

# *Better energy*



meridian

**MERIDIAN  
ENERGY LIMITED**  
GOLDMAN SACHS  
INVESTMENT FORUM  
PRESENTATION

March 2015



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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.

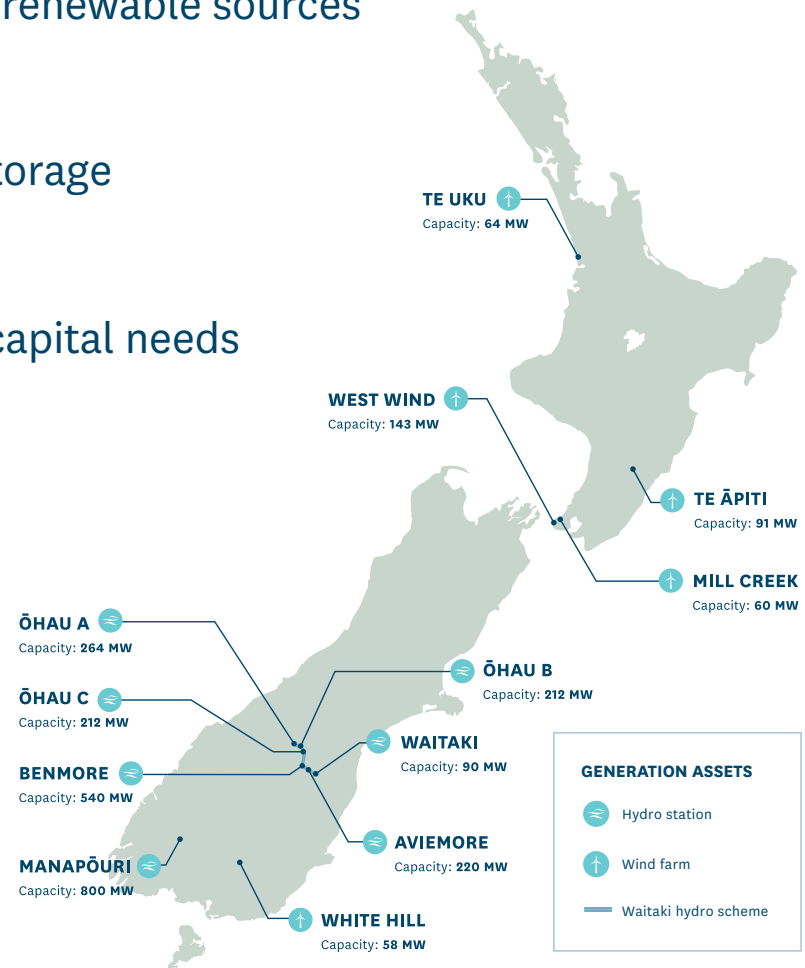
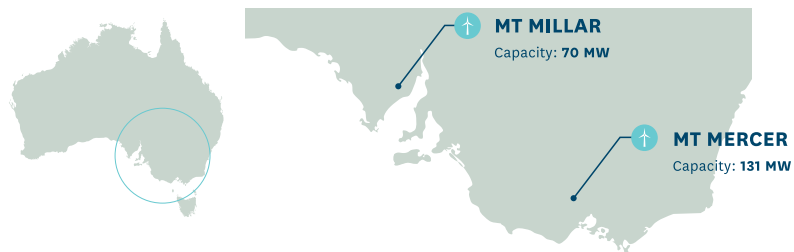
# About Meridian



