

CEO's Address – Mark Binns

Thank you Chris.

- Before I start I would like to introduce the senior management team at Meridian to you.
- Meridian seeks to “create a better energy future” and in doing so has committed to sustainability being at the core of our strategy. Our sustainability framework has 6 legs and I would like to incorporate my comments today within these headings.

Financial Sustainability

- I am sure that to some people, the concept of sustainability is associated only with environmental issues – it's not.
- Meridian needs to deliver a return to our shareholders that is fair and reasonable if it is to flourish over the long term. While I realise that there are some who would take issue with this, any company wishing to achieve long term success must balance the interests of all stakeholders and that includes shareholders.
- As Chris noted, it was very pleasing that Meridian outperformed its prospectus forecasts on all major financial metrics.
- The numbers are now nearly four months old but I think a couple of facets of the performance are worthy of further comment:
 - First, not only did we exceed our prospectus forecasts but we managed to marginally improve operating earnings or EBITDAF, against the 2013 year. This was despite having lower revenues from the Tiwai Point Smelter contract as a result of the renegotiation and having no revenues from our share in the Macarthur wind farm, which was sold just prior to the end of the previous financial year.
 - Furthermore, there were no network wide increases in energy prices to customers. So Meridian achieved this result by sticking to its knitting and controlling costs.
- The other number I would highlight is cashflow. It is a number that I always focus on – as one of my mentors in my early career said “profit is opinion – cash is real”.

- During the year nearly \$433M was generated from Operating Activities and \$62M from the sale of non core assets and the company's position in the U.S. It was this strong cash generation and control of capital expenditure that allowed the Board to declare a higher ordinary dividend and a small special dividend, which saw distributions to instalment receipt holders 24.3% higher than forecast in the prospectus.

I will come back to the topic of Financial Sustainability at the end of my presentation when we talk about the coming year.

Renewable Energy

- Being committed to only generate from renewable sources is at the core of our commitment to sustainability.
- While we realise that the retail electricity market is largely price driven, customer awareness of the benefits of supporting renewable generation is a point of difference Meridian owns. This is Meridian's advantage that will continue to grow as environmental awareness increases.
- During the year we commissioned all the turbines at the Mill Creek wind farm in Wellington and at the Mt Mercer wind farm in Victoria. In the case of Mill Creek this moved NZ as a whole to the point where it now produces about 76% of its electricity from renewable sources which places New Zealand in the top echelon of OECD countries.
- In the case of Australia, the renewable industry is, as Chris noted, going through a very difficult period. The industry is mired in uncertainty as the Australian Government goes through the political machinations of deciding what outcomes are practically deliverable from the review of the Renewable Energy Target scheme – a scheme which has supported more than \$A20B of renewable investment over the last 14 years and allowed Australia to reduce its reliance on coal generation. The Australian Government's recent modelling confirmed the findings of other studies in that the Renewable Energy Target does not increase net costs for consumers. Add to this the fact that the existing scheme is driving improvements in retail competition and giving consumers access to lower electricity bills – and it leaves us at a loss to understand what is driving moves to change the Scheme. However, I will come back to the implications that could flow from a change to the Scheme, in my comments on prospects for the coming year.
- Being renewables only, I do get questions as to why at grid scale we have committed to hydro and wind as our technology solutions. Usually there is an underlying question as to whether we are missing a trick with solar or potentially geothermal.
- With geothermal, we believe our wind options are competitive with the next likely geothermal option to be built. And while we would never say never to investment in geothermal, we do not have geothermal expertise and at this point we would prefer to develop the options in our wind pipeline.

- As to solar – let me be blunt – in the New Zealand environment without subsidies, grid scale solar is not competitive with wind. In a recent review of solar viability we came to the conclusion that wind was 3-4 times more cost effective. On our analysis (as shown on the chart behind me) using the International Energy Agency numbers AND assuming equipment and installation costs fall year-on-year by 5% p.a. – it will be no earlier than 2035 and probably 2045 before solar at utility scale becomes competitive with other renewable options in NZ – at current prices!
- As such we believe solar remains an important part of the renewable energy solution for New Zealand, but is not a likely game changer for generators and retailers but it will raise some interesting questions around how lines companies recover their costs.
- For further context, even if we had 1 million kiwi homes with solar panels by say 2040, this would amount to only 5% of the total electricity demand for the country. Very similar to where wind is now, an important part of the renewable energy mix, but not a revelation.
- Meridian’s positioning in the residential solar segment has seen us capture around 70% of this market. As we move forward we have to balance our commitment to support solar customers in a way that is also commercially sustainable for Meridian. We will be reviewing our tariffs in this segment over the coming year to reflect this aim.
- Let me now turn to Water Stewardship.

