Meridian Energy

RESULTS PRESENTATION for the year ended June 2013

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Highlights

- **Significant financial performance improvement from the record dry FY12**

  NPAT +296%, EBITDAF[1]+23%, Underlying NPAT[1] +53%, Operating cash flow +29%

  Achieved while managing increased transmission costs and the impact of residual FY12 dry year hedges

  Inflows at average levels, up 34% from FY12

- **Market disruption was well managed**

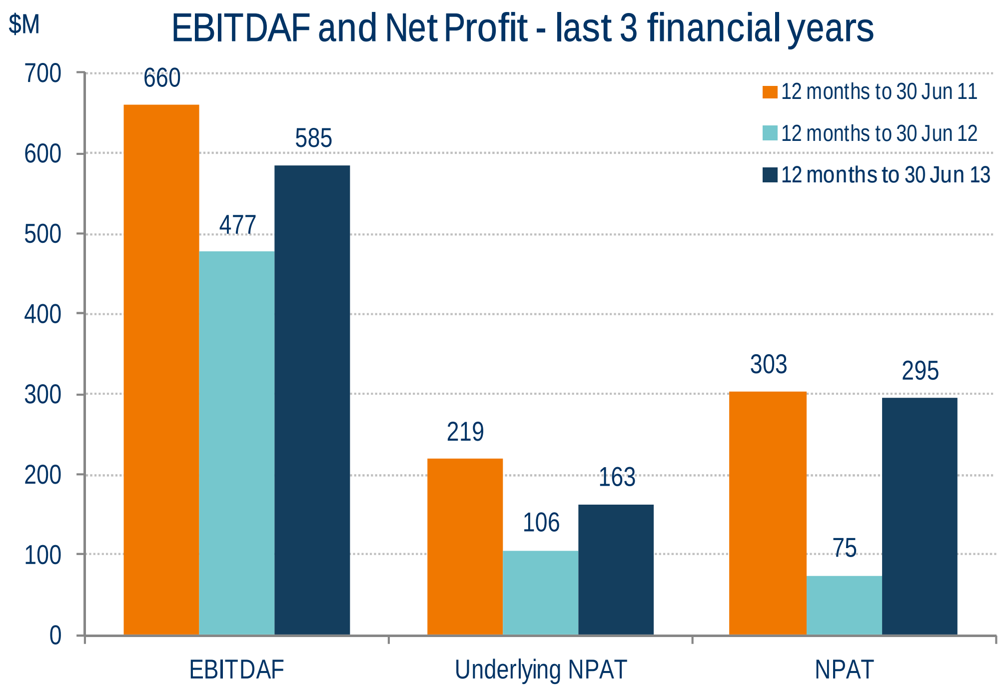
  42 days of HVDC outages to support Pole 3 commissioning

  3 month Tekapo canal outage

  4 months of extremely dry national conditions

- **No lost time injuries in the year**

  Two years since an LTI was recorded



source: Meridian

[1] EBITDAF and Underlying NPAT are non-GAAP financial measures. Refer to pg12 for definitions of these measures

Return to average inflows from record dry FY12

- **Significant financial performance improvement from the record dry FY12**

  EBITDAF[1] +23%

  Underlying NPAT[1] +53%

  Operating cash flow +29%

- **Some cost increases**

  Transmission +33% from increased HVDC charges

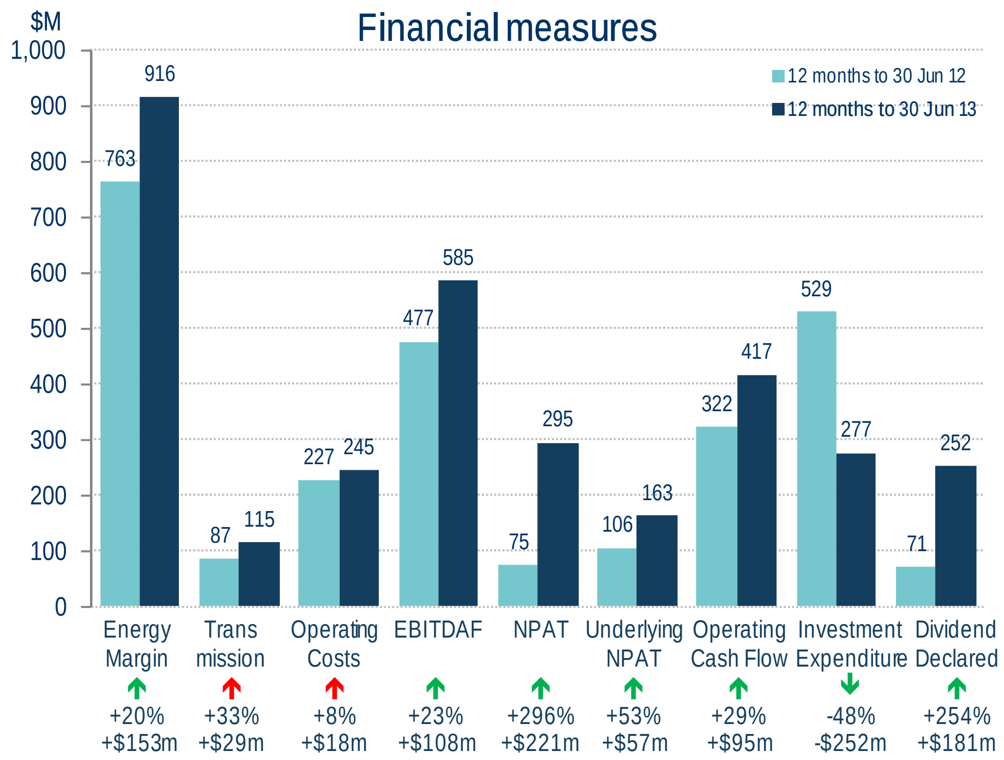
  Operating costs +8% from one-off items relating to development and IPO costs, and at risk performance incentives not paid in FY12

- **Several one off impacts below EBITDAF**

  $101m pre tax gain on Macarthur wind farm sale

  $6m gain on sale of EFI (Energy for Industry)

  $25m of impairments, largely North Bank Tunnel



source: Meridian

[1] EBITDAF and Underlying NPAT are non-GAAP financial measures. Refer to pg12 for definitions of these measures

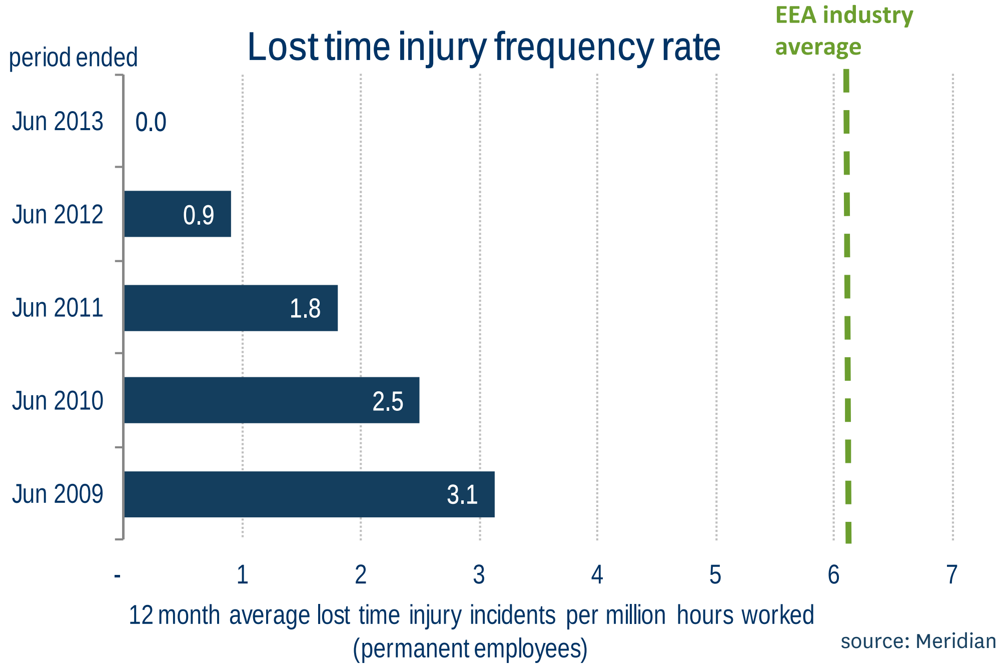
Safety and health remain a critical focus

- **Continuous focus to ensure safety and health is a core part of all operations**

  Meridian continues to develop individual safety behaviour and accountability

  Particular emphasis on embedding pre-qualification programme for contractors

  Two years since a lost time injury has been recorded



source: Meridian

Return to average inflows from record dry FY12

- **Inflows at 101% of historical average**

  Significantly higher inflows in 1H FY13 than 1H FY12

  Dry 2H FY13, bookended by two large inflow events in early January 13 and late June 13