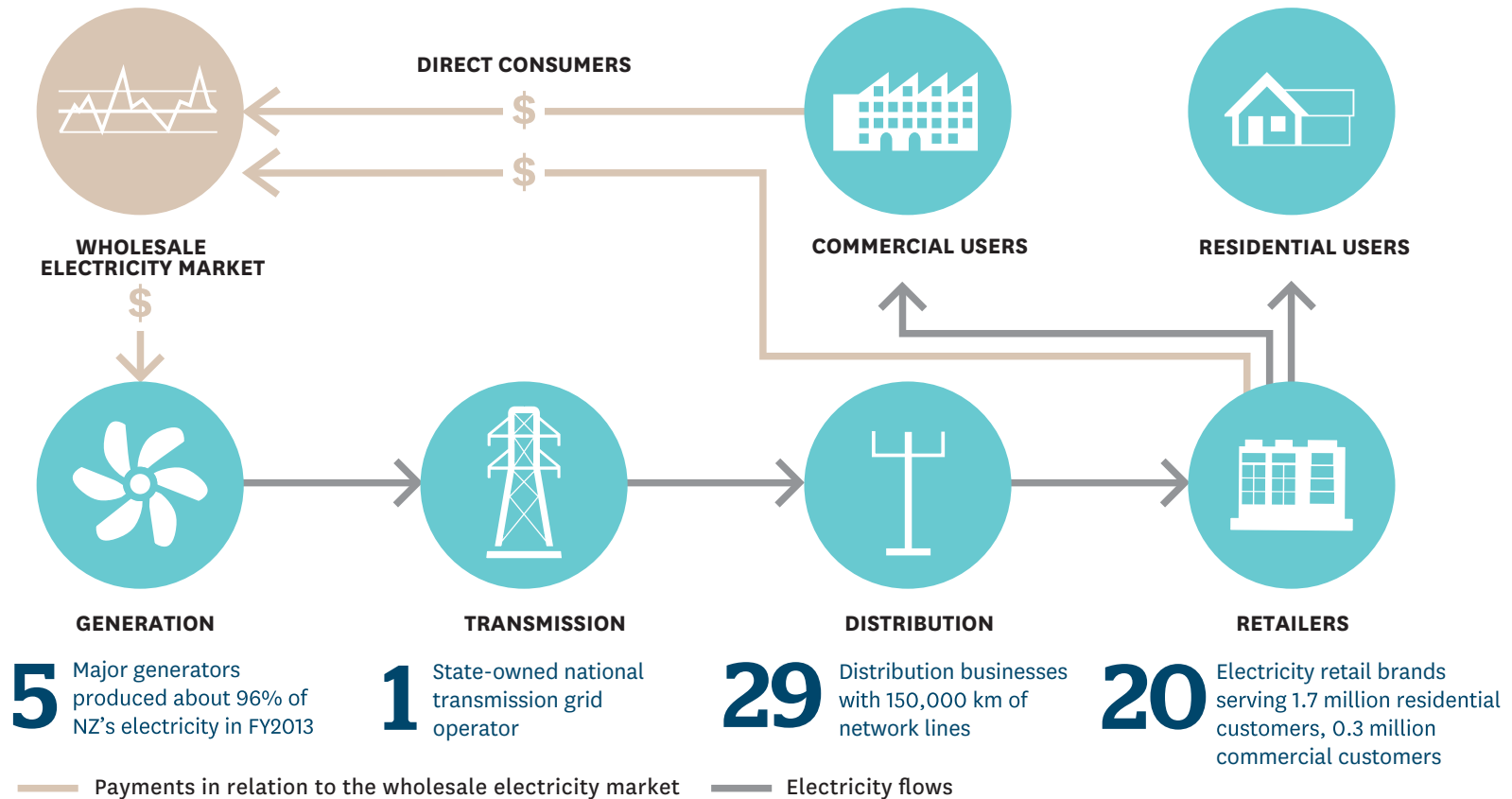


# About Meridian

- Vertically integrated renewable generator, retailing electricity to over 300,000 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 costs
  - 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



# New Zealand electricity industry



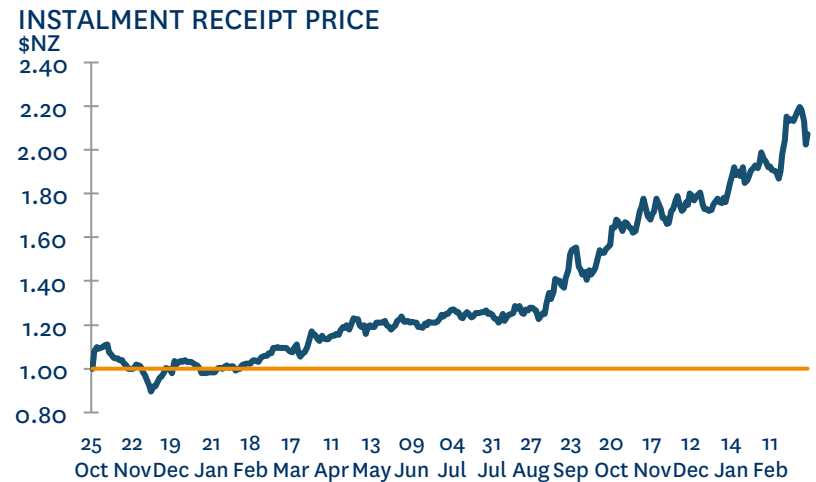
- Generators sell electricity they generate at power stations to the wholesale spot market
- The national grid carries electricity from power stations to distribution networks and some users
- Distribution networks carry electricity to other users
- Retailers buy electricity from the wholesale spot market and on-sell it to end consumers

