



Analyst and Investor Presentation

28 March 2012



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Session Contents

- Hydrology (Mark Binns, Chief Executive)
- Wind Economics (Paul Chambers, CFO)
- New Capacity (Paul Chambers, CFO)
- Mixed Ownership (Mark Binns, Chief Executive)

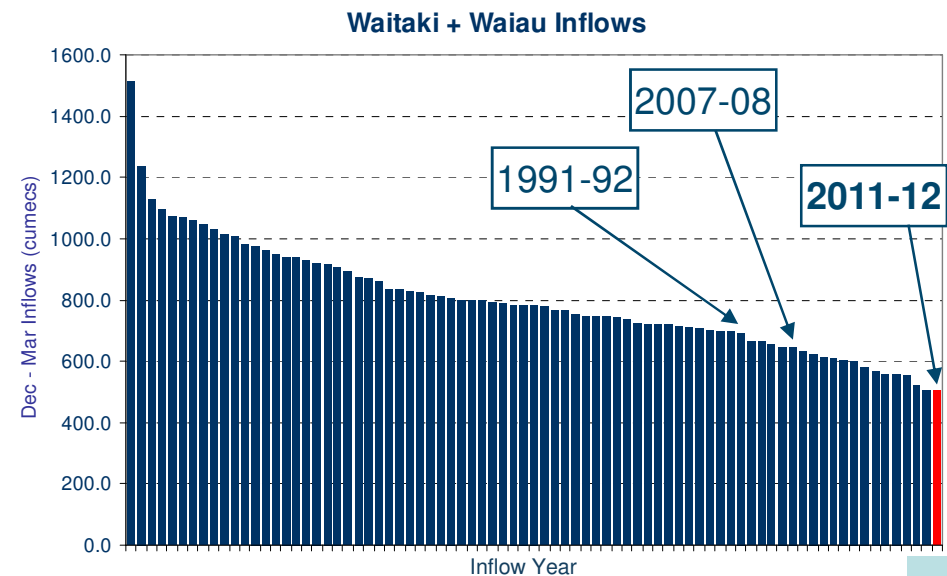
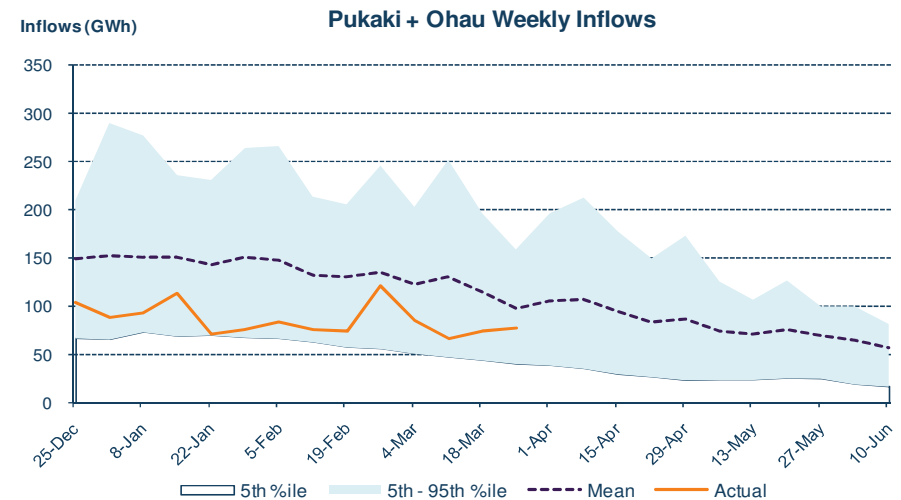


Hydrology



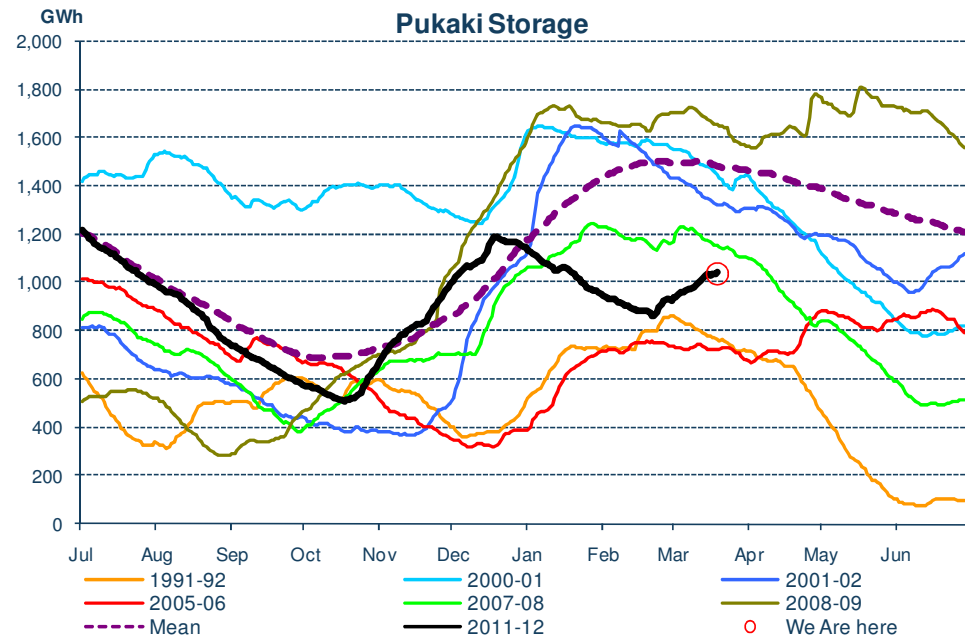
Current Hydrology – Update since Interims

