

# 2018 INTERIM RESULTS PRESENTATION



meridian

MERIDIAN  
ENERGY  
LIMITED

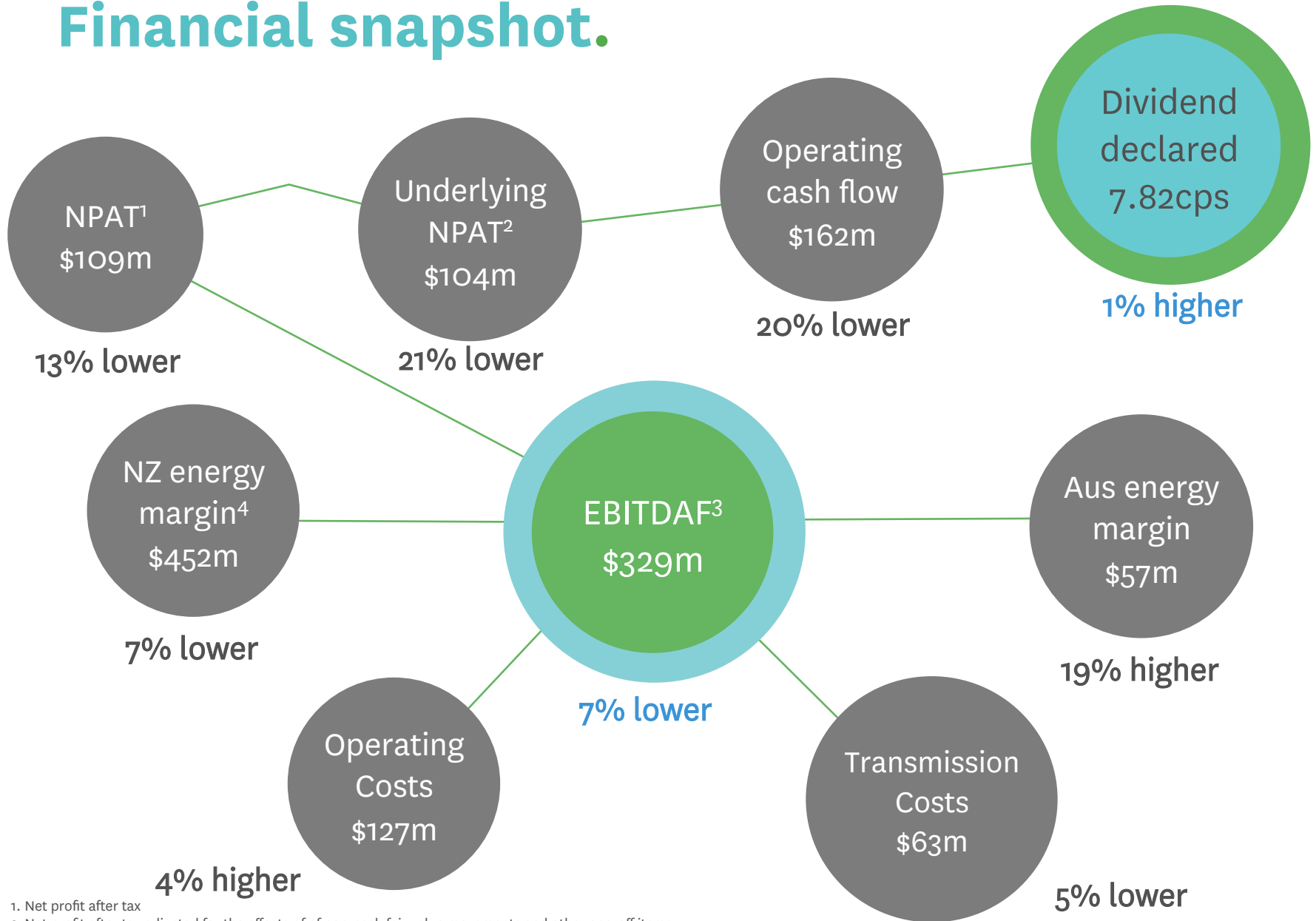
MEMBER OF  
**Dow Jones**  
**Sustainability Indices**  
In Collaboration with RobecoSAM

## • Opening comments.

- Challenges of two significant dry periods in 2017
- 749 GWH of new Australian generation capacity
- Retail platform decision in April 2018
- New government's target of 100% renewable generation by 2035
- Exec changes: Julian Smith and Mike Roan

[www.meridianenergy.co.nz/investors/](http://www.meridianenergy.co.nz/investors/)

# Financial snapshot.



1. Net profit after tax

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

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

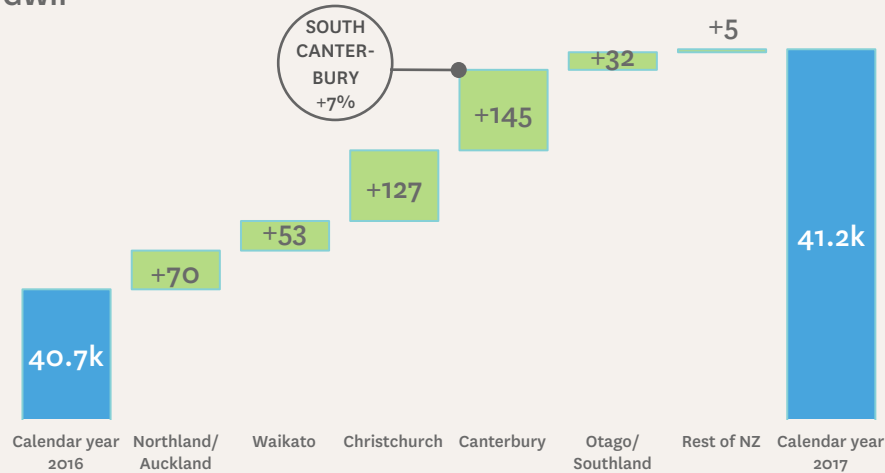
4. See definition on page 32

# OUR MARKETS

An aerial photograph of a river delta, likely the Colorado River, showing a complex network of channels and a large reservoir. A green dot is placed on the reservoir, with white lines extending from it to the corners of the page, creating a large, faint white shape.

# New Zealand.

## MOVEMENT IN NATIONAL DEMAND GWh



Source: Electricity Authority

1.1% demand growth in the last 12 months

- Higher irrigation load
- Excluding irrigation regions, growth is around 0.7% in the last 12 months
- Growth occurred in all urban areas
- Most regions also recorded growth
- Notable exception was the South Island's West Coast (OceanaGold Reefion mine closure in December 2016)

# New Zealand.

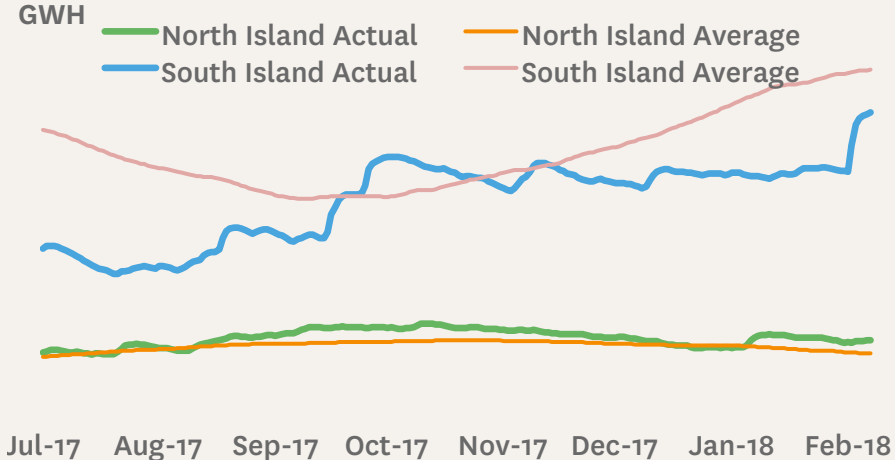
## Variable rainfall

- Central South Island rainfall well below average in 2017
- Upper North Island rainfall well above average in 2017
- Higher North Island hydro generation in 1H FY18

## Ex-cyclone Fehi impacts in early February

- Fehi inflows have provided lift in South Island storage (largest Waitaki rain event in five years)
- However storage levels still below average
- Reduction in irrigation demand