# Current themes



# Price performance and yield

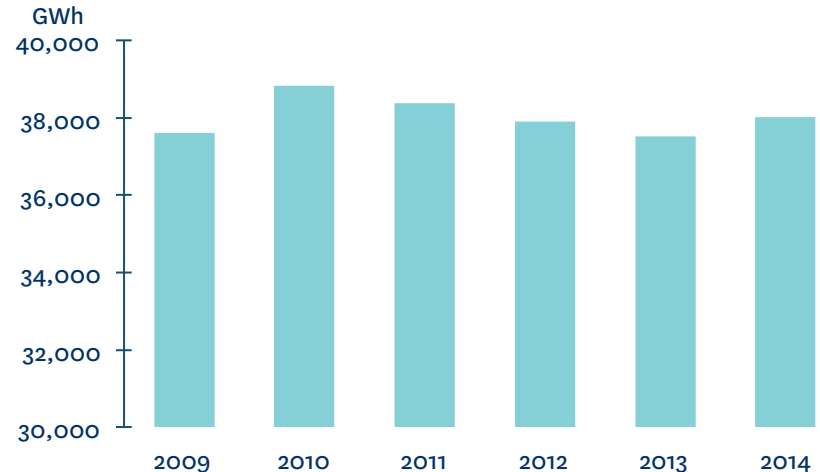
- Highest performing NZX50 stock in 2014 with a gross return in excess of 85%
- Higher than forecast dividends in FY2014
  - 11.7% gross yield on final IPO share price (\$1.50)
  - Compared with prospectus forecast yield of 8.9%
- FY15 interim dividend 4% higher than prospectus forecast
- Recently announced lift in dividend policy to 75%-90% of free cash flow
- In addition, targeting a progressive return of a further \$625m over next 5 years, starting in August 2015



# Key market and regulatory points

- 1.3% New Zealand demand growth in 2014, last 6 months up 2.9% on prior period
- Retail competition remains fierce
- Upcoming decision point for the Tiwai Point aluminium smelter on 1 July 2015
- The Electricity Authority is expected to publish a second transmission pricing issues paper before December 2015
- Uncertainty about the Renewable Energy Target (RET) in Australia has paralysed investment in renewable generation
- Meridian's focus in Australia is on successfully rolling out a new retail experience