  15 consecutive weeks of significantly below average inflows between February 13 and May 13 resulted in reduced generation

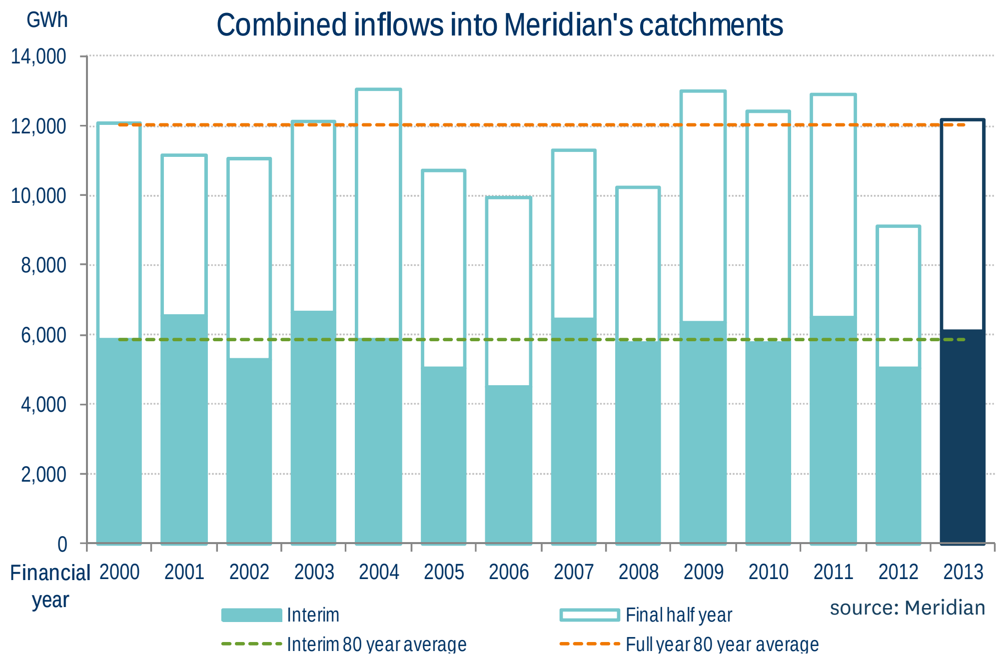
  Storage fell rapidly during 2H FY13

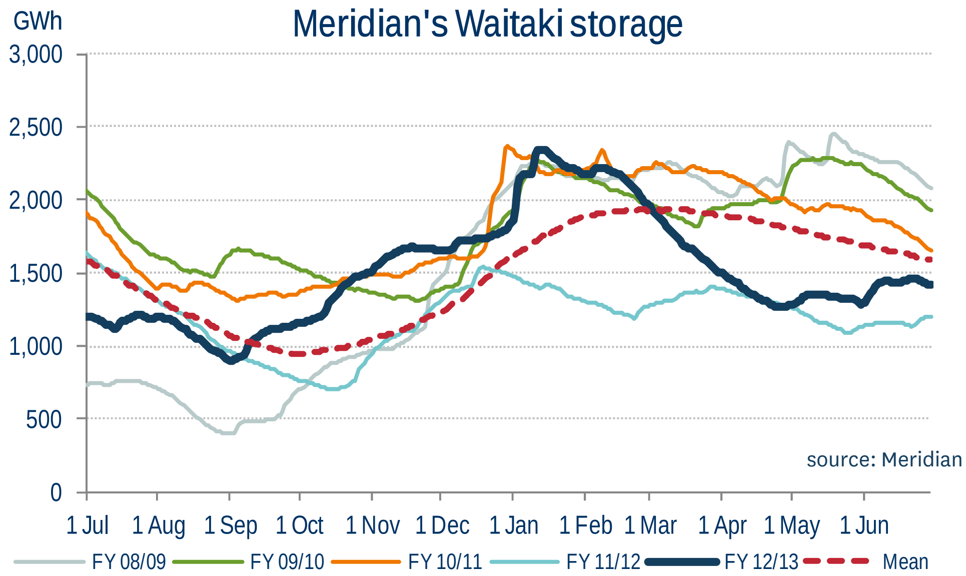
  Severe North Island drought conditions over summer

- **Market disruption was well managed**

  42 days of HVDC outages to support Pole 3 commissioning

  3 month Tekapo canal outage over summer





Market disruptions drove volatility in generation market share and prices

HVDC outages islanded Meridian generation and impacted market share

Resulted in periods of significant inter island price separation

Pole 3 commissioned, Pole 2 control system upgrade beginning in August and expected to be completed in December

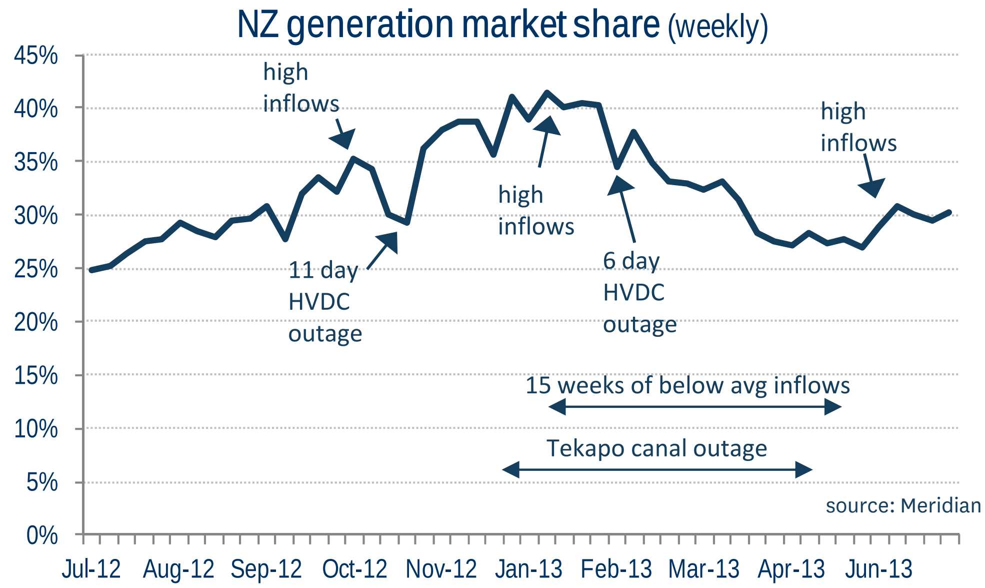
Competitor's North Island hydro storage levels hit very low levels during the drought

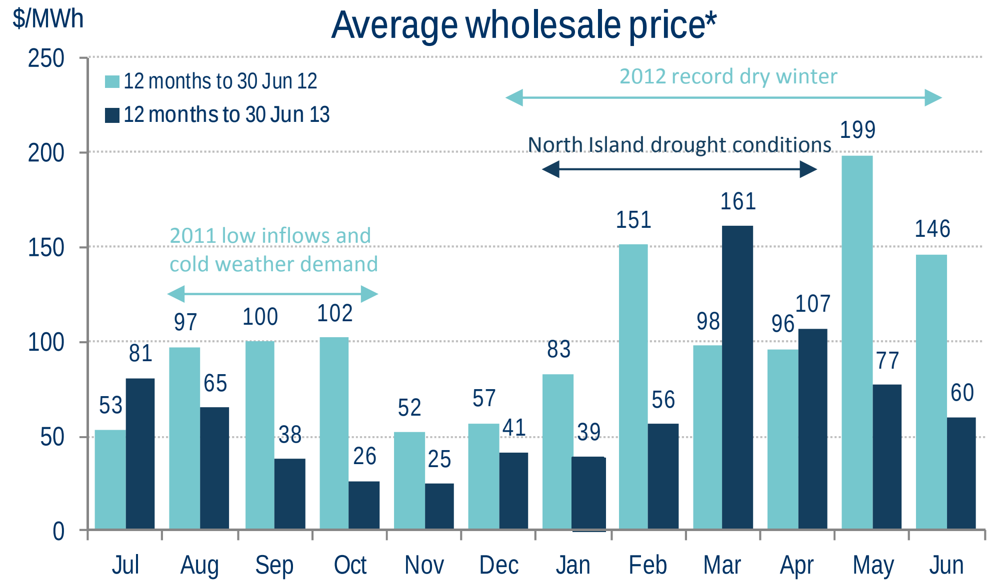
Good availability of thermal generation supplemented reduced hydro output

Tekapo canal outage limited inflows into Meridian's catchments

Once reopened, the canal provided a source of inflows during the dry period

Meridian NZ generation 10% higher than FY12





*Price received for Meridian's physical generation

Continuing retail financial improvement

- **Segment earnings improvement**

  EBITDAF[1] per MWh (at fixed input price) increased by $1.20 (63%), even with increased corporate cost allocations

  Contracted revenue grew by 2.6% despite a 1% reduction in volume and continued soft demand conditions

