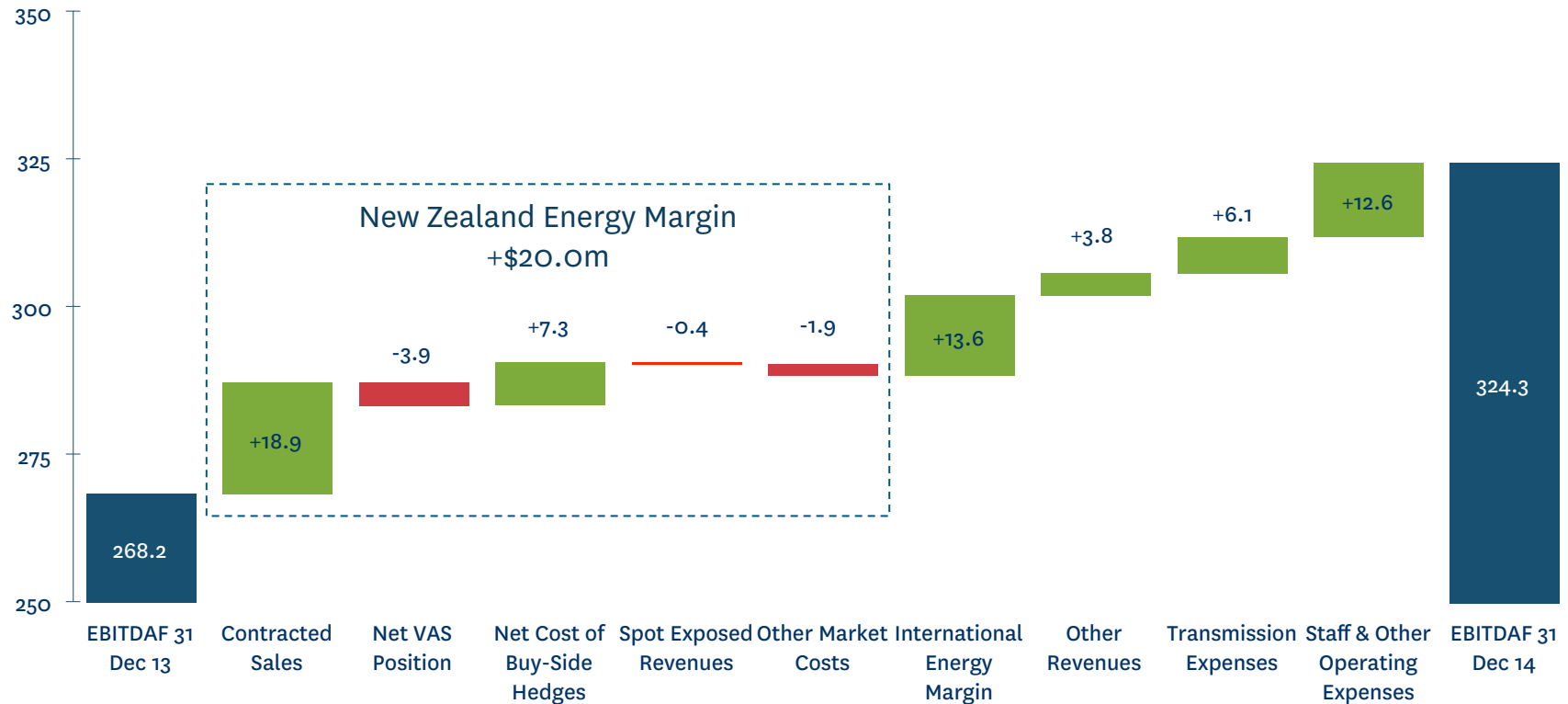
INTERIM DIVIDENDS DECLARED



Movement in EBITDAF HY14 to HY15

EBITDAF*

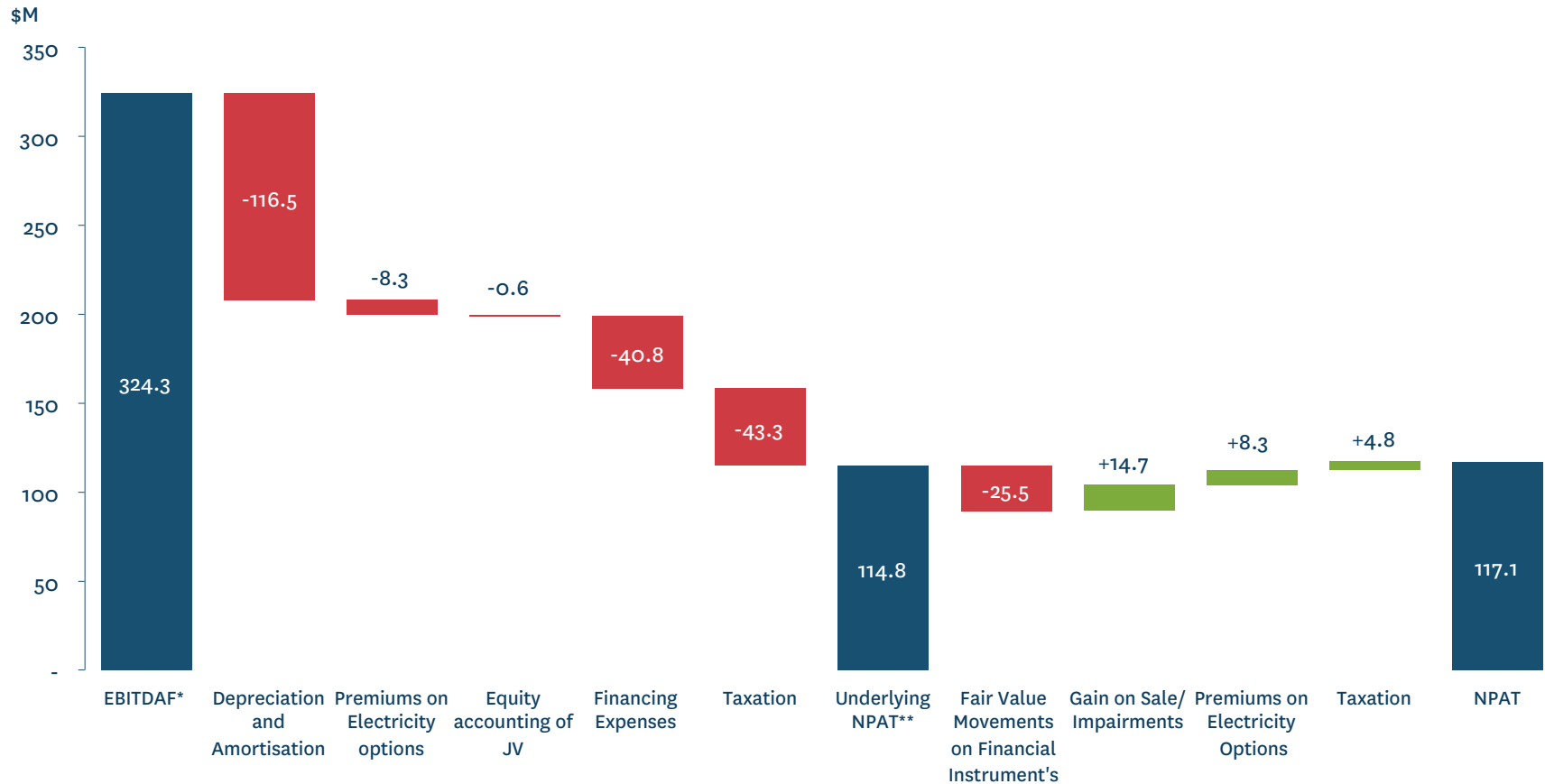
\$M



*Earnings before interest, taxation, depreciation, amortisation, changes in fair value of financial instruments, impairments and gain/(loss) on sale of assets

EBITDAF and Net Profit After Tax

HY2015 EBITDAF TO NPAT RECONCILIATION



*Earnings before interest, taxation, depreciation, amortisation, changes in fair value of financial instruments, impairments and gain/(loss) on sale of assets

**Net Profit after Tax adjusted for the effects of non cash fair value movements and other one-off items

A reconciliation between Net Profit after Tax and Underlying Net Profit after Tax is on p30