Water Stewardship

- Water stewardship is at the core to our very existence. Ninety percent of our generation is through our 7 hydro stations. The guardianship of these assets, managing the water that flows through them and the environment that surrounds them is fundamentally Meridian’s kaupapa – or our DNA.
- Under our existing consents we have the right to use the water in the Waitaki and Waiau hydro stations until 2025 and 2031 respectively.
- We do not take this for granted. We are mindful that there are others who have interests in the water and the environment through which it flows - be they cultural, environmental or economic. Primary amongst these are Ngai Tahu as tangatawhenua, with rights of guardianship and practical interests in mahinga kai and environmental stewardship.
- A group with interests that can potentially be at odds with those of Meridian, are agricultural users and we deal with these groups on an ongoing basis in both catchments. The pressure from more intensive agricultural use is always there and Meridian has found ways to work alongside many of these stakeholders. For

example, in the Mackenzie Country where we have a long standing agreement in place enabling access to a set amount of water for irrigation.

- Meridian has also financially supported the preparation of further design and feasibility work for the Hunter Downs irrigation scheme with the hope that a farmer led development, with a command area of 40,000 ha will be viable, using an intake below the Company's lowest dam on the Waitaki River. It is hoped that the directors of Hunter Downs Irrigation Limited will be in a position to make a final decision on this project in 2016.
- During the year, the Meridian team has worked with major stakeholders on the Waitaki River with an aim to agree a way forward with the water allocation plan for the river. Meridian and Ngai Tahu have an agreed position with respect to the proposed set of plan changes that would establish an important and mutually agreeable part of the framework for the renewal of Meridian's consents in 2025. A number of other key stakeholders including irrigators, also support key aspects of this important plan change. That said, it is important to note that there have also been a number of submissions opposing the proposed changes, and all parties will have the opportunity to be heard by Environment Canterbury in the New Year.
- In the Waitaki and Waiau we continue with our ecological restoration projects in both catchments. In the case of the Waiau, this is an 18-year partnership with the Waiau Enhancement Trust where more than 2000 hectares of wetlands, gullies and streams have been restored and 88 km of streams protected, through a riparian fencing project with local farmers. In the Waitaki, the 25 year Project River Recovery programme has delivered very positive environmental and ecological benefits to the braided river system and species in the upper river catchment.

Working Sustainably

- Working sustainably is not only an environmental imperative, it relates directly to our relationship and responsibilities to our employees.
- And foremost in this regard is our commitment that employees, contractors and visitors leave our sites in the same health and condition that they arrived.
- Getting the balance right to ensure processes and systems remain targeted and relevant is a constant challenge. In the current year, we are reviewing areas of our business where there is potential to seriously or fatally hurt people to ensure our processes are as robust as they can be. This focus is not new, but we believe there is an opportunity to re-energise our thinking to assure ourselves we are meeting our commitments.
- In terms of environmental performance, we have an extremely low carbon footprint for an electricity company. We are one of the few companies that monitors and sets targets to reduce the impact of corporate activities – including greenhouse gases and waste. In the last two years, we have reduced both targets by 8% and have initiatives to continue to deliver reductions.

Energy Solutions

- As part of our programme to provide customers with better energy solutions we will soon start to roll out smart meters to the remaining 130,000 customers that are still on old legacy meters. The project starts in November with the full roll out planned to be underway by April next year. The aim is to have 94% of customers on smart meters by June 2017.
- This will make meter reading far more efficient but more importantly it will provide the infrastructure to support more smart plans and services. These service offerings include more flexible pricing plans and allow greater engagement opportunities for customers who want to monitor and manage their electricity usage and costs.
- During the year the number of customers receiving electronic bills increased by 6% to 48% and an additional 14,000 residential customers signed up to MYMeridian, where they can manage account details, view their billing history and energy profile. Larger customers have been using the company's energy management tools and working with our business teams to significantly reduce usage and costs in their businesses.
- Our subsidiary, Powershop, continues to lead the industry pack with its online offering. Innovations this year include a mobile 'app' helping customers on the go to manage and purchase power from their phones. Powershop continues to provide

Meridian with a channel that serves a highly engaged customer segment interested in actively managing their energy profile.

Engaged Communities

- Engaging with communities, recognises the part we play as operator of some of this country's most iconic assets and as a retailer of electricity operating in every network region across New Zealand.
- Two years ago we were in the process of deciding how we should target our corporate giving. We were looking for something that would resonate with our brand and our people. We became aware of the work that KidsCan is doing in NZ schools providing targeted assistance to the kids who need it, and the extent of the problem that the country is facing - and as a result made the decision to become the principal sponsor. The connection with sustainability and NZ's long term future was clear to us and we recently made the decision to extend our involvement with this very worthwhile charity.
- Meridian's community fund programme has continued to deliver real benefits for projects close to our operating assets. These Funds, administered in collaboration with community representatives, are in place around all generation assets. The Funds provide assistance for projects that meet genuine community needs. In the last year we made our single largest contribution of \$100,000 towards a new medical centre in Twizel. In total we provided \$1.4 million to community projects and initiatives across New Zealand in the last financial year.
- Engaged communities is as much about our company culture as it is the initiatives we support. We support Meridian staff to get in behind a broad range of activities from working with organisations like Sustainable Coastlines, to clean up our "back yard" around the Makara coast, to supporting future rowing champions as part of our 15 year commitment to South Island rowing.