- Pukaki inflows in the last 3 weeks have been just above half of average
- Waitaki catchment has had lower than seasonal average inflows for 16 weeks. Waitaki and Waiau catchments together have received the lowest December to late March inflow total in 79 years of historical records
- Since the beginning of summer Meridian has received less water in our lakes than in 1991-92
- Average storage levels generally peak at this time of year and now begin to decline



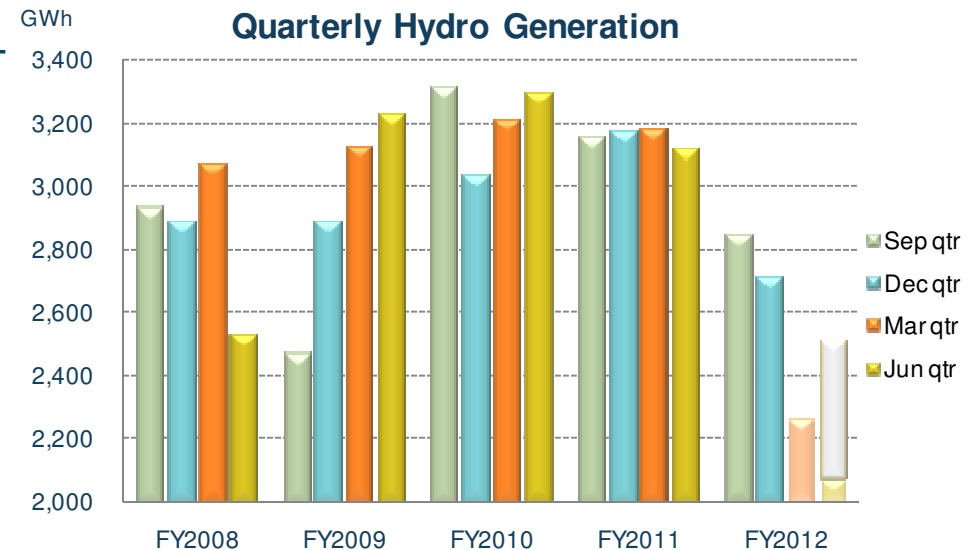
Current Hydrology – Active Management

- Generating conservatively, storage is increasing
- Actively buying hedge cover to meet contract load, instruments already in place to assist through winter
- Measured retail activity and improved NI / SI balance
- Flexibility achieved from some key customers
- Working with the industry to achieve greater south flow on the HVDC



