

Meridian Public Meeting 7 December 2012

Chris Moller: Good morning ladies and gentlemen. Welcome to Meridian Energy's Annual Public Meeting. Thank you for being here today.

I am Chris Moller, Chairman of Meridian.

Also here on stage with me on my left is Mark Binns, Meridian's Chief Executive and Meridian's Board.

From your left to right, after Mark, they are:

- Peter Wilson, our Deputy Chairman
- Jan Dawson
- John Bongard
- Mary Devine
- Anake Goodall
- Sally Farrier
- Mark Cairns
- Steve Reindler

A special welcome to new directors Mark Cairns, Sally Farrier and Jan Dawson, all of whom joined the Board this year in preparation for Meridian's IPO. Meridian's Executive Team is also here in the audience, and I would ask them to stand up please.

[Explanation of emergency evacuation procedures : 6.05 to 6.41]

Today's proceedings will be made available on our website in the next few days. Accordingly, we are videoing the meeting and will be preparing a transcript of it. Therefore, if you wish to ask a question or make a comment during the Question and Answer session at the end of the meeting, please wait for a microphone before introducing yourself and asking your question or making a comment. Please direct all questions to me or comments as Chairman, and where appropriate or necessary, I will redirect those questions to my colleagues to respond.

As a courtesy to other attendees at the meeting, who may wish to speak, please ensure your questions and comments are succinct and to the point and that you afford others the opportunity to speak.

Agenda [slide 2]:

We will start today's meeting with a quick overview by myself about Meridian and a summary of the financial results and key developments for the year ended 30 June 2012.

I will then ask the Chief Executive to address you on some of the opportunities and issues facing the company, after which the floor will be open for questions and comments.

The meeting will need to close no later than 10.30am because the Board and management have other commitments that must be attended to this morning.

Meridian Overview [slide 3]:

For those of you who may not be that familiar with Meridian, the company is the New Zealand's largest vertically integrated energy company, focused on generating electricity from renewable sources, principally hydro but also a growing portfolio of wind in both New Zealand and Australia.

The Company is also a retailer throughout New Zealand. We supply electricity through our two retail brands, Meridian and Powershop, to approximately 287,000 customers.

Internationally, we have developed and operated wind and solar generation facilities in Australia and the USA, constructed three wind turbines at Scott Base in the Antarctic, and during 2012, in conjunction with the New Zealand Government, constructed a solar facility in Tonga.

2012 Financial Performance [slide 4]:

Turning now to the financial performance of the Company in 2012, Net Profit After Tax was 75 million dollars, compared with 303 million dollars in the previous financial year.

When comparing these results, it is necessary to take into account that last year's result was boosted by a 157 million dollar profit from the sale of the Tekapo hydro stations to Genesis on 1 June 2011.

Underlying Net Profit After Tax, which adjusts for the effects of non-cash fair value movements, impairments and one-off items, was 106 million dollars, compared with 219 million dollars in the 2011 financial year.

This significant reduction in earnings was caused by the lowest level of water inflows into our South Island catchments in the 79 years since records began.

EBITDAF was 477 million dollars, compared with 660 million dollars in the previous year.

Although a disappointing result, we are proud that through very good management of our hydro assets and the use of derivatives, the 2012 outcome was 103 million dollars better than the result achieved in 2008, which was the last significant, but less severe, dry year.

In addition, cash flow from operating activities of 322 million dollars was only 46 million dollars below the previous year.

In respect of dividends, we paid an interim dividend of 71 million dollars in April 2012, which was sufficient to meet our obligations under our dividend payout policy of 75 percent of our annual adjusted net profit.

Hydro generation volumes were 16 percent lower than the 2011 financial year, after adjusting for the lost generation from the Tekapo hydro stations sold to Genesis.

This reflected our conservative water management approach given the record low inflows.

Partially offsetting this, we achieved an increased contribution from our wind farms with generation up 18 percent.

And finally, our Retail segment's financial performance improved by 5 dollars 90 cents per mega watt hour against a long-term energy cost of 85 dollars per mega watt hour.

Key Developments in 2012 [slide 5]:

The 2012 financial year was also characterised by a number of significant developments.

Mark Binns commenced as our Chief Executive in January, taking over from Tim Lusk. We were very fortunate to secure Mark's services, but would not have been able to do so had the potential for an IPO not been on offer.

Mark has quickly familiarised himself with the business, and taken some key decisions to improve the company's performance and lead it through a range of challenges.

