



meridian

Powering today, protecting tomorrow



MERIDIAN ENERGY LIMITED | investor roadshow presentation

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

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The information contained in this presentation should be considered in conjunction with the company's latest financial statements, which are included in Meridian's interim report for the six months ended 31 December 2016 and is available at: <http://www.meridianenergy.co.nz/investors/>

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

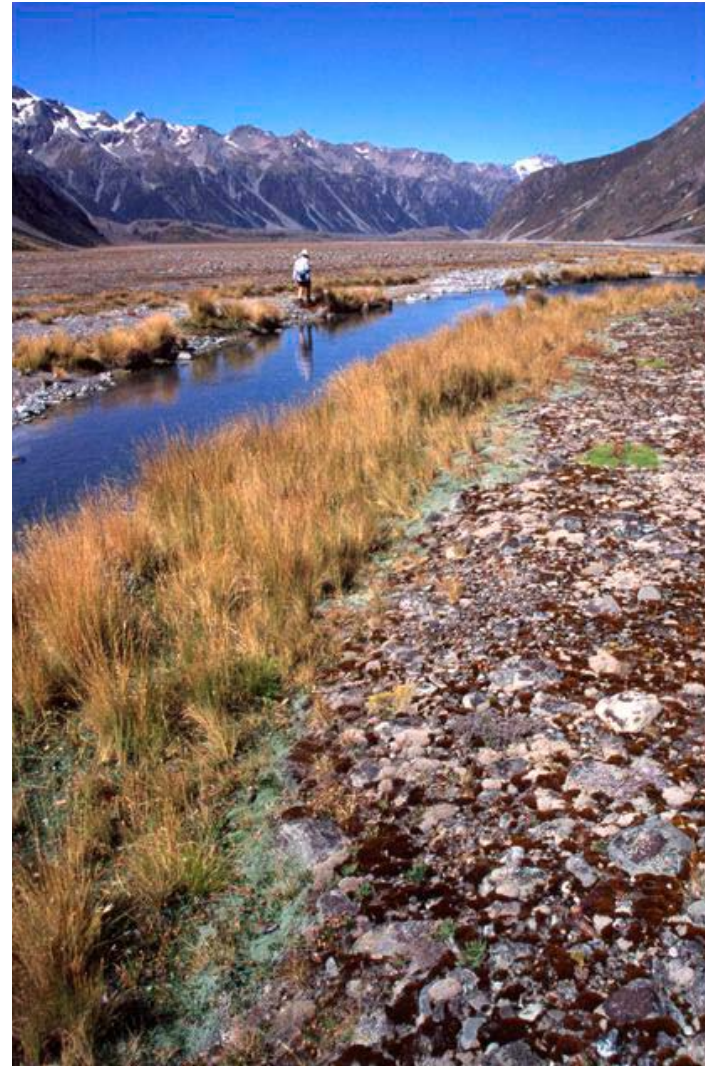
Front cover: Stella the kākāpō on Whenua Hou (Codfish Island).
Image courtesy of Sabine Bernert

New Zealand economy



New Zealand economy

- Economy is in a prolonged phase of growth since 2008/09 recession
- Currently experiencing record net migration, positive business and consumer confidence, recovering commodity prices¹
- Future economic growth is expected to remain solid in the next three years²
- Ranked the top country for ease of doing business by The World Bank³
- Official cash rate is at a record low rate of 1.75%
- Future interest rate increases expected to be modest into the medium term as inflationary pressures build