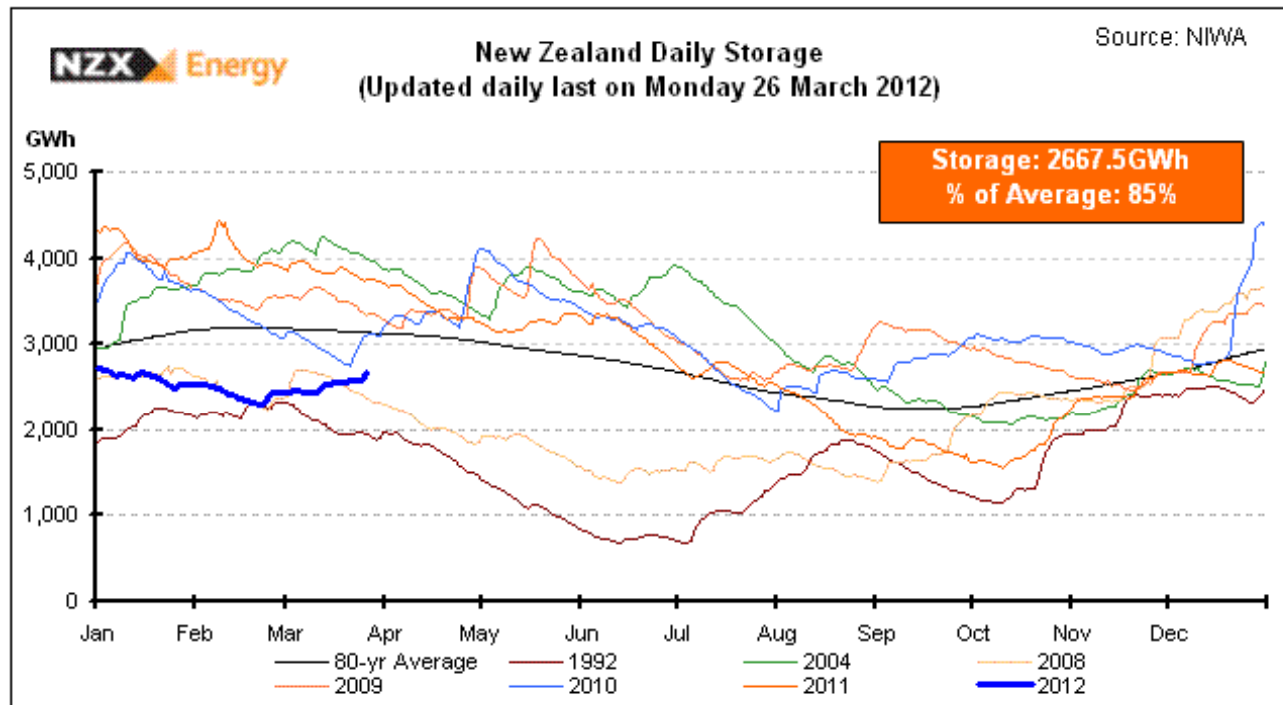
Current Hydrology – Compared to 2008

- Better balance of fixed price sales – retail and time-of-use
- More liquid market with improved range of instruments on offer
- Enhanced monitoring of cash flow, debt headroom
- Greater cost focus to help manage revenue pressure
- More flexible borrowing arrangements
- More balanced incentives across market participants and market behaviours have matured



Actual generation by quarter. Q4 FY2012 range based on mean (high) and 5th percentile (low) hydro inflows

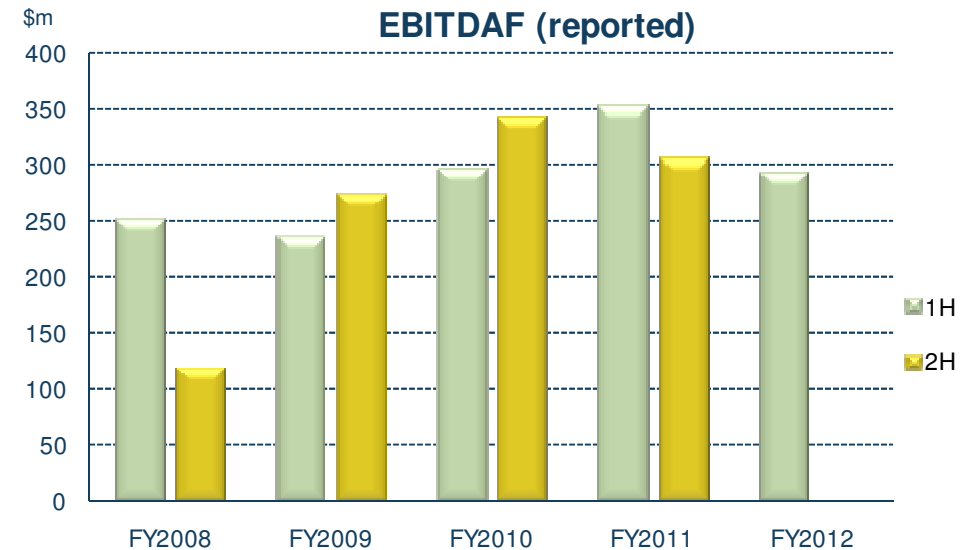
Current Hydrology – National Situation



- NZ hydro storage is around 15% below usual levels for March
- Almost constant south flow on the HVDC
- Increased North Island thermal generation
- Low risk of shortage in the next 8-10 weeks despite low South Island hydro storage
- 11 days of bipole outages are planned by Transpower in the second quarter of 2012

Current Hydrology - Outlook

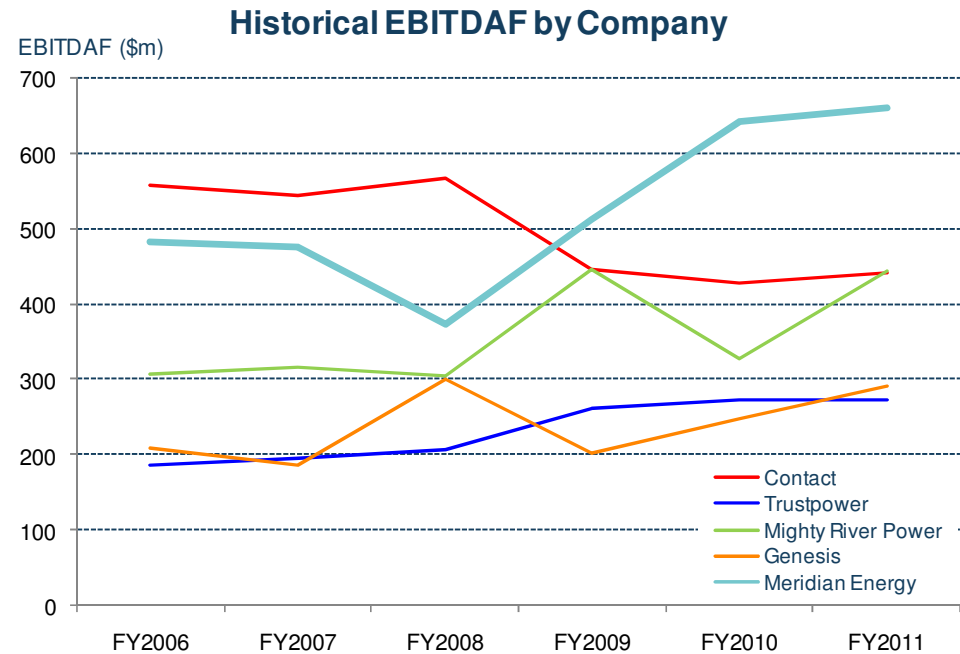
- Generating conservatively and buying hedge cover is impacting earnings
- Extreme downside risk has been significantly curtailed and Meridian is within normal risk limits
- Achieving full year profitability and RoE targets from the Statement of Corporate Intent is very unlikely
- With improved risk management, Meridian expects FY2012 EBITDAF to significantly outperform FY2008 EBITDAF of \$374m