NEW ZEALAND NATIONAL DEMAND





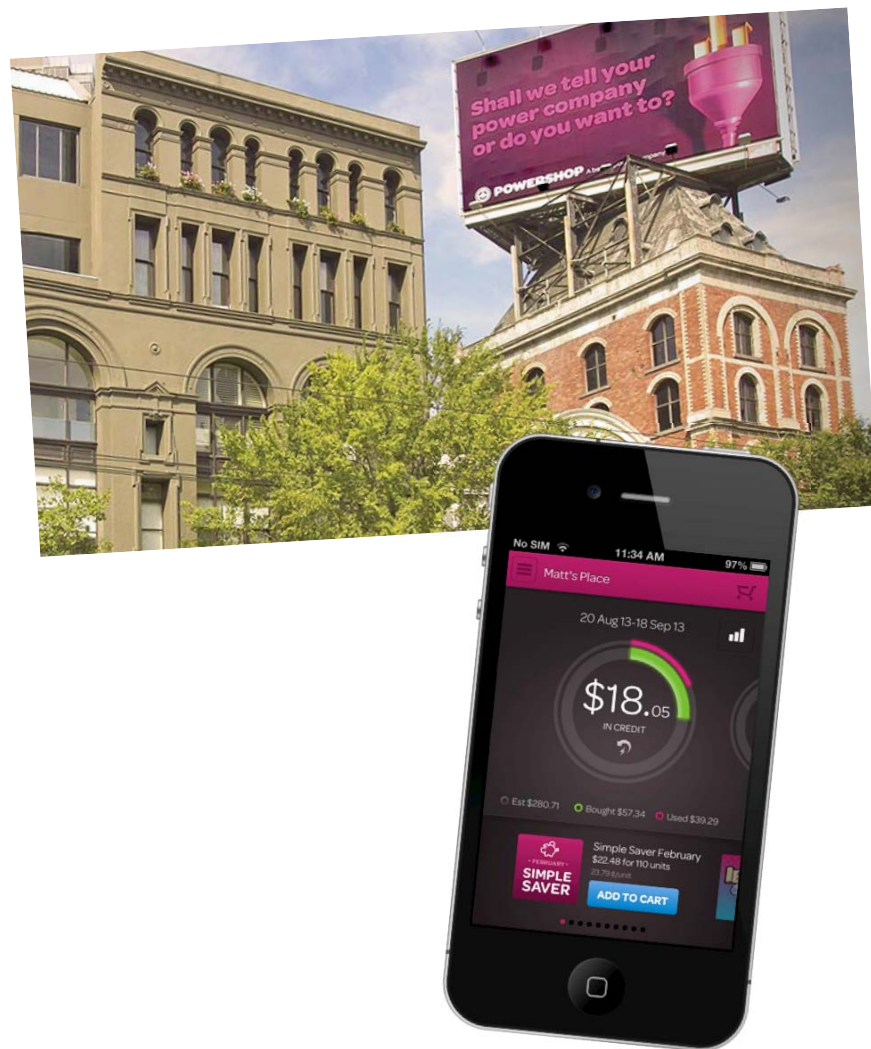
# Projects

- 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

- A unique, online retail experience in New Zealand and Australia
- 55,000 New Zealand customers
- 30,000 customers in Victoria, Australia
- Recently launched in NSW, Australia
- Powershop Australia leverages existing New Zealand technology and call centre investment
- Exploring potential international options



# Meridian retail in New Zealand

- Arc metering business sold and programme commenced to replace remaining 125,000 legacy meters
- Aggressive residential competition has seen a small decline in customer connections
- Meridian's residential pricing is close to the lowest in most major networks
- Reduced fuel purchase obligations mean that thermal generators are able to reduce output
- The forward wholesale market has risen across all quarters, which may benefit commercial and industrial pricing





# 2015 Interim Results



# Key points

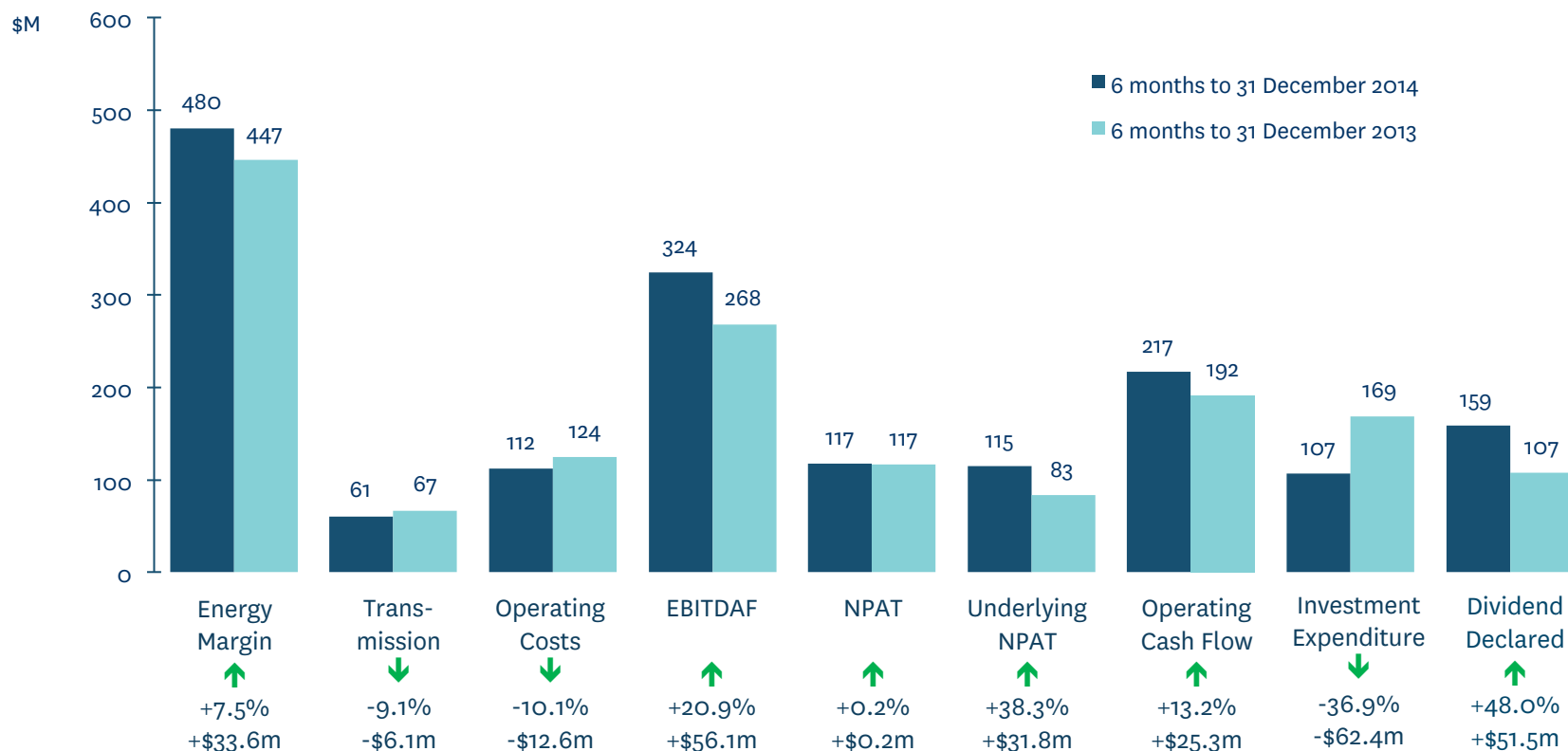
- Interim financials well ahead of last year
  - Operating cash flow +13.2%
  - EBITDAF +20.9%
  - Underlying NPAT +38.3%
- Capital projects completed
  - Mt Mercer and Mill Creek wind farms
  - Generation control system
- Total generation volumes +6.1%
  - 271GWh of new wind production
  - Higher winter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





