



meridian

Release

Stock exchange listings: NZX (MEL) ASX (MEZ)

Annual results roadshow presentation

30 September 2016

Attached is a presentation on Meridian Energy's 2016 annual results that the company will be giving at a series of investor meetings during October 2016.

ENDS

Mark Binns
Chief Executive
Meridian Energy Limited

For investor relations queries, please contact:

Owen Hackston
Investor Relations Manager
021 246 4772

For media queries, please contact:

Polly Atkins
External Communications Specialist
021 530 768



Powering today, protecting tomorrow



MERIDIAN ENERGY LIMITED annual results roadshow presentation

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The information contained in this presentation should be considered in conjunction with the company's financial statements, which are included in Meridian's annual report for the year ended 30 June 2016 and is available at:

www.meridianenergy.co.nz/investors/

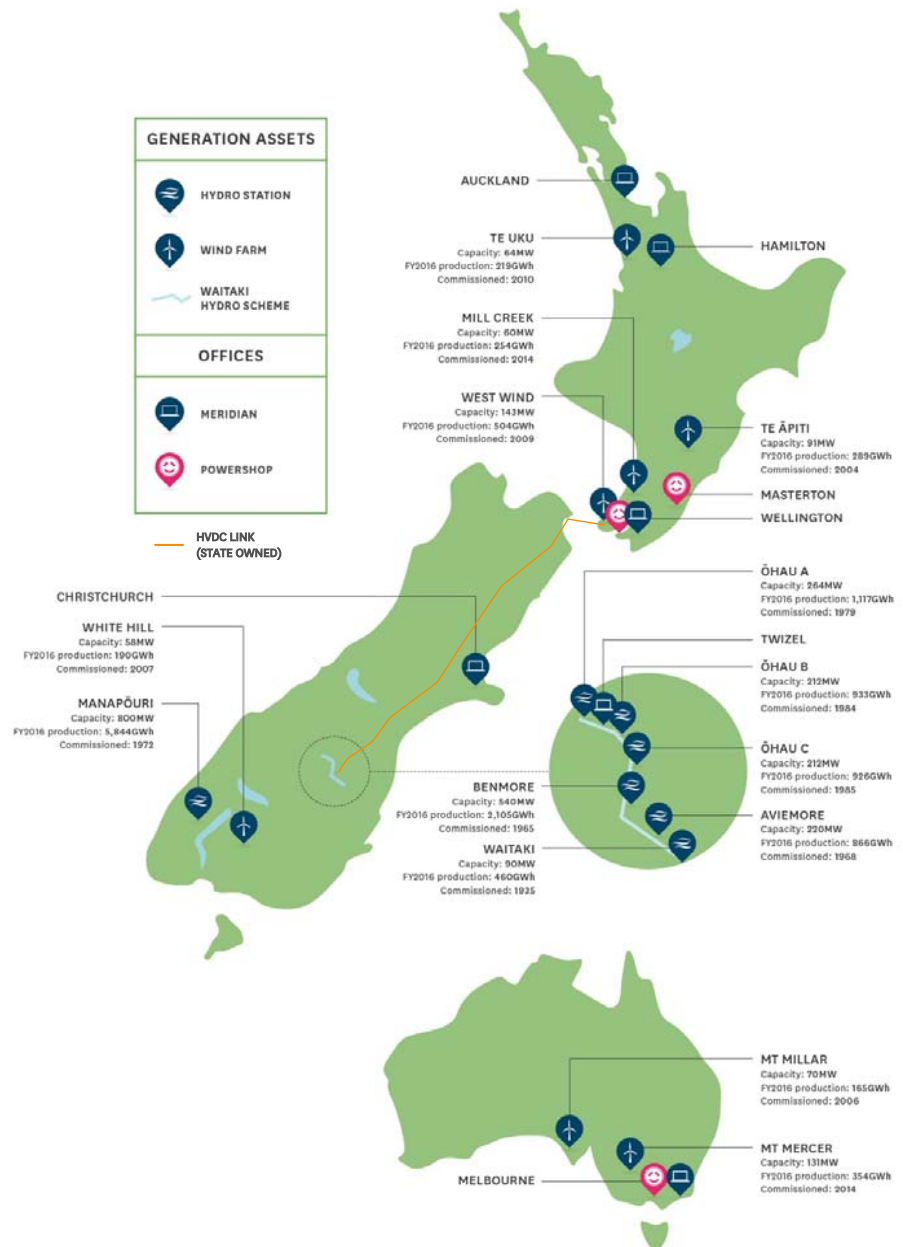
All currency amounts are in New Zealand dollars unless stated otherwise.

About Meridian



About Meridian

- Vertically integrated renewable generator, retailing electricity to 357,000 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



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



Better energy future



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 2nd issues paper confirms beneficiaries pay
- NZ political focus on practical consumer issues
- 31 retail brands make up a competitive NZ market
- Firming RET position, some doubts target will be met by 2020



Developing opportunities for earnings growth

- Consents & land agreements extended on NZ options to meet expected new supply needs after 2019
- Economics of best wind options improving
- Powershop Australia and UK tracking well
- Grid-scale solar economics improving in Australia

Progress on strategy



Protecting and
maximising our
generation
asset and
wholesale
position

- Lower Waitaki allocation plan amendments agreed
- Exposure to NZAS reduced through back-to-back arrangements with other generators
- Genesis swaption extension provides greater flexibility and improves security of supply