¹The Treasury 'Monthly Economic Indicators' April 2017

²NZ Institute of Economic Research 'Consensus Forecasts' March 2017

³World Bank 'Doing Business' 2017

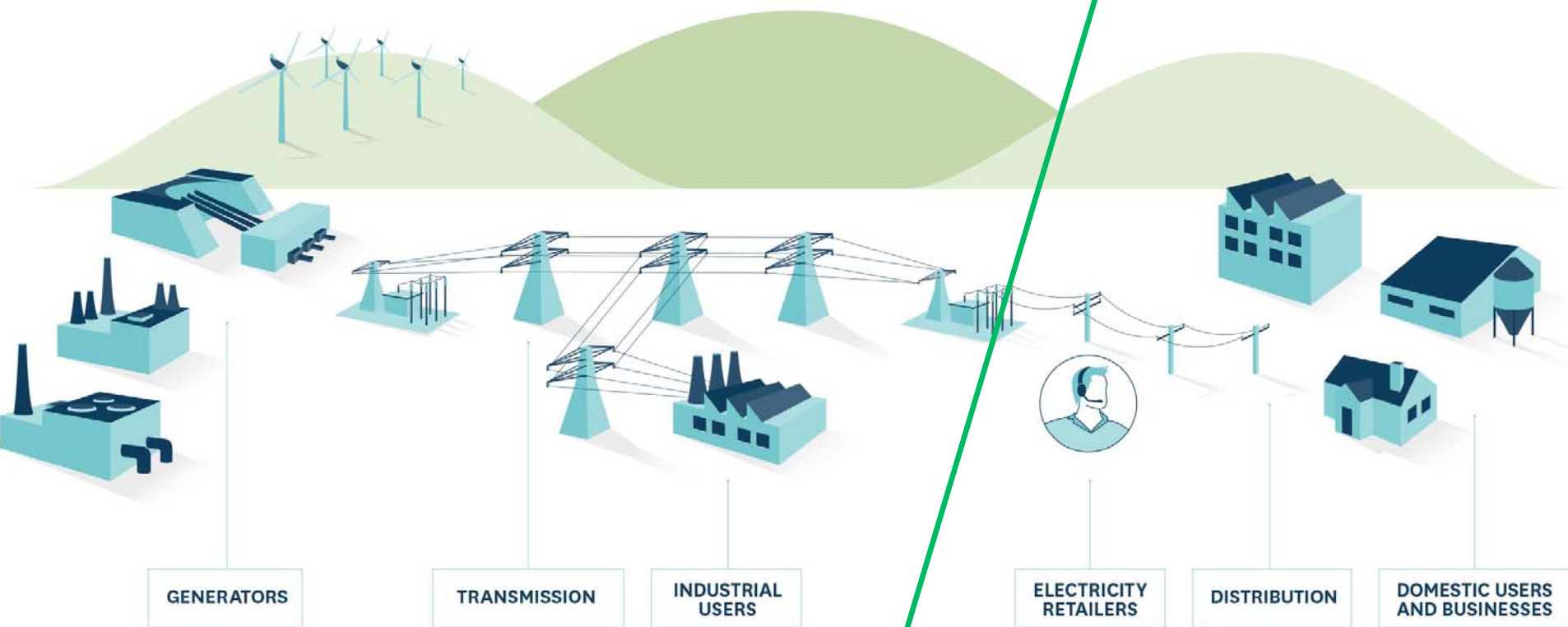
New Zealand electricity market



New Zealand market

wholesale

retail



GENERATORS

TRANSMISSION

INDUSTRIAL USERS

ELECTRICITY RETAILERS

DISTRIBUTION

DOMESTIC USERS AND BUSINESSES

5 Major generators (all listed)

1 Transmission grid operator (state owned)

1 Big industrial user (Rio Tinto/Sumitomo smelter)

29 Distribution businesses (various ownership structures)

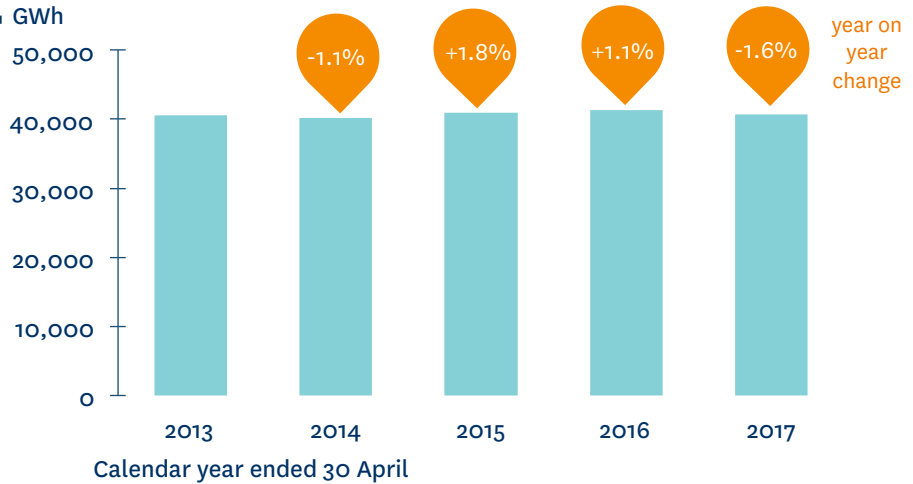
34 Electricity retail brands (5 major brands)

2 Million consumers (41 TWh pa)

The New Zealand market

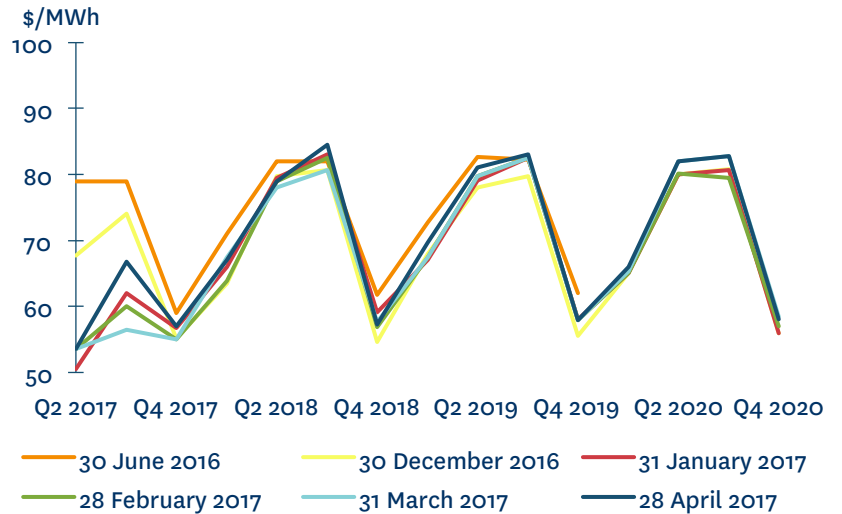
- Demand growth in the market eliminated by current climatic conditions (above average temperatures and high rainfall)
- National demand has decreased 1.6% in the last calendar year
- Market prices are highly seasonal, reflected in forward ASX prices
- Little rise in forward prices across three years, near term is highly sensitive to storage conditions
- Significant oversupply has worked through the market with older thermal plant closure
- Stronger capital discipline and more rational behaviour around new generation development
- Atypical autumn weather patterns have led to very dry lower South Island conditions currently