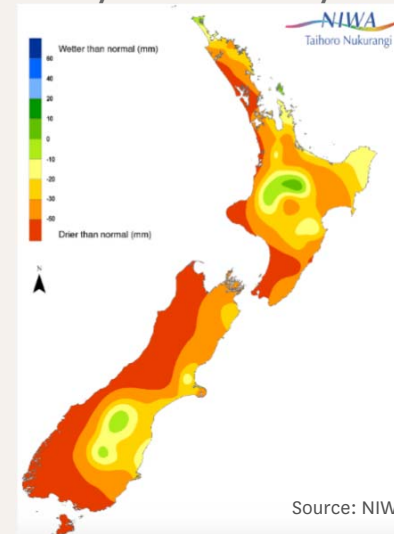
## NATIONAL STORAGE BY ISLAND



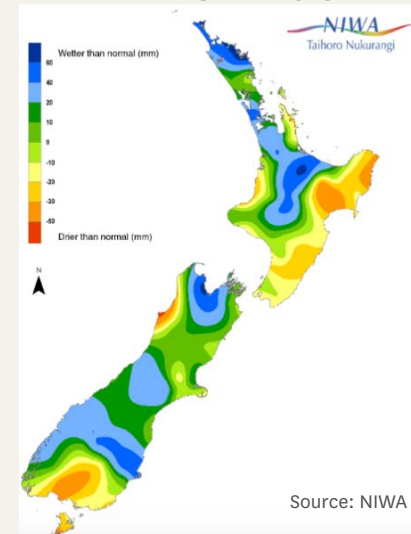
Source: NZX, Meridian

## SOIL MOISTURE ANOMALY

7 DECEMBER 2017

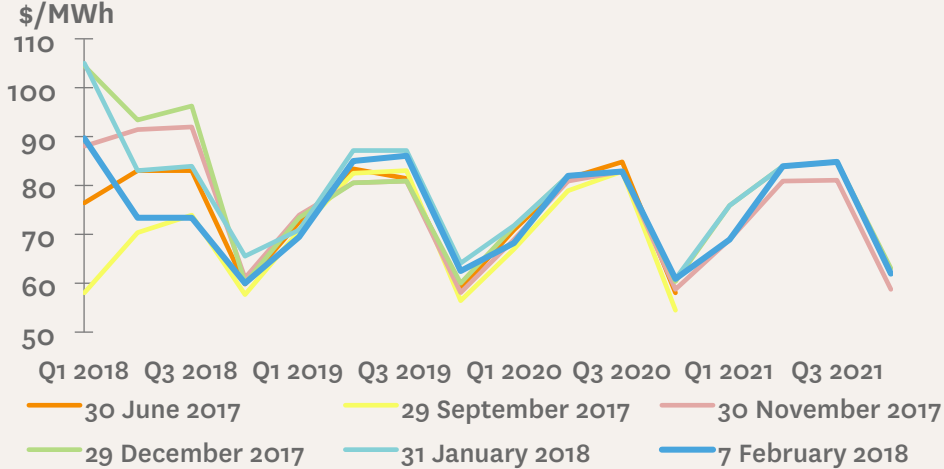


2 FEBRUARY 2018



# New Zealand.

## BENMORE ASX FUTURES SETTLEMENT PRICE



Source: Meridian

## Wholesale prices

- Higher thermal utilisation as wholesale prices rose to signal hydro scarcity
- No risk to security of supply from lower South Island hydro generation
- Fehi inflows have seen reduced spot and forward wholesale prices

# New Zealand.

## Electricity price review

- Draft terms of reference published and consultation has occurred
- Scope is broad - “whether the price paid by end-consumers for electricity is fair and equitable”
- Will consider the entire electricity market from generation, through transmission and distribution to retail
- MBIE is expected to report back to the Minister of Energy in “early 2019”
- Separately, a winter energy payment to superannuitants and beneficiaries has been announced

## KEY POINTS OF MERIDIAN’S SUBMISSION

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- NZ market is delivering fair, equitable, efficient and sustainable outcomes for consumers
  - the review should focus on:
    - future regulatory settings (bearing in mind new technologies and new entrants to sector)
    - review of the Low Fixed Charge Tariff Option regulations (a source of inequitable outcomes)
    - distribution pricing (driving inefficient and inequitable outcomes)
  - the review needs to ensure that outcomes are fair, equitable, efficient and environmentally sustainable
  - steps to improve regulatory settings need to be progressed alongside broader social policy to ensure the best outcomes for consumers
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# Australia.

## National energy guarantee

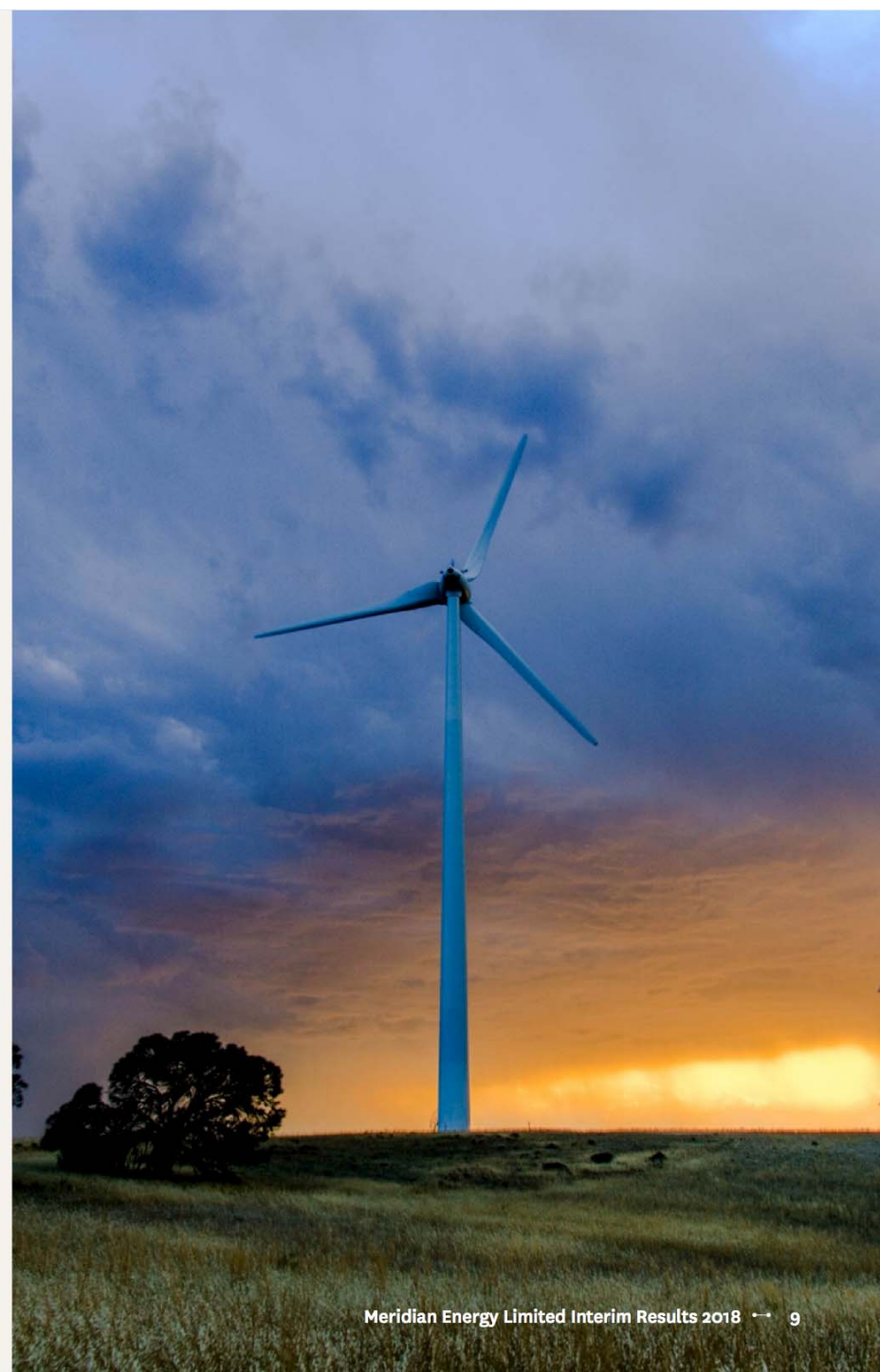
- State support is mixed
- Further analysis on multiple fronts
- Deadline for final agreement is mid 2018

## ACCC report

- Preliminary report has concerns about NEM operation and affordability
- Final report with reform recommendations in June 2018

## Thwaites review (Victoria)

- Victorian government is still considering the review panel's final report
- Appears broad support for the nine recommendations which do not advocate re-regulation and these may be advanced first



# OUR OPERATIONS

An aerial photograph of a river delta, showing a complex network of channels and distributaries. The water is a deep blue-green, contrasting with the light brown, silty banks. A white line starts from the left edge, passes through the middle of the delta, and ends at a green dot on the right side, near the end of the word 'OPERATIONS'.

# NZ customers.

## Higher customer numbers

- Growth of 3% in the last 6 months

## 12% higher sales volume, 9% excl Agri

- In all segments except Residential
- Marginal reduction in average price with higher weighting of agricultural and corporate load

## Commercial solar

- MoU with Kiwi Property to install 650kW of solar across four major shopping malls

## Electric vehicles

- New EV tariff launched in 6 regions: 20% discount and one year's free charging
- On target to convert 50% of Meridian's passenger fleet to electric by June 2018

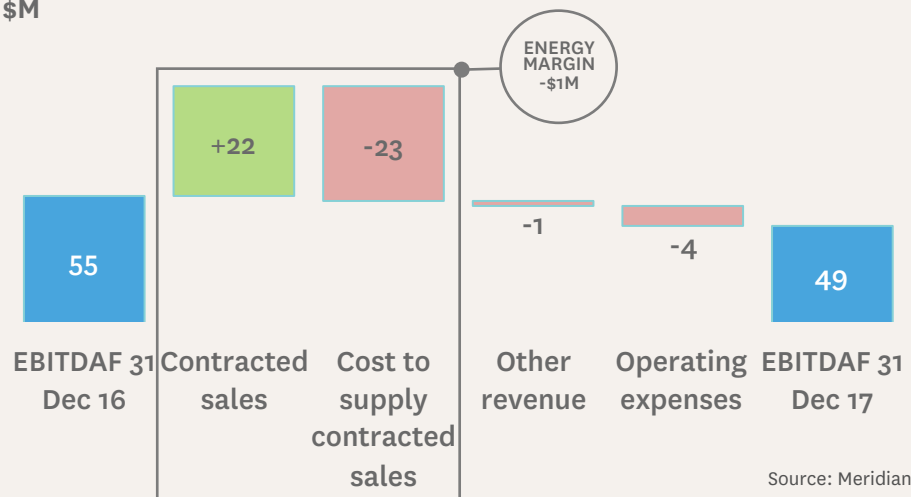
## CUSTOMER SALES

	CUSTOMER NUMBERS	SALES VOLUME (GWH)	AVERAGE PRICE <sup>1</sup> (\$/MWH)
<b>1H FY2018</b>			
Residential	188,698	720	
Small medium business	36,918	477	
Agricultural	37,741	606	
Large business	17,159	224	
Total Residential/SMB	280,516	2,027	\$118
Corporate	1,880	1,114	\$81
<b>1H FY2017</b>			
Residential	185,871	748	
Small medium business	34,624	438	
Agricultural	36,582	480	
Large business	16,769	220	
Total Residential/SMB	273,846	1,886	\$121
Corporate	1,868	911	\$84

1. Including distribution costs, discounts and doubtful debts

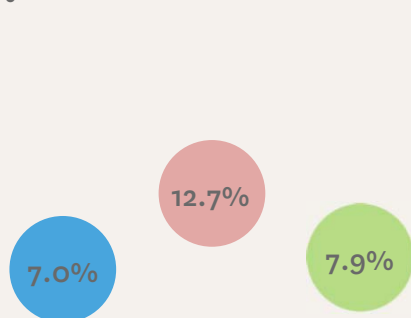
# NZ customers.