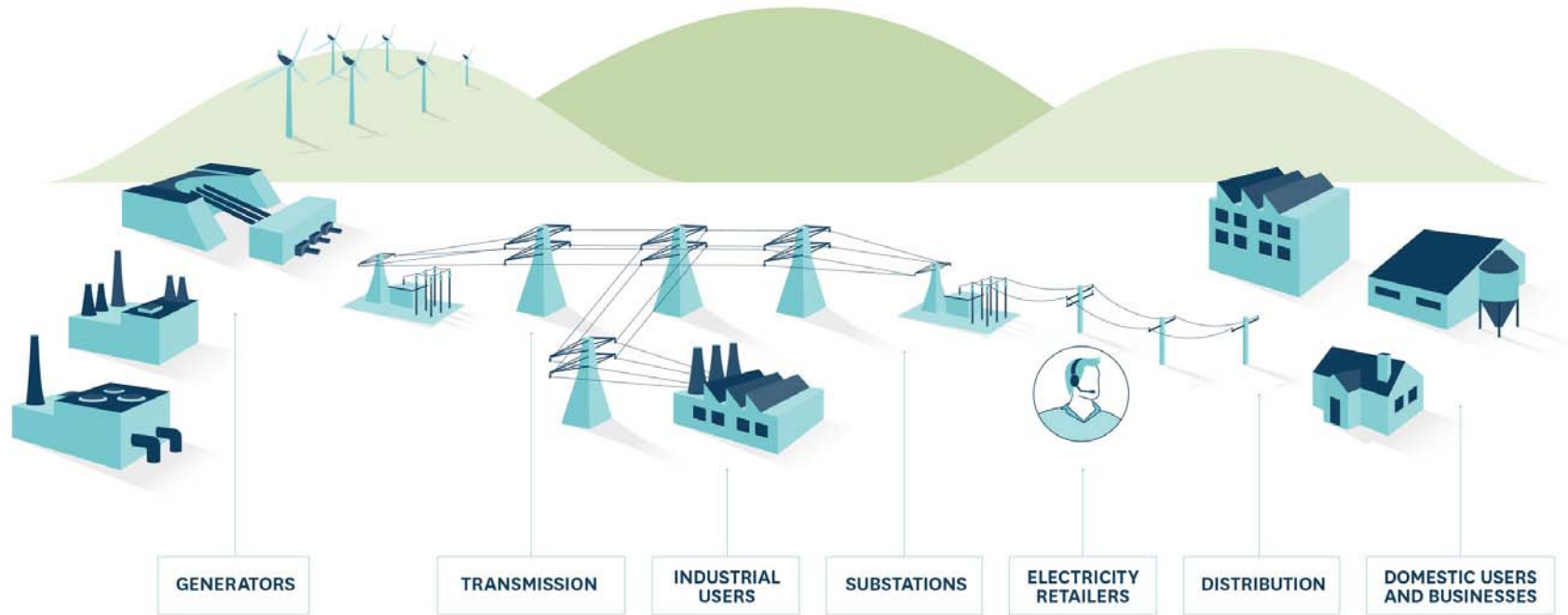
Growing retail
value by making
things easy for our
customers and
optimising our
operations

- Comparative improvement with segment EBITDAF growth of +23%
- Continued improvement in retail metrics
- Higher online penetration and quality of service is reducing customer effort

Markets we operate in



New Zealand market



5 Major generators

1 Transmission grid operator

29 Distribution businesses

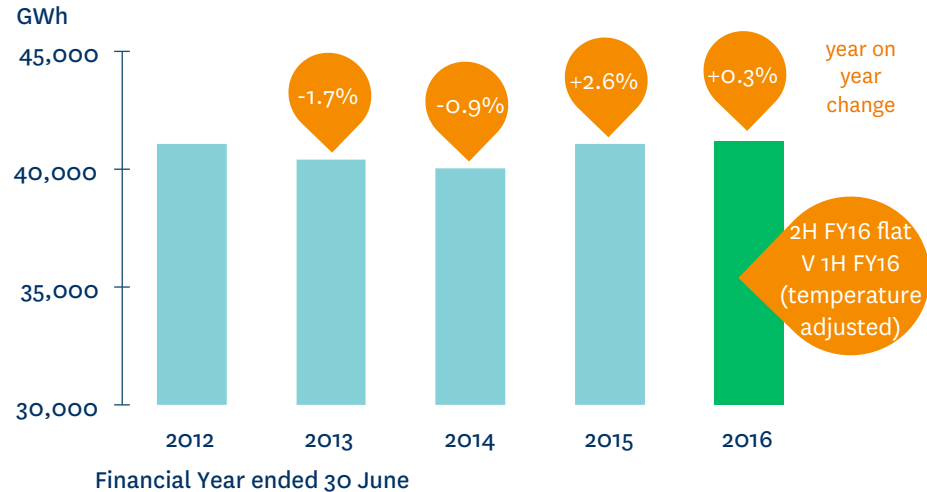
31 Electricity retail brands

2 Million consumers

New Zealand market

- Unseasonal warm autumn and winter temperatures have slowed demand growth
- Growth remains correlated to increasing population and positive economic sentiment
- 825MW of thermal plant closure has occurred in the last year
- Extension of remaining Huntly Rankine units gives greater security of supply

NATIONAL DEMAND



source: Electricity Authority

Otahuhu B

Owner: Contact Energy
Capacity: 400MW
Closed: 30 Sep 2015

Huntly Rankine Unit

Owner: Genesis Energy
Capacity: 250MW
Closed: 30 Jun 2015

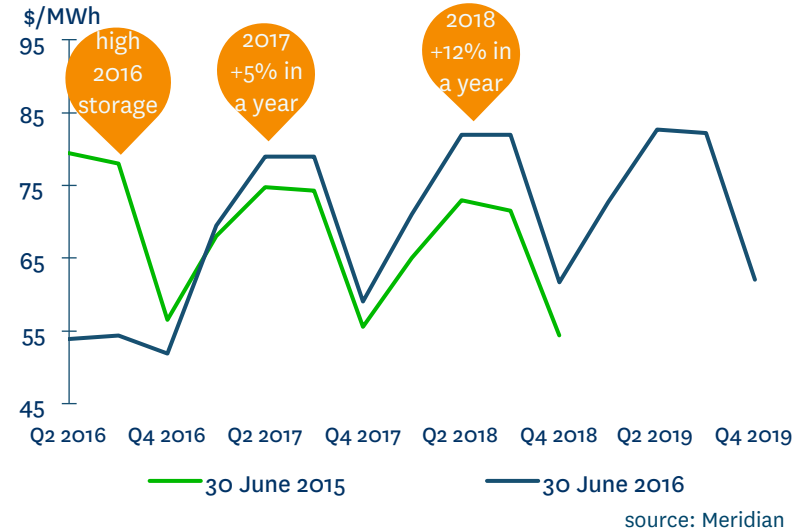
Southdown

Owner: Mercury
Capacity: 175MW
Closed: 31 Dec 2015

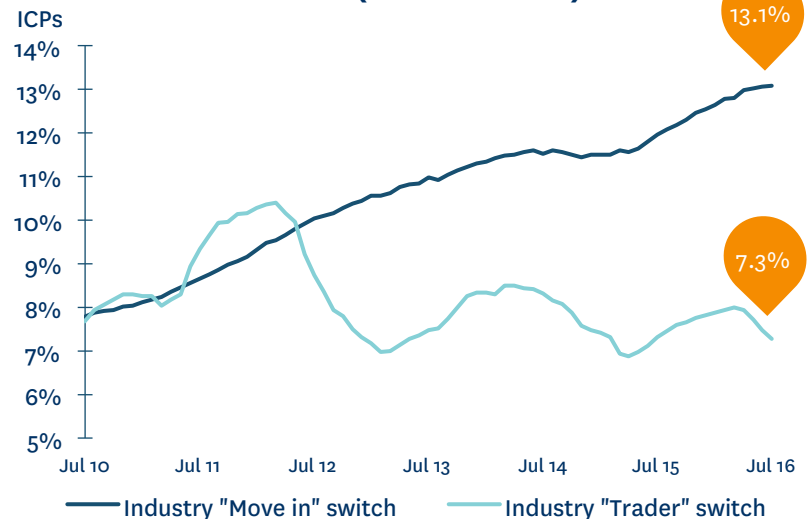
New Zealand market

- 2017 and 2018 ASX prices have lifted during the 2016 financial year
- Seems likely future wholesale prices will be more volatile in peak and dry periods
- High retail competition now has to be seen as a permanent feature
- Premises moves still dominate switching