During the year, Meridian continued to prepare for the upcoming IPO, with the objective of being fully investment-ready if the Government proceeds with the Mighty River Power IPO

and selects Meridian to be the next company to go to the market. That is certainly our objective.

We also responded to Rio Tinto's request to consider potential changes to its existing and agreed supply contract for the New Zealand Aluminium Smelter, which is due to take effect on 1 January 2013. The Chief Executive will talk more about both of these matters shortly.

As requested by the Board at the time of his appointment, Mark has taken a long, hard look at the Company's business strategy.

Consequently, Meridian is now re-focussed on its core business as an integrated renewable energy developer, generator and retailer with a number of subsidiary companies either having been sold or restructured.

Following a full review of the risks and uncertainties faced, tough decisions were taken to exit the Hayes wind and Mokihinui hydro projects.

Conversely, during the year the Board gave approval to expand our wind generation portfolio with the construction of Mill Creek, here near Wellington, and Mt Mercer in Victoria, in Australia.

I will now hand over to the Chief Executive, who will take you through some of the key opportunities and issues facing the business in more detail. Mark.

[HANDOVER TO MARK]

Mark Binns: Thank you Chris, and I join Chris in thanking you all for attending. Hopefully next year we'll have larger numbers and greater competition for the sausage rolls afterwards!

Health and Safety [slide 6]:

But before I comment on the drivers relative to our performance this year, firstly can I just make some comments on health and safety. It was very pleasing in the year to see that we halved our LTIFR [Lost Time Injury Frequency Rate], which is significantly below industry standards, as you can see from the graph. Most of you that are involved in health and safety at the frontline would know that a good health and safety culture doesn't come from numbers, it comes from a belief in safety and an understanding amongst your workforce that it's the most important thing they do everyday.

And I think the Pike River Report just illustrates how easy it is to become complacent around health and safety issues, and I want to assure everybody that we are not complacent about health and safety and we are on a journey, and more work is continuing as we speak and will continue next year, particularly around the area of culture and making sure that we get a culture of continuous improvement in the business.

Key Drivers of 2012 Performance [slide 8]:

Turning to the drivers for our performance in the 2012 year, and I would apologise (because I see a number of faces in the audience that have probably heard this at least three times and that comes with having your public general meeting cycle very late in the six months) if you've seen this graph, but undoubtedly it was the key influencer on our result last year, and Chris has referred to it. It's a fact that we had inflows into our southern lake catchments at record lows: the lowest in 79 years. So we had inflows that were 20 percent less than those in 2011, and something like 10 percent less than 2008, which was the last dry reference year that we refer to.

I would comment that we probably wouldn't have done as well at getting through this period if we hadn't had significant wind generation to bolster up our position and provide us with some diversity around our generation. Our wind in capacity level is around about 13 percent of our capacity now and last year it provided 11 percent of our gigawatt hours and actually just as I walked out today, it was producing around about 16 percent of our power. So the value that it brings to Meridian is significant, and obviously exceptionally important given our commitment that we are only going to be a renewable generator.

Portfolio Risk Management [slide 9]:

In terms of portfolio risk management, given the low hydrology in the year, we recognised this risk very early on, probably in late February, and we took measures to pull back on our generation, and decided that it would be prudent if we took some insurance through the markets. We took some CFDs [contract for difference] to cover the position that we saw developing. I think it is this early recognition and the fact that we have far more developed financial markets for us to operate in the electricity sector, that allowed us to handle the situation exceptionally well. And as Chris said, we came out of the year actually 103 million dollars better off at the EBITDAF level than we did in the last dry period in 2008, which I think was very pleasing for the management team, and most certainly was very pleasing to the Board, and I think has been acknowledged by the analyst community as an indication of

good solid strategies and competencies inside Meridian and the development in the markets that I referred to before.

Flat Demand Growth [slide 10]:

Another key factor for us is the flat demand growth, and these graphs that you can see up on the screen illustrate cumulative growth and you can see that it has been relatively flat for the last five years. We had a flat scenario develop last year, so our demand growth was muted and looking out into the medium term, we see a situation where it is probably unlikely to change for some significant time, and a particular concern to us if you look at the bottom graph is just the downturn in industrial usage that we have seen in New Zealand over the last half a decade.