  Mostly driven by improving portfolio mix with minimal energy tariff increases

  Changes to lines cost component of tariffs were reflected in prices including decreases in Auckland

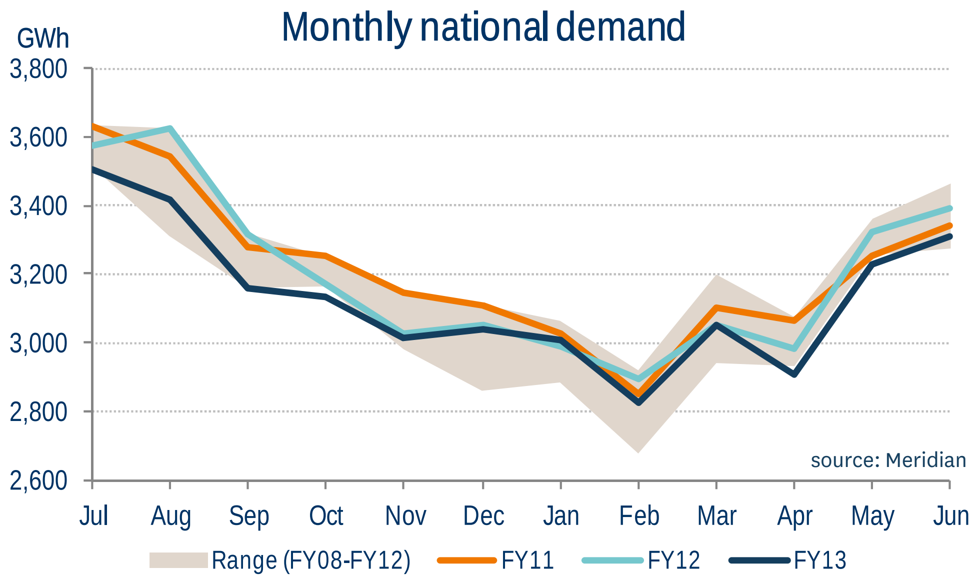
- **Customer changes**

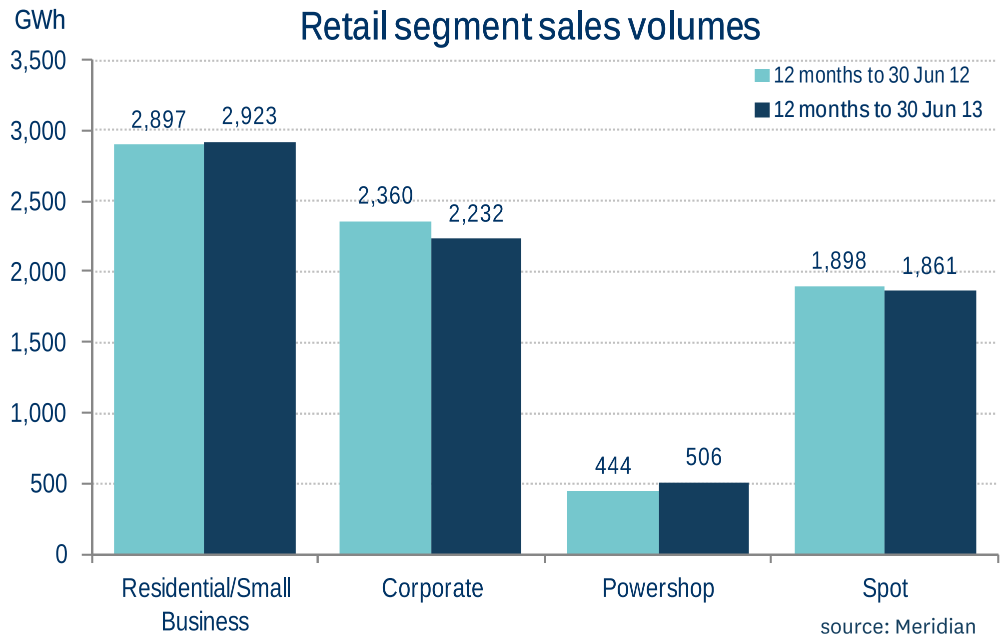
  Customer connections declined by 5% during FY13

  Includes transfer out of pre-pay and EDNZ customer connections

  Excluding EDNZ, Meridian North Island customer connections increased 4%

  Total Powershop connections increased 7%





1 EBITDAF is a non-GAAP financial measure. Refer to pg12 for a definition of this measure

Development pipeline reshaped

- **New Zealand**

  Pipeline rationalised in response to soft market conditions

  No further development expected for 3-5 years

  Focus on a smaller, more deployable set of future options with attractive cost profile

  North Bank tunnel hydro project suspended

  Meridian gained consents for the Hurunui wind farm in North Canterbury (31 turbines)

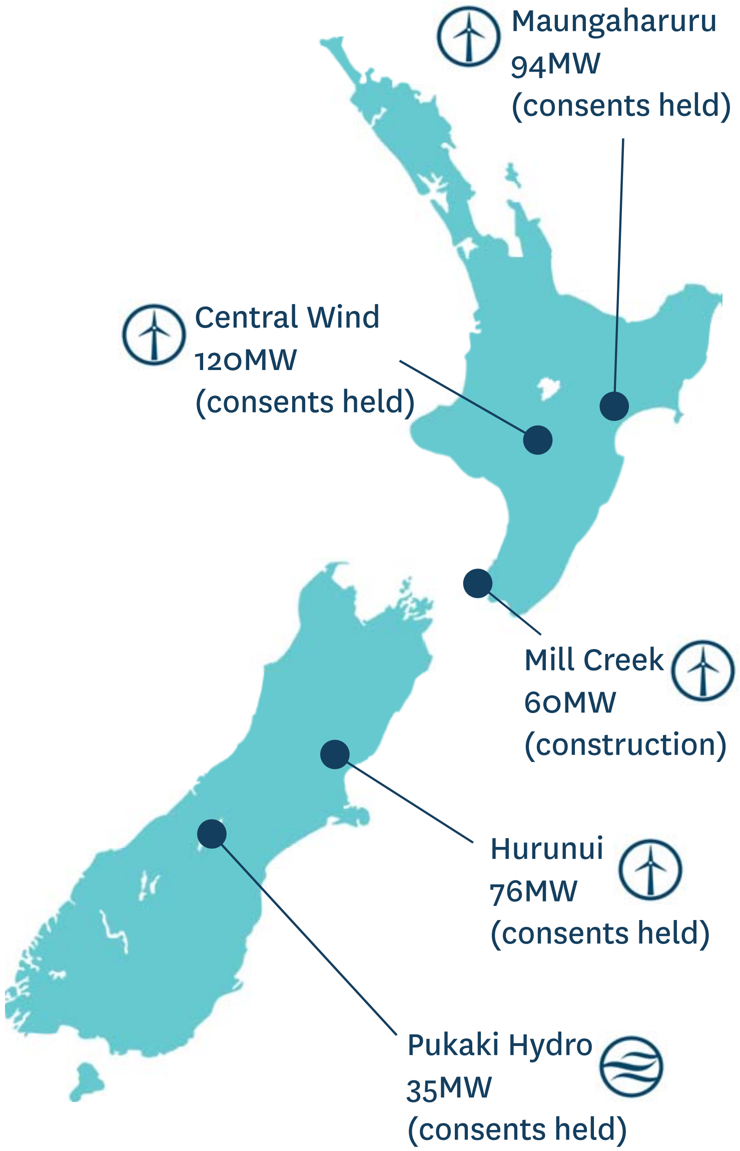
  Mill Creek wind farm construction on schedule

- **Australia**

  $101m pre tax gain on sale of the Macarthur wind farm

  Mt Mercer wind farm construction on schedule

  Powershop launched in Victoria



Agreement reached with the owners of New Zealand Aluminium Smelters (NZAS)

After a year of negotiations, agreement has been reached with New Zealand Aluminium Smelters (NZAS), effective 1 July 2013

The agreement sees a reduction in the smelter's electricity charge

The renegotiated agreement is inflation indexed and allows for future price increases if the NZD price of aluminium rises above agreed levels

The contract period remains to 2030 and provides the smelter with flexibility to reduce contract volume from 572 MW to 400MW from 1 January 2015, after giving 12 months' notice

The earliest date on which NZAS can exit under the terms of the agreement is 31 December 2016, with at least 15 months' notice

The new agreement includes guarantees from or on behalf of NZAS direct parent companies – Rio Tinto and Sumitomo

In Meridian's annual revaluation of its generation assets, the company is reporting a value decrease of $476m (gross of deferred tax), reflecting the impact of the renegotiated agreement

