
Chairman's Address: Chris Moller

It is now my pleasure to review Meridian Energy's 2014 annual result with you for the first time as a publicly listed company.

Indeed today is Meridian's first birthday, having listed on the NZX and ASX exactly one year ago to the day.

This marks a new phase in the Company's proud history.

We are the owner and operator of a number of New Zealand's iconic infrastructure assets as part of our hydro generation portfolio.

Our oldest asset, which is the Waitaki dam, was built during the great depression.

The photograph you can see is of the Waitaki dam construction and was taken in 1933, two years before the station began generating electricity.

Some 80 years later that dam still has total structural integrity, which is a testament to the innovation, commitment and workmanship of our forebears.

Our system of six hydro stations on the Waitaki River was fully completed in 1985 with the commissioning of the Ohau B and C stations.

These hydro assets, together with Manapouri, represent the core of our generation capability and will remain so for many decades to come.

We are also proud of our wind portfolio, which commenced with the construction of the prototype Brooklyn Wind Turbine here in Wellington in 1993.

The photograph shows the Brooklyn turbine generating electricity on a typical Wellington day.

Since then we have constructed 5 wind farms in just 10 years in New Zealand, as well as three wind farms in Australia and one in the Antarctic.

On average our hydro stations and wind farms produce approximately 30% of New Zealand's annual electricity requirements.

Consequently we are proud to be the largest generator of electricity in New Zealand and even more proud that that electricity is generated entirely from renewable sources, being water and wind.

Turning now to the year in review.

Without a doubt the Company's listing on both the New Zealand and Australian Stock exchanges on 29 October last year was the most notable single event of the year and marked a huge milestone in the Company's history.

Anybody that has been involved in the listing of a company knows that it consumes a significant amount of time and energy for the Board, Management and Staff.

The Meridian initial public offering was also the largest float in New Zealand's history and the largest IPO in Australasia last year.

Furthermore it was conducted under intense public scrutiny, not just because of its size, but also as a result of the political debate around the partial privatisation of State Owned Enterprises.

Notwithstanding, the IPO was executed without a hitch.

Accordingly I would like to acknowledge the work of Mark Binns, Chief Executive, Jason Stein, Legal Counsel and Company Secretary, Paul Chambers, Chief Financial Officer, Guy Waipara, General Manager External Relations and their respective teams on this superb achievement.

I also wish to thank Neal Barclay and his team, right around the country, for keeping the business operating smoothly whilst many of us were almost exclusively focussed on the IPO.

Similarly I extend my thanks for all of their help and support during the listing process to the Minister of Finance, Bill English, the then Minister of State Owned Enterprises, Tony Ryall, the Treasury Officials and the inevitable myriad of advisers that were involved on all sides of the transaction, given the size and complexity of the IPO.

Last, but definitely not least, I thank my Director colleagues for all of their hard work on the IPO.

Aside from reading draft after draft of the 226 page offer document, the Directors held 18 special Board meetings in respect of the IPO.

I also wish, to acknowledge my colleagues courage.

It is a daunting task to put one's name to a prospectus, especially when, (and for the avoidance of any doubt I am saying this largely facetiously) it essentially involves a two year weather forecast given the Company's dependence on rain and wind as its sources of fuel.

As a consequence of the IPO, we now have a broad based share register with, as at three weeks ago:

- more than 85% of our securities held by the New Zealand Government, New Zealand institutions and other New Zealand residents;
- 8% owned by institutions in the United Kingdom;
- 2% held by Australian institutions; and
- the remainder held in other jurisdictions including the United States and Asia.

Since listing, the amount of Instalment Receipts traded is 1.2 times the total number of issued securities, with the security holding of New Zealanders remaining unchanged at 85%.

The other major event for the year, which was a precursor to the IPO, was the completion of negotiations with New Zealand Aluminium Smelters to vary the terms of the contract for the electricity arrangements with the Tiwai Point Smelter.

After 13 months of intense and hard fought negotiations, this agreement was finally executed in August last year.

As was disclosed at the time of signing, New Zealand Aluminium Smelters does have termination rights in the future.

This has potential implications for all industry participants.

Mark Binns will expand on this important subject in his address.

I am not sure which was the hardest to achieve – the IPO or the Tiwai renegotiation – but what I do know is that it was a herculean effort by Mark and his team to pull off both transactions, with Mark also doing a quite exceptional job in leading the smelter negotiations.