BENMORE ASX FUTURES SETTLEMENT PRICE



MARKET ICP SWITCHING (ALL RETAILERS)



Transmission pricing

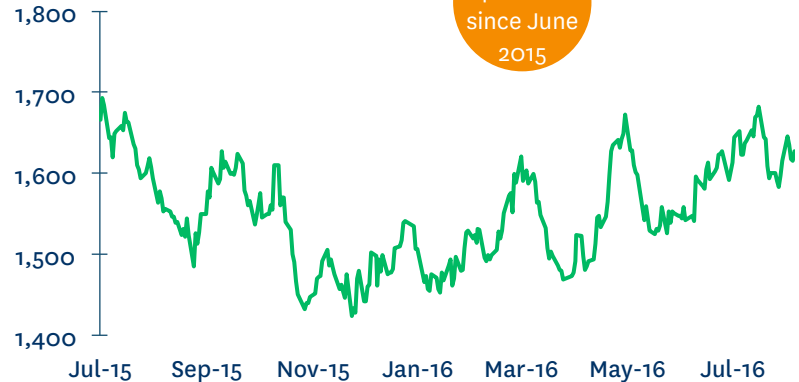
- Meridian's submission on transmission pricing methodology (TPM) proposal is strongly supportive of what is a more durable and fairer approach
- As expected there are divergent views; generally those in the upper North Island will see price increases, rest of the country will see price reductions
- Most controversial issue is removal of ACOT payments for distributed generators. EA estimates these payments cost consumers \$25m-\$35m and provide zero benefit in deferring transmission investment
- Overall the EA's data suggests 60% of households will see a decrease in their bill
- High Court recently heard, but is yet to rule on Trustpower's application to review the EA's consultation process
- Meridian is confident the EA will deliver a fairer pricing structure, underpinning security for New Zealand



Tiwai Point smelter

- Trading environment for the aluminium industry remains difficult
- Chinese capacity curtailments have not been sufficient to fully compensate for the slowdown in demand growth
- Further global demand growth is forecast, but outstripped by capacity ramp-ups and current near all-time high inventories
- USD aluminium prices have risen 8% since December 2015
- Price premia have stabilised from declines in the first half of 2015
- Appreciating NZD USD cross rate up 5% since December 2015
- Potential cost improvement for NZAS from TPM

LME SPOT ALUMINIUM PRICE
USD/tonne



source: London Metal Exchange

NZD USD CROSS RATE



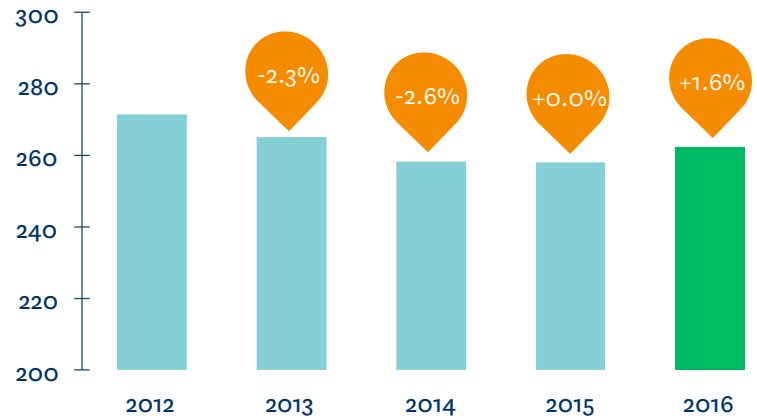
source: Reuters

Australian market

- Modest demand growth in FY2016 largely driven by new LNG production
- AEMO forecasts suggest flat consumption over the next 20 years
- Market is still reluctant to commit to new renewables despite the lift in LGC prices and political changes
- Grid-scale solar is an improving proposition with continued reduction in capital costs

NEM DEMAND

TWh



Financial Year ended 30 June

source: NemSight

LGC SPOT PRICE

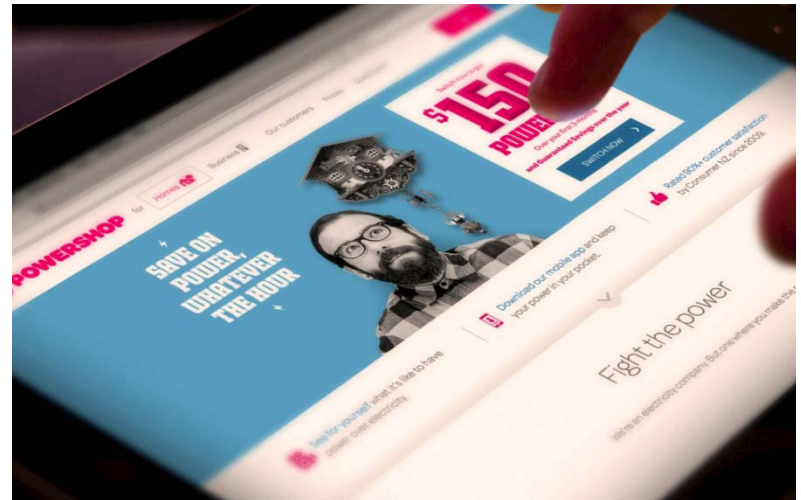
AUD



source: Bloomberg

The UK

- Franchise licence agreement with RWE npower signed in November 2015
- Will take the Powershop service platform and brand to the UK without Meridian carrying market exposure
- Staged delivery of electricity, smart meter integration, gas and dual fuel and white label offerings
- Two year establishment phase with npower paying fixed development fees and making milestone payments
- From full launch, npower will pay an annual fixed fee and a variable per customer fee



2016 performance



Highlights

33%

TOTAL SHAREHOLDER RETURN

Delivering returns to shareholders

We have declared 18.38 cents per share in dividends and delivered a 33% total shareholder return³ in the year to 30 June 2016 compared with 20% return in the NZX top 50 group of companies.

5%

EBITDAF¹ GROWTH

EBITDAF, key measure of profitability, is 5% higher this year, the fourth successive year of growth.