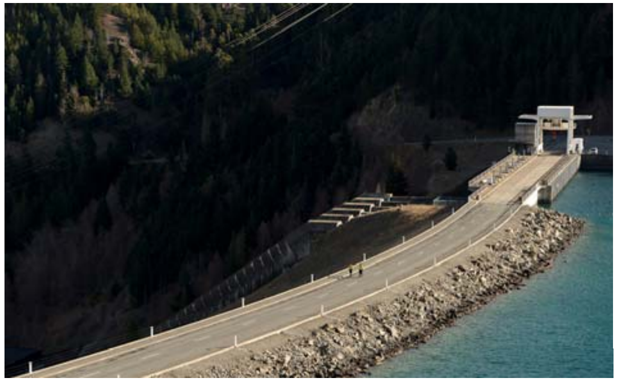
Financial performance











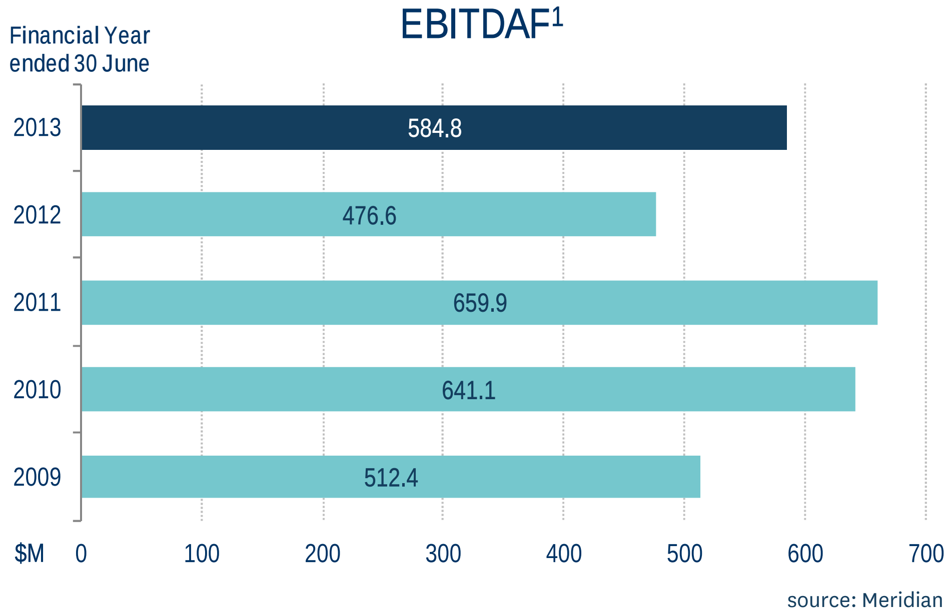
Earnings

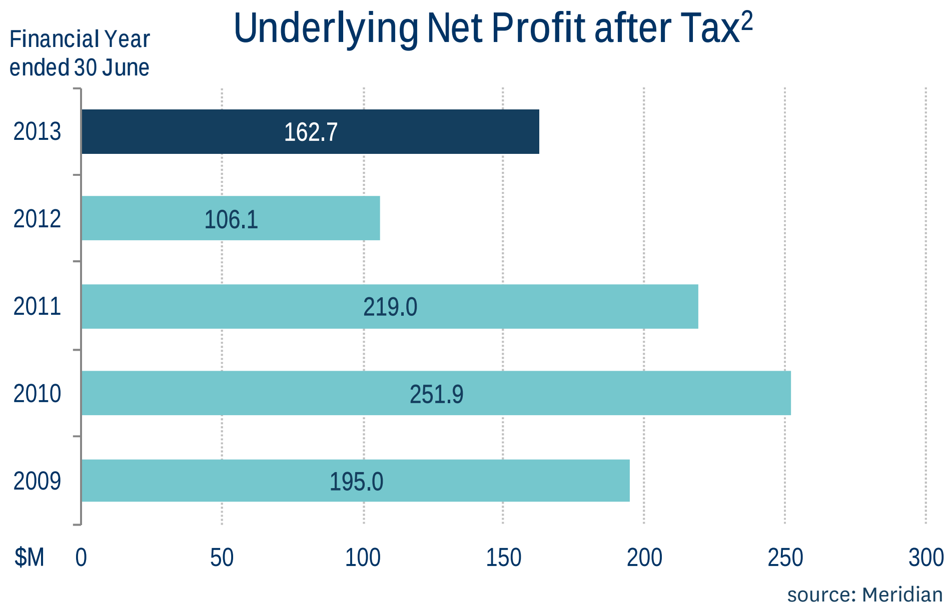
Significant growth in Net Profit after Tax due to higher EBITDAF[1] and gains on the Macarthur sale

EBITDAF +$108m (23%) from higher NZAS contracted revenue, increased generation and lower acquired generation costs

EBITDAF is also impacted by increases in Transmission and Operating Costs

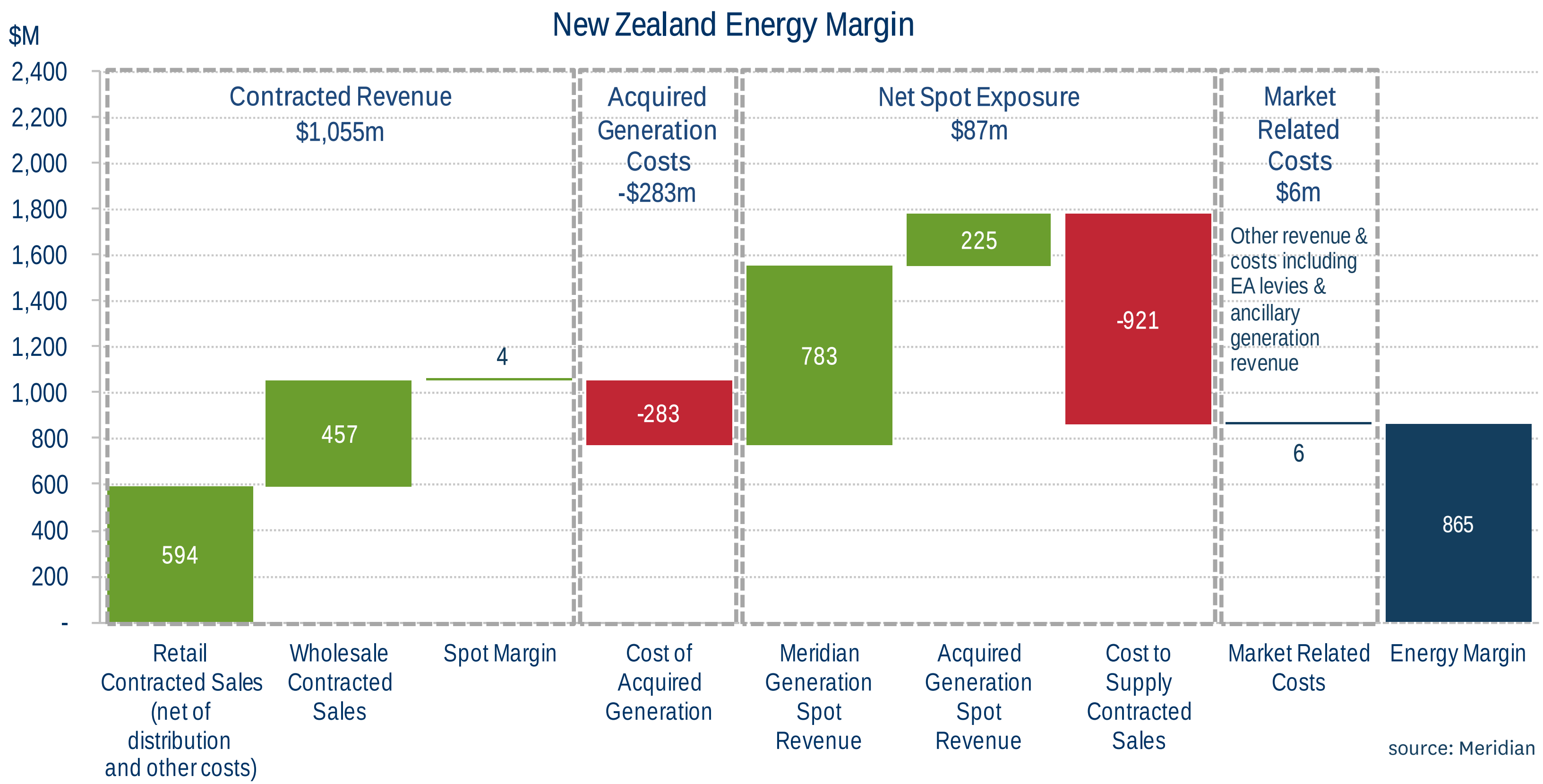
Underlying NPAT[2] reflects higher EBITDAF and higher interest costs relating to the Macarthur wind farm development and higher taxation





[1]Earnings before interest, taxation, depreciation, amortisation, changes in fair value of financial instruments, impairments and gain/(loss) on sale of assets
[2]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 provided on p24

New Zealand Energy Margin[1]