# 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

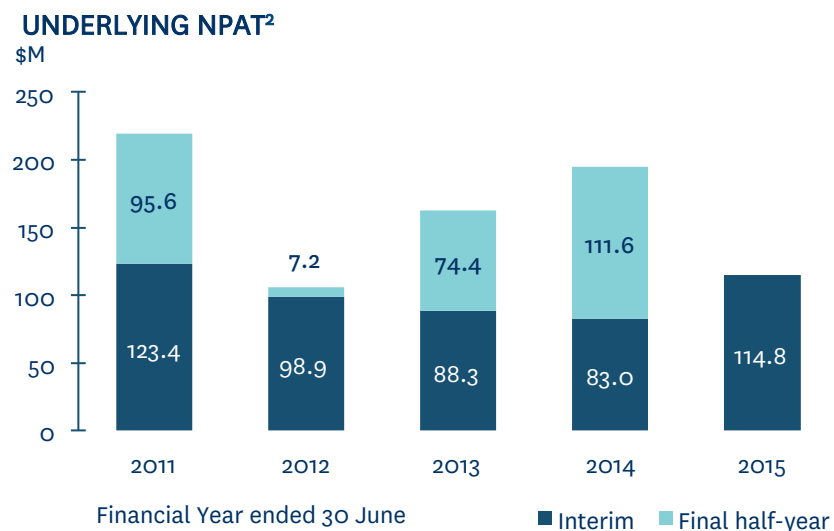
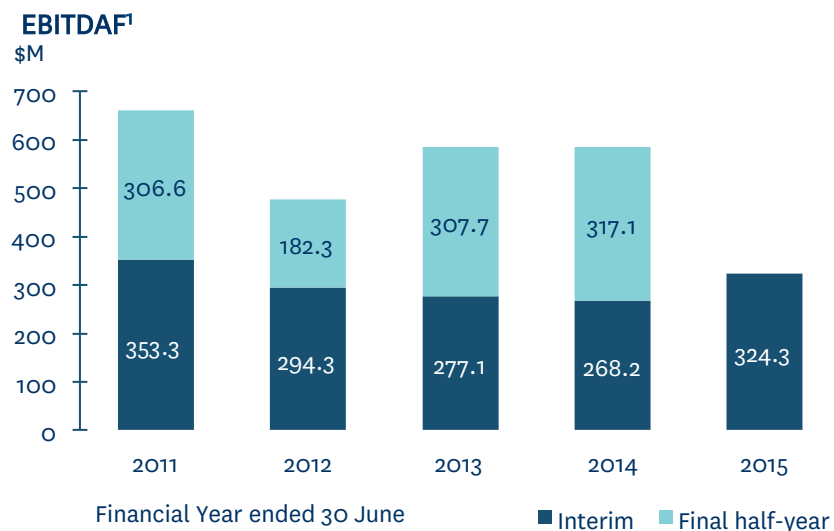