Given the environment that we predict is going to develop in terms of demand, it was clear that we had to look at our development pipeline, and as Chris has mentioned, decisions were made to not proceed with Mokihinui or the Project Hayes developments. I think those decisions were made for very good financial reasons, and the focus within the Company has now narrowed to maintaining our current consents on a number of good wind projects and making sure that we can lengthen the consent periods and periods with landowners to ensure that we get some longevity on these options. So we have basically stopped developing and looking for new options at this point, given the outlook that we currently see.

Improved Retail contribution [slide 11]:

Another contributor to our performance last year, as Chris has noted, has been the improvement in our retail business. This is quite marked, with a \$5.90 per megawatt hour improvement in our results. And it comes from a real focus on our team, lead by Bill Highet here down in the front. We are the smallest of the large five generators in terms of a retail portfolio, but we're consciously at that point because of course a lot of our generation goes to Tiwai Point. So the issue for us isn't the quantity of our retail book; it is the quality of our retail book and the team in retail has done an excellent job in starting to focus on those segments where there are greater profit margins available for the company and have done a great job in developing the analytical tools that are necessary to do so. So that's an area that we are looking for continued improvement through the next financial year as well.

Focus on Core Business [slide 12]:

In terms of focus on core business, just in summary. In the New Zealand context it has been around the retail improvement I just referred to. It has been around rationalising development opportunities. It has been around exiting our existing non-core businesses. It's well-known, it's been publicised that we sold our interest in Whisper Tech to our European joint venture partner earlier on in the year. We are currently in the final stages of negotiations around the sale of EFI [Electricity for Industry] and we have our solar asset in the US currently in the market. Associated with that, we disestablished the Business Development Unit in the earlier part of this year. We've also been looking at our operational efficiency and reviewing this, and this has led to a number of changes in the business, particularly around the numbers of people that we've held in our Renewable Development Business Unit.

Australian Growth [slide 13]:

In terms of Australia, the construction of the joint venture wind farm at Macarthur continues; it is on programme, and we have achieved first power. It is expected to be fully commissioned in July this year [2013] and most people here will know that that is the largest wind farm in the Southern Hemisphere, which we are in a joint venture with AGL in. It was pleasing in the year to see that our Mt Millar wind farm, our existing Mt Millar wind farm in South Australia improved its performance as we continue to tweak it and look for enhancements. And, as Chris said, we committed to the Mt Mercer wind farm in Victoria approximately three months ago.

Contemporaneously we are running a Friends and Family trial, which we're actually expanding past friends and family now, to establish whether there is an opportunity in the Australian market for our Powershop offering. That work will probably be completed around about March next year when we will make a decision on whether we proceed or not. I think it's fair to say that the management team and the director see opportunity in Australia, but we are all very conscious of the risks associated with operating in the Australian environment as well.

Community and Environment [slide 14]:

Just a quick comment on community and environment. It probably isn't a well-publicised fact that we spend over half a million dollars a year in the communities in which we operate, and we are continuing to spend in excess of that amount of money, and this reflects our

commitment to work with the communities in which we operate and seek to operate in the future.

Our work in the environmental area has been rewarded both last year and this year with the winning of various awards, both in the Sustainable 60 Awards and the Green Ribbon Awards, largely around the work we are doing in the Waiau and Waitaki River catchments in terms of improvements and overall environmental performance.

Current Issues [slide 15]:

A few comments on current issues, and this is probably one that a number of people are relatively interested in – the New Zealand Aluminium Smelters' contract. As Chris said, we have a binding contract with New Zealand Aluminium Smelters. It was entered into in 2007 which covers the 18-year period commencing on the 1st of January next year. Rio Tinto has requested that we look at that contract and make a decision as to whether we are prepared to alter it in a number of ways. We have reviewed the contracts, some time ago, and we have advised Rio Tinto executives of the areas in which we are prepared to look at some amendments and the areas in which we are not prepared to look at amendments. At this stage, and you'll note on the slide that I say that we are currently waiting to hear back from Rio Tinto; I should say that that has been made a little bit passé in that we have been contacted by Rio Tinto and some further discussions will occur before Christmas. Clearly the content of the discussions between ourselves and Rio Tinto are confidential.

The only matter that I would add, or comment I would make, is that the Board has to look at this matter on the basis of what is important to Meridian; that is its obligations both under the SOE Act and the Companies Act. Undoubtedly there'll be more on that either later on this year or earlier in the New Year as matters develop.