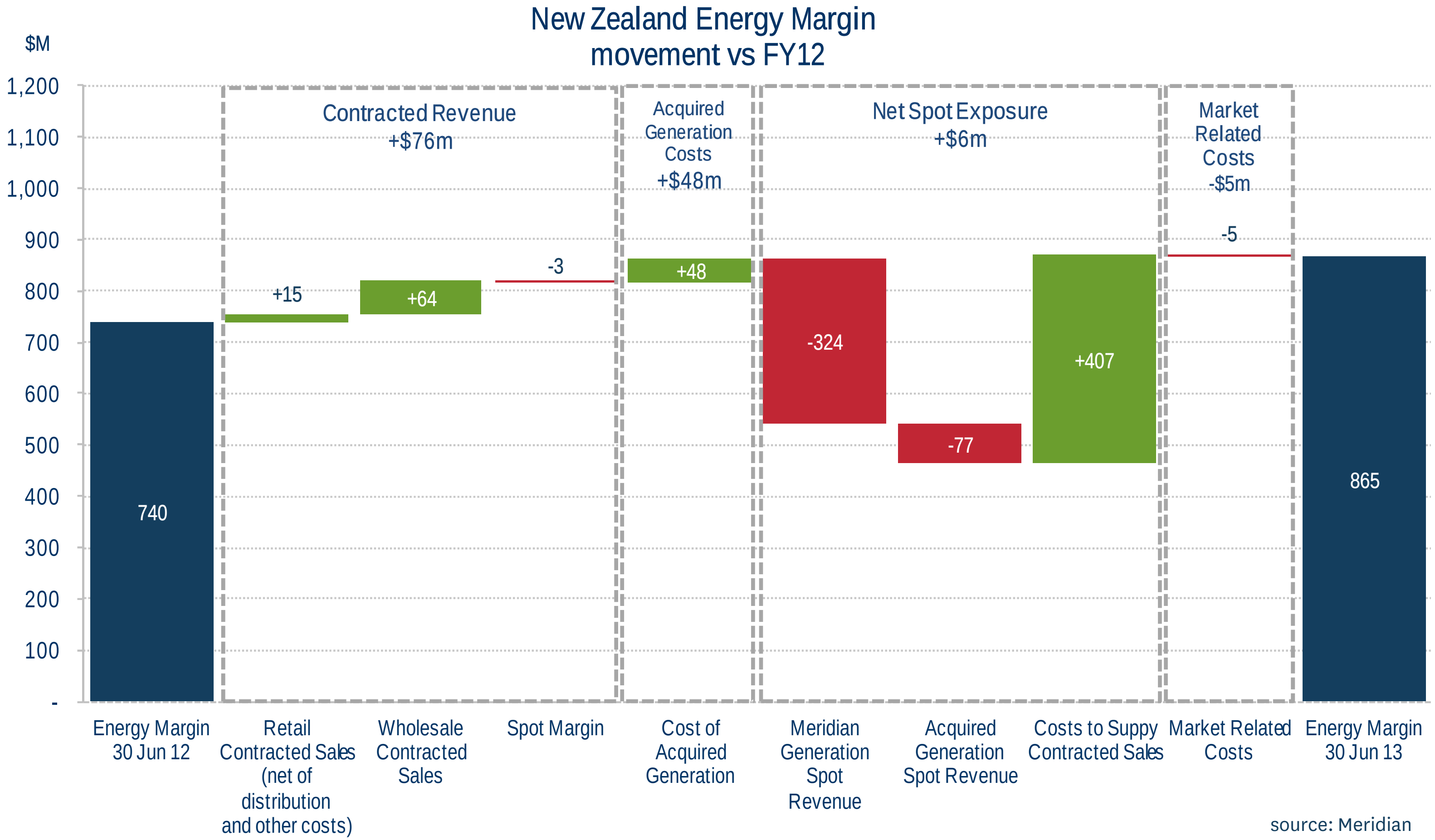
Contracted Revenue of $1,055m from Fixed Price Variable Volume sales to residential and business customers net of distribution costs, sales to large industrials and fixed price revenue from derivatives sold

Acquired Generation Costs of $283m for derivatives acquired to supplement generation and spot price risks

Net Spot Exposure of $87m from spot revenue received for Meridian's own generation and the generation acquired through derivatives, less the cost of purchases to cover contract load

[1] Energy Margin is a non-GAAP financial measure. Refer to pg20 for a definition of this measure

New Zealand Energy Margin[1]



source: Meridian

Contracted Revenue +76m including higher NZAS revenue from 1 January 2013 and the ramp up of Virtual Asset Swaps

Acquired Generation Costs +48m reflecting less requirements for buy side Contracts for Difference than the FY12 record dry year

Net Spot Exposure +$6m reflecting higher generation volumes and lower average wholesale prices

[1] Energy Margin is a non-GAAP financial measure.
Refer to pg20 for a definition of this measure

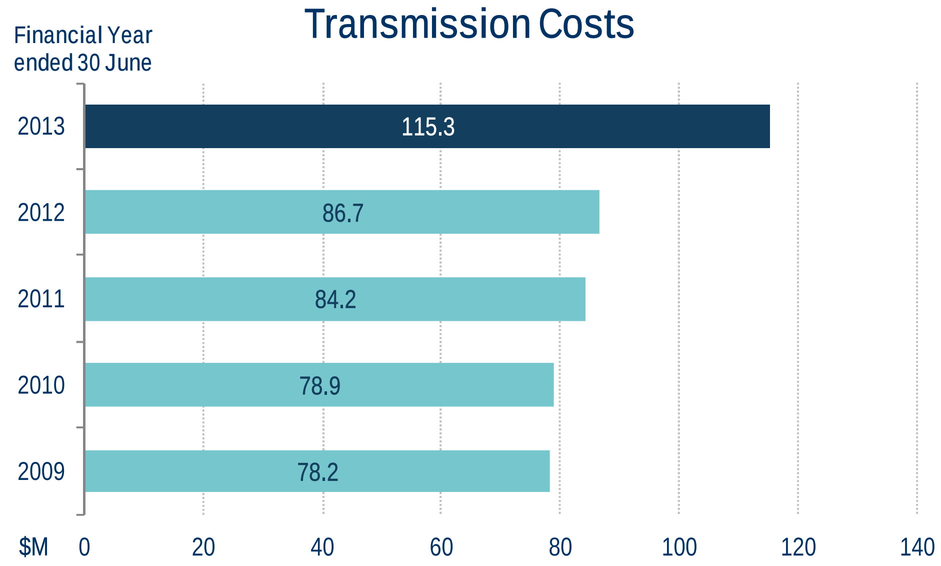
Costs

Transmission costs +33% from increased HVDC charges

Operating costs +8% from one-off items relating to development and IPO costs

Excluding the one-off items, costs are 4% higher than FY12

This 4% growth includes at risk performance incentives not paid in FY12



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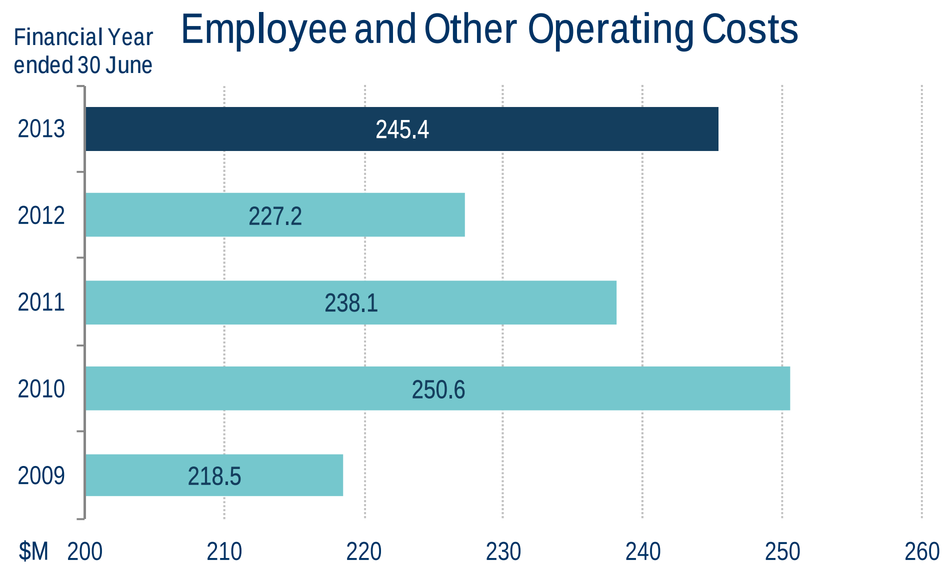