\$650M

EBITDAF



58%

INCREASE IN CUSTOMERS USING MyMeridian, OUR ONLINE ENERGY MANAGEMENT TOOL

Enhancing our digital capability

We're focused on enhancing our customers' experience online. We have experienced a 58% increase in our customers using MyMeridian. We have also seen an 18% increase in customers receiving electronic bills this year and now have 88% of customers paying online.

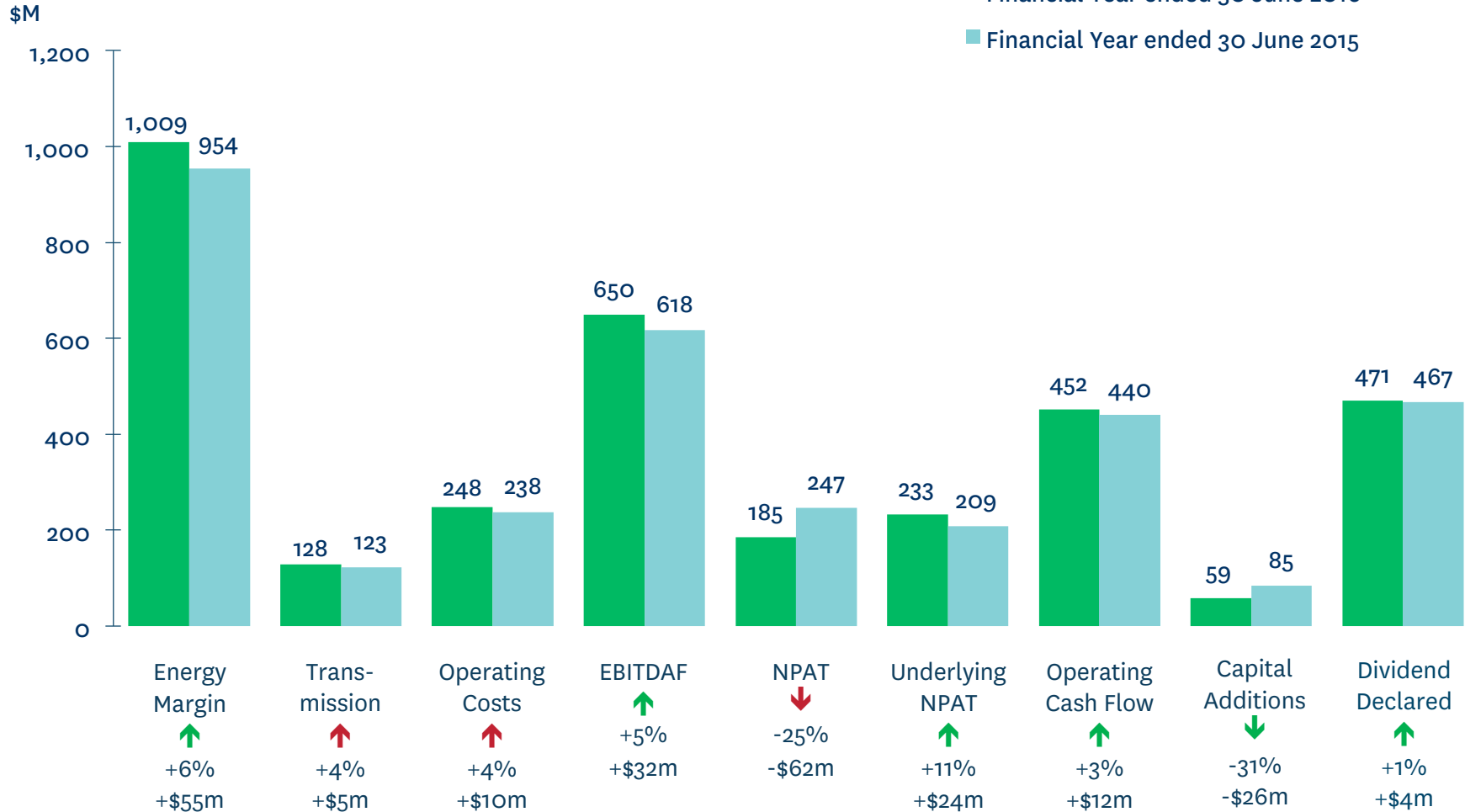
¹Earnings before interest, taxation, depreciation, amortisation, changes in fair value of hedges and other significant items

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

³Movement in share price during the year plus total dividends declared

Financial performance

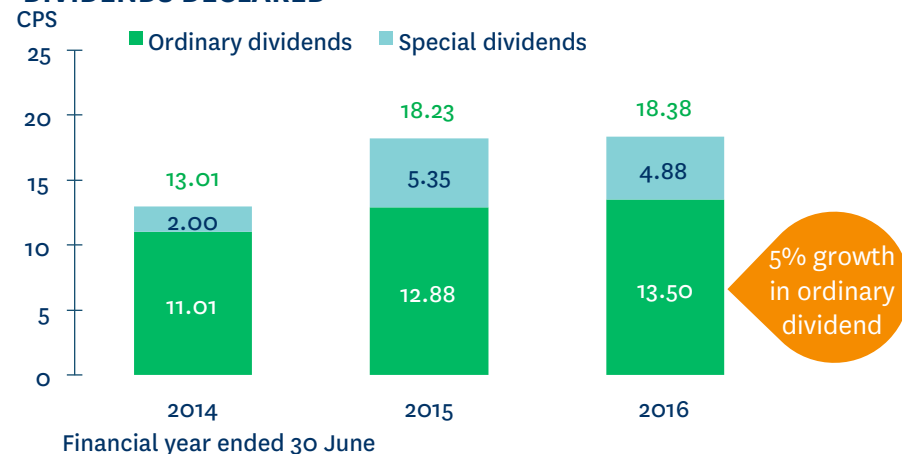
FINANCIAL PERFORMANCE AGAINST PRIOR YEAR



Dividends

- Final ordinary dividend of 8.40 cps, 90% imputed
- Brings FY2016 full year ordinary dividend to 13.50 cps, 88% imputed
- Represents 83.1% payout of free cash flow
- Capital management final special dividend of 2.44 cps, unimputed
- Brings capital management distributions to \$187.5m since the programme commenced in August 2015
- To date, this has been paid as unimputed special dividends, buyback remains a consideration

DIVIDENDS DECLARED



DIVIDENDS DECLARED	AMOUNT CPS	IMPUTATION %
<u>FY2016</u>		
Ordinary dividends	13.50	88%
Capital management special dividends	4.88	0%
Total	18.38	
<u>FY2015</u>		
Ordinary dividends	12.88	72%
Capital management special dividends	2.44	0%
Other special dividends	2.91	48%
Total	18.23	