Hydrology – Impact on earnings

- Hydrology impacts influence the market and individual participants, depending on nature of events
- Meridian's historical EBITDAF variability (standard deviation/mean) since 2006 is similar to most peers (range from 18% - 22%). Contact lower at 13% (i.e. less variable)



New Zealand Wind Economics



Wind Development – Platform for Growth

- Wind development is one of multiple growth opportunities for Meridian, in addition to
 - Improved profitability from retail
 - Earnings upside in the core business
 - Peaking potential of hydro assets
 - Leverage of our core competencies overseas
- Meridian wind expertise has been progressively developed since 2002 and is a source of competitive advantage
- Our best wind development prospects are competitive with brownfield geothermal and are capable of displacing existing thermal generation
- Beyond Tauhara II, the medium term merit order is dominated by wind options
- Average annual revenue variation from wind generation is very similar to geothermal

Valuing Wind

- Two ways of valuing wind
 - LRMC or unit cost, average revenue the wind farm would need to earn to cover all its costs including cost of capital
 - Project DCF – all capital and operating costs as above but also expected revenue, giving NPV and IRR key outcomes
- LRMC often used to compare technologies
- DCF to undertake investment case
- In both LRMC and DCF, key drivers of value are capacity factor, wind resource, capital costs, WACC, O&M, operating life, tax, depreciation
- In DCF, revenue calculation is required – using long run price, location and profile (participation) premiums or discounts, ancillary services and other revenues



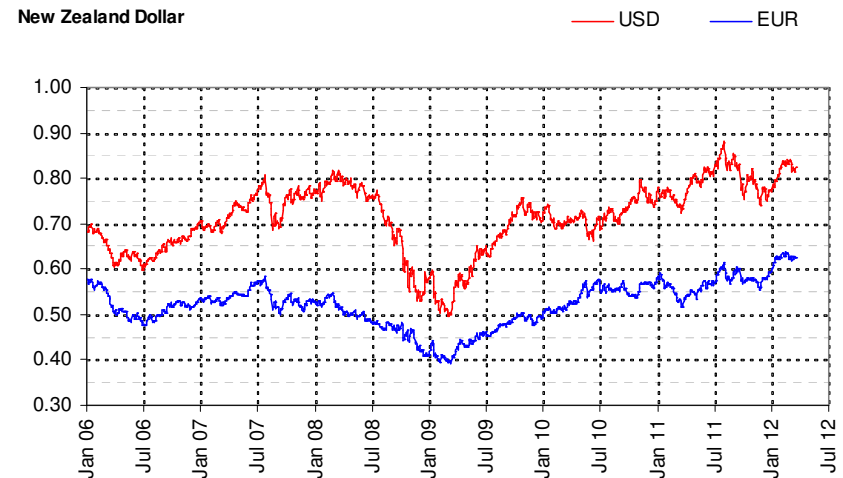
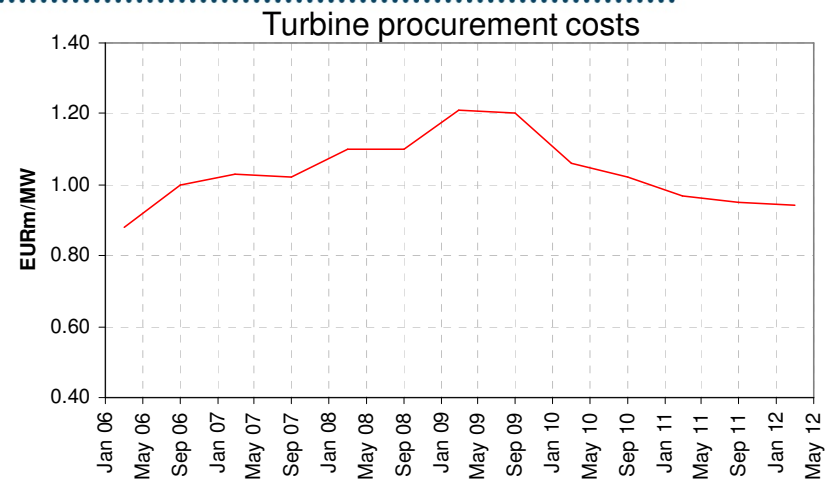
Meridian's Approach

- Meridian's approach is to value individual projects on DCF basis
- A number of “layered” valuations are undertaken starting from “first life” DCF that must exceed internal hurdle rate
 - Hurdle rate > WACC to provide superior returns after sunk cost recovery
 - Terminal value (second life or sustainable cashflows) excluded from this calculation
- Additional sources of value are considered on top of this
 - Second life
 - Risk benefits
 - Portfolio / retail benefits
 - Other revenue sources



Capital Cost - Turbines

- Turbines are typically 60 – 70% of total capital cost, purchase contracts in EUR or USD
- Over the last 6 years the cost per unit of installed capacity has peaked and is currently on a downward to flat trend
 - Supply and demand drivers
 - Technology improvements and scale
- Significant difference in pricing and performance between suppliers
- The NZ dollar is currently experiencing near post float high's against both the EUR and USD