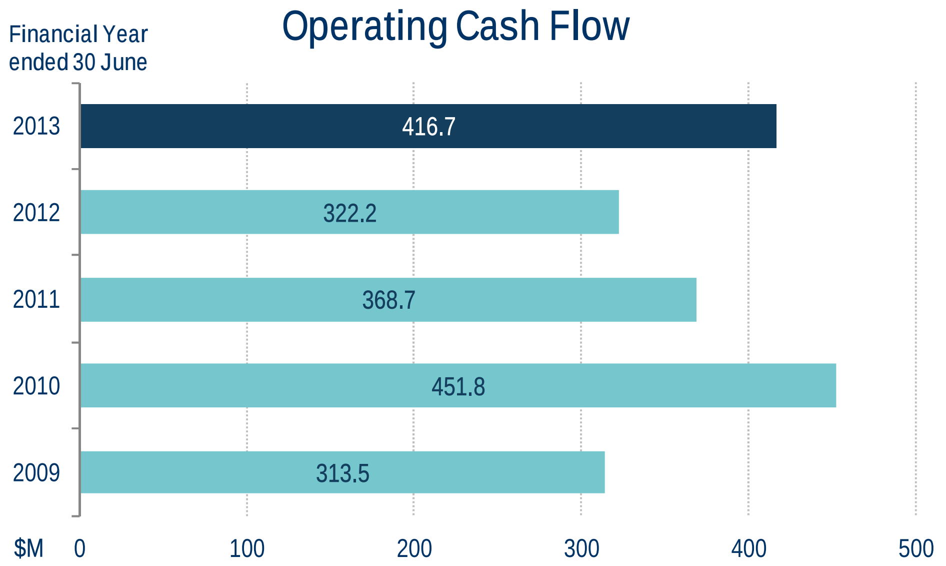
source: Meridian

Operating cash flow and investment expenditure

Net cash flow from operations increased 29% from improved operating profit

Investment expenditure includes spend on the completion of the Macarthur wind farm (Victoria) and commencement of the Mill Creek (Wellington) and Mt Mercer (Victoria) wind farms

Proceeds from the sale of Macarthur and Energy for Industry have been used to repay debt



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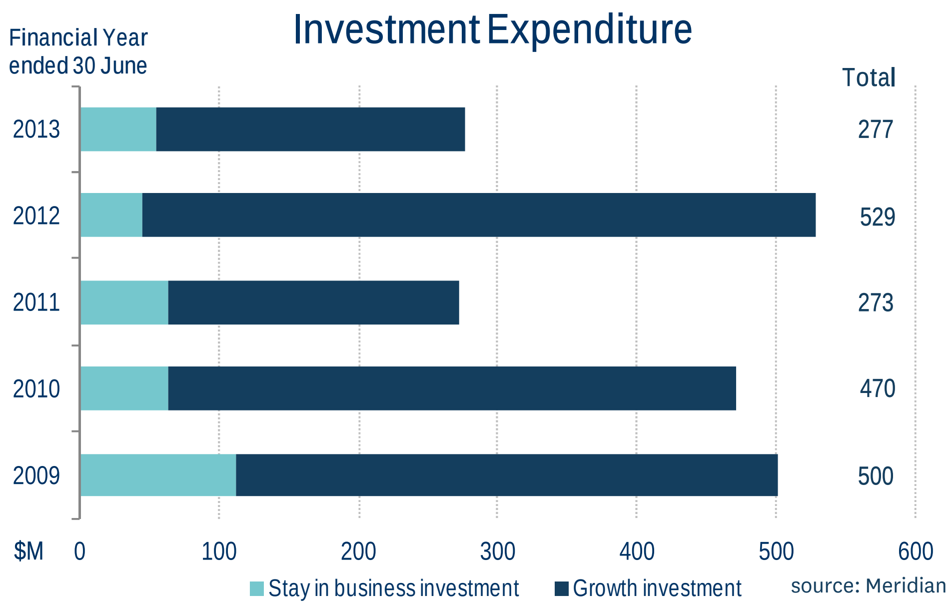


source: Meridian

In summary

Return to average level of inflows from the record low levels of FY12

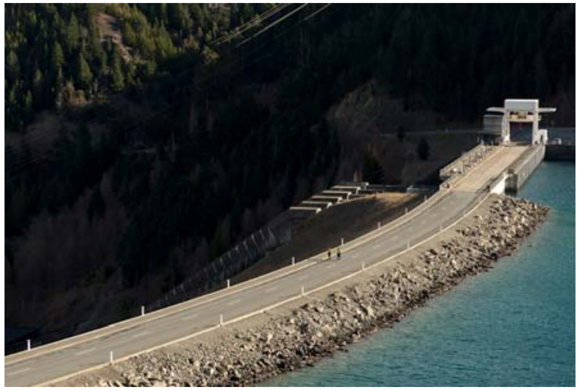
Inflow levels during the dry summer were lower than FY12

Significant uplift in NPAT, EBITDAF[1] and Underlying NPAT[1]

Uplift achieved while managing increased transmission costs and the impact of residual FY12 dry year hedges