## MOVEMENT IN RETAIL SEGMENT EBITDAF \$M



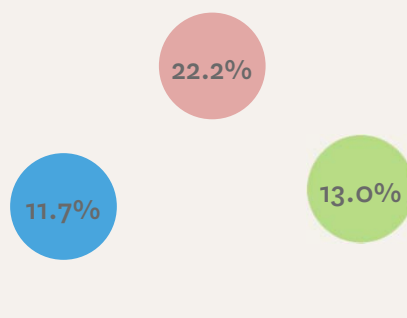
## ICP CHURN

% TRADER SWITCH



Meridian Powershop Industry

MOVE-IN SWITCH



Meridian Powershop Industry

Source: Electricity Authority

## Segment EBITDAF decline of \$6m (11%)

- Higher customers sales: revenue and purchase costs both up; energy margin largely flat
- Promotional investment to support this customer growth
- Stable cost to serve on a per customer basis

## Average market churn rates remain high

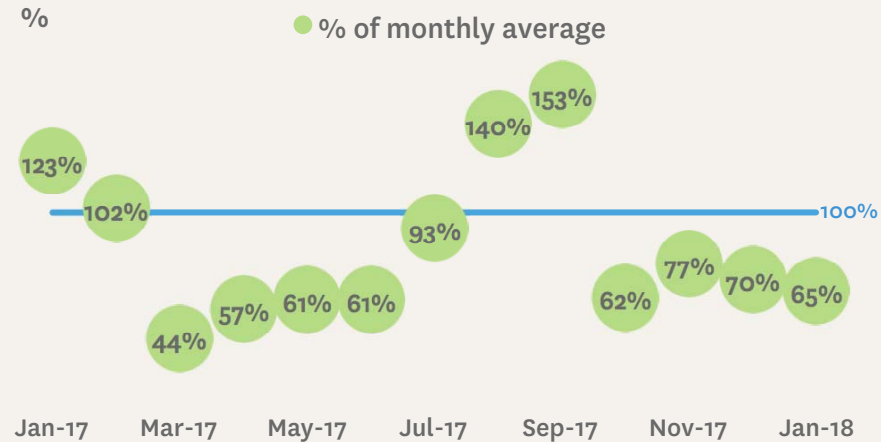
- Meridian Retail churn remains below industry averages
- Powershop has higher than market average churn, reflecting customer demographics

# NZ wholesale and generation.

## Two dry periods in close succession

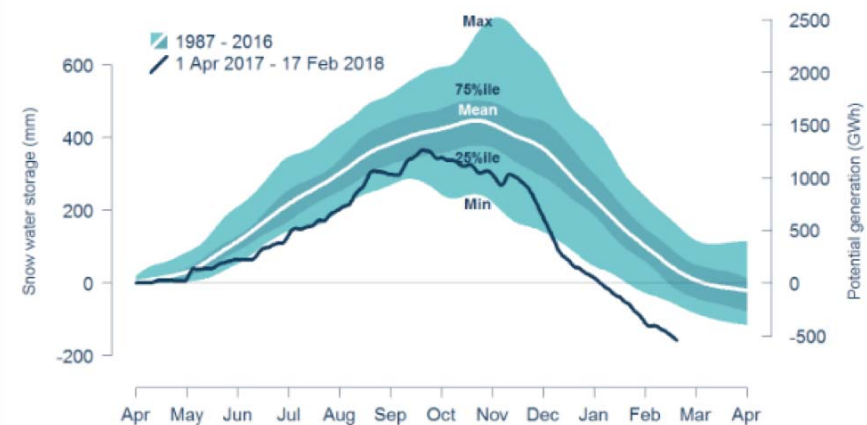
- Four months of below average inflows prior to July 2017 with each of the last four months also below average
- Resulted in a 1H FY18 reduction in physical generation (16% lower) and increase in acquired generation (162% higher)
- Dry and warm South Island temperatures resulted in low seasonal snow storage and 30-year high melt
- Long-term climate predictions are for lower snow amounts, rising snowlines, higher winter and overall inflows

## COMBINED CATCHMENT INFLOWS



Source: Meridian

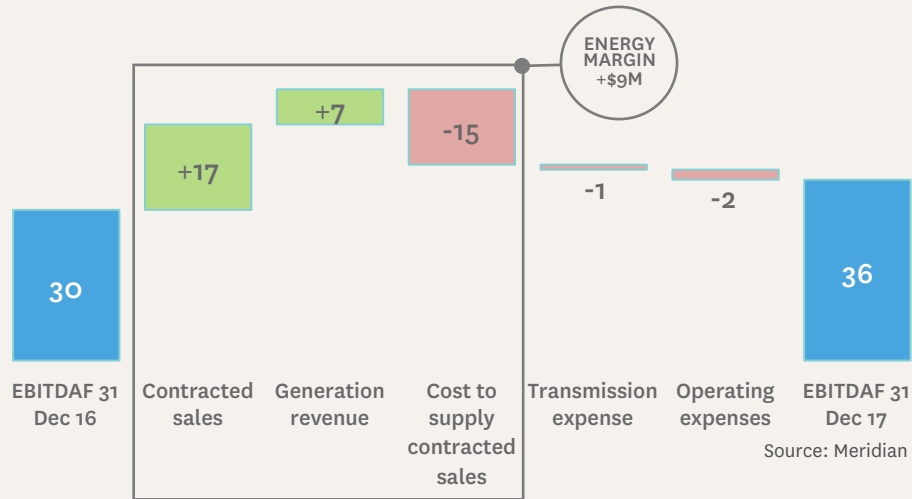
## Seasonal snow storage in Waitaki catchment as at 19 February 2018



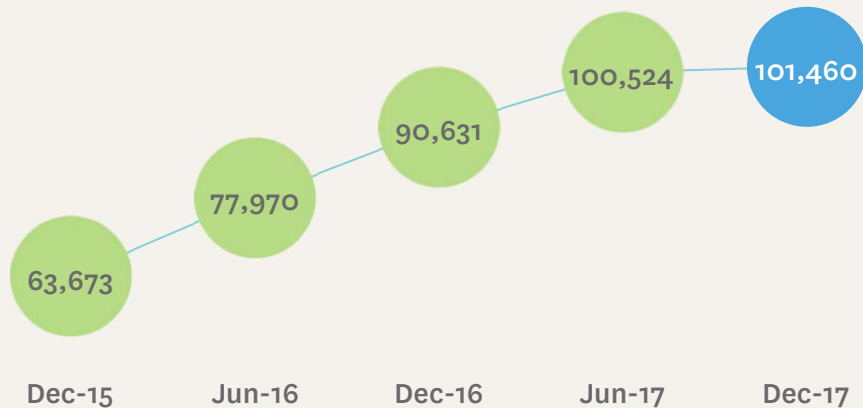
Source: Meridian

# Australia.

## MOVEMENT IN AUSTRALIA SEGMENT EBITDAF \$M



## AUSTRALIAN CUSTOMERS



Source: Meridian

## Segment EBITDAF +\$6M (20%)

- Higher retail sales volume (+20%)
- Average generation price +18%, greater exposure to increasing merchant prices

## Generation acquisitions

- GSP (\$168M ex stamp duty, effective 1 April 2018)
  - Hume, Burrinjuck and Keepit hydro
  - Seasonal generation, expected annual output >280GWH
  - Purchase now approved under Australian Foreign Acquisitions and Takeover Act
- PPA's (466GWH from mid 2018 into 2019)
  - Kiamal solar, Crudine Ridge and Salt Creek wind
  - Tenure to 2030

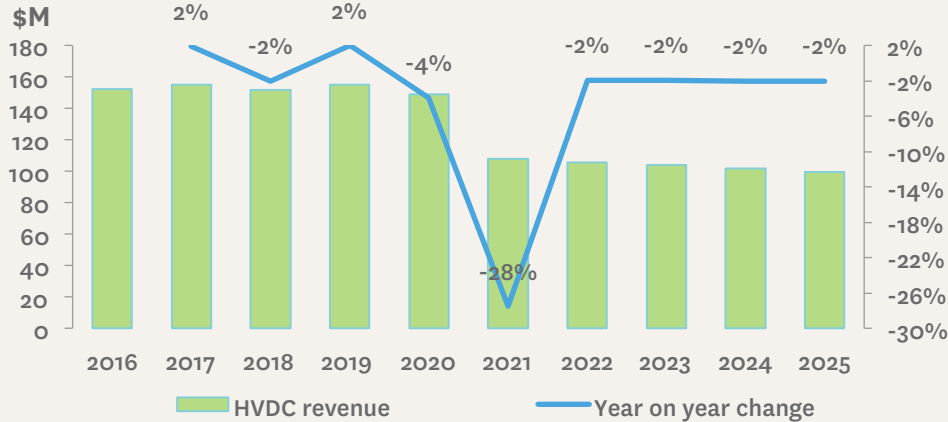
# Powershop UK.