NATIONAL DEMAND



source: Electricity Authority

BENMORE ASX FUTURES SETTLEMENT PRICE

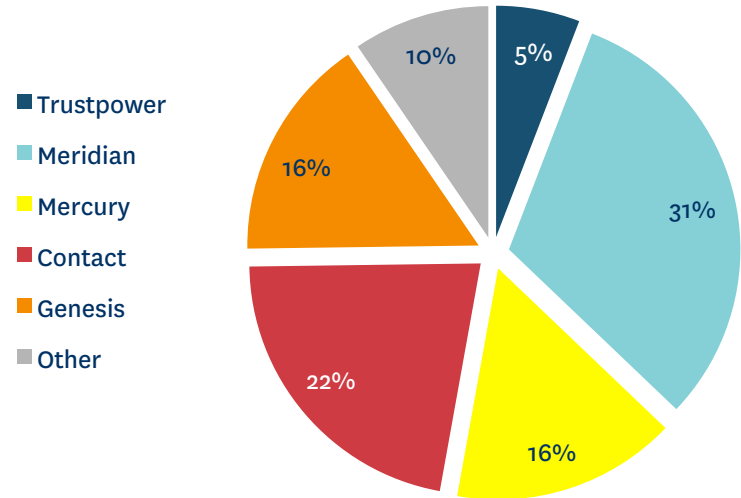


source: Meridian

The New Zealand market

- Vertical integration is the prevailing structure in the market
- Retail provides a wholesale market hedge against spot price variability
- Insulates earnings against unexpected shocks in the wholesale market
- Wholesale and retail market regulation provided by independent regulator – Electricity Authority (EA)
- EA mandate is to deliver efficient operation of the industry, ensure security of supply and promote competition
- No price controls
- Non competitive distribution sector regulated by the Commerce Commission, with mandated limits to rates of return

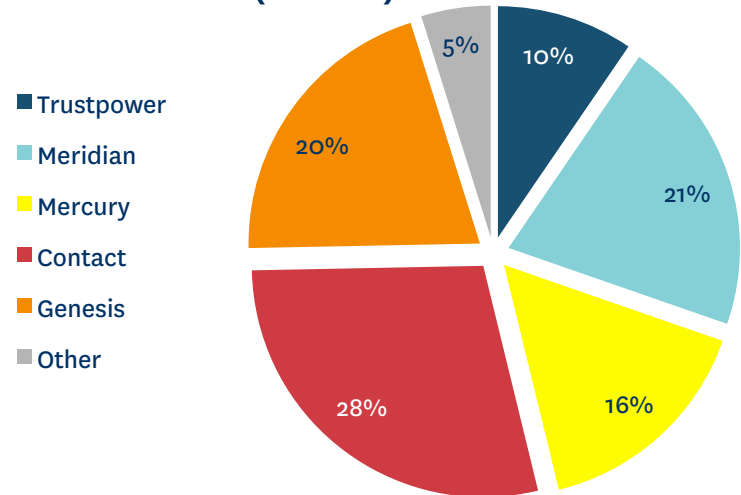
GENERATION MARKET SHARE



Market share numbers are annual averages

source: Meridian

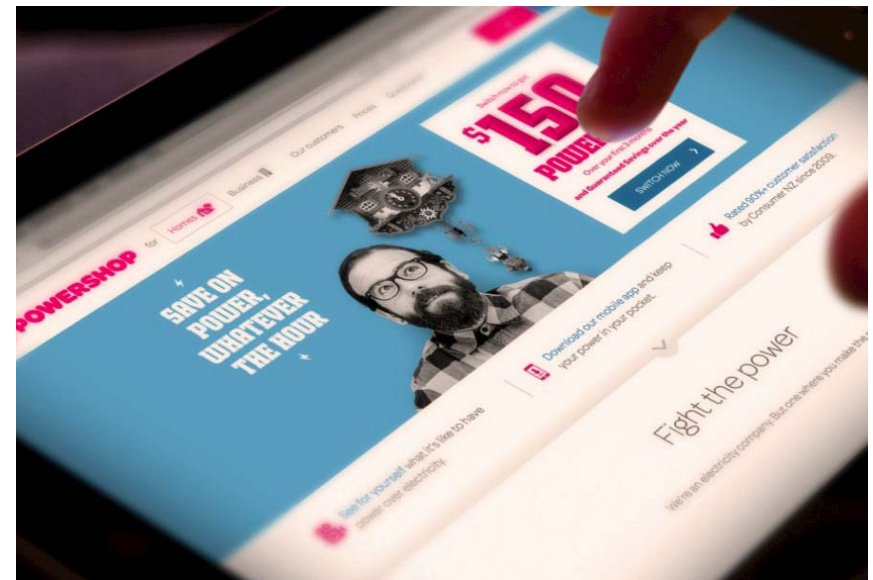
RETAIL MARKET SHARE (BY LOAD)



source: Meridian

Retail

- Low generation growth environment has led to greater focus on retail profitability
- Regulator has established low entry barriers for new retailers
- Varying loyalty plays and offer/tariff differentiation across the market
- Rise in energy management initiatives mainly focused on usage disaggregation
- High retail competition and switching (dominated by premises moves) persist in the market
- Competing forces influencing household consumption including population growth and energy efficiency



New technology

- Solar uptake increasing as economics slowly improve, including commercial
- Residential capacity factors remain low (15%) and payback high (13 years)
- Battery value is in load shifting (high to low price periods); grid scale unlikely due to large hydro storage
- Solar and batteries to achieve residential off grid remain very expensive (20 year payback)
- EV levels are growing (currently 3,300), uptake dependent on the second hand import market
- Uptake will have system impacts particularly network resilience in higher peaks
- Tariffs to incentivise off peak charging now in the market



Tiwai Point smelter

- Around 12% of New Zealand’s total annual demand
- CfD contract with Meridian now operates on NZAS perpetual 12-month termination right
- International aluminium market is improving, but remains challenging
- Meridian’s modelling suggests smelter is cash positive after stay-in-business capex
- Further South Island grid investment needed for complete north transfer if smelter closes (majority of lower South Island generation can be dispatched now)
- Investment would be triggered by Tiwai closure; Transpower spend would be around \$100m over 3 years
- Greater HVDC capacity and North Island line uprating possible in the medium term