New Zealand energy margin

- Energy margin is a non-GAAP financial measure representing Energy Sales Revenue less Energy Related Expenses and Energy Distribution Expenses
- Energy margin is used to measure the vertically integrated performance of the retail and wholesale businesses. This measure is used in place of statutory reporting which requires gross sales and costs to be reported separately, therefore not accounting for the variability of the wholesale spot market and the broadly offsetting impact of wholesale prices on the cost of retail electricity purchases
- Energy margin is defined as:
 - + revenues received from sales to customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers), sales to large industrial customers and fixed price revenues from derivatives sold (Contract sales revenue)
 - ± the net position of virtual assets swaps with Genesis Energy and Mighty River Power
 - the cost of fixed cost of derivatives acquired to supplement generation and spot price risks, net of spot revenue received for generation acquired from those derivatives (Net cost of acquired generation)
 - ± revenue from the volume of electricity that Meridian generates that is in excess of volumes required to cover contracted customer sales (Spot exposed revenues)
 - ± other associated market revenues and costs including Electricity Authority levies and ancillary generation revenues (i.e. frequency keeping)

New Zealand energy margin

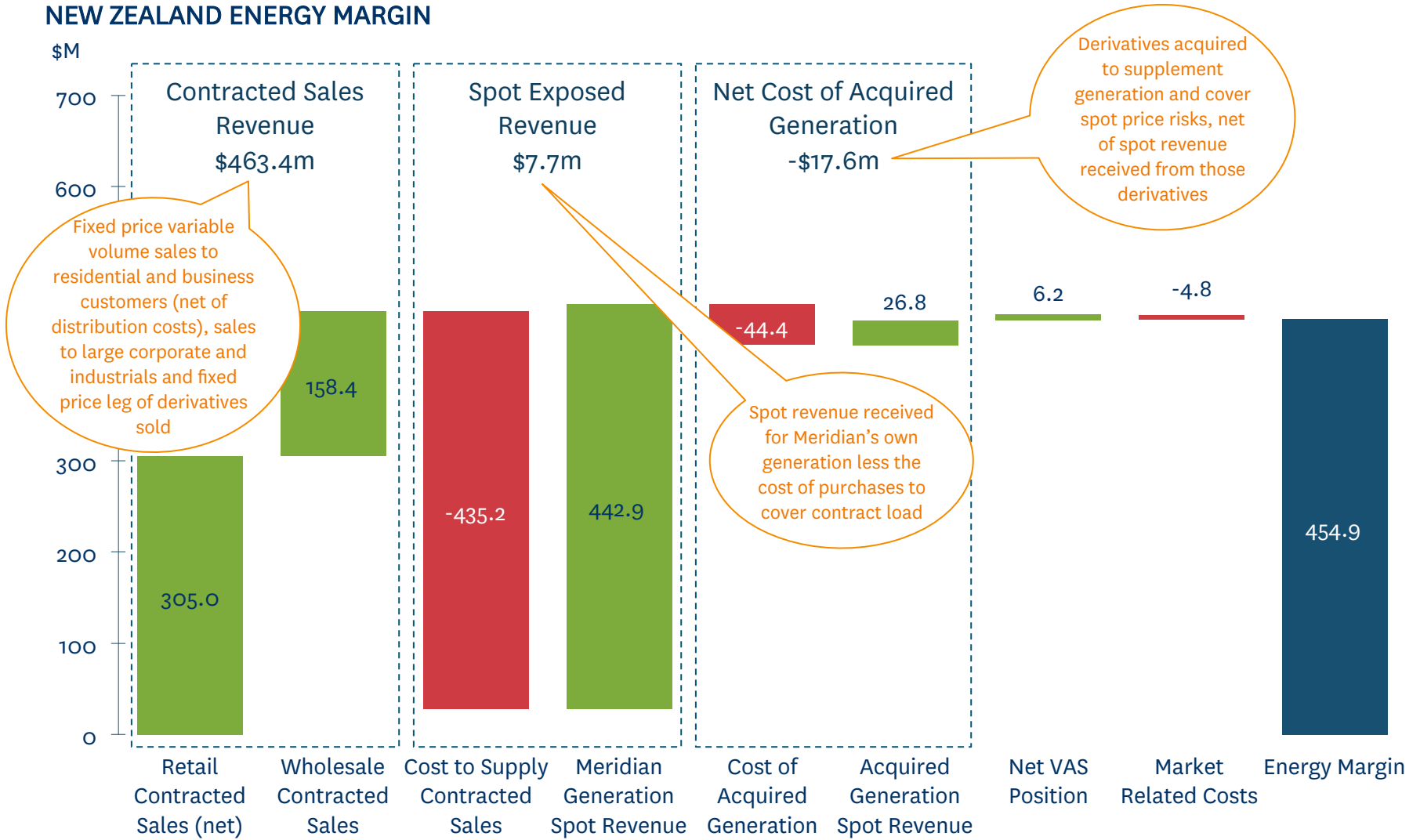
NEW ZEALAND ENERGY MARGIN	HY2015			HY2014		
	VOLUME GWh	VWAP \$/MWh	\$M	VOLUME GWh	VWAP \$/MWh	\$M
Retail Contracted Sales	2,993.4	\$101.9	\$305.0	2,885.7	\$102.9	\$296.9
NZAS Aluminium Sales	2,525.4			2,525.4		
Sell Side CFDs	606.1			434.4		
Wholesale Contracted Sales	3,131.5	\$50.6	\$158.4	2,959.8	\$49.9	\$147.6
Net VAS Position	578.8 ¹		\$6.2	553.6 ¹		\$10.2
Acquired Generation Revenue	530.3	\$50.5	\$26.8	665.0	\$45.3	\$30.1
Cost of Acquired Generation	530.3	-\$83.7	-\$44.4	665.0	-\$82.7	-\$55.0
Net Cost of Acquired Generation			-\$17.6			-\$24.9
Generation Revenue	6,897.6	\$64.2	\$442.9	6,644.5	\$39.7	\$263.8
Cost to Supply Contracted Sales	6,302.3	-\$69.1	-\$435.2	5,940.4	-\$43.1	-\$255.7
Net Spot Exposed Revenue			\$7.7			\$8.1
Other Market Revenue/(Costs)			-\$4.8			-\$3.0
Energy Margin			\$454.9			\$434.9
LWAP:GWAP ²			1.11			1.10