- 19,500 nPower ICP's through energy only soft launch
- White label offers launched
- Dual fuel functionality now delivered, ready for full launch
- Customer uptake dependent on nPower's sales and marketing



# New Zealand transmission.

## TRANSPOWER HVDC REVENUE FORECAST



Source: Transpower<sup>1</sup>

## Future HVDC changes

- Transpower<sup>1</sup> have signalled future HVDC revenue will fall around \$50m per annum
- From lower assumed WACC in the next regulatory period and an end to historic recovery of underpayments
- Analysts' estimates put the reduction to Meridian's costs at around ~\$30M pa from today's levels
- Transpower's forecast is a base case, excluding major HVDC capex that may be required:
  - Undersea cable replacement (detailed investigation underway)
  - 4<sup>th</sup> cable (estimates range \$55m-\$150m)
- Changes from the TPM review may occur



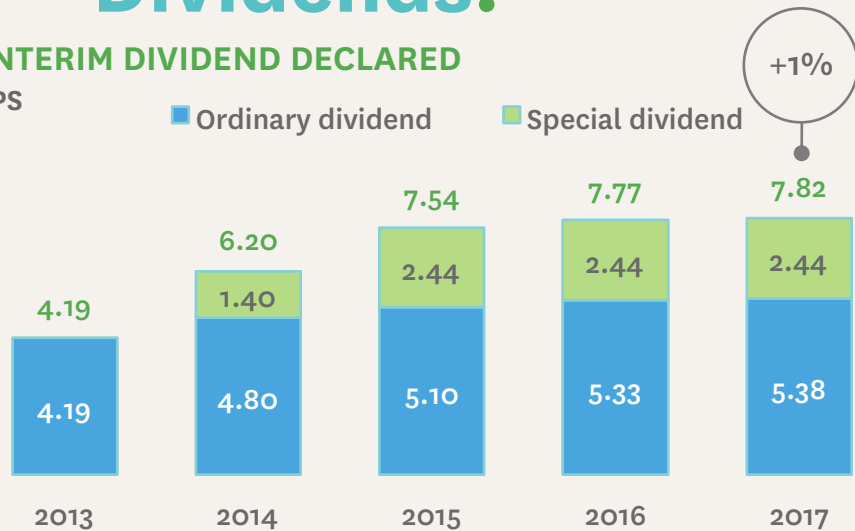
# FINANCIAL PERFORMANCE

# Dividends.

## INTERIM DIVIDEND DECLARED

CPS

■ Ordinary dividend ■ Special dividend



Six months ended 31 December

Source: Meridian

## 1% growth in ordinary dividends declared

- Interim ordinary dividend declared of 5.38 cps, 88% imputed
- Capital management interim special dividend of 2.44 cps, unimputed
- Brings capital management distributions to \$375M since the programme began in August 2015

## INTERIM DIVIDEND DECLARED

AMOUNT CPS IMPUTATION %

### FY2018

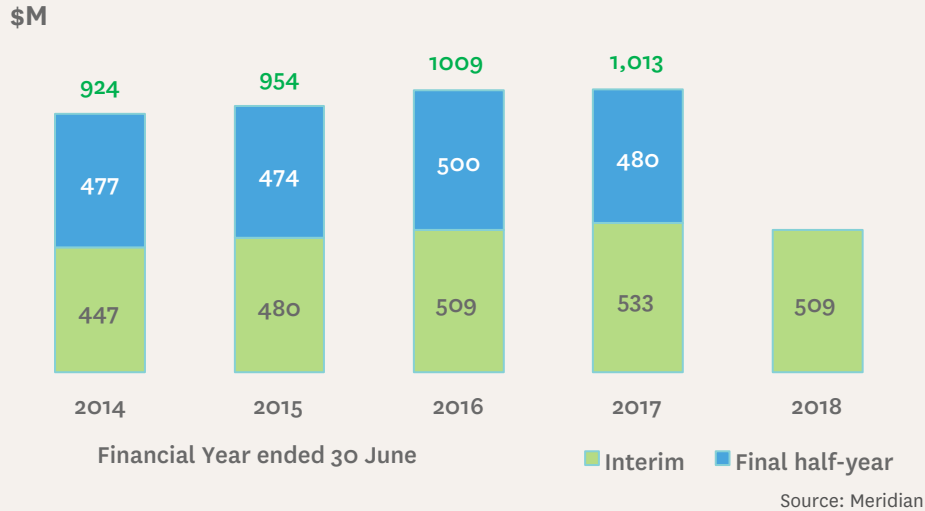
Ordinary dividends	5.38	88%
Capital management special dividend	2.44	0%
<b>Total</b>	<b>7.82</b>	

### FY2017

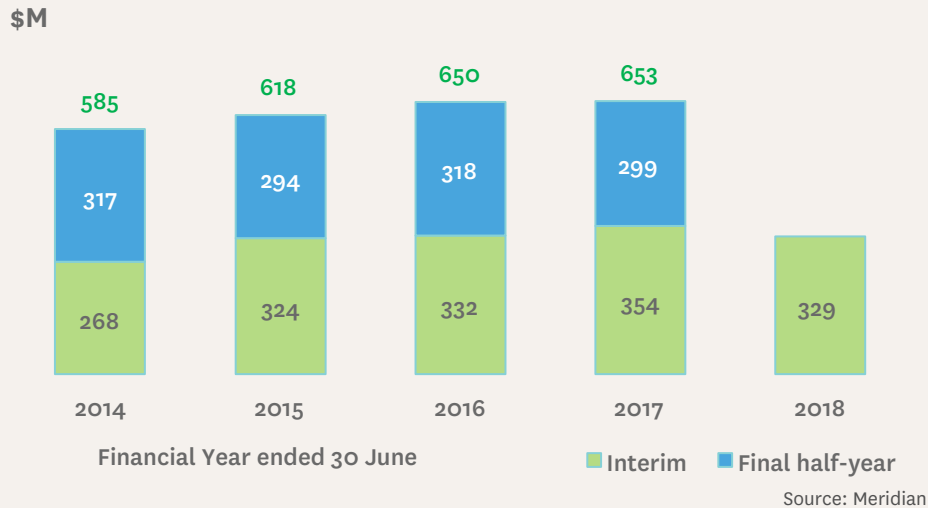
Ordinary dividends	5.33	88%
Capital management special dividends	2.44	0%
<b>Total</b>	<b>7.77</b>	

# Earnings.

## ENERGY MARGIN



## EBITDAF



\$25M (7%) decrease in EBITDAF from:

### Business specific changes

- Higher business sales
- Higher corporate sales, lower average price from timing of a large customer signing
- Some cost expansion to support this customer growth
- Some transmission cost relief
- Tiwai price increase from 1 January 2017
- Growth in Australian and UK earnings

### Market and environmental impacts

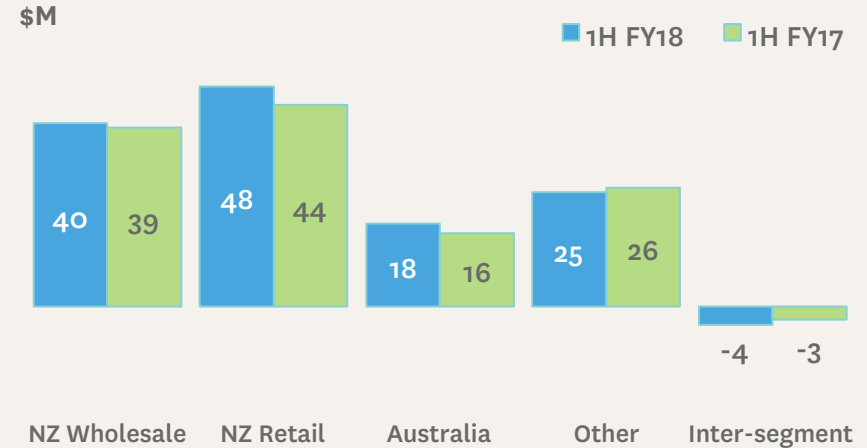
- 1,100 GWH less physical generation leading to more acquired generation
- Higher market prices on derivative, physical and acquired generation sales
- Higher irrigation sales
- Higher market costs to purchase customer load

# Costs.

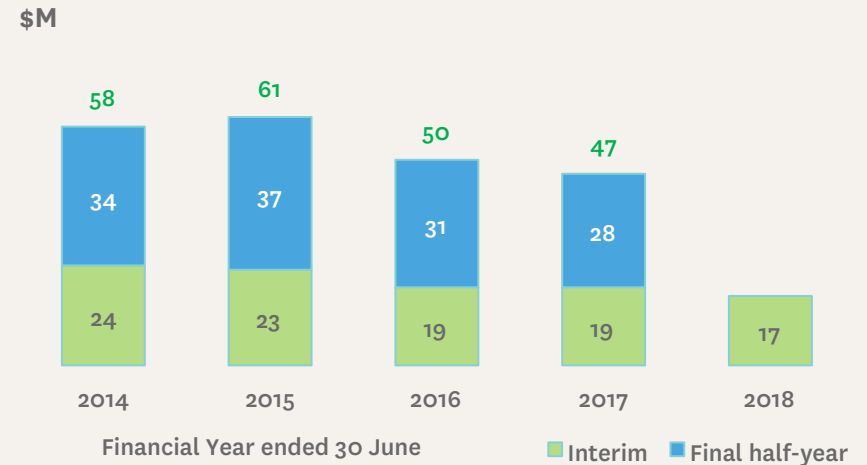
## Managing cost pressures

- \$5M (4%) increase in operating costs, offset by lower Transmission costs
- Promotional investment to support customer growth in NZ
- Multi year Ōhau and Te Āpiti refurbishment programmes are adding to operating costs (\$2M in 1H FY18)
- Continued cost discipline in other areas of the business