1 Jan 2017

30 Apr 2017

31 Dec 2030

Termination right
(with 12 months notice)



Price (+CPI):

2013 price on 400MW



2015 price on 172MW



Reduction to 400MW
(with 12 months notice)



International Energy Agency review¹

- World class level of cost competitive renewable energy sources
- Well functioning wholesale and retail markets, system flexibility and security of supply
- Sector reforms have delivered greater market efficiency and improved risk management
- Regulatory focus is now on efficient transmission pricing and impact of new technologies on distribution
- Despite a more renewable fuel mix, additional policies will be required to further decarbonise the economy
- Current fossil fuel reliance of transport and farming sectors is high
- Existing carbon pricing policies are insufficient to meet future emissions targets



¹IEA 'Energy Policies of IEA Countries – New Zealand 2017 Review'

Australian electricity market



The Australian market

- Market still reluctant to commit to new renewables at scale, despite high LGC prices
- Uncertain political support for renewables and low long-term PPA pricing
- Likelihood of meeting the 2020 RET target remains questionable
- Security of supply issues have manifested in recent months
- Several widespread outages and unplanned industrial load shedding
- Thermal plant retirement
- Combined with domestic gas shortage leading to sharp increase in wholesale prices
- Subsidies for continued smelter operations
- Differing federal and state responses including gas reservation policy



New technology

- Residential solar uptake 30% in some states with subsidy support
- Commercial solar may take off as high wholesale prices roll through
- Residential capacity factors and payback periods better than New Zealand, costs have been static over the last three years
- Utility scale solar costs are decreasing significantly
- Grid scale battery storage unlikely without subsidies
- High fossil fuel generation limits the EV environmental proposition
- Examples of community peer to peer and social funding