Capital costs range between 0.9 and 1.2 m/MW (Euro)

Capital Cost – Balance of Plant and Civil

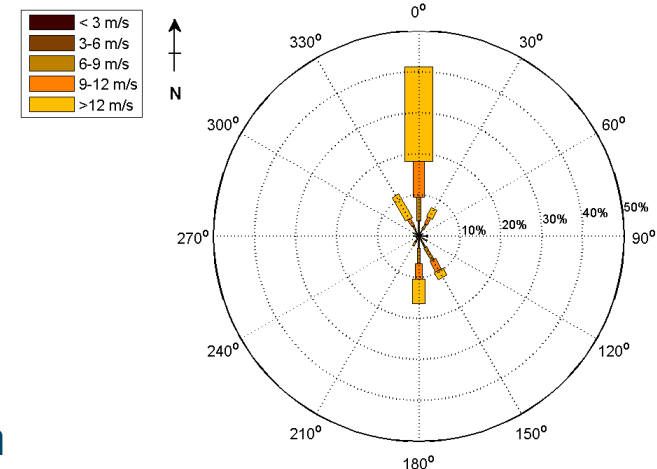
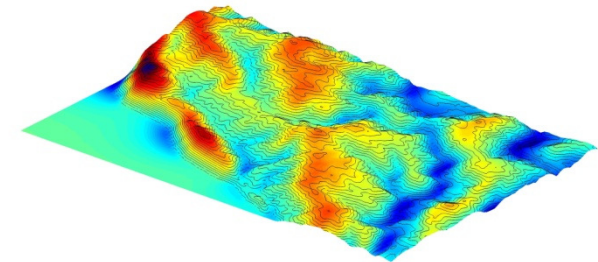
- Civil and electrical assets contribute 30-40% of capital cost
- Civil (access and turbine roading, turbine foundations, hard stand areas) is the largest component (~55%). Costs depend on:
 - Topography (ability to access site, amount of cut, and cut to fill ratio)
 - Geotechnical conditions (slope stability, foundation design)
 - Access to suitable aggregate for road construction and concrete batching
- Civil prices are currently very competitive
- Electrical assets (cable reticulation, substation and transmission line) more modular, with the exception of transmission connection:
 - Length of connection line, and voltage
 - Connection type (direct, embedded)
- Environmental mitigation costs, relating to the construction phases are rising and require careful design

Forward expectations are between \$900 - \$1200/kW

- **civil : balance of plant ~55:45**

Yield – Expected Energy Production

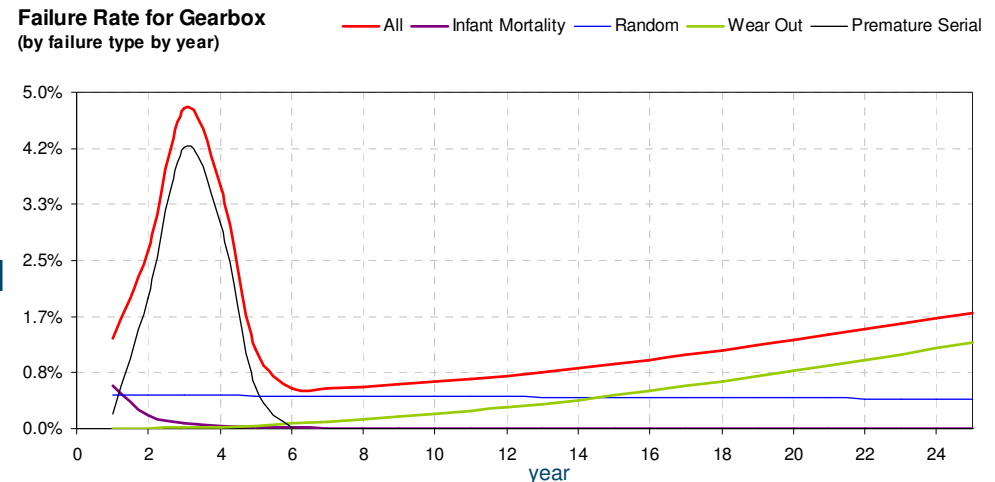
- Highly influential factor on project value. For every $\pm 10\%$ change in wind speed, around $\pm 15\%$ - 20% change in energy
- Meridian has continually improved its approach over 6 wind farms, transitioning from outsourcing to insourcing of specialist functions and as an owner/operator is able to calibrate using actual operational data
- Sophisticated 3-dimensional fluid dynamic engineering system
- Meridian leads the industry in understanding potential for wind generation in complex terrain



Good sites have a yield between 35% and 49%

Operations and Maintenance

- Each turbine has its own characteristics because of its associated wind profile
- Over time these characteristics are optimised for each individual turbine, with learnings applied across the site and portfolio



- Significant area of optimisation focus using reliability engineering techniques, vendor technical engagement and in-house expertise at a component-by-component level
- O&M costs of \$9 - \$20/MWh compares favourably to other technologies
- Availability is an additional key variable, depends on technology, site and maintenance strategy