## OPERATING COSTS

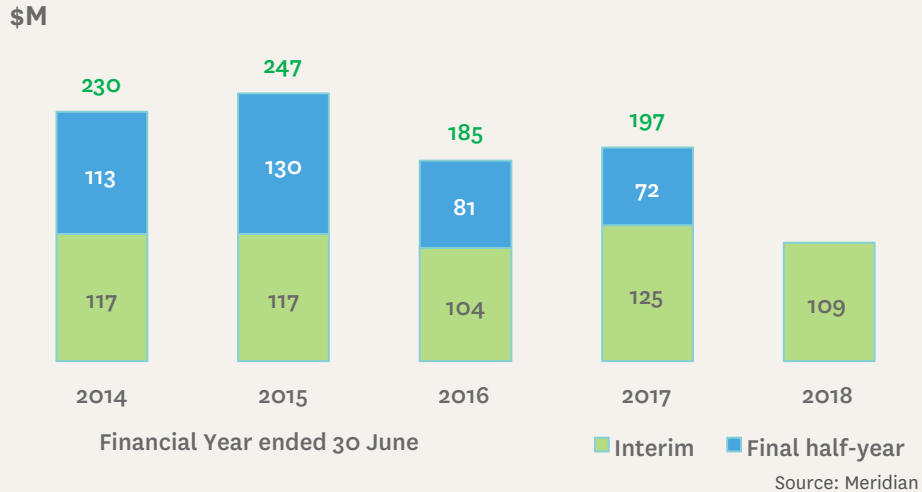


## STAY IN BUSINESS CAPEX

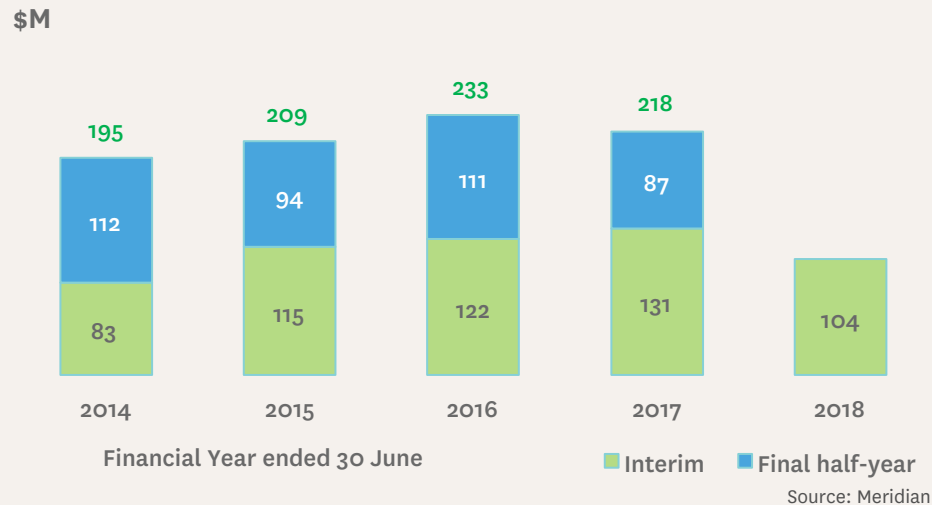


# Below EBITDAF.

## NET PROFIT AFTER TAX



## UNDERLYING NPAT



## Land sale gains, small impacts from fair value movements in 1H FY18

- \$2M (2%) increase depreciation from FY17 asset revaluations
- \$3M (8%) increase in net financing costs from higher net debt
- \$6M gain on sale of surplus land
- \$2M reduction in NPBT from fair value of electricity hedges from relatively stable forward electricity prices
- \$2M reduction in NPBT from fair value of treasury instruments from relatively stable forward interest rates
- \$16M (13%) decrease in NPAT
- \$27M (21%) decrease in underlying NPAT, largely from lower EBITDAF

# CLOSING COMMENTS



# Closing comments.

- Slow start to 2H FY18 with continued lower physical generation and higher acquired generation
- Lake storage, while still below average, has lifted significantly, allowing Meridian more trading flexibility
- January 2018 saw another month of higher customer numbers
- Since October 2017, Powershop and Meridian have been leading the market in customer growth



# Questions.



meridian



# ADDITIONAL INFORMATION.

# Segment results.

## 1H FY17 restated for segment changes

- Flux Federation (Powershop platform development) now included in other segment (previously retail segment)
- Powershop UK now included in other segment (previously international segment)
- Small revenue and expense changes for IRFS 15

\$M	WHOLESALE		RETAIL		AUSTRALIA		OTHER/ UNALLOCATED		INTER- SEGMENT	
	1H FY18	1H FY17	1H FY18	1H FY17	1H FY18	1H FY17	1H FY18	1H FY17	1H FY18	1H FY17
Energy margin	360	392	92	93	57	48	-	-	-	-
Other revenue	2	3	5	6	-	-	8	4	(5)	(4)
Dividend revenue	-	-	-	-	-	-	-	1	-	(1)
Energy transmission expense	(60)	(64)	-	-	(3)	(2)	-	-	-	-
Operating expenses	(40)	(39)	(48)	(44)	(18)	(16)	(25)	(26)	4	3
<b>EBITDAF</b>	<b>262</b>	<b>292</b>	<b>49</b>	<b>55</b>	<b>36</b>	<b>30</b>	<b>(17)</b>	<b>(21)</b>	<b>(1)</b>	<b>(2)</b>

# NZ retail.

## Customers

- 3% increase in customers since June 17

## Residential, SMB, Agri segment

- 7% increase in overall volumes
- 4% decrease in residential
- 9% increase in SMB, 2% increase in large business volumes
- 26% increase in agri volumes, irrigation-driven
- 3% decrease in average sales price

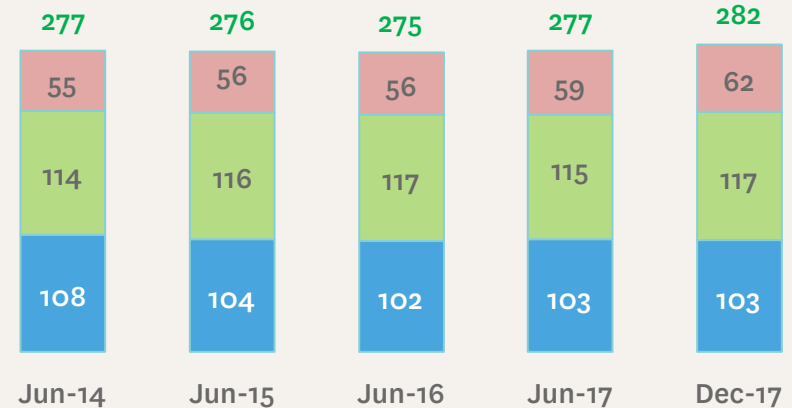
## Corporate segment

- 22% increase in volumes
- 4% decrease in average sales price

## NEW ZEALAND CUSTOMER NUMBERS

ICP (ooo)

Meridian North Island Meridian South Island Powershop

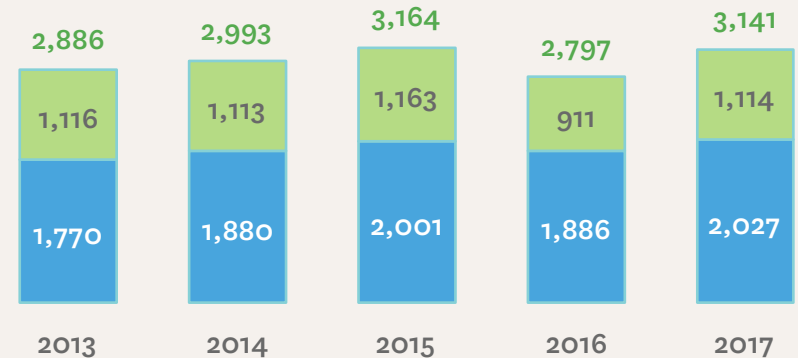


Source: Meridian

## RETAIL SALES VOLUME

GWH

Residential, SMB, Agri Corporate

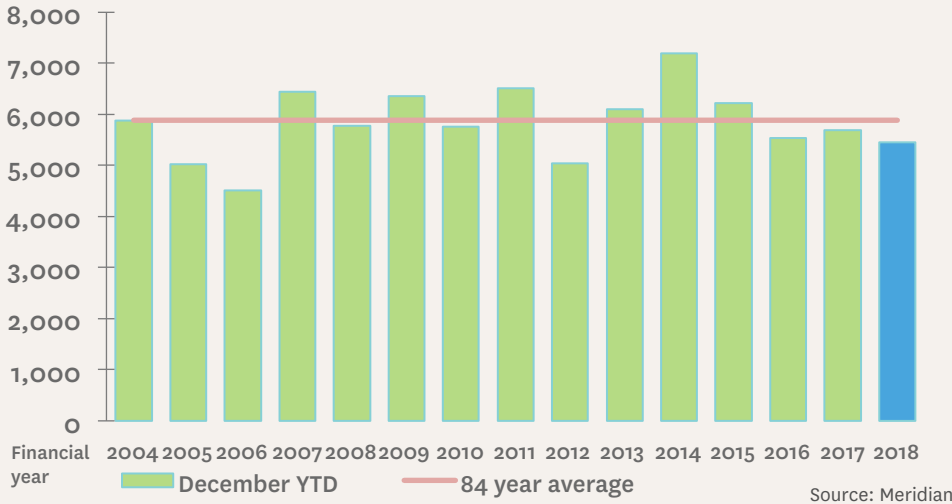


Six months ended 31 December

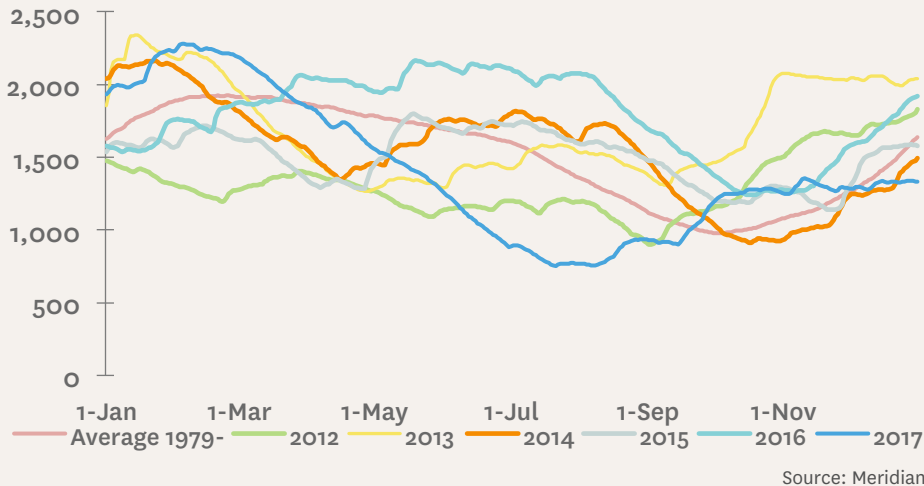
Source: Meridian

# Hydrology.

## MERIDIAN'S COMBINED CATCHMENT INFLOWS GWh



## MERIDIAN'S WAITAKI STORAGE GWh



## Inflows

- Inflows for the 1H FY18 were 93% of historical average
- Concluded FY17 with a four-month dry period of below average inflows
- Further dry conditions prevailed from October 2017 through to January 2018
- January 2018 inflows were 65% of average