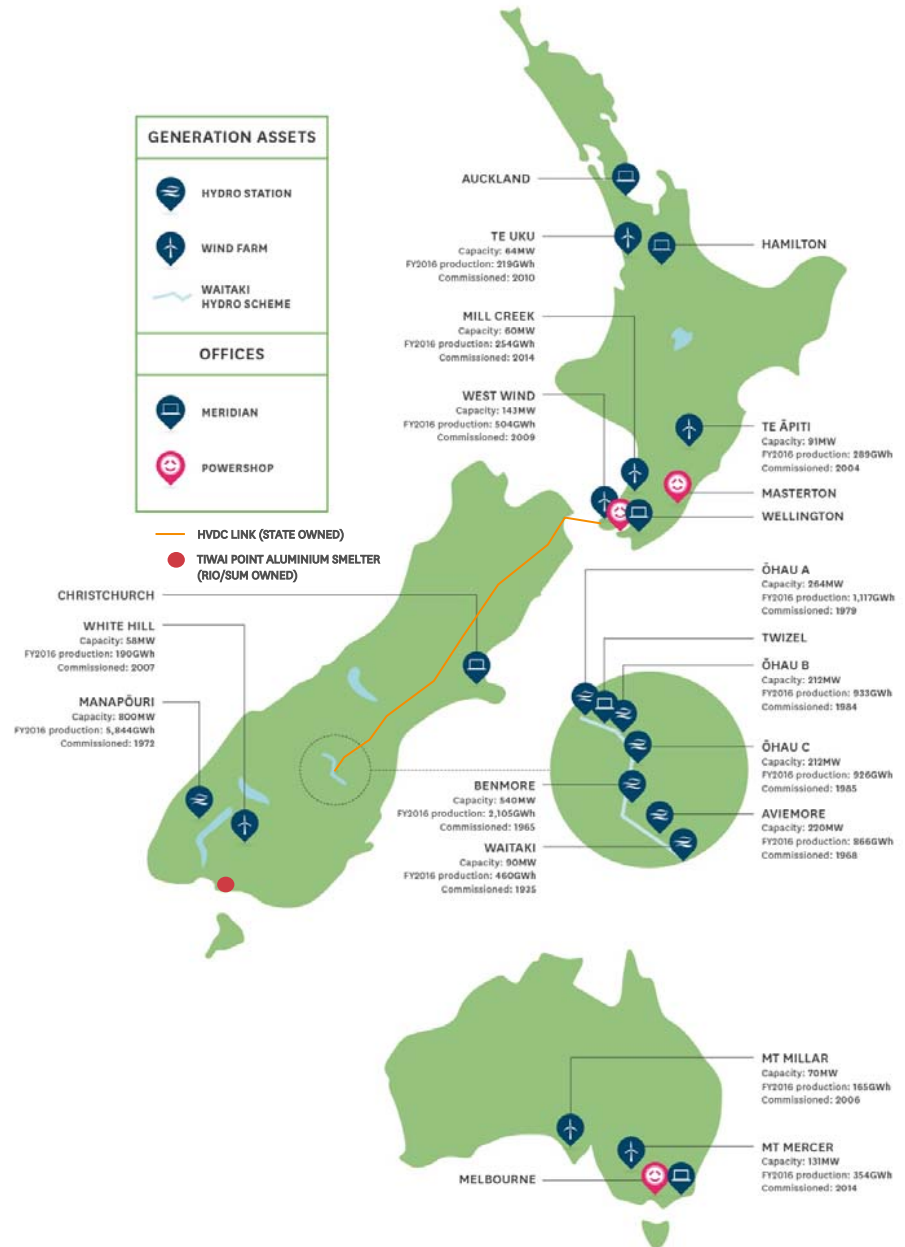


Meridian Energy



About Meridian

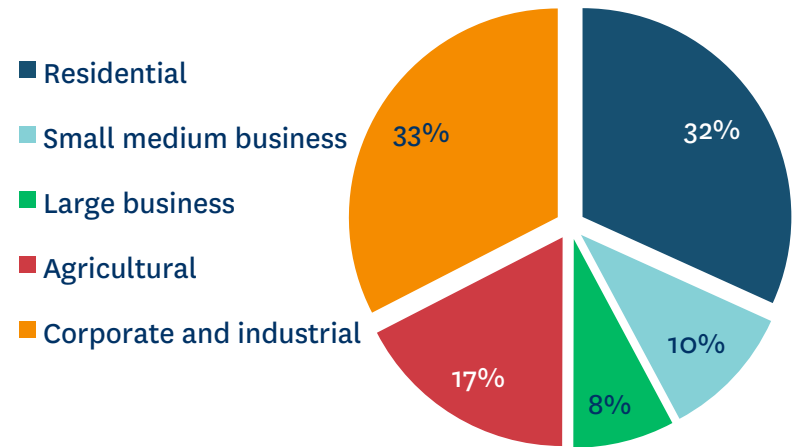
- Vertically integrated renewable generator, retailing electricity to 374,000 customers in New Zealand and Australia
- New Zealand's largest generator from purely renewable sources
- Seven hydro stations
- Flexible plant with New Zealand's largest storage
- Long life assets with low operating cost
- Benchmark operational efficiency and low capital needs
- Seven wind farms
- More than a decade of construction and operational experience
- Unsubsidised in NZ with high capacity factors



About Meridian

- Annual NZ generation has averaged 13,000 GWh since listing (90% hydro, 10% wind)
- Typical long generation position to manage hydrology risk
- Supported by a North Island swaption
- Smelter load covers around 40% of Meridian’s generation
- Remaining retail contract load is weighted into business and agricultural segments
- Strong ESG emphasis with focus on:
 - Adoption of relevant United Nations Sustainable Development Goals
 - Meeting new NZX Corporate Governance Code requirements
 - Refreshed sustainability framework

RETAIL CONTRACTED SALES



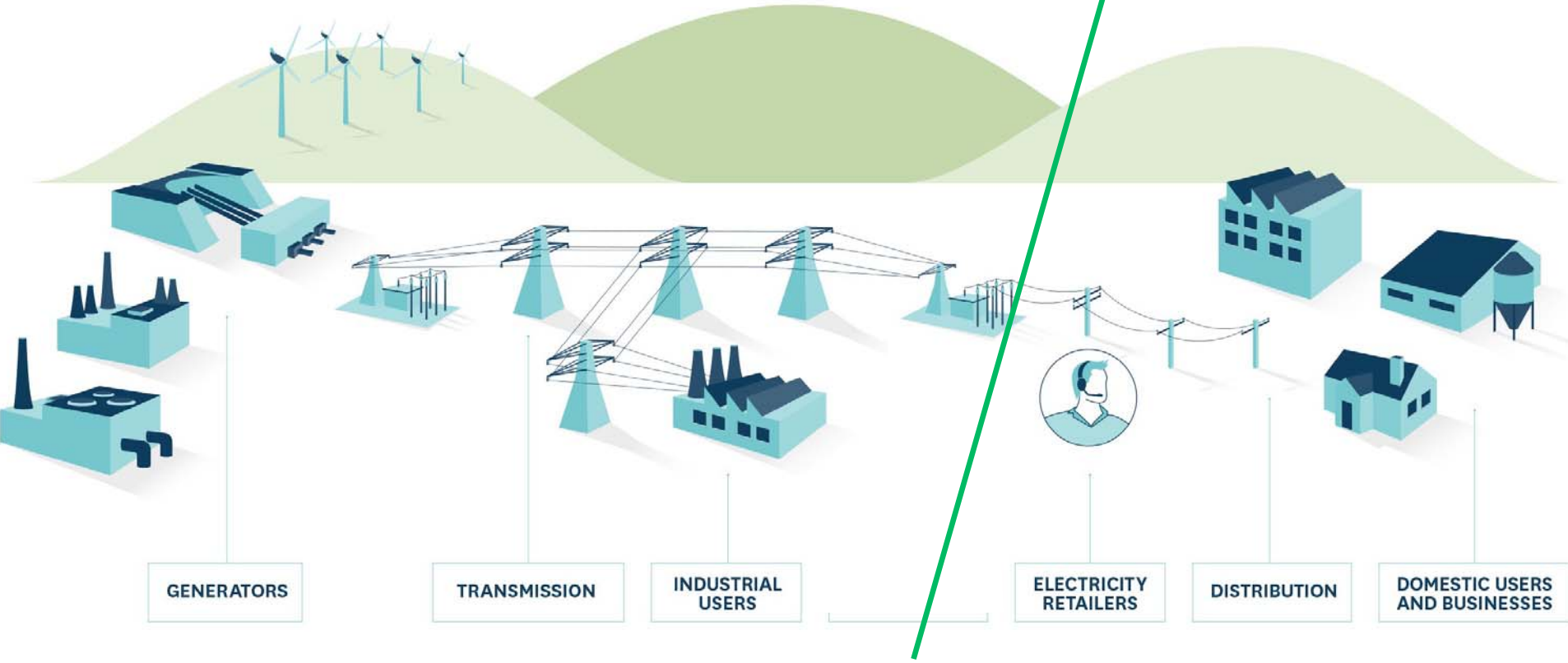
source: Meridian



Meridian's earnings

wholesale +\$588m

retail +\$69m



international +\$34m

corporate/other -\$41m

FY16 EBITDAF \$650m

Our strategy

- Focus on what is material to shareholder value



Maintaining an open market in which we can compete effectively

Protecting and maximising our generation asset and wholesale position



Powering today, protecting tomorrow



Developing opportunities for earnings growth

Growing retail value by making things easy for our customers and optimising our operations