Wholesale and generation

- Stay in business capital spend inside the annual \$65m envelope
- Consent extensions gained for Central Wind and Maungaharuru wind options
- Record level of total New Zealand generation (Tekapo adjusted)
- Generation from both the Manapōuri station and the total wind portfolio were at record levels
- FY2016 inflows were 108% of average
- Has led to higher derivative sales



Retail

- Segment EBITDAF up +\$13m (+23%) in FY2016
- Growth in Meridian residential, SMB and agri sales volumes (+2%) and average price (+3%)
- Growth in Powershop sales volumes (+3%)
- Decline in Meridian corporate and industrial sales volumes from time-of-use churn
- Customer acquisition pressure managed within flat segment operating costs in FY2016
- Continued improvement in retail metrics



MERIDIAN RETAIL METRICS		FY2016	FY2015
Time to answer	12 month avg	33 sec	66 sec
New customer retention ¹	12 month avg	84%	81%
Cost to serve per customer ²	12 month cost	\$260	\$265
Overdue debt > 30 days	at 30 June	\$2.1m	\$2.4m
Non payment disconnections	12 month total	1,234	2,391
E-billing takeup	at 30 June	70%	52%
Customers paying online	at 30 June	88%	86%
MyMeridian customers	at 30 June	64k	41k

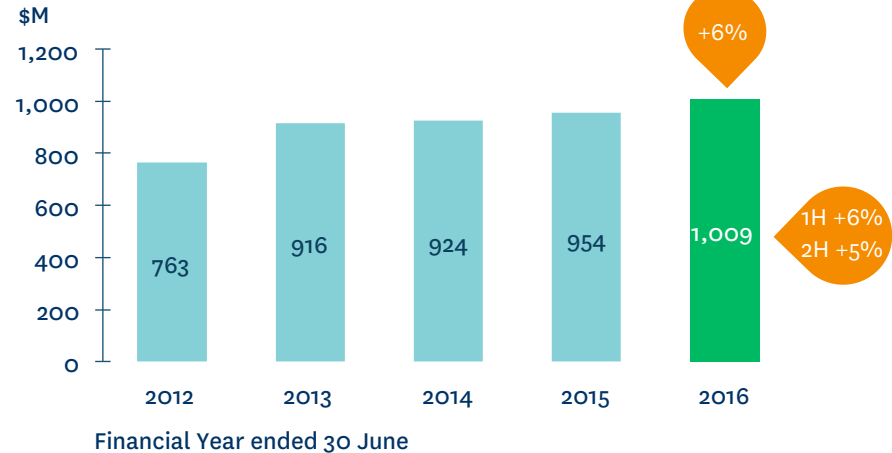
¹First six months of customer life

²Excluding metering costs and including allocation of corporate costs

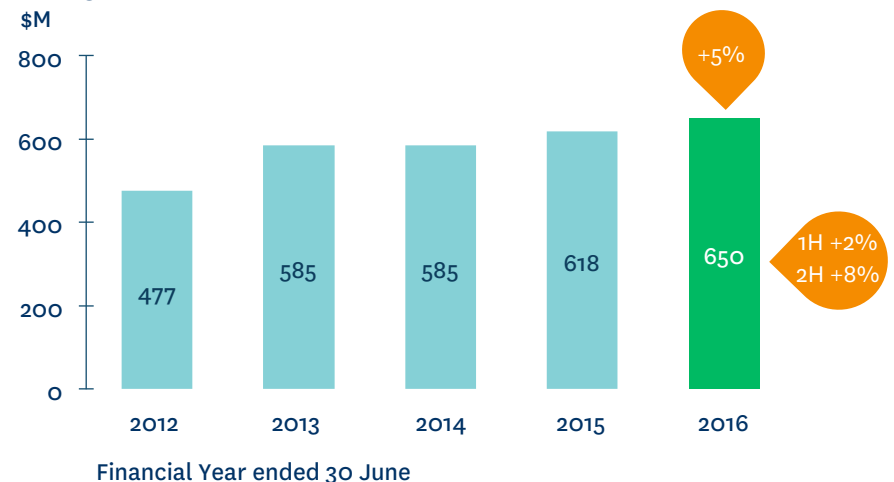
Earnings

- ‘Like for like’ EBITDAF (excluding \$5m FY2015 insurance proceeds) increase of +\$37m (+6%) in FY2016 from:
 - + Higher residential/SMB/agri sales volumes and average prices in NZ **+\$16m**
 - + Powershop growth and higher generation prices in Australia **+\$16m**
 - + Strong generation volumes backing higher wholesale sales and lower hedge costs in NZ **+\$21m**
 - Reduced non-core revenues following disposals **-\$3m**
 - Higher HVDC charges and market costs **-\$3m**
 - Costs of expansion in international segment **-\$10m**