O&M costs range between \$9 and \$20/MWh
Availability between 90% and 99%

Asset Life

- 25 year average life now common
 - Detailed modelling considers premature and late failure of turbines
 - Confidence in performance of assets over time

- Wind sites have residual value
 - Consent is typically indefinite
 - Wind resource does not degrade
 - Civil works (50 years) – roads and foundations
 - Electrical and mechanical infrastructure (50 years)

- Meridian models second life value as a sensitivity
 - Assume 60-70% original “above ground” costs at refurbishment
 - Assume ‘like for like’ yield and operational metrics
 - Contributes typically ~\$5/MWh additional value

Typical lifetime of 25 years used in first life valuation

Other factors

- In Meridian's first life valuation, other factors are also considered
 - "Participation rate" or "GWAP" – wind capture of market price (includes daily and seasonal correlation effects)
 - Constraints and outages, both planned and unplanned
 - Operational strategies of turbines (deratings in certain conditions)
 - Electrical losses within the wind farm
- Ancillary services revenues are also considered
- No significant costs of wind firming. Previous studies have shown up to 20% of installed capacity can be met with wind at minimal additional cost
- Additional cost unlikely to change wind's position as the marginal generation option and "setting" long run prices

GWAP or "participation rate" is site specific with wider range of 85% - 104% depending on project characteristics and location



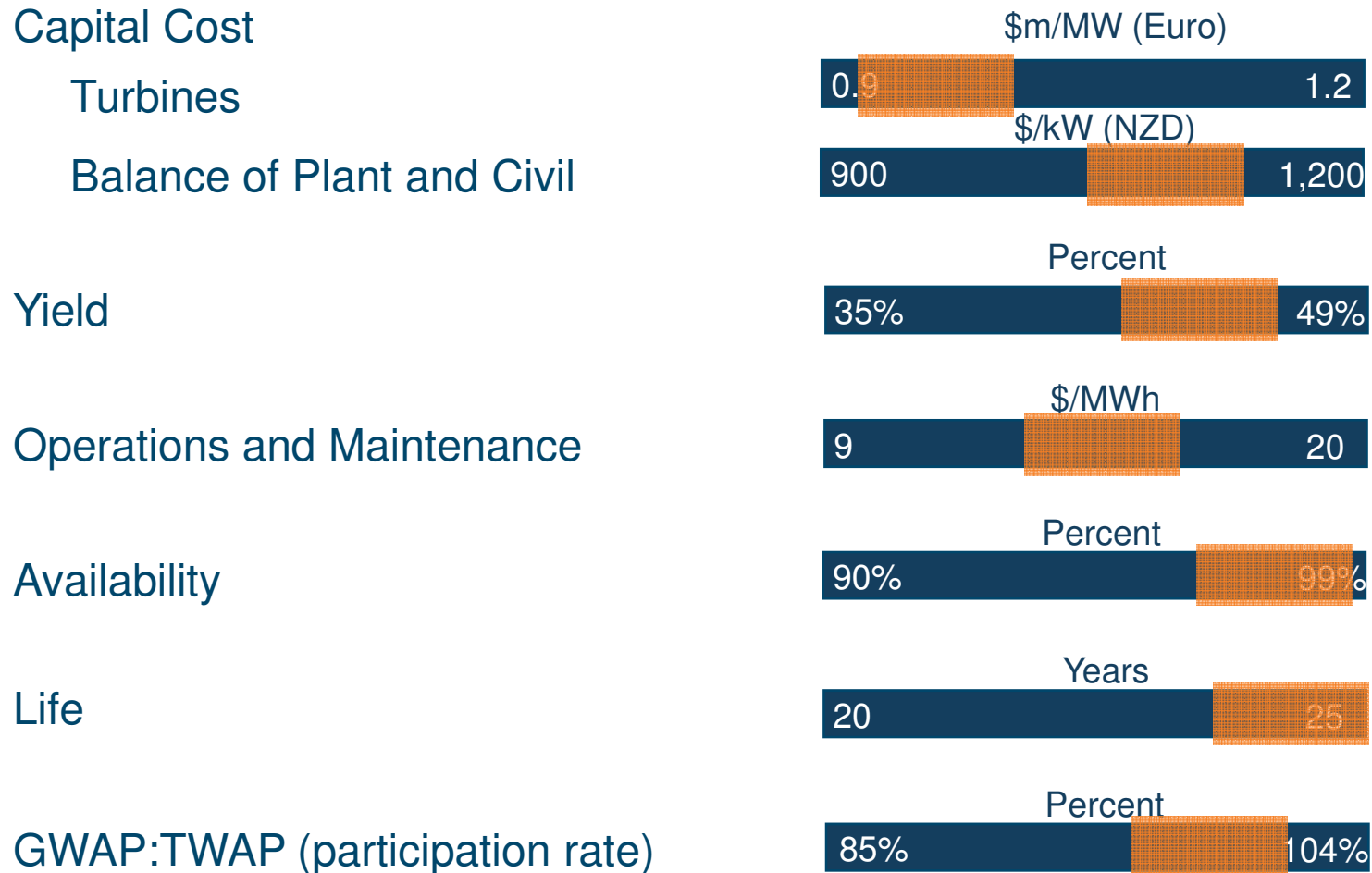
Putting it all together

Capital Cost	m/MW (Euro)	
Turbines	0.9	1.2
	\$/kW (NZD)	
Balance of Plant and Civil	900	1,200
	Percent	
Yield	35%	49%
	\$/MWh	
Operations and Maintenance	9	20
	Percent	
Availability	90%	99%
	Years	
Life	20	25
	Percent	
GWAP:TWAP (participation rate)	85%	104%

Resultant unit costs can vary significantly depending on where a particular site sits within these ranges



What does a good project look like?