Progress on strategy



Maintaining an open market in which we can compete effectively

- TPM cost benefit analysis to be redone, implementation still expected by April 2020
- Election year focus unlikely to be on electricity market structure



Developing opportunities for earnings growth

- NZ wind options ready to meet expected new supply needs after 2019
- Powershop Australia launched in Queensland, approaching 100,000 customers in three states
- Second Powershop UK milestone met

Progress on strategy



Protecting and maximising our generation asset and wholesale position

- NZAS back-to-back arrangements with other generators in effect
- Transmission grid resilient to a Tiwai exit
- Ability of HVDC to deliver energy into the North Island is robust

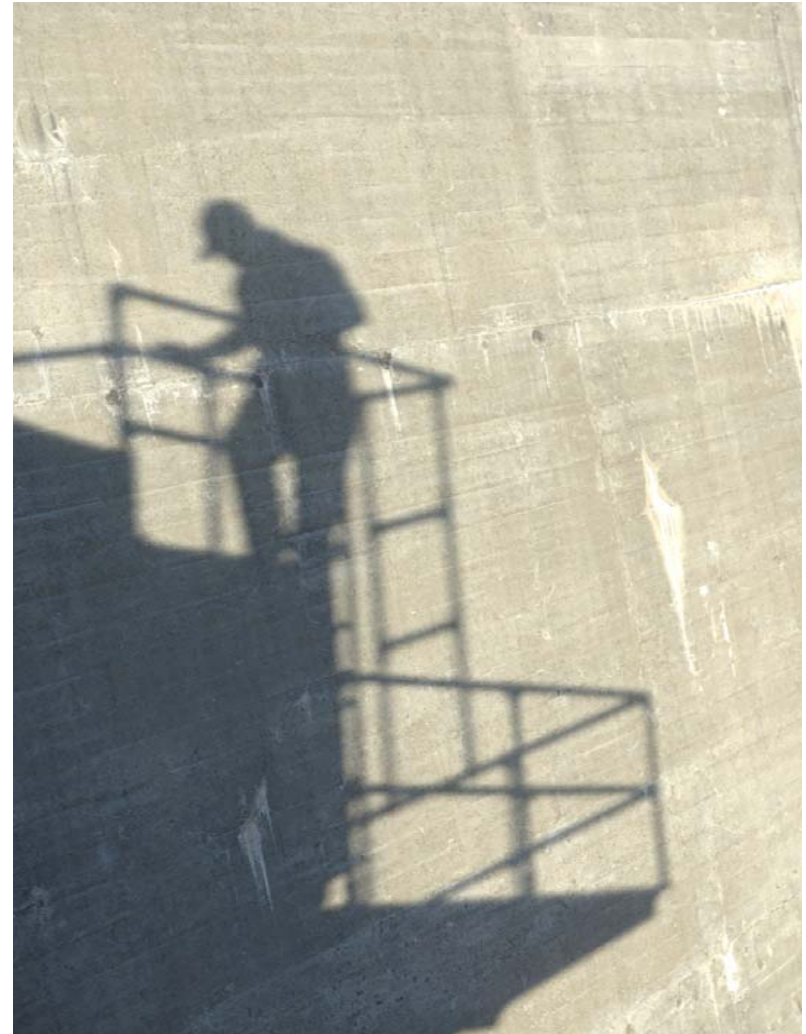


Growing retail value by making things easy for our customers and optimising our operations

- Two years through a \$24m redevelopment of core customer support systems
- Small/medium business focus delivering segment volume growth
- Commitment to EVs with tailored tariffs, fleet conversion and infrastructure partnerships

Risk management

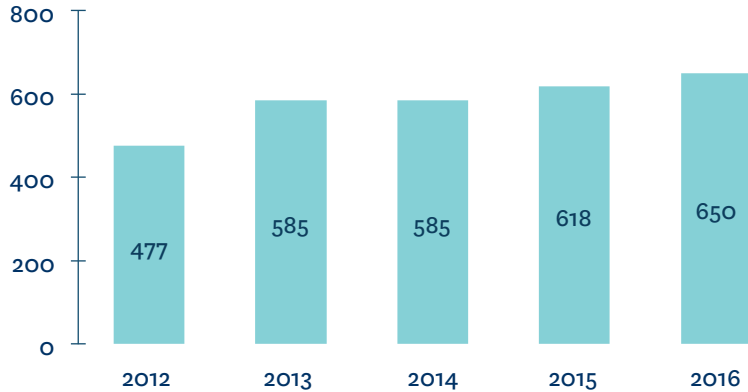
- Comprehensive risk management programme addressing key risks:
 - Health and safety
 - Adverse hydrological conditions
 - Market response to Tiwai Point smelter closure
 - Use of and access to water
 - Plant failure
 - Legislative and regulatory risks
 - Competitor behaviour
 - Information technology risk
 - Customer demand
 - Catastrophic events
 - Financial risks



5 year financials

EBITDAF

\$M

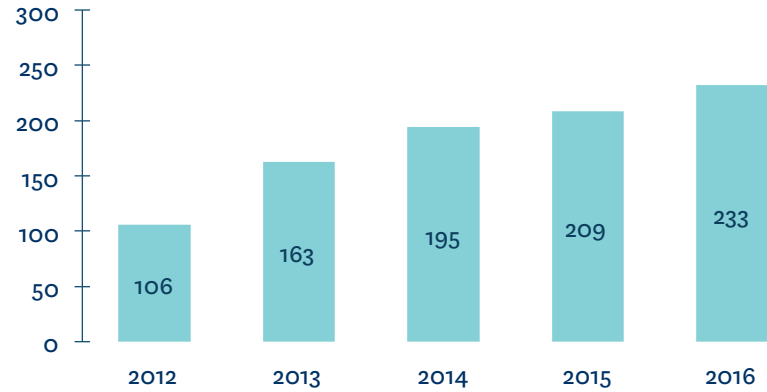


Financial Year ended 30 June

source: Meridian

UNDERLYING NPAT

\$M



Financial Year ended 30 June

source: Meridian

Improvement due to:

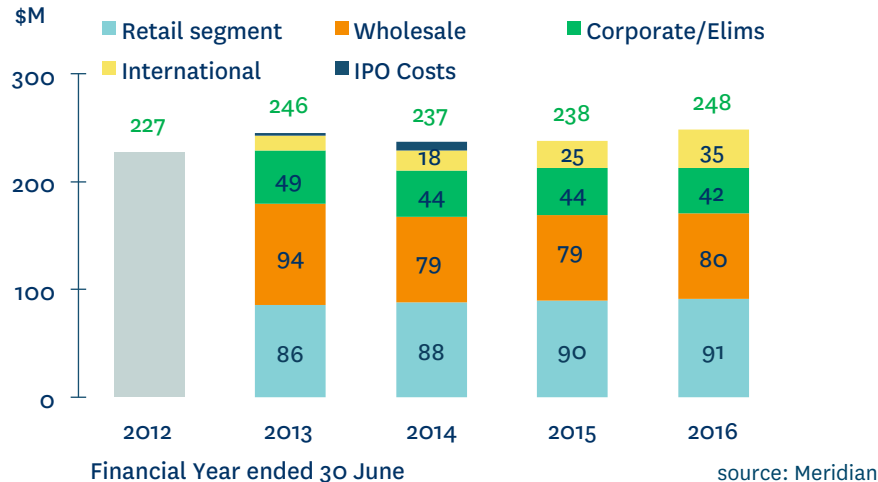
- Lift in NZ retail profitability
- Customer growth in Australia
- New wind farm commissioning in NZ and Australia
- Operating cost discipline
- Despite absorbing 49% increase in transmission costs since 2012

Improvement due to:

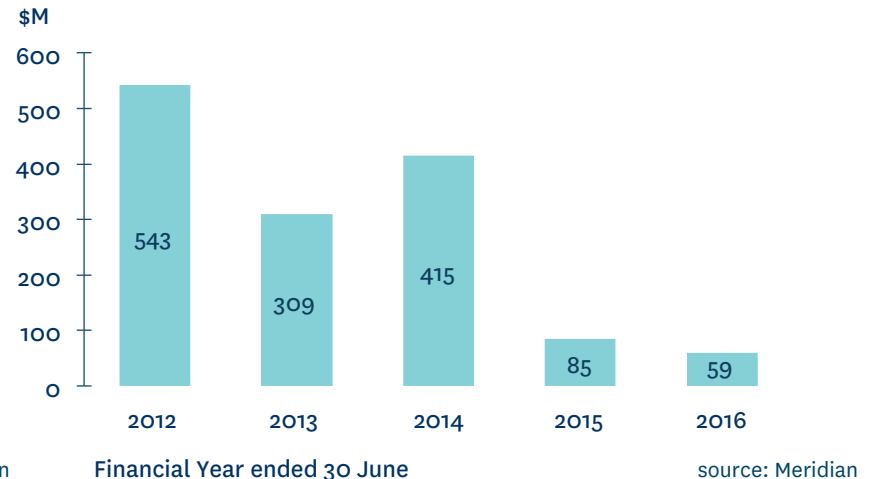
- Higher EBITDAF
- Lower finance costs
- Despite increasing depreciation (new wind farms and higher asset valuations)

5 year financials

OPERATING COSTS



CAPITAL ASSET ADDITIONS



Improvement due to:

- Cost discipline in the core business
- Some rationalisation of business functions and subsidiaries
- Long-term asset management planning
- Despite investment in international expansion and new wind ownership

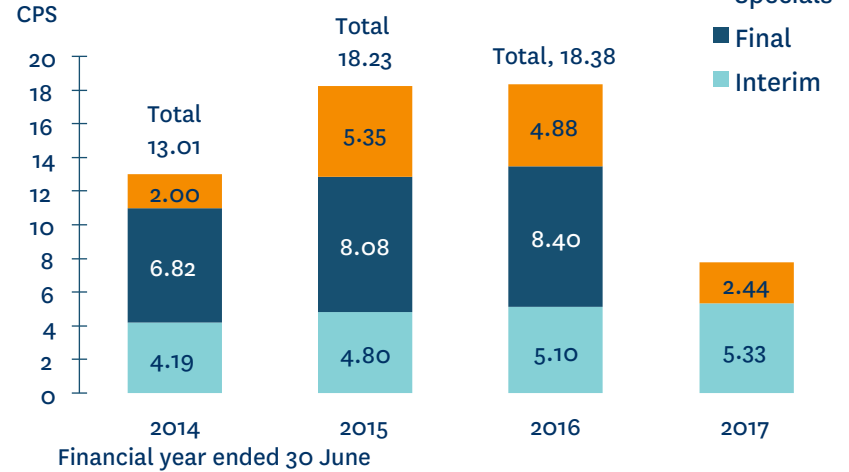
Improvement due to:

- End of new generation investment cycle in response to low demand growth
- Enduring, long term asset lives requiring low maintenance capital
- Appropriate sized IT systems investment