From a financial point of view, it was pleasing and, if I am totally honest, a relief, to beat the forecasts contained in the prospectus on all major measures.

Again Mark will provide more detail about the results during his address.

The financial performance of the Company has enabled the Board to declare a dividend which, inclusive of the special dividend, was 24.3% ahead of the anticipated distribution in the prospectus forecast.

The ability of the Company to generate strong cash flows was one of the key attractions for investors when the Company was listed and, although the Directors will always be mindful of the need for adequate liquidity in the event of the Company encountering a period of poor inflows into our catchments, we are committed to ensuring that returns to investors remain attractive.

I will discuss this further at the end of my address.

On top of the dividends, investors have enjoyed a significant increase in the Instalment Receipt price which, as at the close of trading yesterday, was \$1.63, which is a 63% increase on the original issue price.

This, together with the dividends paid, means investors have to date achieved a total gross return of more than 80% on their original \$1.00 investment.

This makes Meridian the number one performing stock, as measured by total shareholder return, on the NZX 50 in the 12 months to 21 October 2014.

I hope that you consider that return to be a pleasing first birthday present.

However at the risk of spoiling the party, I trust Instalment Receipt holders have not forgotten that the second instalment of 50 cents per Instalment Receipt is due to be paid to the Crown by the 15th of May next year.

At least the good news is that the price of the Instalment Receipts since listing, together with the dividends already paid, significantly exceeds the 50 cents that is payable and that is even before the interim dividend that will be considered by the Board in February next year.

Our Management is already liaising with Treasury around the timetable for the payment of the 50 cents.

However I can assure you that you will be given plenty of notice of the impending payment and instructions as to how to make the required payment.

The key dates for this process are likely to be as follows:

- The record date for the obligation to pay 50 cents will be 4 May 2015. Accordingly, if you are the registered holder as at that date, you are required to pay the 50 cents.
- Notices will be sent to Instalment Receipt holders reminding them of their obligation around the 1st of April and again on the 6th of May 2015.
- The payment date will be no later than the 15th of May 2015.

Although this is the Crown's process, as the proceeds of the Instalment Receipts are theirs, Meridian's balance sheet remains very solid with the strong generation of positive cash flows during the year, from both earnings and the sale of surplus assets, which has allowed us to pay down debt, resulting in the debt maturity profile you can see on the graph.

As at the 30th of June 2014, net debt to EBITDAF was 1.5 times, prior to the payment of the final dividend.

This is a conservative position to be in and although we will always be exposed to some earnings volatility as a result of our reliance on the weather, the Board considered it appropriate to inform security holders at the time of the announcement of the full year results that it would consider capital management early in the new year, with a view to advising investors of our intentions, if any, in February next year when the interim results are announced.

As we expected, the announcement of our intention to consider this issue has enabled investors to provide feedback to us as to how any excess capital might be best returned to security holders.

In making any decision on this matter, the Board will need to take the interests of all security holders in to account and make a decision, which on balance, is the most beneficial to investors overall.

The election result was one of the potential events that could have negatively affected our views on this issue, given Labour's and the Greens' New Zealand Power proposal.

However this has now been resolved, at least for the term of the current Government.

In 2015 the new Health and Safety At Work Act will come into force and provide greater clarity around the obligations of employees and directors.

Even prior to the introduction of this legislation, the Board has always taken health and safety very seriously given the nature of the business in which Meridian operates.

This past year has been one of particular risk given we have built two wind farms, one in Australia and one in New Zealand, with all the safety risks inherent with large construction projects.

Both of these developments, which are shown in the photographs that you can see, have been delivered to the point where all turbines are operational, involving over 750,000 hours of construction work without any lost time injuries.

This is testament to the dedication of all of the teams ensuring that every activity on site is subject to intense health and safety scrutiny.

That said, accidents are only always a heartbeat away and we did suffer a lost time injury this year within our normal operations, the first for some 31 consecutive months.

Fortunately, it was a low severity incident at our West Wind Farm, which resulted in a lower back muscle strain.

The Board is very aware that statistics do not necessarily say anything about a company's underlying health and safety culture which, at the end of the day will dictate whether our employees, contractors and visitors to site are adequately protected from harm.

Accordingly during the year the Company engaged an independent consultant to conduct a full review of our safety processes, involving site visits, like the one shown in the photograph, and discussions with employees to gauge whether the Company was on track to ensure compliance with the new standards.

Such third party evaluations are invaluable for both Management and the Board and it was pleasing that the report highlighted the very positive attitudes to health and safety at the sites that were visited, while still pointing to areas where performance could be improved.