Can expect good projects to have unit cost <\$85/MWh



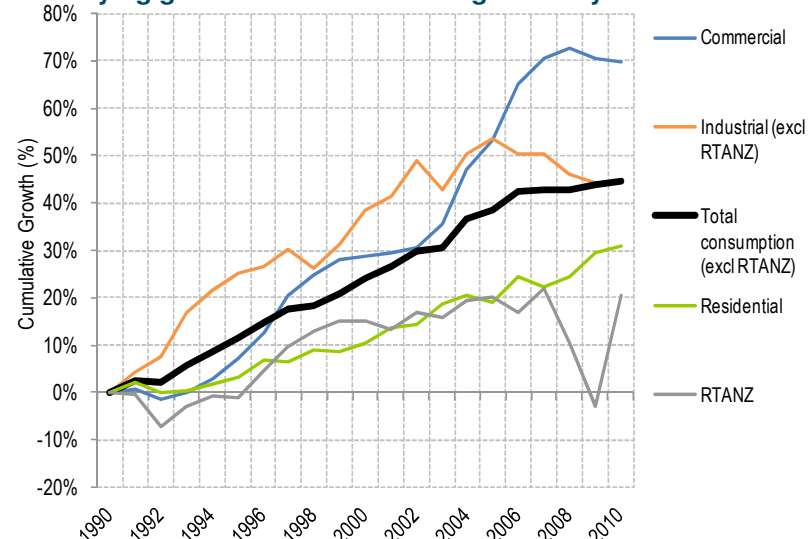
So, is wind economic?

- Yes. But, like any technology, it depends on the quality of the site, planning and design, and the performance of the selected technology
- Currently unit cost of great wind sites < average running costs of thermals
- Meridian's existing pipeline showing 4 projects <\$85/MWh, 4 projects between \$85 and \$95/MWh
- Forward expectations of high quality wind unit costs are better than other generation options
 - True greenfield geothermal
 - Thermal (gas / coal)
- But, all wind is not created equal
 - Need to carefully assess economics of individual site and turbines best matched to that site
- Lets not forget hydro – attractive options remain at competitive costs

New Capacity

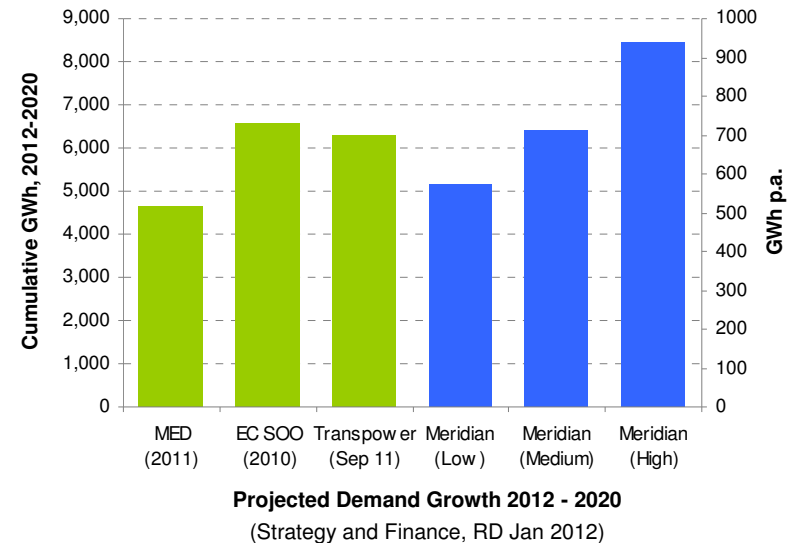
Electricity demand growth has been subdued

Underlying growth in demand has significantly reduced.....



Electricity Consumption by Sector (Strategy and Finance: Jan 2012)