¹Notional VAS volumes

²Ratio between the price per unit received for Meridian's physical generation and the price paid to supply each unit of contracted sales, inclusive of line losses

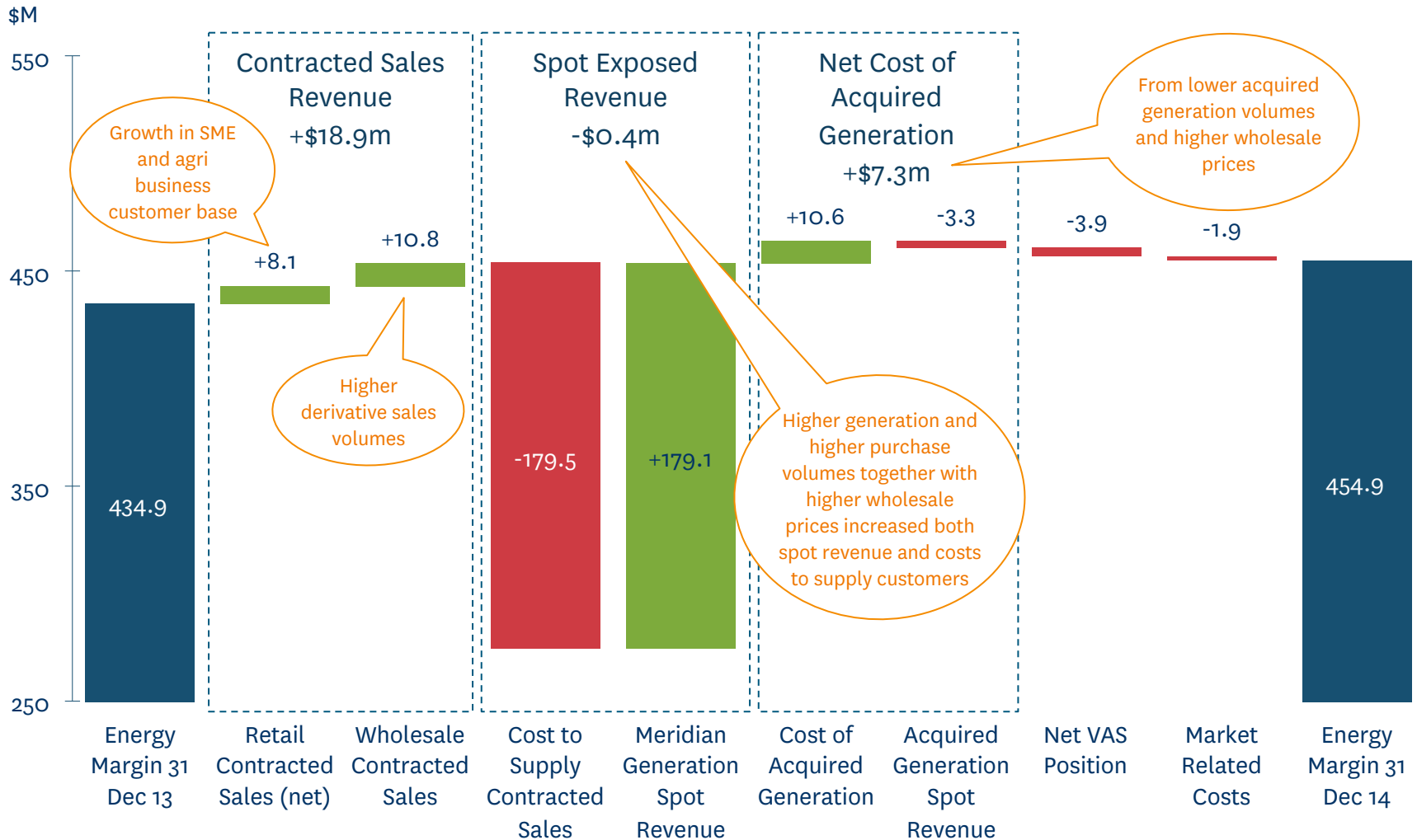
HY15 energy margin

NEW ZEALAND ENERGY MARGIN



Movement in energy margin HY14 to HY15

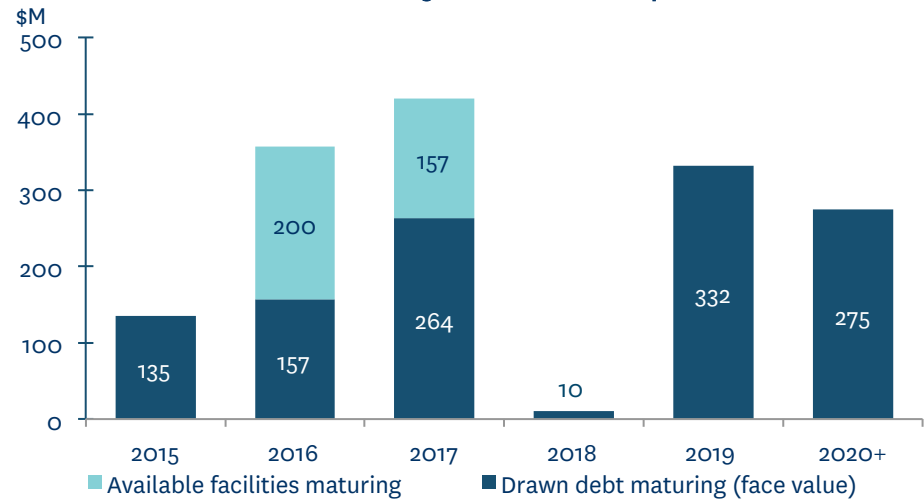
NEW ZEALAND ENERGY MARGIN



Funding

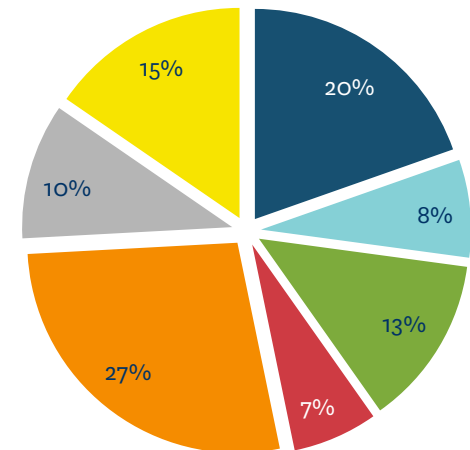
- Total borrowings as at 31 December 2014 of \$1,186.9m, up \$60.8m from 31 December 2013 and up \$94.4m from 30 June 2014
- Net borrowings (net of cash) as at 31 December 2014 of \$955.9m, up \$82.2m from 31 December 2013
- Committed bank facilities of \$650.7m as at 31 December 2014, of which \$357.1m were undrawn