Free cash flow and dividends

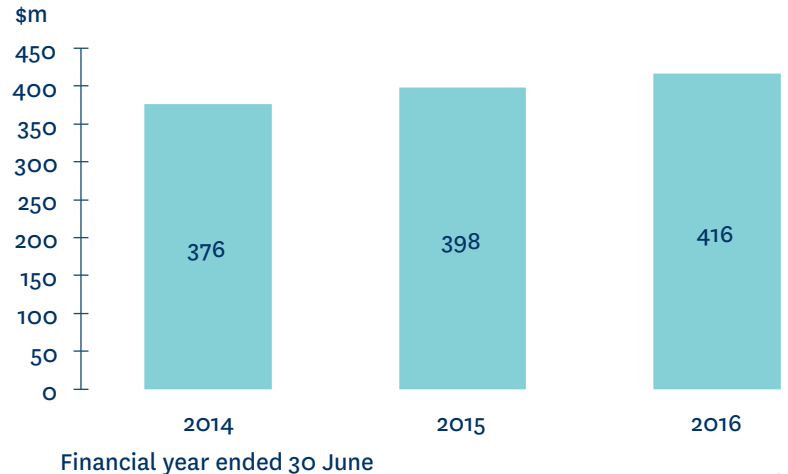
- Dividend policy targets 75%-90% free cash flow payout
- Capital management programme in response to low capital spend outlook
 - 18 months into a 5 year programme to return \$625m
 - \$187m paid to date (April 2017)
 - Special dividends have been the Board's preference to date

DIVIDENDS DECLARED



source: Meridian

FREE CASH FLOW

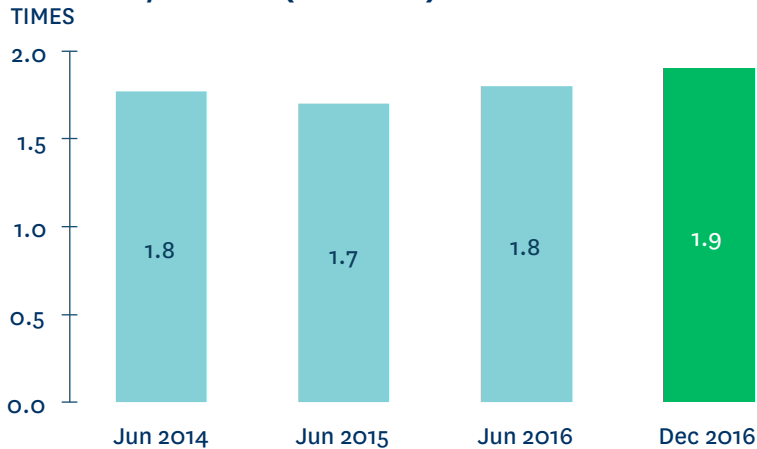


source: Meridian

Funding

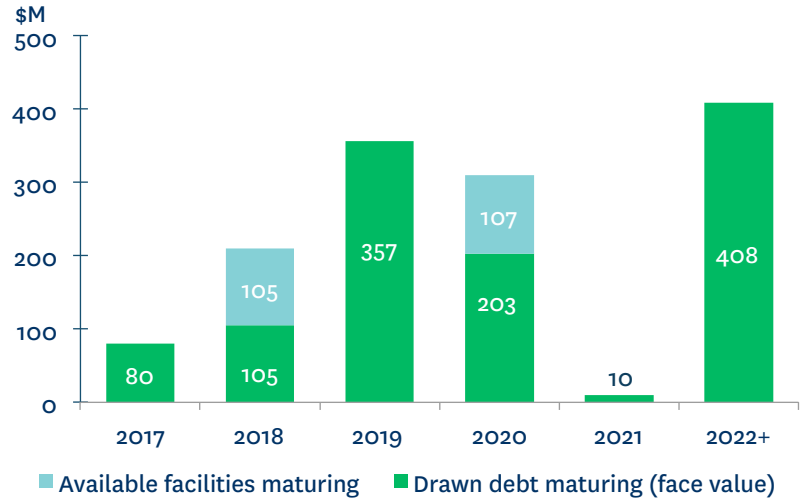
- Total borrowings as at 31 December 2016 of \$1,229m
- Net borrowings (net of cash) as at 31 December 2016 of \$1,185m
- Committed bank facilities of \$620m as at 31 December 2016, \$307m were undrawn
- \$150m 7 year bond issue completed in March 2017

NET DEBT/EBITDAF (S&P VIEW)



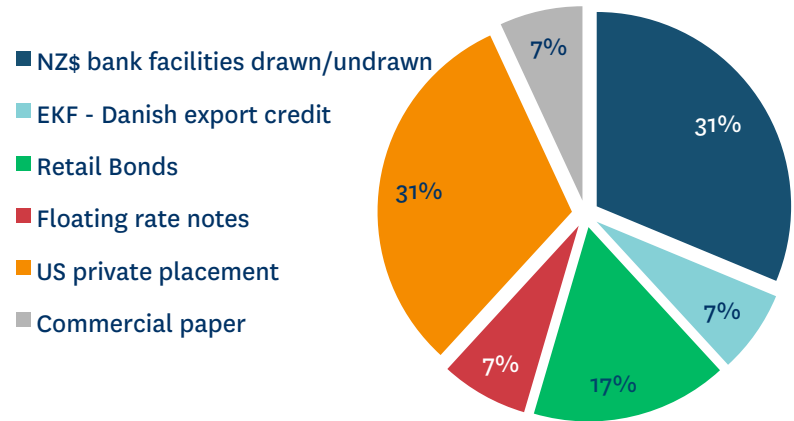
source: Meridian

DEBT MATURITY PROFILE AS AT 31 DEC 2016



source: Meridian

SOURCES OF FUNDING AS AT 31 DECEMBER 2016



source: Meridian