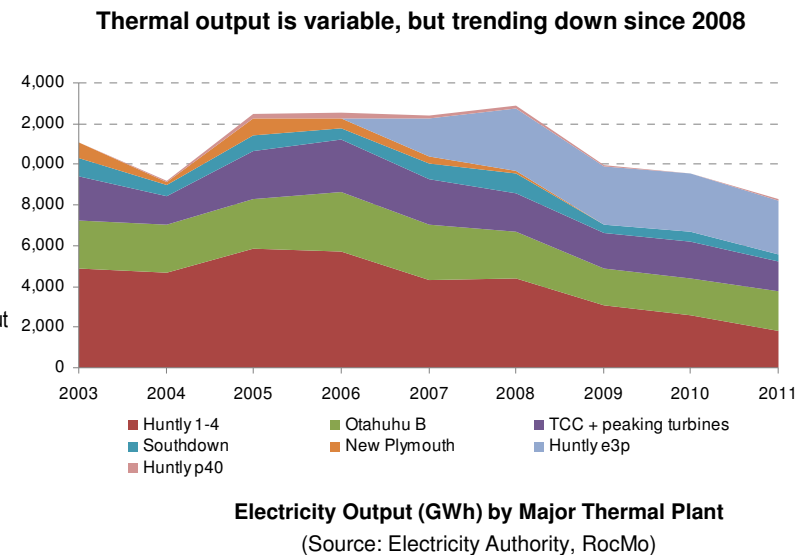
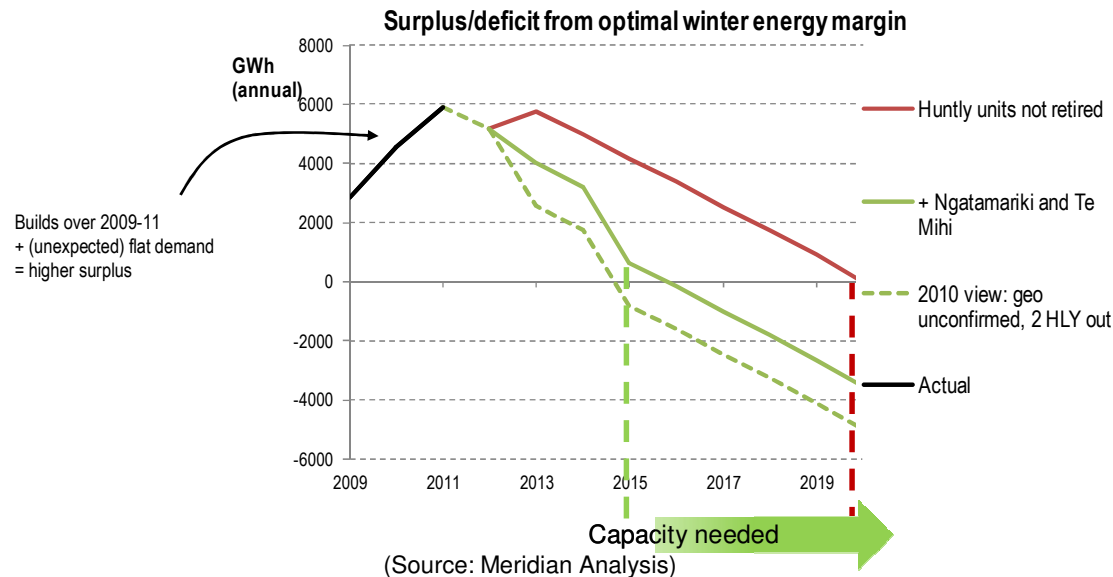
...but is forecast to recover during 2012-



Projected Demand Growth 2012 - 2020 (Strategy and Finance, RD Jan 2012)

- Growth in electricity demand averaged 2.65% pa from 1990 to 2006, or ~650 GWh pa
- Growth has fallen to 0.4% pa from 2006 to 2010 (excluding RTANZ), largely explained by reduced GDP
- Meridian forecasts annual growth to increase to an average of around 1.4% pa over the next nine years, or 710 GWh pa, consistent with other industry estimates
- Over 20 years, the market could require 15,000 GWh and if Meridian builds 4,300 GWh it will maintain its generation market share

New capacity is required in the market



- Expect to see a surplus – industry cannot perfectly match demand due to hydrology and asset reliability uncertainties
- Current excess capacity will be consumed by demand growth over time
- Expect downward trend in thermal generation to continue



Pipeline managed to meet market need

- Flexible option set
- Active portfolio management of development options
 - Long term view versus shorter term market conditions
- Project variables change over time
 - Consentability, yield, grid access, cost, land owner arrangements
- A number of projects have been reviewed over the year
 - Hayes exit
 - Other projects reshaped





Mill Creek is a highly competitive investment

- Fully consented
- Extremely competitive economics
 - Turbine prices similar to 2005 levels
 - Exchange rate at highly favourable levels
 - Site yield is one of the best in New Zealand
 - Unit cost < average running costs of thermals
- Smaller scale (240GWh, 26 turbines) with limited impact on market prices, matched to current, low growth environment
- Favourable grid location
 - No significant investment in transmission
 - Enhances HVDC southward flow, reducing South Island dry year risk
- Expect Meridian Board decision within the next 6 months

Mixed Ownership

Characteristics of the electricity industry

- Essential
- Key part of New Zealand's core infrastructure
- Produces a “must buy” product
- Growth linked to GDP – 700GWh per annum, with potential for long term demand upside (home heating / electric vehicles)
- Mature commercial market environment
- Strongly cash generative
- Upward trajectory of wholesale price path
- Strong renewable presence, relatively low industry exposure to carbon pricing compared to other countries



Meridian

- A cash generator with excellent dividend prospects
- Multiple growth opportunities
 - Affordable, value accretive wind and hydro pipeline
 - Retail – improving performance and differentiation
 - Earnings upside in core business through wholesale price uplift
 - Highly flexible assets
 - Overseas opportunities to provide superior return from competitive advantages
- Unique proposition
 - 100% Renewable
 - Largest energy business in NZ



Mixed ownership preparation

- Crown process progressing with MRP
- Preparatory work provided basis for Meridian's internal work plan, no show stoppers
- Dedicated internal project team in place
- Will be ready for Crown decision later this year
- Meridian will be undertaking additional analyst sessions
 - Retail
 - Offshore investment