- Net finance costs increased by \$3.3m (8.8%) in HY15, reflecting finance lease interest on transmission costs assets and the end of capitalisation of interest on build projects

DEBT MATURITY PROFILE AS AT 31 DECEMBER 2014



SOURCES OF FUNDING AS AT 31 DECEMBER 2014

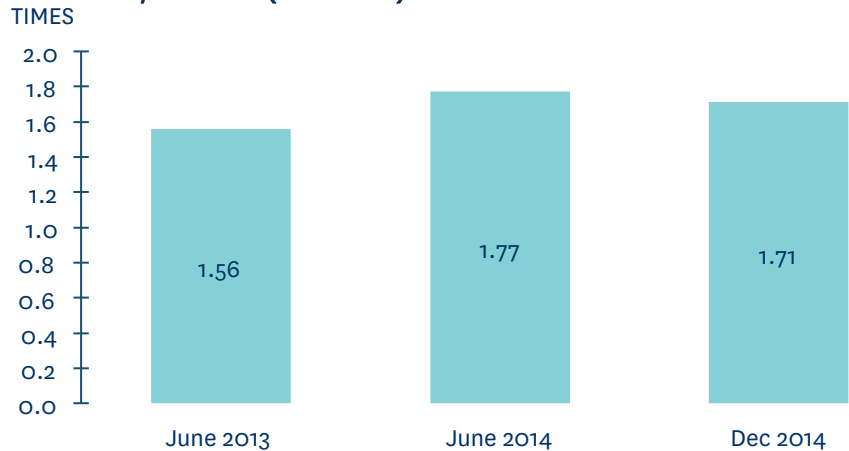
- NZ\$ bank facilities drawn/undrawn
- EKF - Danish export credit
- Renewable energy bonds/notes
- Floating rate notes
- US private placement NZ
- US private placement Aust
- A\$ bank facilities drawn/undrawn



Funding metrics

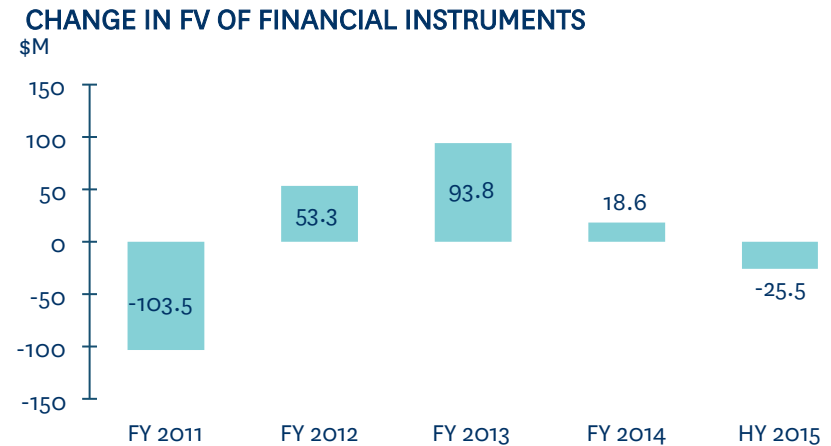
- Net debt/EBITDAF is the principal metric underpinning S&P credit rating
- S&P calculation of Net debt/EBITDAF includes numerous adjustments to reported numbers
 - Borrowings are adjusted for the impact of finance and operating leases
 - Cash balances are adjusted for restricted cash
 - EBITDAF is adjusted for operating leases and non core revenue