ENERGY MARGIN



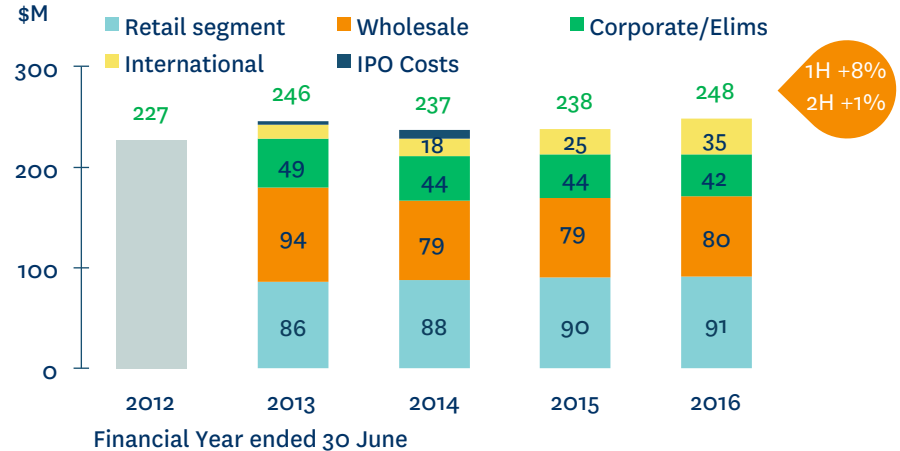
REPORTED EBITDAF



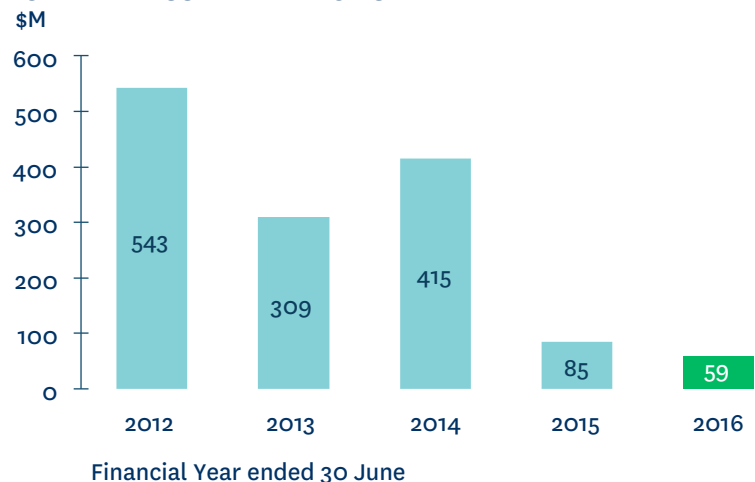
Costs

- Operating costs have increased +\$10m (+4%) in FY2016
- 1H FY2016 +\$9m, 2H FY2016 +\$1m against prior year
- Growth was all investment to support Powershop expansion offshore
- Continued customer acquisition pressure in NZ is being absorbed
- Despite change in treatment of \$2m of costs with Arc sale (now included in operating costs rather than energy margin)
- Stay in business capital expenditure is within the \$65m annual envelope

OPERATING COSTS



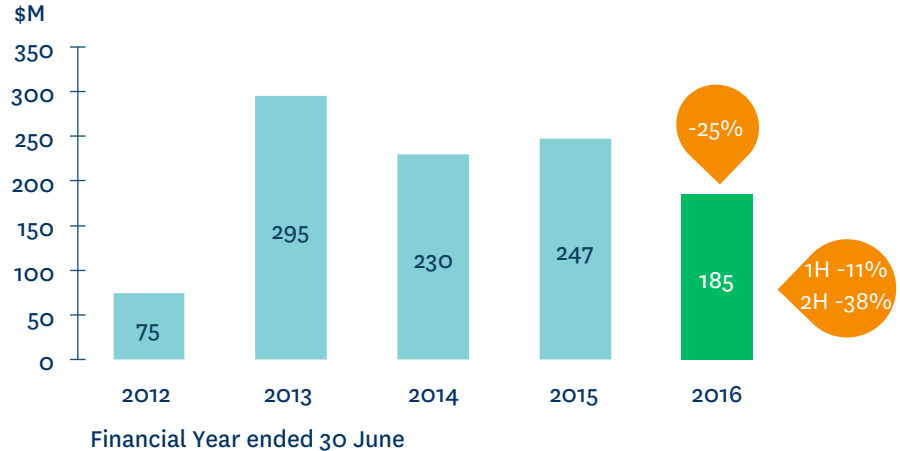
CAPITAL ASSET ADDITIONS



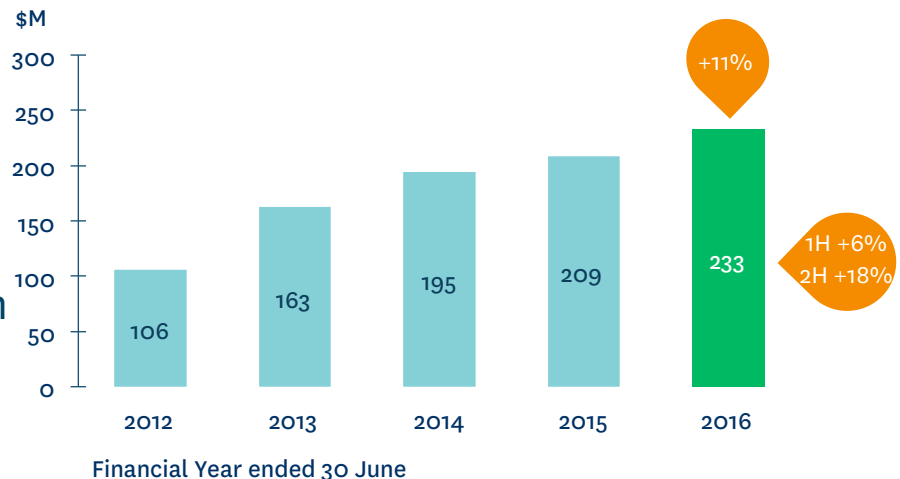
Below EBITDAF

- Net finance costs flat as higher floating rate borrowings were offset by post hedging interest rates
- Negative change in fair value of treasury instruments reflecting declining forward interest rates curves in FY2016
- Negative change in fair value of electricity hedges
 - Rising LGC prices in 1H FY2016 have given rise to unrealised fair value losses on forward contracts
 - Offset by gains on NZ hedge book
- Partial reversal of Australian impairments
- FY2015 tax expense affected by \$28m CGT provision release and \$34m reduction from resolution of powerhouse deductibility
- Trustpower Supreme Court judgement creates future tax uncertainty for infrastructure providers

NET PROFIT AFTER TAX



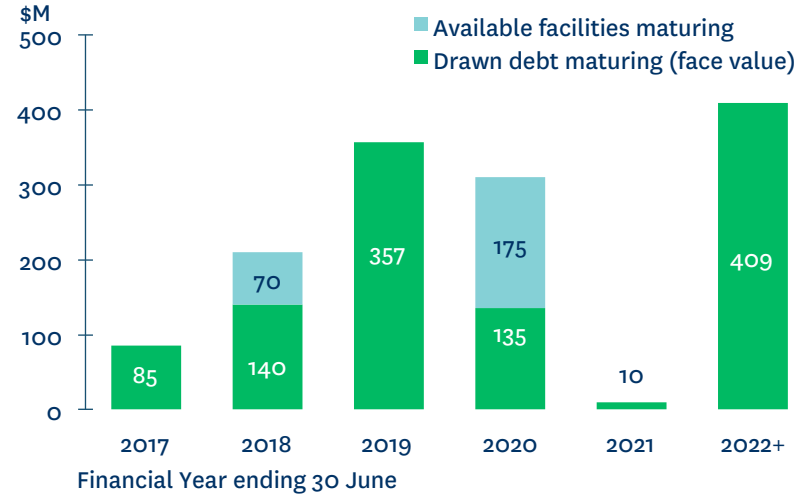
UNDERLYING NPAT



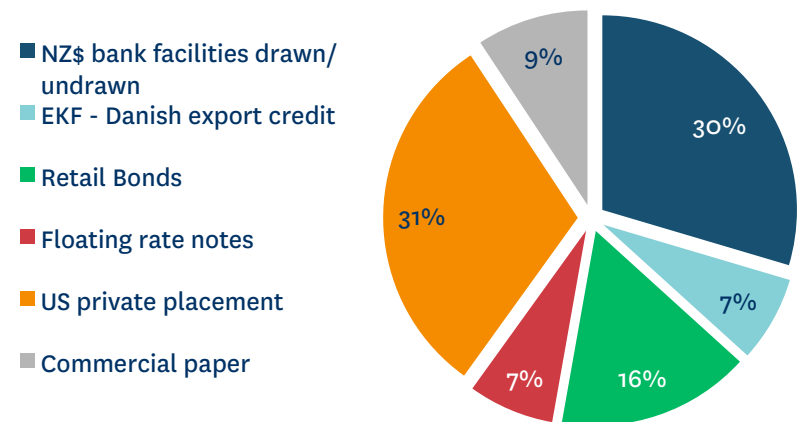
Funding

- Total borrowings as at 30 June 2016 of \$1,214m, up \$138m from 30 June 2015
- Net debt¹ as at 30 June 2016 of \$1,168m, up +\$123m (+12%) from 30 June 2015
- Committed bank facilities of \$1,511m as at 30 June 2016, of which \$375m were undrawn
- Net finance costs flat as higher floating rate borrowings were offset by post hedging interest rates

