2015 Annual Shareholder Meeting Chairman's Address: Chris Moller

It is now my pleasure to review Meridian Energy's 2015 annual result with you.

At the time of the IPO, investors were provided with financial forecasts for the 2014 and 2015 financial years.

The Board is very proud that Meridian exceeded its forecasts for both financial years on all key metrics.

At the time of the announcement of our 2015 results, we noted that shareholders had received a 36 percent total shareholder return for the year, on the assumption that the final instalment receipt of 50 cents had been paid on the first of July 2014, being the beginning of the financial year.

Over the last 12 months to the 29th of October 2015, Meridian provided the 20th highest return of the companies included in the NZX 50 with a 20 percent total return to shareholders.

Repeating last year's position of number one was always going to be difficult, but a 20 percent return is undoubtedly a very satisfying result, compared to the NZX 50 return of 12 percent over the same period.

With both strong cash flow generation and a strong balance sheet, the Board decided in February to amend the dividend policy and to initiate a capital management programme with the intention that Meridian will distribute 625 million dollars to shareholders over the next 5 years.

This resulted in the payment of an ordinary dividend of 12.88 cents per share, up 17 percent on the prior year and an increase of 12 percent on the Prospective Financial Information contained in the Offer Document.

In addition, the initial capital management distribution was achieved with the payment of a special dividend of 2.44 cents per share or 62.5 million dollars, topped up with a further 2.91 cents per share from gains on the sale of assets and the release of tax provisions.

Therefore we have declared in total 467 million dollars of dividends to shareholders in the 2015 year.

We have received a variety of feedback from shareholders as to whether it is more appropriate to execute the capital management programme by the payment of special dividends, as we did, which will not have imputation credits attached, as opposed to a share buyback.

As you would expect, opinion is divided as to the most appropriate method that the Board should adopt.

The Chief Executive and myself have canvassed a wide group of shareholders and all perspectives will be discussed at the time the Board looks at the matter again prior to the release of our Interim Results in February next year.

The guiding principle however will always be that any buyback programme must be fair to all shareholders.

The capital management programme is subject to the Board's ability to halt or postpone it, should there be any adverse market development, such as the exit of New Zealand Aluminium Smelters, poor trading results, or the opportunity to exploit a meaningful growth opportunity.

That said, we do not currently see anything on the horizon that would lead the Board to take the view that the capital management programme should not continue at the time of the Company's interim results in February next year.

Turning now to a high level business update.

New Zealand Aluminium Smelters' continued commitment to Tiwai Point is always a matter of discussion, but I will leave it to the Chief Executive to canvass this issue for you later in the meeting.

As at 30 June 2015 there were 26 retail brands in New Zealand.

Some of our competitors are providing heavily discounted offers that are in Meridian's view unprofitable and therefore unsustainable.

Meridian is competing hard with a sharp focus on fair pricing, excellent customer service and a strong renewables brand proposition.

During the year growth was evident in nearly all regions of the country, led by agricultural demand in the provinces.

While a strong irrigation season supported this, we have also seen a modest underlying increase in national demand.

Meridian has built on its expertise in developing and maintaining some of the best hydro and wind assets in the country (indeed in the world) and has now developed two retail businesses that are single-minded in their focus on the customer.

Significant thermal plant closure is occurring and will require strategic thought by all market participants.

Meridian is prepared to play its part in ensuring the right market-led solutions emerge over the coming year and is already pro-actively investigating its options.

The Chief Executive will cover this critically important issue in more detail in his address shortly.

Meridian's renewable assets are the foundations of our business.

We take our stewardship of these assets, and the natural resources that we rely on, very seriously.

By way of example this year we celebrated the 50th anniversary of the Benmore Hydro Station.

This was a milestone for both our company and the community that surrounds it.

The town of Otematata, that was created to support Benmore's construction in the mid sixties, remains, as do some of the engineers, who travelled there to build it.

Benmore's legacy is carried on through the children and grandchildren of those engineers, some of whom now lovingly look after Benmore for Meridian today.

The slide that you can see shows a Meridian graduate engineer, Sophie Braithwaite, with her grandfather David Braithwaite, who worked on the construction project 50 years ago.

The decision to build Benmore was intrinsically linked to the decision to construct the Cook Strait Cable, which, in terms of electricity, connected the North and South islands of New Zealand for the very first time.

Benmore, which is an earth dam, was built to last and it is as good today as it was then.

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

Later this year we will be changing out the Brooklyn turbine after 22 years of service, and replacing it with a turbine that will deliver four times the output of the previous model.

With around 90 percent of our New Zealand generation coming from our hydro power stations on the Waitaki River and Manapouri, working with stakeholders on access to water is a critical activity for our company.