NET DEBT/EBITDAF (S&P VIEW)



Fair Value movements

- Meridian uses derivative instruments to manage commodity price, interest rate and foreign exchange risk
- As forward prices and rates on these instruments move, non cash changes to their carrying values are reflected in NPAT
- Accounting standards only allow hedge accounting if specific conditions are met, which creates NPAT volatility
- Net changes in the fair value of derivatives was an unrealised loss of \$25.5m in HY15
- This is driven by changes in the value of interest rate hedges from a drop in the forward interest rate curve
- This compares to an unrealised gain of \$41.2m in HY14 and \$18.6m in FY14



Group income statement

SUMMARY GROUP INCOME STATEMENT	6 MONTHS ENDED 31 DEC		YEAR ENDED 30 JUNE	
	2014 \$M	2013 \$M	2014 \$M	2013 \$M
New Zealand Energy Margin	454.9	434.9	891.5	865.1
International Energy Margin	25.3	11.7	31.9	50.7
Other Revenue	16.5	12.7	27.3	29.7
Energy Transmission Costs	(60.6)	(66.7)	(129.3)	(115.3)
Employee and Other Operating Costs	(111.8)	(124.4)	(236.1)	(245.4)
EBITDAF	324.3	268.2	585.3	584.8
Impairment of Assets	(0.5)	-	-	(24.8)
Gain/(Loss) on Sale of Assets	15.2	(2.4)	6.6	106.6
Equity Accounted Earnings of Joint Ventures	(0.6)	(0.2)	(0.4)	0.1
Depreciation and Amortisation of Intangible Assets	(116.5)	(105.3)	(220.0)	(219.7)
Net Change in Fair Value of Financial Instruments (Operational)	0.3	1.7	(8.4)	51.1
Net Finance Costs	(40.8)	(37.5)	(73.7)	(113.5)
Net Change in Fair Value of Financial Instruments (Financing)	(25.8)	39.5	27.0	42.7
Net Profit before Tax	155.6	164.0	316.4	427.3
Income Tax Expense	(38.5)	(47.1)	(86.6)	(132.2)
Net Profit after Tax	117.1	116.9	229.8	295.1

Group underlying NPAT

UNDERLYING NPAT RECONCILIATION	6 MONTHS ENDED 31 DEC		YEAR ENDED 30 JUNE	
	2014 \$M	2013 \$M	2014 \$M	2013 \$M
Net Profit after Tax	117.1	116.9	229.8	295.1
Net Change in Fair Value of Financial Instruments (Operational)	(0.3)	(1.7)	8.4	(51.1)
Net Change in Fair Value of Financial Instruments (Financing)	25.8	(39.5)	(27.0)	(42.7)
Premiums paid on Electricity Options (less Interest)	(8.3)	(8.3)	(20.1)	(18.5)
Impairment of Assets	0.5	-	-	24.8
Gain on Sale of Assets	(15.2)	2.4	(6.6)	(106.6)
Adjustments before Tax	2.5	(47.1)	(45.3)	(194.1)
Income Tax Expense	(4.8)	13.2	10.1	61.7
Underlying Net Profit after Tax	114.8	83.0	194.6	162.7

Group cash flow statement

SUMMARY GROUP CASH FLOW STATEMENT	6 MONTHS ENDED 31 DEC		YEAR ENDED 30 JUNE	
	2014 \$M	2013 \$M	2014 \$M	2013 \$M
Receipts from Customers	1,002.4	963.5	2,083.4	2,390.0
Interest and Dividends Received	4.6	4.2	8.5	2.1
Payments to Suppliers and Employees	(685.9)	(677.9)	(1,480.5)	(1,811.8)
Interest and Income Tax Paid	(104.3)	(98.3)	(178.6)	(163.6)
Net Cash Inflows from Operating Activities	216.8	191.5	432.8	416.7
Sale of Property, Plant and Equipment	15.4	4.7	41.1	0.6
Finance Lease Receivable/Payable	(0.4)	0.2	(0.3)	-
Sale of Subsidiaries and Investments	24.0	2.1	21.1	152.0
Purchase of Property, Plant and Equipment	(101.2)	(151.7)	(283.7)	(244.8)
Capitalised Interest	(0.4)	(3.6)	(9.3)	(5.7)
Purchase of Intangible Assets and Investments	(4.5)	(13.6)	(22.3)	(26.2)
Net Cash Outflows from Investing Activities	(67.1)	(161.9)	(253.4)	(124.1)
Proceeds from Borrowings	203.7	80.4	133.7	1,115.9
Dividends Paid	(228.6)	(152.6)	(261.4)	(99.8)
Shares Purchased for Long Term Incentive	(1.0)	(1.0)	(1.0)	-
Term Borrowings Paid	(168.9)	(85.3)	(153.5)	(1,117.4)
Net Cash Outflows from Financing Activities	(194.8)	(158.5)	(282.2)	(101.3)