Market disruption from HVDC outages to support Pole 3 commissioning

3 month Tekapo canal outage added complexity to managing Waitaki inflows



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Additional information

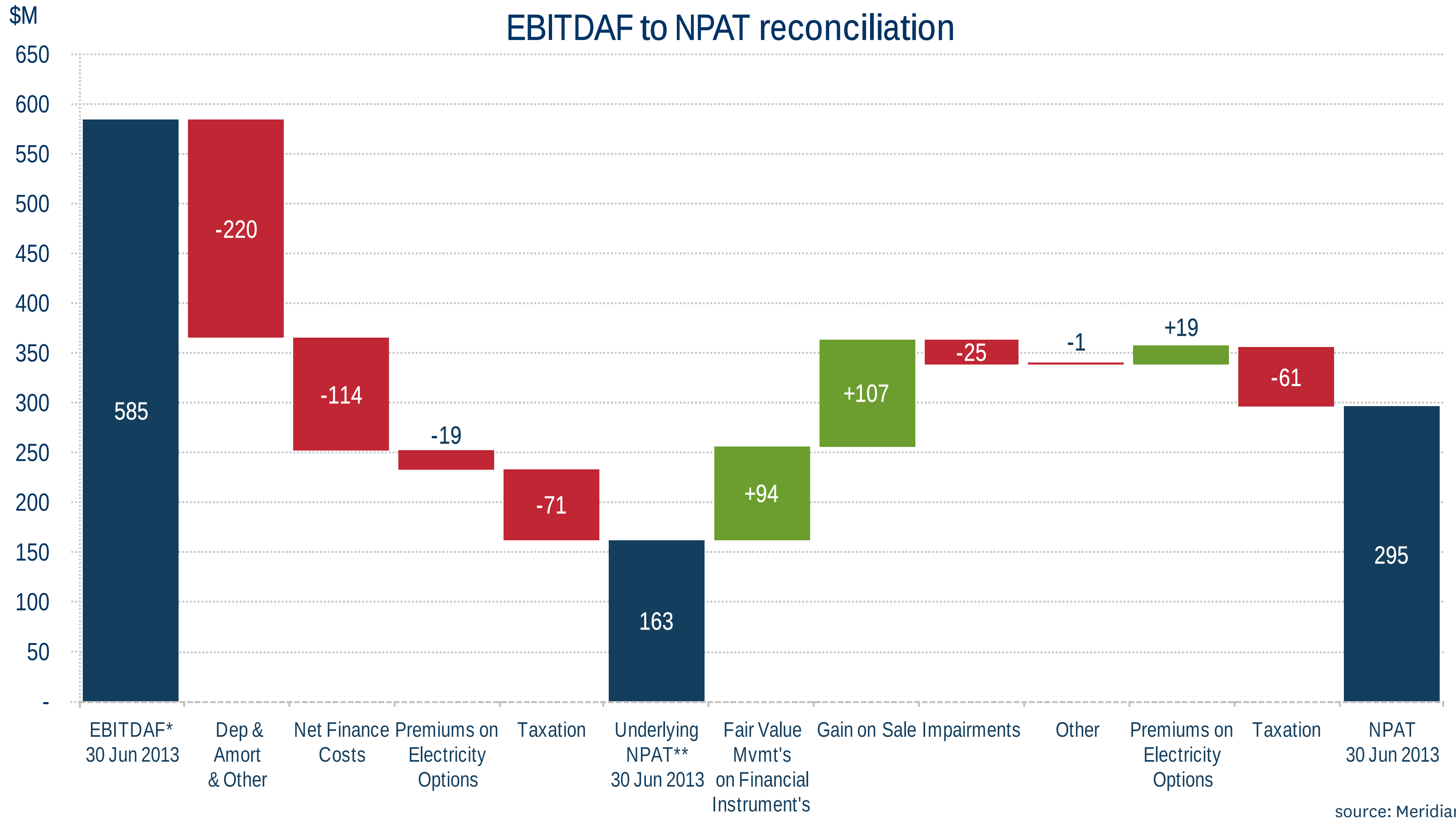








EBITDAF and Net Profit



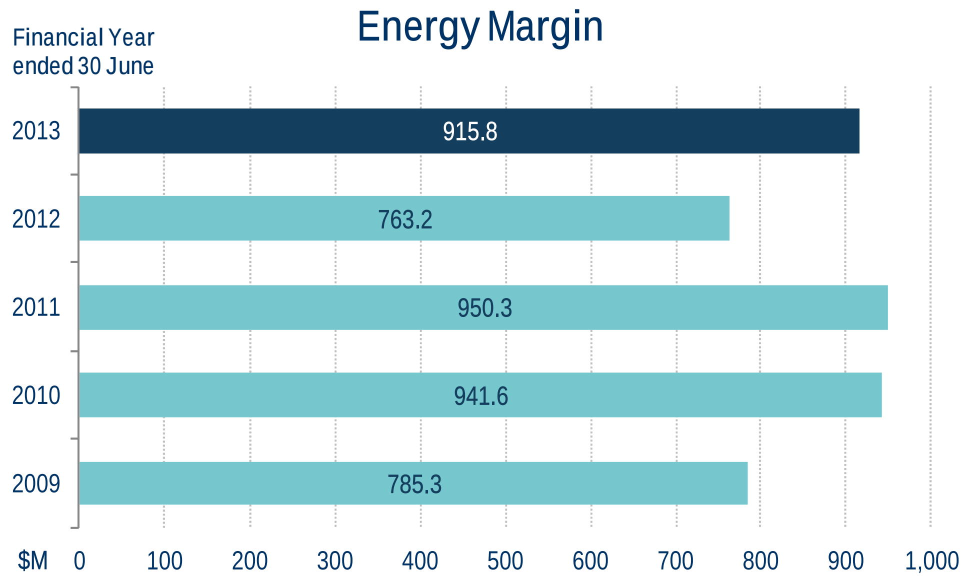
source: Meridian

*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 provided on p24

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 the wholesale prices on the cost of retail electricity purchases



source: Meridian

Energy Margin is defined as:

+ revenues received from sales to retail 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 revenues)
− the fixed cost of derivatives acquired to manage both generation volumes and wholesale spot price (Acquired generation costs)
+ revenue from the volume of electricity that Meridian generates and generation acquired through derivative instruments 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)

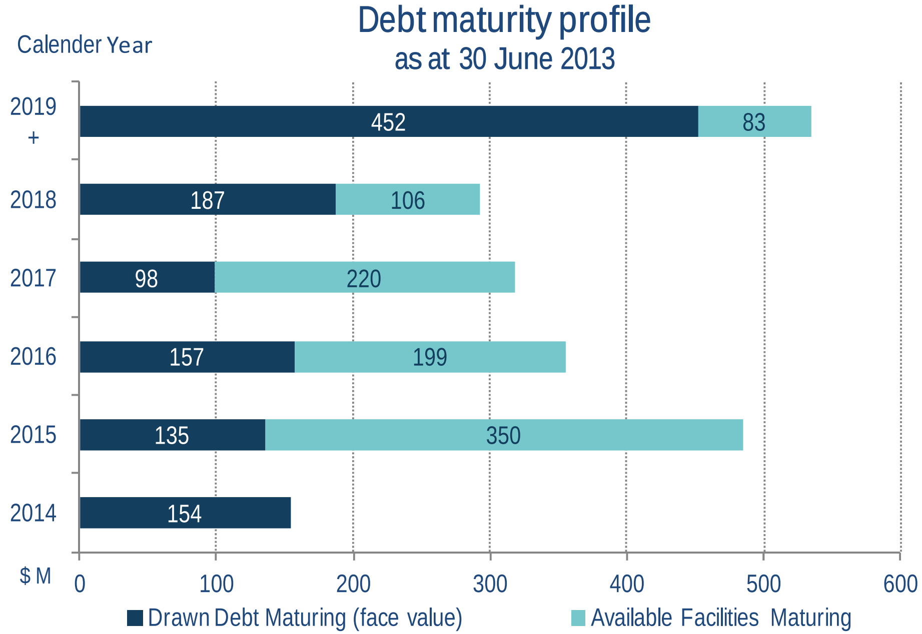
Funding

Total borrowings as at 30 June 2013 of $1,180.2m, down $645.4m from 30 June 2012

Committed bank facilities of $1,277.8m of which $957.5m were undrawn at 30 June 2013

Gearing ratio[1] of 14.5%

Standard & Poor's A2 BBB+ (stable) credit rating retained



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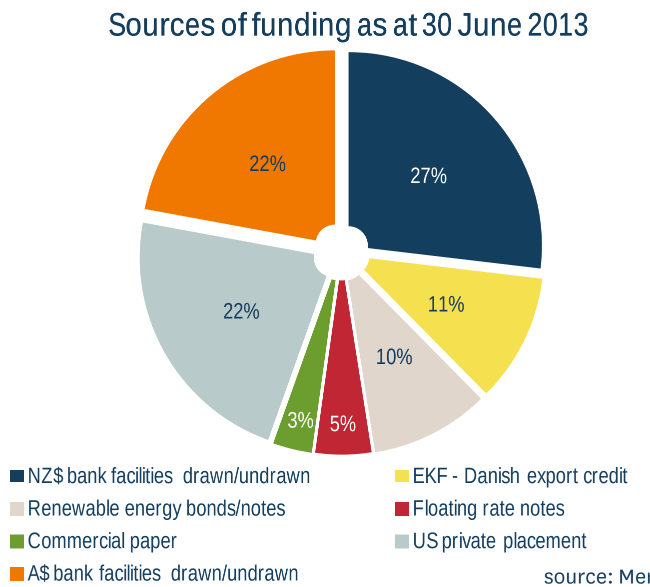


source: Meridian

[1] Gearing is the ratio on Net Debt to Net Debt + Equity

Fair value movements

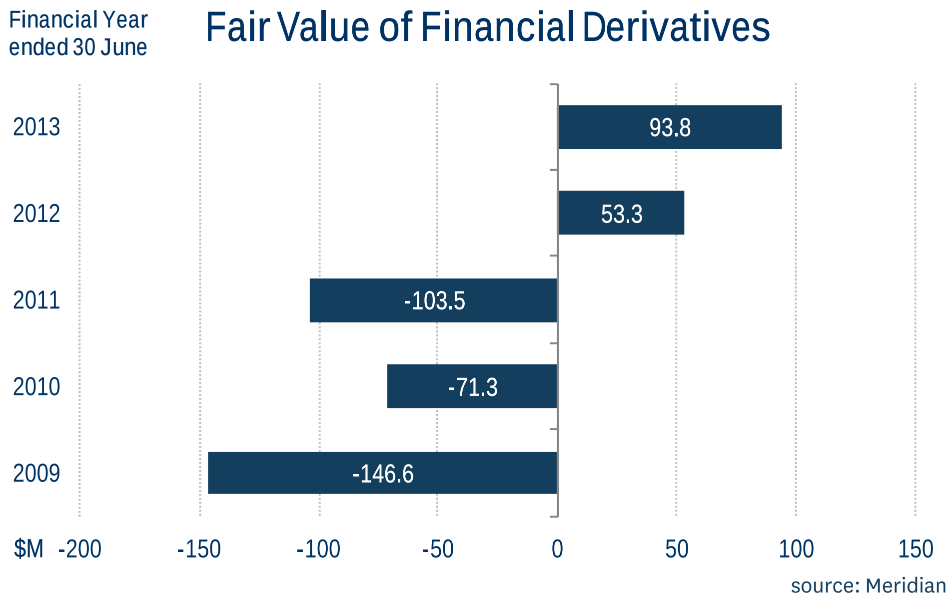
Meridian uses derivative instruments to manage commodity price, interest rate and foreign exchange risk

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 is an unrealised gain of $93.8m

This is due to upward movement in interest rate swap curves and softening of the forward electricity price curve



Income statement

($m)	2013	2012	2011	2010	2009
Group Energy Margin	915.8	763.2	950.3	941.6	785.3
Dividend and Other Revenue	29.7	27.3	31.9	29.5	23.8
Energy Transmission Expense	(115.3)	(86.7)	(84.2)	(78.9)	(78.2)
Gross Margin	830.2	703.8	898.0	892.2	730.9
Employee Costs and Other Operating Expenses	(245.4)	(227.2)	(238.1)	(250.6)	(218.5)
EBITDAF	584.8	476.6	659.9	641.7	512.4
Net Change in Fair Value of Electricity, Aluminium and Foreign Exchange Derivatives	51.1	121.3	(89.3)	(48.0)	(114.1)
Depreciation, Amortisation and Impairments	(244.5)	(285.2)	(235.2)	(206.4)	(172.3)
Gain/(Loss) on Sale of Property, Plant and Equipment and Investments	106.6	(1.5)	174.1	0.3	4.8
Equity Accounted Earnings of Associates	0.1	(2.7)	(3.4)	(2.0)	(1.9)
Group Operating Profit	498.1	308.5	506.1	385.6	228.9
Net Finance Costs	(113.4)	(82.5)	(107.6)	(85.1)	(68.4)
Net Gain / (Losses) on Financial Instruments	42.7	(68.0)	(14.2)	(23.3)	(32.5)
Group Profit before Tax	427.3	158.0	384.3	277.2	128.0
Income Tax	(132.2)	(83.4)	(81.2)	(93.2)	(38.7)
Group Net Profit After Tax	295.1	74.6	303.1	184.0	89.3
Group Underlying Profit After Tax	162.7	106.1	219.0	251.9	195.0