## Storage

- Meridian's Waitaki catchment storage at 31 December 2017 was 81% of historical average
- By 31 January 2018, this position was 75% of historical average

# NZ generation.

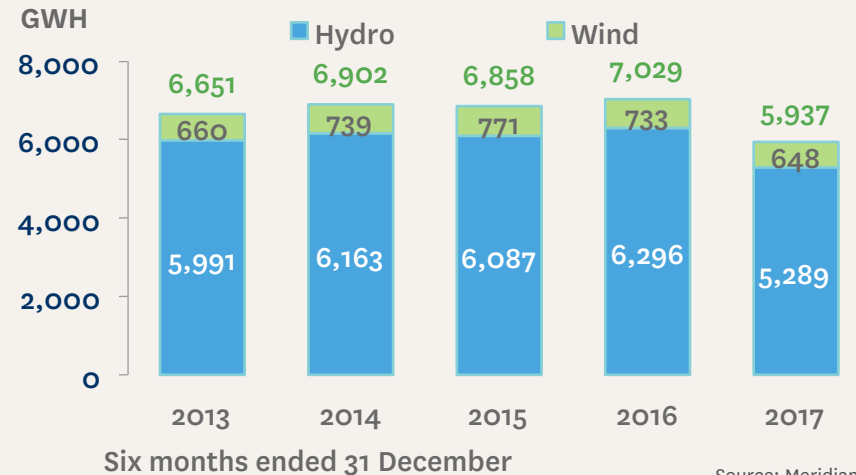
## Volume

- 1H FY18 generation was 16% lower than 1H FY17
- Reflected both lower hydro generation (16%) and wind generation (12%)
- Lowest 1H generation since 1H FY09
- Meridian accessed cover under the swaption with Genesis between June and August 2017 and between December 2017 and February 2018

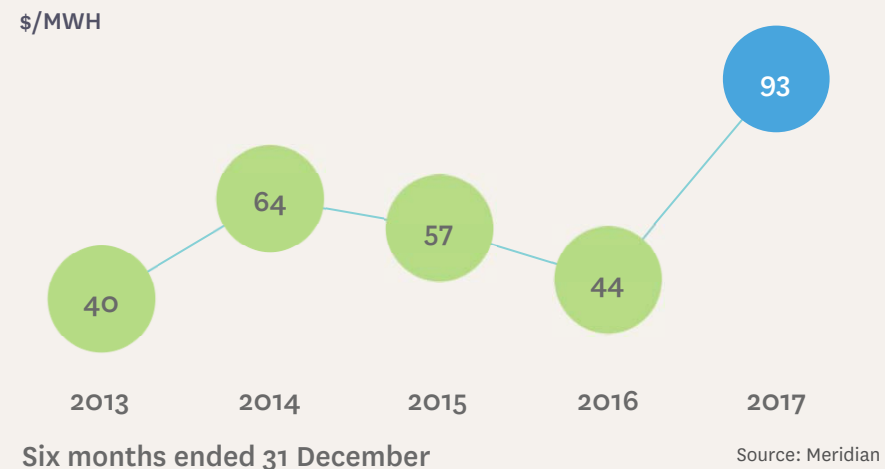
## Price

- 1H FY18 average price Meridian received for its generation was 110% higher than 1H FY17
- 1H FY18 average price Meridian paid to supply contracted sales was 106% higher than 1H FY17

## NEW ZEALAND GENERATION



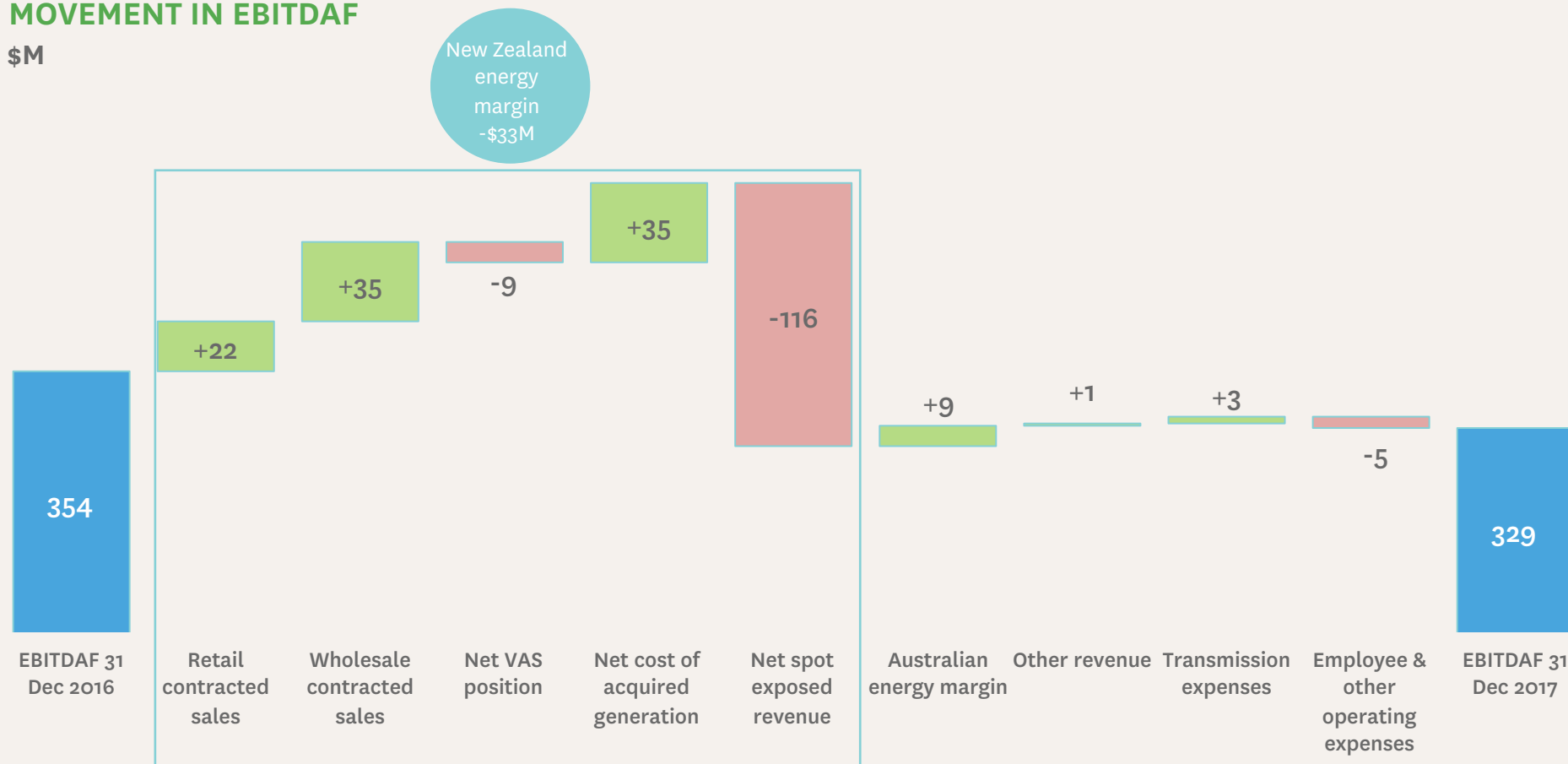
## NZ AVERAGE GENERATION PRICE



# 1H FY18 EBITDAF.

## MOVEMENT IN EBITDAF

\$M

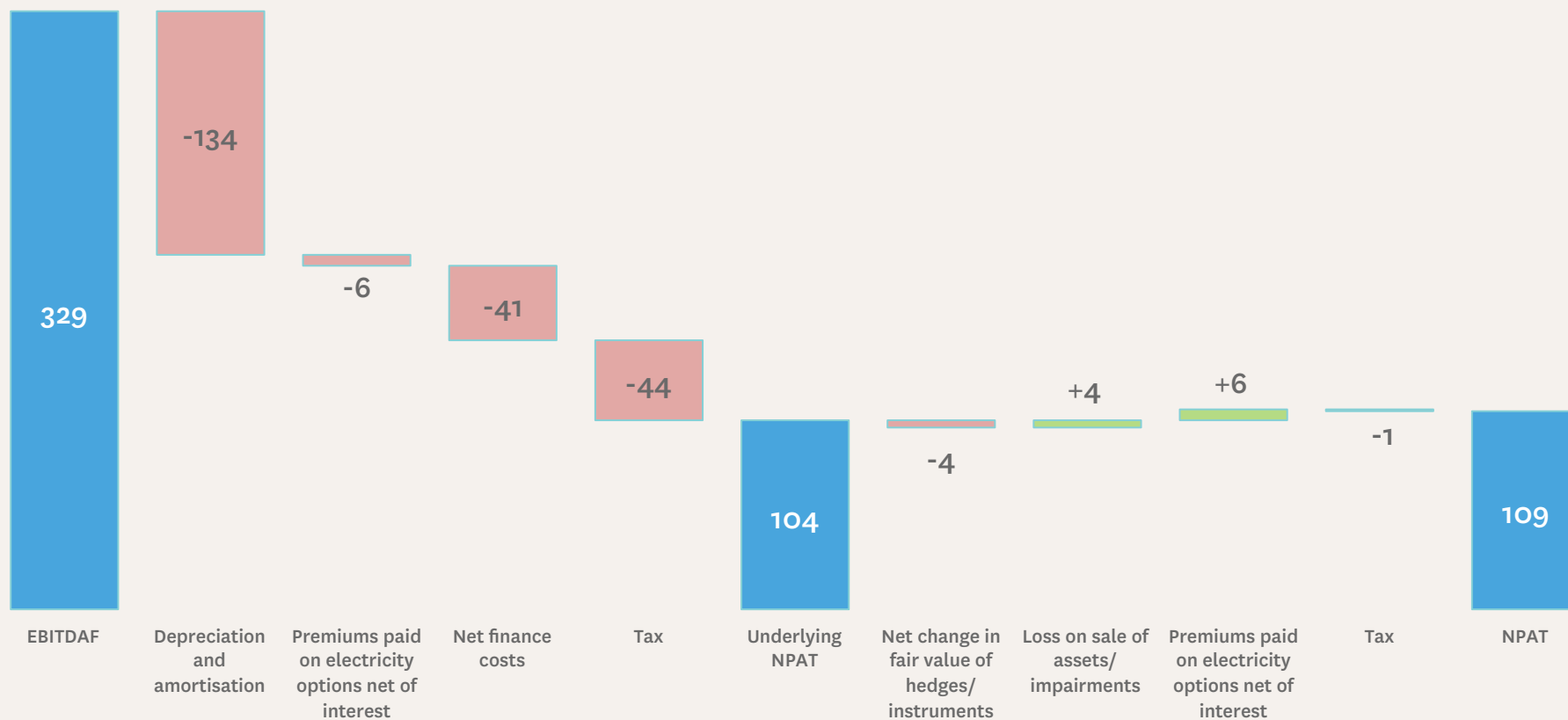


Source: Meridian

# 1H FY18 EBITDAF TO NPAT.

## 1H FY18 EBITDAF TO NPAT RECONCILIATION

\$M



Source: Meridian

# NZ energy margin.

## Energy margin

- A non-GAAP financial measure representing energy sales revenue less energy related expenses and energy distribution expenses
- Used to measure the vertically integrated performance of the retail and wholesale businesses.
- 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