DEBT MATURITY PROFILE AS AT 30 JUNE 2016



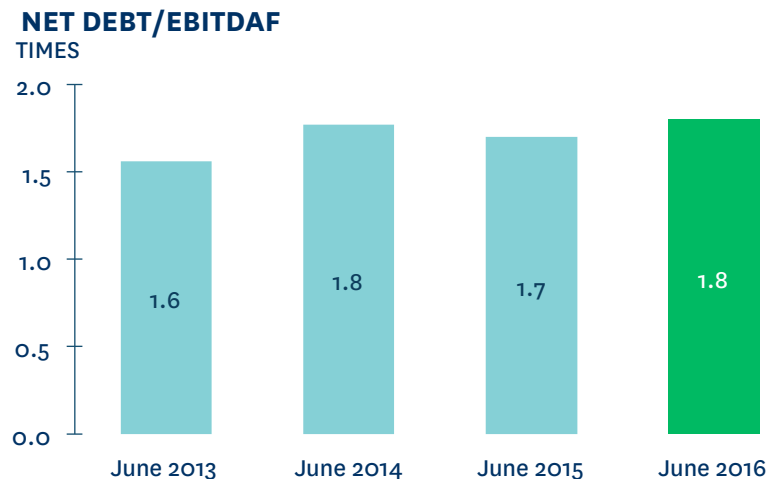
SOURCES OF FUNDING AS AT 30 JUNE 2016



¹As defined by Standard and Poor's. Refer to page 26 for a breakdown of net debt

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
- Includes a cash buffer at 25% of unrestricted cash and cash equivalents



	FINANCIAL YEAR ENDED 30 JUNE		
	2016 \$M	2015 \$M	2014 \$M
NET DEBT TO EBITDAF			
Drawn borrowings	1,136	991	1,146
Finance lease payable	48	52	49
Operating lease commitments	59	37	42
Less: cash and cash equivalents	(118)	(69)	(276)
Add back: restricted cash	18	22	7
Add back: cash buffer ¹	25	12	67
Net debt (A)	1,168	1,045	1,035
EBITDAF (B)	650	618	585
Net debt to EBITDAF (times) (A/B)	1.8	1.7	1.8

¹Calculated as 25% of unrestricted cash and cash equivalents

Concluding thoughts

- Started FY2017 with high storage and strong generation
- Expect greater volatility in wholesale prices during peak and dry periods
- Delivering on Powershop UK initiative
- NZAS price increase from 1 January 2017 and perpetual right of termination commences (with 12-months notice)
- Resolution of TPM review will bring certainty on future transmission costs



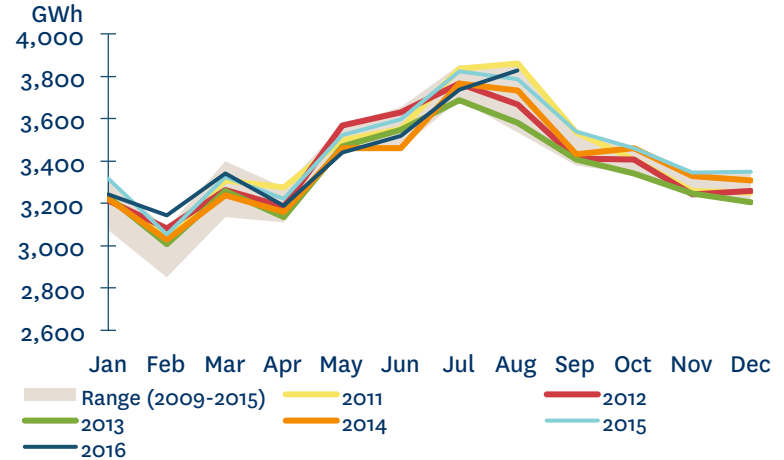
Latest operation information



Market data

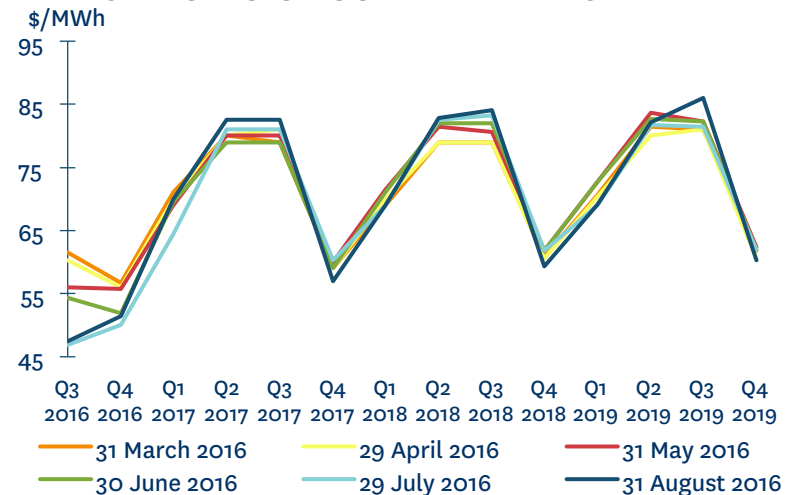
- National electricity demand in August 2016 was 1.1% higher than the same month last year
- Demand in the last 12 months was 0.1% lower than the preceding 12 months
- National storage decreased from 137% of the 82 year average on 12 August 2016 to 125% of average on 12 September 2016
- Medium term ASX prices have changed little since the end of June 2016