Financial Sustainability - the Future

- Finally I would like to return to the theme of financial sustainability and talk about this current year.
- As you know the Company currently has a financial forecast for the current year in the market – courtesy of the prospectus. Being totally reliant on wind and water for fuel, these forecasts are more difficult for Meridian than most companies.
- For this reason, at the conclusion of this financial year we will not be issuing forecasts for following years. We will of course meet our NZX and ASX obligations and comment as and when the consensus view of analysts is materially different to our own forecasts.
- So where does this leave us with respect to this year – nearly 4 months in? The prospectus forecast is for operating earnings or EBITDAF of slightly over \$590M. On the basis that the consensus of analysts is currently \$607M and we would not consider altering guidance unless internal forecasts were more than 5% different from the published forecast – either up or down – we can say that we are currently comfortable with the consensus view of our 2015 EBITDAF number.
- However, I hasten to add we are only four months into the year. So lots can happen. For those of you who like to get into the detail, we publish monthly operating statistics on the website; the last report for the September month indicated that in the wholesale market Meridian's NZ generation volume was over 13% ahead of last year.
- However, storage in the key Waitaki catchment has declined over August and September and is now, as of today, below average.
- Understanding the changing risk position and adapting our book of contracted sales is core to how we manage our business. Accordingly, we are hoping for the “usual” spring inflows in November to top up our storage position – if these inflows do not materialise, we will need to adjust our contract book position.
- At a macro level, whether the owner of the Tiwai Point smelter exercises its right to give Meridian a termination notice with respect to our Electricity Contract on 1 July next year will be a key issue for Meridian and the industry as a whole.
- If a notice is given, then New Zealand Aluminium Smelters will either need to run the smelter unhedged to the electricity price, find another party that would enter into a similar contract, or close.
- We do not know what that decision may be, but we do understand the matter is getting careful consideration. While this decision will be decided on factors that are

important to the smelter and its shareholders, I do note that two key variables affecting Tiwai Point's profitability – the price of aluminium and the New Zealand dollar strength against the US dollar - have both trended positively since the contract was varied in August last year. In fact since that date through to Friday last week, the price of aluminium on the London Metal Exchange has appreciated by 10.3% and regional delivery premiums have increased considerably. The NZD/USD cross rate has stopped appreciating over this period and has actually declined by 1.1% with commentators picking further strengthening of the USD against most currencies over the next year or two.

- So on these factors at least the trading position of Tiwai Point appears to have improved and although forecasts are just that – forecasts – the metal forecasters we follow are predicting further increases in aluminium prices in 2015 based on supply and demand dynamics.
- Meridian's position with respect to Tiwai Point has not changed. We would like to see the operation continue but our drawn-out negotiations last year saw us provide pricing and contract conditions which represented the best offer that Meridian could table. Sixteen months on, our view remains unaltered.
- In the event of a termination notice, Meridian will monitor the supply response from its thermal competitors very closely. There will potentially be significant over supply in 2017 and thermal generation, at high marginal costs, will theoretically be required less and the economics of operation will become questionable.
- Meridian's response will be dependent upon how this supply side issue resolves itself and how it may want to replace the net change in its load or customer base.
- Given the low growth in total demand in NZ and the highly competitive market, we will remain focussed on keeping our costs under control and increasing our efficiencies to ensure the best outcome for the company and shareholders. This will include successfully commencing the roll out of smart meters to all customers and completing the sale of our metering business, Arc Innovations, to a Vector subsidiary – hopefully in December this year.
- Turning to our interests in Australia, the Renewable Energy Target scheme, has been in place since 2001 and currently underwrites the renewable industry there. When a decision as to whether to retain the scheme and in what form – is finally made we will have to look at the effect on the price Meridian receives for the energy it generates from its two wind farms, the likely price path into the future and whether we may need to adjust our carrying values, of these assets.
- At this point, until there is some certainty around the outcome it would be pure speculation to estimate the potential impact on book values. This is something that we will re-evaluate once we have greater certainty on the outcome for the scheme.

CONCLUSION

In conclusion – can I echo Chris' thoughts and thank shareholders who have supported us, particularly those who invested at the IPO. It has been a truly momentous year and I can assure you it is very satisfying being able to stand here and point to the fact that Meridian has been New Zealand's top performing stock in the NZX 50 over last 12 months.

It is going to be a very hard act to follow. All I can do is assure you that you have a focussed Management team that is not going to rest on its laurels.

THANK YOU.

Now I would like you to view this short video on KidsCan and hopefully get an appreciation for the assistance being provided to a cohort of young New Zealanders who we want to ensure get to make a valuable contribution to this country's future.