## 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 Mercury
- The fixed cost of derivatives acquired to supplement generation and manage 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)



# NZ energy margin.

LWAP:GWAP  
1H FY18 1.08  
1H FY17 1.10

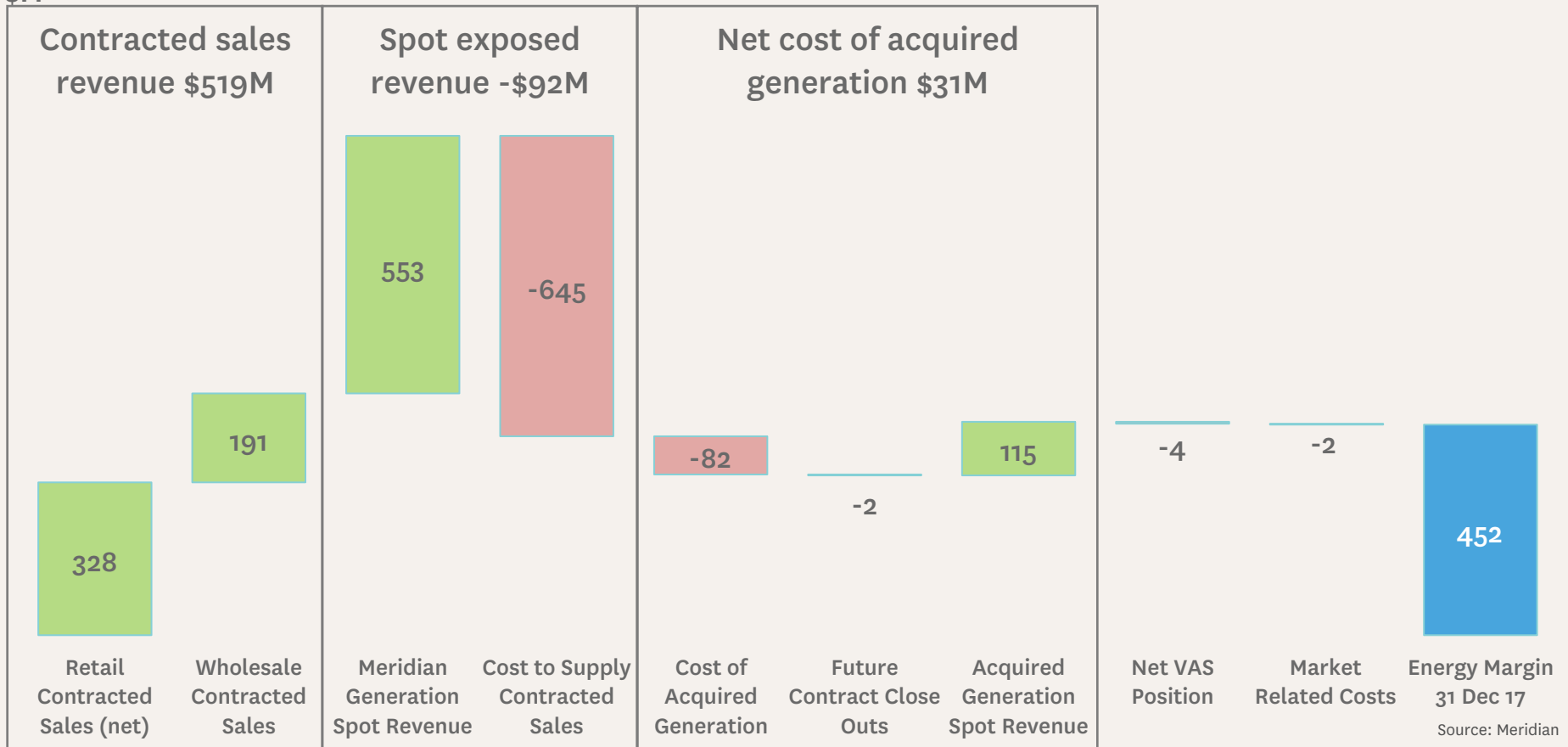
	1H FY18			1H FY17		
	VOLUME <sup>1</sup>	VWAP <sup>2</sup>	\$M	VOLUME <sup>1</sup>	VWAP <sup>2</sup>	\$M
Residential/SMB contracted sales	2,027	\$117.6	238	1,886	\$120.7	229
Corporate contracted sales	1,114	\$80.6	90	911	\$84.3	77
Retail contracted sales	3,141	\$104.5	328	2,797	\$108.9	306
NZAS sales	2,525			2,525		
Sell side CfDs	767			576		
Wholesale contracted sales	3,292	\$58.1	191	3,101	\$50.2	156
Net VAS position	579		(4)	579		5
Acquired generation revenue	1,118	\$96.6	115	453	\$50.5	23
Cost of acquired generation	1,118	(\$68.7)	(82)	453	(\$57.9)	(27)
Future contract close outs			(2)			(0)
Net cost of acquired generation			31			(4)
Generation revenue	5,937	\$93.2	553	7,029	\$44.4	312
Cost to supply retail sales	3,295			2,933		
Cost to supply wholesale sales	3,292			3,101		
Cost to supply contracted sales	6,587	(\$97.9)	(645)	6,034	(\$47.6)	(288)
Net spot exposed revenue			(92)			24
Other market costs			(2)			(2)
<b>Energy Margin</b>			<b>452</b>			<b>485</b>