NATIONAL DEMAND



source: Electricity Authority

BENMORE ASX FUTURES SETTLEMENT PRICE

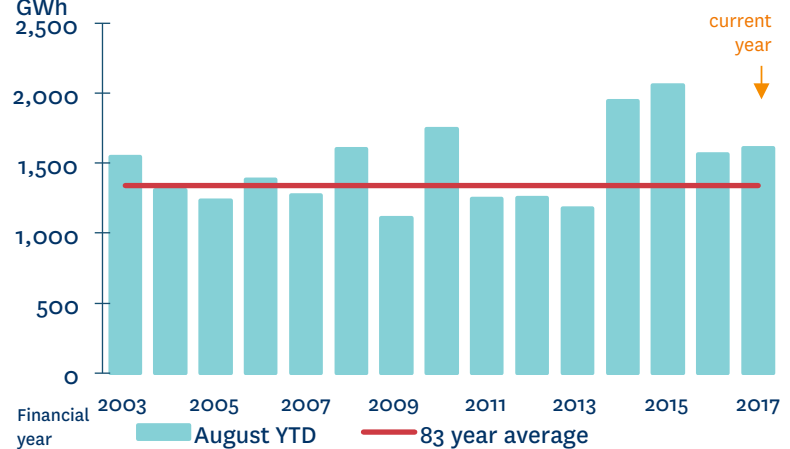


source: Meridian

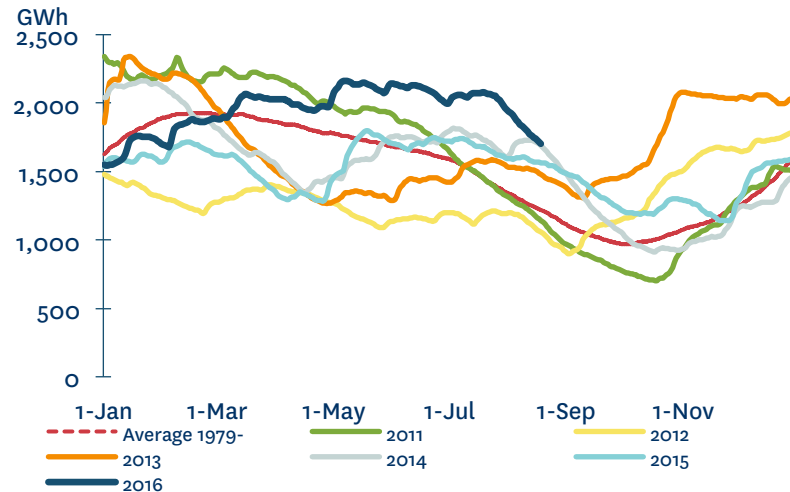
Meridian hydrology

- August 2016 monthly inflows were 76% of historical average
- To date this financial year inflows are 120% of historical average
- Meridian's Waitaki catchment storage moved from 2,079GWh to 1,701GWh during August 2016
- Waitaki storage at the end of August 2016 was 153% of historical average, compared with the position a month earlier, where storage was 155% of historical average
- Waitaki storage at the end of August 2016 was 15% higher than the same time last year
- Total storage in Meridian's Waiau catchment decreased during August 2016

MERIDIAN'S TOTAL CATCHMENT INFLOWS



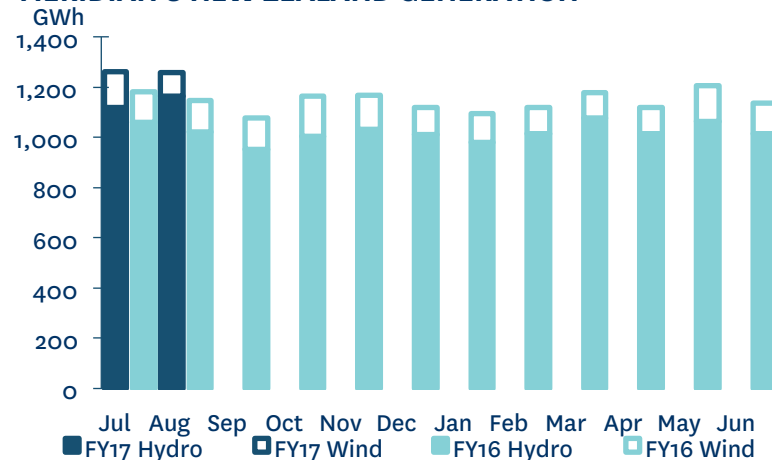
MERIDIAN'S WAITAKI STORAGE



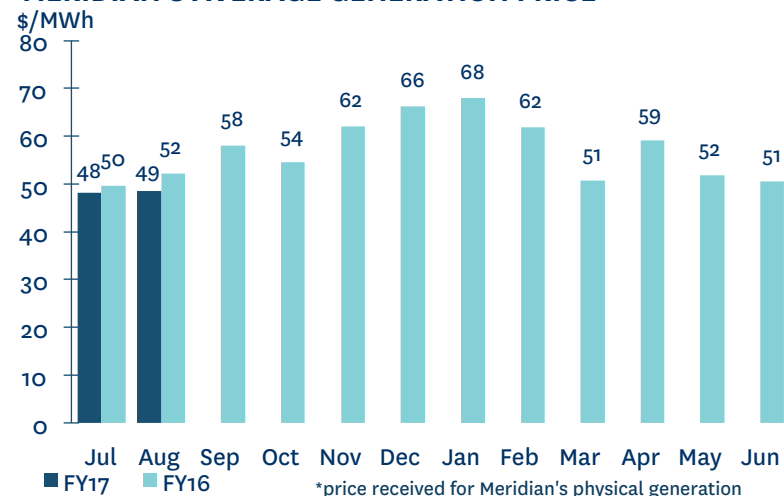
Meridian generation

- Meridian's New Zealand generation in August 2016 was 9.7% higher than the same month last year
- To date this financial year Meridian's New Zealand generation is 8.2% higher than the same period last year, reflecting higher hydro generation and lower wind generation
- The average price Meridian received for its generation in August 2016 was 7.1% lower than the same month last year
- The average price Meridian paid to supply contracted sales in August 2016 was 5.2% lower than the same month last year
- To date this financial year, the average price Meridian has received for its generation is 5.1% lower than the same period last year

MERIDIAN'S NEW ZEALAND GENERATION



MERIDIAN'S AVERAGE GENERATION PRICE*



Meridian retail

- Meridian's New Zealand customer connection numbers increased during August 2016
- Retail sales volumes in August 2016 decreased by 4.5% compared to August 2015
- Compared to August 2015, residential/SMB sales volumes increased by 3.4% (cooler temperatures) and corporate sales volumes decreased by 17.9% (churn in time-of-use customers)
- To date this financial year Meridian's retail sales volumes are 7.7% lower than the same period last year
- This reflects a 1.0% decrease in residential/SMB sales volumes and a 19.1% decrease in corporate sales volumes

MERIDIAN'S NZ CUSTOMER CONNECTIONS



MERIDIAN'S RETAIL SALES VOLUMES*