Underlying net profit after tax (reconciliation)

($m)	2013	2012	2011	2010	2009
Group Net Profit After Tax	295.1	74.6	303.1	184.0	89.3
Net Change in Fair Value of Financial Instruments	(42.7)	68.0	14.2	23.3	32.5
Net Change in Fair Value of Electricity, Aluminium and Foreign Exchange Derivatives	(51.1)	(121.3)	89.3	48.0	114.1
Premiums Paid on Electricity Options (less interest)	(18.5)	(15.2)	(13.9)	-	-
Impairment of Property, Plant and Equipment, Investments and Intangibles	24.8	60.1	11.0	18.3	9.2
Net Gain on Sale of Property, Plant and Equipment and Subsidiary	0.7	1.1	(174.1)	(0.3)	(4.8)
Net Gain on Sale of Investments	(107.3)	-	-	-	-
Adjustments Before Tax	(194.1)	(7.3)	(73.5)	89.3	151.0
Income Tax on Adjustments (excluding the adjustment for the Gain on Sale of the Tekapo Power Stations)	61.7	14.6	(30.4)	(26.8)	(45.3)
Effect of Gain on Sale of the Tekapo Power Stations	-	-	17.4	-	-
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	-	0.6	2.4	(9.4)	-
Effect of Change in Building Tax Depreciation on Deferred Tax	-	23.6	-	14.8	-
Adjustments After Tax	(132.4)	31.5	(84.1)	67.9	105.7
Group Underlying Profit After Tax	162.7	106.1	219.0	251.9	195.0

Balance sheet

($m)	2013	2012	2011	2010	2009
Cash and Cash Equivalents	382.8	214.4	368.2	54.4	47.9
Accounts Receivable and Prepayments	261.9	298.1	240.9	199.1	188.2
Other	121.4	58.3	18.1	18.1	30.8
Current Assets	766.1	570.8	627.2	271.6	266.9
Property, Plant and Equipment	6,769.0	7,963.6	7,720.8	8,207.3	6,743.1
Other	202.3	158.4	112.0	236.7	167.3
Non-Current Assets	6,971.3	8,122.0	7,832.8	8,444.0	6,910.4
Total Assets	7,737.4	8,692.8	8,460.0	8,715.6	7,177.3
Payables and Accruals	274.7	286.1	217.0	201.6	170.5
Current Portion of Term Borrowings	146.7	247.9	298.2	284.4	123.2
Other	99.1	59.4	54.5	71.0	63.1
Current Liabilities	520.5	593.4	569.7	557.0	356.8
Term Borrowings	1,033.5	1,577.7	1,275.4	1,323.1	1,128.7
Deferred Tax Liability	1,364.2	1,444.2	1,412.3	1,559.5	1,301.2
Other	131.2	251.8	271.3	205.3	106.4
Total Non-Current Liabilities	2,528.9	3,273.7	2,959.0	3,087.9	2,536.3
Total Liabilities	3,049.4	3,867.1	3,528.7	3,644.9	2,893.1
Equity	4,688.0	4,825.7	4,931.3	5,070.7	4,284.1
Total Equity and Liabilities	7,737.4	8,692.8	8,460.0	8,715.6	7,177.2

Wholesale segment performance

($m)	June 2013	June 2012	% Change
Energy Sales Revenue	2,061.2	1,985.1	+ 3.8%
Energy Related Expenses	(1,289.3)	(1,306.6)	+ 1.3%
Energy Distribution Expense	(1.1)	(23.5)	+ 95.3%
Wholesale Energy Margin	770.8	655.0	+ 17.7%
Dividend and Other Revenue	12.3	9.8	+ 25.5%
Energy Transmission Expenses	(113.2)	(84.7)	- 33.6%
Gross Margin	669.9	580.1	+ 15.5%
Employee Expenses	(29.3)	(23.5)	- 24.7%
Other Operating Expenses	(64.2)	(43.4)	- 47.9%
EBITDAF	576.4	513.2	+ 12.3%
Key Ratios			
Average Price Received per MWh Generated	$63.0	$98.8	-36.2%
Generation Volumes GWh	12,071	10,996	+ 9.8%
Wholesale Contracted Sales GWh	7,013	6,869	+ 2.1%

Retail segment performance

($m)	June 2013	June 2012	% Change
Energy Sales Revenue	1,166.5	1,156.6	+ 0.9%
Energy Related Expenses	(674.8)	(701.4)	+ 3.8%
Energy Distribution Expense	(403.0)	(380.7)	- 5.9%
Energy Margin	88.7	74.5	+ 19.1%
Dividend and Other Revenue	15.1	11.6	+ 30.2%
Gross Margin	103.8	86.1	+ 20.6%
Employee Expenses	(28.2)	(25.6)	- 10.2%
Other Operating Expenses	(58.0)	(49.6)	- 16.9%
EBITDAF	17.6	10.9	+ 61.5%
Key Ratios			
EBITDAF @ $85 per MWh Purchase Price / Contracted MWh	$3.1/MWh	$1.9/MWh	+ 63.2%
Average Contracted Sales Price per MWh (incl Lines and Ancilliary Charges)	$105.0/MWh	$101.6/MWh	+ 3.3%
Total Retail Contracted Electricity Sales GWh (excl Retail Financial Contract Sales)	5,661	5,701	- 0.7%
Meridian Retail Spot Sales GWh	1,861	1,898	-1.9%
Total Retail Sales GWh	7,522	7,599	- 1.0%

International segment performance

($m)	June 2013	June 2012	% Change
Energy Sales Revenue	51.4	23.3	+ 120.6%
Energy Related Expenses	(0.6)	(0.5)	- 20.0%
Energy Distribution Expense	(0.1)	-	
International Energy Margin	50.7	22.8	+ 122.4%
Dividend and Other Revenue	-	2.6	- 100.0%
Energy Transmission Expenses	(2.1)	(2.0)	- 5.0%
Gross Margin	48.6	23.4	+ 107.7%
Employee Expenses	(7.1)	(6.2)	- 14.5%
Other Operating Expenses	(6.9)	(4.9)	- 40.8%
EBITDAF	34.6	12.3	+ 181.3%
Key Ratios			
Generation Volumes GWh – Australia	421	177	+ 137.9%
Generation Volumes GWh - USA	11	11	0.0%

Other segment performance

($m)	June 2013	June 2012	% Change
Energy Sales Revenue	9.7	20.9	- 53.6%
Energy Related Expenses	(4.6)	(10.0)	+ 54.0%
Energy Distribution Expense	-	-	-
Energy Margin	5.1	10.9	- 53.2%
Dividend and Other Revenue	0.4	1.6	- 75.0%
Energy Related Expenses (Non-core)	-	-	-
Gross Margin	5.5	12.5	- 56.0%
Employee Expenses	(1.5)	(4.7)	+ 68.1%
Other Operating Expenses	(2.2)	(4.5)	+ 51.1%
EBITDAF	1.8	3.3	- 45.5%

Unallocated segment performance

($m)	June 2013	June 2012	% Change
Energy Related Expenses	0.5	-	
Energy Margin	0.5	-	
Dividend and Other Revenue	2.6	3.6	- 27.8%
Energy Related Expenses (Non-core)	-	-	-
Gross Margin	3.1	3.6	- 13.9%
Employee Expenses	(22.5)	(19.6)	- 14.8%
Other Operating Expenses	(26.0)	(45.2)	+ 42.5%
EBITDAF	(45.4)	(61.2)	+ 25.8%

Segment reporting

The Chief Executive considers the business from the perspective of three reportable segments; Wholesale, Retail and International

Meridian Segment Composition

New Zealand Wholesale	Retail	International	Other Segments[1]	Unallocated
Wholesale NZ Generation Renewable Development Damwatch	Meridian Retail Powershop Arc Innovations	Australia United States	Energy for Industry Meridian Captive Insurance	Corporate Overheads Shared Services and Insurance

[1]Other Segments include subsidiaries providing insurance services. Energy for Industry was included in this segment to 20 December 2012, when it was sold as a going concern

- ## Overhead allocations

In the year ended 30 June 2013, Meridian has commenced allocating directly attributable ICT, Insurance, Property and Brand costs to segments. Prior periods have not been restated