1. GWH

2. Volume weighted average price in \$/MWH

# NZ energy margin composition.

## NEW ZEALAND ENERGY MARGIN \$M

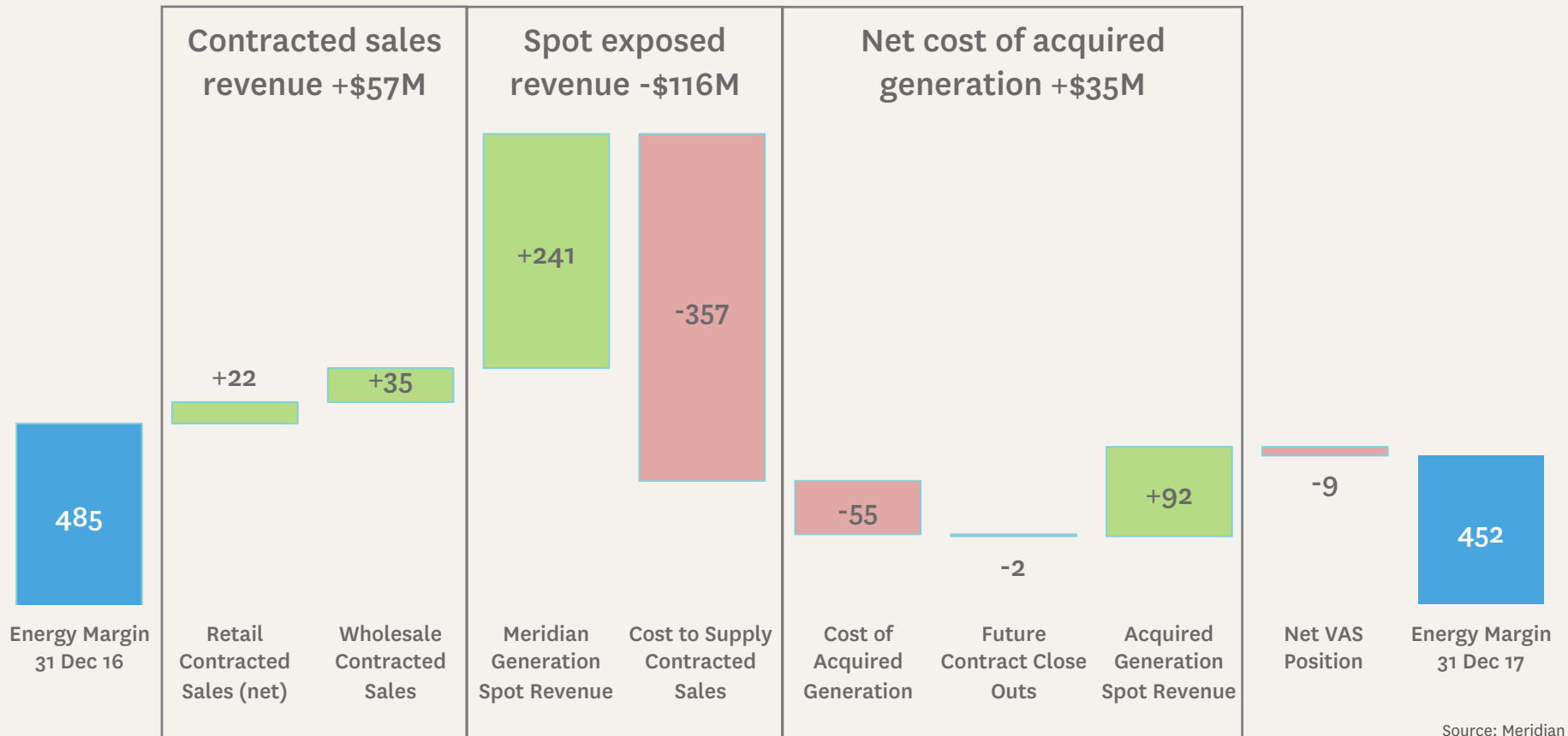


Source: Meridian

# NZ energy margin movement.

## NEW ZEALAND ENERGY MARGIN

\$M



Source: Meridian

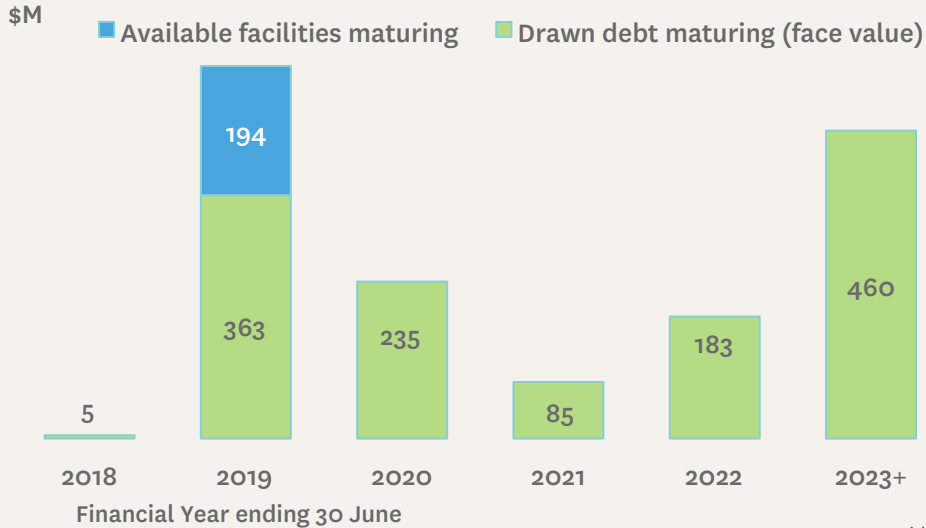
# Other revenue.

SIX MONTHS ENDED 31 DECEMBER \$M	2017	2016
Retail service revenue (field services etc)	4	4
Damwatch	-	2
Miscellaneous <sup>1</sup>	6	3
<b>Total other revenue</b>	<b>10</b>	<b>9</b>

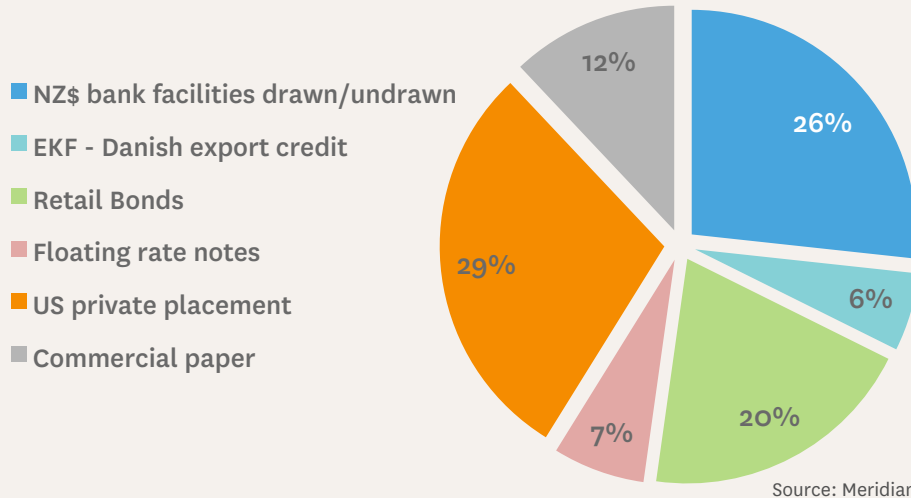
1. Includes revenue related to Flux Federation

# Funding.

## DEBT MATURITY PROFILE AS AT 31 DECEMBER 2017



## SOURCES OF FUNDING AS AT 31 DECEMBER 2017

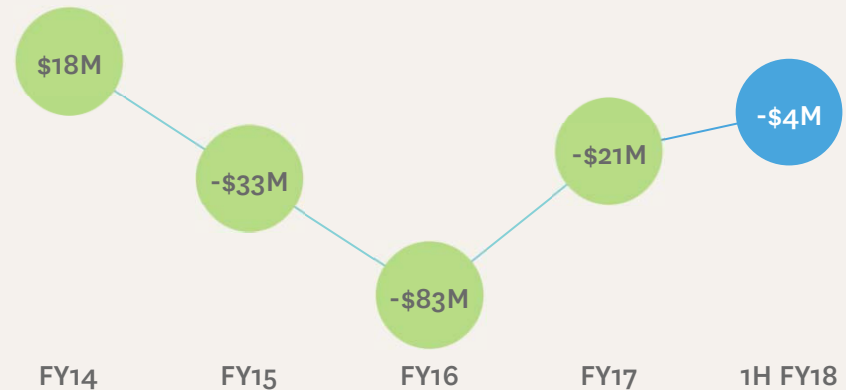


- Total borrowings as at 31 December 2107 of \$1,366M, up \$137M from 31 December 2016
- Committed bank facilities of \$685M of which \$375M were undrawn as at 31 December 2017
- The expiry of these facilities range from July 2018 to April 2026
- \$3M (8%) increase in net financing costs from higher net debt

# Fair value movements.

- Meridian uses derivative instruments to manage interest rate, foreign exchange and electricity price risk
- As forward prices and rates on these instruments move, non-cash changes to their carrying value are reflected in NPAT
- Accounting standards only allow hedge accounting if specific conditions are met, which creates NPAT volatility
- \$2M negative change in fair value of treasury instruments in 1H FY18 from relatively stable forward interest rates
- \$2M negative change in fair value of electricity and other hedges in 1H FY18 from relatively stable forward electricity prices

## NET CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS



Source: Meridian

# Income statement.

SIX MONTHS ENDED 31 DECEMBER \$M	2017	2016
New Zealand energy margin	452	485
Australia energy margin	57	48
Other revenue	10	9
Energy transmission expense	(63)	(66)
Employee and other operating expenses	(127)	(122)
<b>EBITDAF</b>	<b>329</b>	<b>354</b>
Depreciation and amortisation	(134)	(132)
Impairment of assets	(2)	-
Gain/(loss) on sale of assets	6	(2)
Net change in fair value of electricity and other hedges	(2)	(75)
Net finance costs	(41)	(38)
Net change in fair value of treasury instruments	(2)	63
<b>Net Profit before tax</b>	<b>154</b>	<b>170</b>
Income tax expense	(45)	(45)
<b>Net Profit after tax</b>	<b>109</b>	<b>125</b>

# Underlying NPAT.

SIX MONTHS ENDED 31 DECEMBER \$M	2017	2016
<b>Net Profit after tax</b>	<b>109</b>	<b>125</b>
<b>Underlying adjustments</b>		
<b><u>Hedging instruments</u></b>		
Net change in fair value of electricity and other hedges	2	75
Net change in fair value of treasury instruments	2	(63)
Premiums paid on electricity options net of interest	(6)	(6)
<b><u>Assets</u></b>		
(Gain)/loss on sale of assets	(6)	2
Impairment of assets	2	-
<b>Total adjustments before tax</b>	<b>(6)</b>	<b>8</b>
<b><u>Taxation</u></b>		
Tax effect of above adjustments	1	(2)
<b>Underlying net profit after tax</b>	<b>104</b>	<b>131</b>



# Cash flow statement.

SIX MONTHS ENDED 31 DECEMBER \$M	2017	2016
Receipts from customers	1,374	1,110
Interest received	-	1
Payments to suppliers and employees	(1,101)	(794)
Interest and income tax paid	(111)	(114)
<b>Operating cash flows</b>	<b>162</b>	<b>203</b>
Sale of property, plant and equipment	12	-
Sales of subsidiaries and other assets	-	1
Purchase of property, plant and equipment	(18)	(18)
Capitalised interest	-	-
Purchase of intangible assets and investments	(10)	(9)
<b>Investing cash flows</b>	<b>(16)</b>	<b>(26)</b>
Term borrowings drawn	170	32
Term borrowings repaid	(5)	(5)
Shares purchased for long-term incentive	-	-
Dividends	(286)	(278)
<b>Financing cash flows</b>	<b>(121)</b>	<b>(251)</b>

# Balance sheet.

SIX MONTHS ENDED 31 DECEMBER \$M	2017	2016
Cash and cash equivalents	108	44
Trade receivables	304	184
Other current assets	141	138
<b>Total current assets</b>	<b>553</b>	<b>366</b>
Property, plant and equipment	7,871	7,648
Intangible assets	58	57
Other non-current assets	212	225
<b>Total non-current assets</b>	<b>8,141</b>	<b>7,930</b>
Payables, accruals and employee entitlements	339	211
Current portion of term borrowings	190	187
Other current liabilities	95	72
<b>Total current liabilities</b>	<b>624</b>	<b>470</b>
Term borrowings	1,176	1,042
Deferred tax	1,700	1,604
Other non-current liabilities	261	272
<b>Total non-current liabilities</b>	<b>3,137</b>	<b>2,918</b>
<b>Net assets</b>	<b>4,933</b>	<b>4,908</b>

# 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 Waiau 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 (NZ)	number of installation control points, excluding vacants
FRMP	financially responsible market participant
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 Waiau hydro storage lakes over the last 83 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	New Zealand 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
National demand	Electricity Authority's reconciled grid demand <a href="http://www.emi.ea.govt.nz">www.emi.ea.govt.nz</a>
NZAS	New Zealand Aluminium Smelters Limited
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 Mercury. They do not result in the physical supply of electricity

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

# Thank you.



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