# Earnings

- '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

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

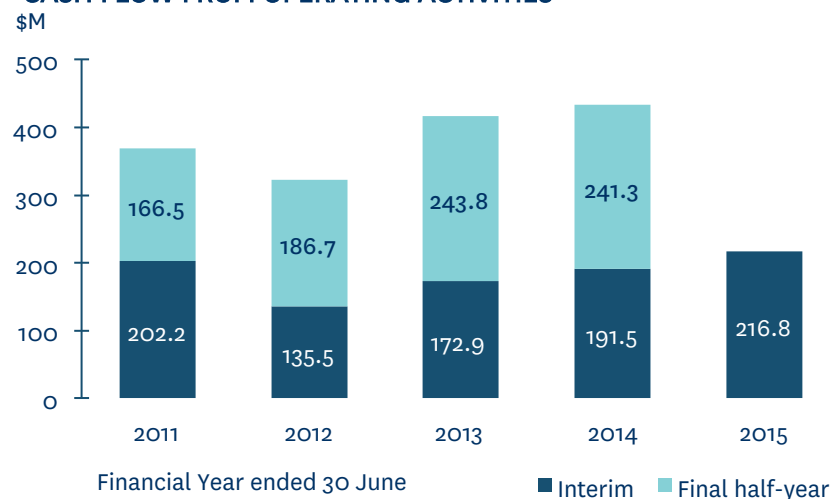
<sup>2</sup>Net Profit after Tax adjusted for the effects of non cash fair value movements and other one-off items



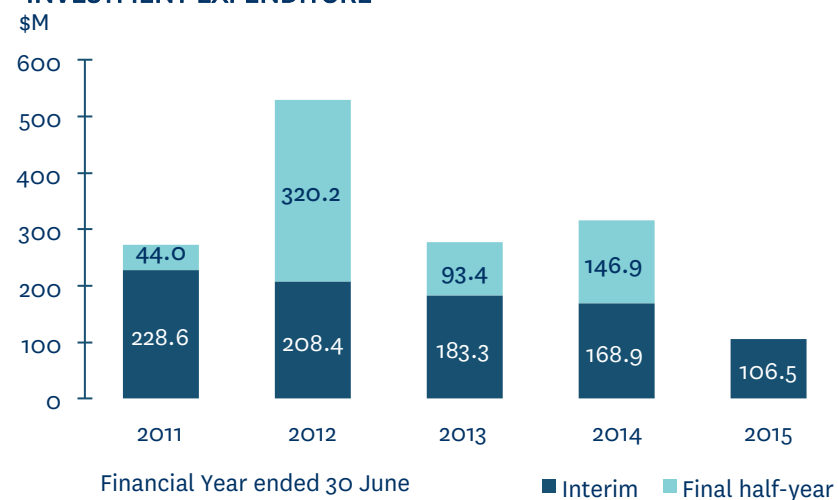
# Operating cash flow and investment expenditure

- 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



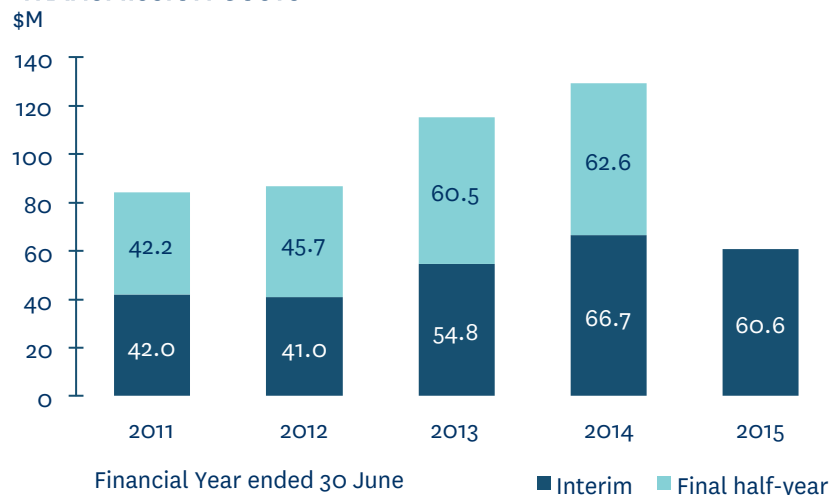
INVESTMENT EXPENDITURE



# 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