The only other matter that I think is worthy of some comment is that around transmission pricing, where the Electricity Authority has come out with its draft recommendations for some changes to the way in which transmission costs are allocated across the sector. And as a company, we are very happy with the manner in which this report has been approached by the Electricity Authority and we are very supportive of the outcomes. I can't say that that is the case universally across the industry, but we most certainly have been banging on about this for a long time and Guy Waipara down here, it's largely been his life's mission to get some change in which this methodology has been approached. So we are supportive of the changes. The dates for submissions have been put out to the end of March next year. Our submission will be very supportive but will also offer a few ways in which some of the complexities in the proposal can be reduced. But the overall aim, we believe, is good, and is going to ensure that there's more efficiency in the market and South Island generators are no longer penalised by having to absorb all the costs of the HVDC link.

Outlook [slide 16]:

Chris has also commented on the Government's share offer programme. All I would add is that we have been working very diligently to ensure if the Government decides we were to

be the next company off the rank, that we are ready to proceed. We started this work around about March this year and completed it in September. We have a full due diligence room; it is constantly kept up-to-date, and all our practices, policies, charters etc. have been modified to ensure that they are compliant with listing requirements. So just to reiterate again Chris' comment that we are ready, willing and able and, as New Zealand's largest generator and a generator that is only committed to bringing renewable energy to the market, we think we have a story that is well worth consideration by the investor community.

In terms of our current performance, the comment was made in our last quarterly report that we would probably not make the 31 December 2011 six-month result, that we'd probably fall a little bit short. This will actually be the case, but it will be a lesser margin than we originally thought. We have been penalised obviously in this first half by the remnants of a number of contractual positions we took, insurance we took, with regard to the dry period and we've had to see those contractual positions worked through, which they have, in September, and we have had an influx of water which has seen lower wholesale prices and some increased transmission costs. That said, our prospects for the full year ending 30 June are that we will exceed at an EBITDAF level our performance last year. An update on hydrology and trading conditions will be included in our reporting of the half-year results, but the slide that you have up in front of you does show you that the line half-way through the screen, the high line is the in-flows that we have received over the last few months, and you can see that our current storage levels are well above average, which augurs well for the balance of the year.

At this point I'll hand it back to Chris to take any questions that may arise from the floor.

Question and Answer Session:

Chris: Thanks Mark. We're now finished with the presentations and, as Mark said, it's time to open the floor to questions.

Please remember that, as these proceedings are being videoed. We therefore ask you to ask for a microphone, then introduce yourself and ask your question or make your comment.

Are there any questions or comments?

Patrick Smellie, BusinessDesk: With respect to the way the inflows look on that chart, if I recall it correctly, you can almost sort of see inflows quietly drifting down over a long period of time. Are we watching climate change before our eyes and if that's the case, how does the Company seek to mitigate that risk? The other question I wondered about was, how does the commissioning of Pole 3 change things for you in the year ahead?

Chris: Two questions there Mark, which you might wish to answer. Climate change and Pole 3. Maybe you need to come to the rostrum though for the purposes of videoing.

Mark: Well climate change, Patrick, I guess is a difficult one and it depends on where you actually stand in terms of climate change and what the effect will actually be in our particular catchments, all of which is somewhat in the lap of the gods. But on the question itself, as we have made clear before, we are very keen to ensure that our position is diversified, and that's why you've seen just about everything we do in terms of new generation being around wind. And again, I guess I would point out that without the wind generation that we had from the North Island during this dry period, I think the situation we would have faced would have been far more severe. So the answer is really around diversification and our requirement to get more wind over time outside the South Island and outside the hydros there.

The second question around Pole 3, yes Pole 3 is a concern. I mean there's no question it's currently slated to be completed on the 6th of April. I don't think anybody is going to rest easy until it has actually been completed, and until that time, there is obviously going to be some risk of slippage, but that is within Transpower's orbit really to comment on. Clearly it makes things difficult for us. Any outages that are not fully allowed for and are inopportune should I say in terms of timing makes it more and more difficult for us to hedge our position. So it's undoubtedly going to be an issue that is going to be material for us in the next six months, but our team is working very very closely, as are the other generators, with Transpower, around their commissioning tests, and we're actually doing some exercises at the moment to simulate dry runs on how this will all be done. So there's a lot of planning, a lot of effort going into it, and I'm not in any way critical of Transpower – it is a major project and it's a risk that we aren't going to underestimate until the project is actually finally completed.

Patrick Smellie: Around Pole 3, what does it do for earnings long-term?