Group balance sheet

SUMMARY GROUP BALANCE SHEET	6 MONTHS ENDED 31 DEC		YEAR ENDED 30 JUNE	
	2014 \$M	2013 \$M	2014 \$M	2013 \$M
Cash and Cash Equivalents	231.0	252.4	276.4	382.8
Accounts Receivable	217.1	180.7	182.7	254.5
Other Current Assets	58.7	95.2	63.5	128.8
Current Assets	506.8	528.3	522.6	766.1
Intangible Assets	45.7	55.5	54.0	54.8
Property, Plant and Equipment	6,852.9	6,809.3	6,929.0	6,769.0
Other Non-Current Assets	143.6	80.1	84.2	147.5
Non-Current Assets	7,042.2	6,944.9	7,067.2	6,971.3
Payables and Accruals	232.7	176.8	235.6	274.8
Current Portion of Term Borrowings	133.7	62.2	133.4	146.7
Other	67.0	92.4	96.9	99.0
Current Liabilities	433.4	331.4	465.9	520.5
Deferred Tax Liability	1,343.3	1,354.6	1,349.7	1,364.2
Term Borrowings	1,053.2	1,063.9	959.1	1,033.5
Other	201.6	88.2	181.4	131.2
Total Non-Current Liabilities	2,598.1	2,506.7	2,490.2	2,528.9
Net Assets	4,517.5	4,635.1	4,633.7	4,688.0

Glossary

Acquired generation volumes	buy-side electricity derivatives excluding the buy-side of virtual asset swaps
Average generation price	the volume weighted average price received for Meridian's physical generation
Average retail contracted sales price	volume weighted average electricity price received from retail customers, less distribution costs
Average wholesale contracted sales price	volume weighted average electricity price received from wholesale customers, including NZAS
Combined catchment inflows	combined water inflows into Meridian's Waitaki and Manapouri hydro storage lakes
Cost of acquired generation	volume weighted average price Meridian pays for derivatives acquired to supplement generation
Cost to supply contracted sales	volume weighted average price Meridian pays to supply contracted customer sales
Contracts for Difference (CFDs)	an agreement between parties to pay the difference between the wholesale electricity price and an agreed fixed price for a specified volume of electricity. CFDs do not result in the physical supply of electricity
Customer connections	installation control points, excluding vacants
GWh	gigawatt hour. Enough electricity for 125 average New Zealand households for one year
Historic average inflows	the historic average combined water inflows into Meridian's Waitaki and Manapouri hydro storage lakes over the last 81 years
Historic average storage	the historic average level of storage in Meridian's Waitaki catchment since 1979
HVDC	high voltage direct current link between the North and South Islands of New Zealand
ICP	installation control points, excluding vacants
ICP switching	the number of installation control points changing retailer supplier in New Zealand, recorded in the month the switch was initiated
MWh	megawatt hour. Enough electricity for one average New Zealand household for 46 days
NZAS	New Zealand Aluminium Smelters Limited
National demand	Transpower's Daily Demand reporting, adjusted for embedded generation from Meridian's Te Uku, White Hill and Mill Creek wind farms
Retail sales volumes	contract sales volumes to retail customers, including both non half hourly and half hourly metered customers
Sell side derivatives	sell-side electricity derivatives excluding the sell-side of virtual asset swaps
Virtual Asset Swaps (VAS)	CFDs Meridian has with Genesis Energy and Mightly River Power. They do not result in the physical supply of electricity