The Board is committed to ensuring that Meridian keeps safety at the forefront of all of our thoughts.

As you will be aware the whole issue of power prices is an emotive topic that has received a lot of media attention in the lead up to the election.

New Zealand's energy prices sit in the middle of the range of other OECD countries as shown in the graph that you can see.

In New Zealand there are 14 retailers selling electricity.

Economists will tell you that such conditions are perfect for driving vigorous competition, which is good for customers.

So, contrary to some misguided views, Meridian does operate in a fiercely competitive environment.

Indeed the Ministry of Business Innovation and Employment survey data for the 12 months to March 2014 showed a decrease in Meridian's electricity charges to residential customers.

However we will always seek to pass on the costs of transporting electricity across the grid and individual lines company networks, because they, not us, make the decisions on the levels of those costs, based on regulation by the Commerce Commission.

There are three key regulatory issues I wish to review for you.

These are:

- The New Zealand Power proposal;
- Transmission Pricing; and
- The Australian Renewable Energy Target Scheme.

At the time of publishing our prospectus, undoubtedly the most significant risk perceived by the Directors, and investors for that matter, was a Labour / Greens coalition coming to power, pardon the pun, in last month's election and implementing a total restructuring of the electricity market, with the introduction of a centralised buyer.

I do not need to dwell on what might have been.

However suffice it to say that the Board and Management remain of the view that such changes would have been exceptionally difficult to implement and, if they were, they had very little likelihood of producing any reductions in prices for consumers.

We are nevertheless cognisant of the fact that the industry needs to work harder to deliver greater transparency, including making it simpler for customers to compare retail offerings.

However balancing simplicity against meeting the diverse needs of customers is a challenge.

But nevertheless it is essential that the industry embraces this challenge in the retail market so as to avoid some of the current myths being perpetuated and political parties jumping to solutions that are not based on thorough analysis.

I will now turn to my second point regarding regulation.

As a number of investors will be aware, Meridian has supported the Electricity Authority's review of the transmission pricing methodology, which establishes how all transmission costs are paid for.

The core problem is that, while the inter-island HVDC link, which is shown in the photograph, is used by and benefits all consumers and generators across New Zealand, the costs are borne solely by the South Island generators, such as ourselves.

It is pleasing to see that the Electricity Authority has described this as similar to a selectively imposed transport cost, which is inefficient and that the overall transmission pricing methodology fails to meet the Electricity Authority's statutory objective of promoting efficiency and competition in the electricity industry for the long term benefit of consumers.

That said, change will not necessarily be embraced by all of our competitors and getting to a point of transition will take some time; but the good news is that change can only be positive for Meridian.

The final regulatory issue that I wish to canvass is possible changes to the Renewable Energy Target, commonly known as the RET, in Australia.

The Australian Government has received the final report from the Review Panel that it set up and the recommendations were for the Government to either close the Scheme to any new investment but to grandfather the existing investments; or, to modify the Scheme to increase the target in proportion with the growth in electricity demand.

Either outcome would be negative for the renewable industry in Australia.

However the impact on our existing generation assets from a financial perspective is impossible to assess until details of any proposed change are made public.

In addition it is possible that, in the end, there will be no significant changes to the RET and our operations in Australia as a consequence will not be materially affected.

Finally, before I hand over to Mark, can I thank you all for your support of Meridian, New Zealand's only major electricity generator and retailer 100% committed to renewable energy generation.

And to those of you that chose to support us at the time of the IPO, a special thank you for the confidence that you showed in us.

The Board and Management are delighted that you have enjoyed such strong financial returns over the first twelve months of Meridian's life as a publicly listed company and hope that you think the returns are a good first birthday present.

I would also like to thank my Board colleagues for all their work over what has been an extremely busy but rewarding year.

And on behalf of the Board, I would like to pay a tribute to Mark Binns, his Senior Leadership Team and every staff member of Meridian for what has been an utterly momentous year in this Company's proud history.

I hate to say it but it is a year that, if you measure it right across the spectrum of financial and major non-financial achievements, may never be exceeded.

But let me assure investors that we will still be striving our best to do so.

Now I would like you to sit back and enjoy a short video, which will hopefully give you a feel for the work involved in constructing one of our wind assets, Mill Creek, which, of course, is adjacent to the West Wind Farm and located on the hills around the coolest little capital city in the world, Wellington.

Thank-you.