Mark: Well let me put it this way: we can't wait for it to be completed. We see it as being a real positive for Meridian.

Chris: And coupled with transmission pricing, it will be attractive to us. Any other questions or comments? Last time, going....

Brian Fallow, New Zealand Herald: Just on the off-chance, is there anything you can tell us about which areas are in the flexibility group, the staunch group that comes to your discussions with Rio Tinto?

Chris: Again, definitely a question for the Chief Executive.

Mark: Sorry Brian, your question in terms of staunchness...

Brian Fallow: You said there were some areas in which you were not interested in changing the contract.

Mark: Yes, well I can't elaborate on where we have drawn the line in terms of what we are prepared to talk about and what we're not prepared to talk about. As I said, this is confidential, so those details are just gonna have to come out in the fullness of time. But can I say, we are starting from a position where we would like Rio Tinto to stay. I mean we are not starting from a negative position at all, but clearly we have to look at the situation in terms of what is being asked of us, relative to what the counterfactual might look like. And if we go below that, then clearly it is negative value creating for the company.

James Weir: Mark, are you able to confirm what the prime minister said, which is, there's a couple of years there where you're basically bound in to existing arrangements?

Mark: He said three. No, I can't comment, but the Prime Minister's not a silly man, is he?

Chris: Any other questions or comments? It's fairly obvious we can't answer any questions on the Tiwai Point situation, so I won't allow any further ones. Any other matters though that anybody wishes to raise?

James Weir, Dominion Post: How would you categorise the fact that you're getting back into talks and when would you expect some kind of resolution, given that the new contract starts in just a few weeks?

Chris: No comment. Any other questions or comments? He's going to rise to the bait.

Mark: Well no I'm not, but I would say James, the 1st of January's not far away and all parties are working towards obviously the change in contract on the 1st of January.

James Weir: So would you expect some resolution by then, is that what you're saying?

Mark: No, I'm saying that the contract ends on the 31st of December. The new ones starts on the 1st of January.

Chris: Which is in place and signed some years ago.

Mark: And nobody's expecting anything to happen in the interim.

Chris: Any other comments or questions?

Patrick Smellie: You'll have heard the chatter in the market, amongst your competitors, that they can't see the economic value in Mill Creek. I just wondered what Meridian sees that others don't, and how you respond to the criticism that this is – not my words but – “a classic SOE investment which wouldn't stack up in a listed company environment.”

Mark: Thank you Dennis Barnes. Well, I suppose the guy before who built the last power station is going to criticise the next guy, and I suppose we can look back on Te Mihi, Ahuriri Gas Storage, all the rest of it, where we could be critical, but I wouldn't be, because I mean I don't understand my competitors' business to that level to do so. Having said that, we looked at Mill Creek. Mill Creek had been worked on over a long period of time. We went through all our development opportunities, and as I said, we decided Mokihinui and Project Hayes had to go. But when we looked at Mill Creek, we looked at the advantages that it gave us in terms of the diversity around our generation, we looked at the advantages it gave us in terms of being embedded in the local network and then we tested it against more conservative demand growth, we still saw it making our cost of capital. We realise it was on the cusp, but it gave us advantages – on the cusp if we had a negative scenario develop – but overall we thought it would be positive for the company. Having said that, as I said before, we, like most of the other generators, would recognise that the demand outlook for the next five years is probably flat to slightly declining, maybe – we don't know. Nobody knows, and our focus is on just making sure we have two or three projects ready to go so that if we do get it wrong, we won't be the last to market – we'll be the first to market with the next station.

James Weir: Just to follow up on Mill Creek. When would you expect that then to get the green light and possibly go ahead?

Mark: It is going.

Chris: Yeah, it's underway. We signed it off three or four board meetings ago.

Mark: It's at least.

Chris: And I mean the question before: there is no doubt that the Board took the view, as it would do if it was listed, that this was a viable project exceeding our cost of capital.

Last time? Any further questions or comments. We are of course going to invite you to have morning tea with us. You're more than welcome to ask us questions or make comments to us over morning tea on a one-on-one basis, so it's not the end of any discussion, but is there anything else anybody wishes to raise in an open forum? If not, I'll thank you for your attendance today.

Thank you to those who raised questions, and as I just said, please join us for a cup of tea in the foyer. We will however need to get away, although I think we're probably about quarter past 10 or something of that order. So we're probably able to be there for 20 minutes, half an hour to join you outside. Thank you very much for attending.

RECORDING ENDS: 48.42