In the last year we are delighted to have been able to reach agreement with the Ngāi Tahu Runanga of the Waitaki River.

This agreement makes available additional water for mahinga kai (or traditional food sources), sets minimum water flow levels in the Waitaki River, and provides Meridian with improved access to emergency storage in Lake Pukaki.

Although the matter is now with Environment Canterbury for consideration, gaining this agreement with Ngāi Tahu, as well as irrigators on the Waitaki River, sets Meridian in good stead for re-consenting the entire scheme in 2025.

I will now provide an update on key regulatory matters.

The reappointment of a number of the Electricity Authority board members by the Government provides a strong mandate for them to complete several important projects that they have underway, in particular the Authority's review of the current transmission pricing methodology.

We are hopeful that, by this time next year, we will be in a position to discuss the implementation of one of the recommended changes from the options paper the Electricity Authority published earlier this year.

All of the options being considered that result in a change to the status quo represent a positive outcome for Meridian.

In Australia uncertainty over the Renewable Energy Target (the so-called RET) has been an impediment to the development of renewable projects over recent years.

Accordingly we were relieved that an updated RET was completed in June this year which, with cross party support, reduced the target from 41,000 to 33,000 gigawatt hours.

In terms of sustainability and as the world transitions to a renewable energy future to reduce carbon emissions, New Zealand is in the enviable position of generating around 80 per cent of our electricity requirements from renewable sources, placing our country among the top four in the OECD.

The fact that New Zealand renewables have been built without subsidy is significant when we compare ourselves to other countries.

Meridian's commitment to only developing renewable assets has seen us have to make some tough choices over the years, but the key to our success has been sticking to our commitment and staying the course.

We will watch with interest as to what transpires at the November United Nations Climate Change Conference in Paris and continue to assess what business can do to support this important global imperative.

Turning to governance, an independent external review of Board performance was commissioned this year to ensure the Directors collectively are operating as a cohesive team, discharging their duties in an effective manner and adding value to the business.

Amongst other matters, the key areas covered were the Board's alignment with the strategic agenda of the Company, working with management, board structure and composition and committee effectiveness.

A detailed account of this can be found in the Annual Report.

To ensure the Board's diversity of thought, gender, age, experience and skills to effectively meet the Company's objectives and decision making for Meridian, the Directors have adopted a formalised skills matrix.

This includes maintaining the right gender balance, reflecting a deep understanding of tikanga maori, acknowledging Meridian's commitment to our relationship with Ngāi Tahu, and providing a range of skills and experience that best support Meridian to achieve its strategy.

In May of this year, John Bongard advised the Board that he would not be seeking re-election as a Director at today's meeting.

John has been a Director since May 2011.

John is heavily involved in a number of charitable organisations including The Rising Foundation and other smaller but significant community-based organisations in Auckland and wishes to devote more time to those voluntary activities.

On behalf of the Board and Management, I would like to place on record our sincere thanks and appreciation to John for his significant contribution to the Company.

Following the recently completed Board evaluation that I have referred to earlier, the Directors concluded that the governance of the Company would not be compromised if the number of Directors was reduced from 9 to 8.

Consequently at this point in time, we do not intend to appoint a new Director to replace John on the Board.

In addition to John, I would also like to thank my fellow Directors for their dedicated and tireless work, particularly during a year that involved very significant capital management decisions and the potential for an exit by New Zealand Aluminium Smelters.

I also know it is a relief to all of us to have successfully met and exceeded all of our key forecast IPO metrics over the past two years.

It is no small feat to forecast the weather accurately over a two year period!

On behalf of the Board, I also wish to acknowledge the sterling work of Mark Binns in leading the Company through another successful year and thank our Executive Team and all staff for their significant contribution to the success of the Company.

In conclusion, I would like to thank you, the shareholders and bondholders, for all of your support of Meridian.

Two top years of performance will be hard to beat.

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

Before I hand over to Mark, please enjoy a short video that reminds us, 50 years on, of the incredible story of the construction of Benmore.

2015 Annual Shareholder Meeting Chief Executive Address: Mark Binns

Kia ora koutou katoa
Tenei te mihi kia koutou katoa te whanau whanui o Ngati Whatua
Tena koutou tena koutou tena koutou katoa

Thank you Chris

Chris has taken you through an overview of last year's results. So - my comments will be brief around last year's performance and I will use the time to talk to you about some important topical issues. The highlight for me personally in the 2015 financial year was completing another year without seriously hurting anyone – whether they be an employee, a contractor, sub-contractor or visitor on any of our work sites. We had 3 lost time injuries during the year, none of which were serious and as illustrated on the slide our Total Recordable Injury Frequency Rate continued to trend down. It is very pleasing that our internal audits are continuing to highlight issues that we need to address on this journey of continuous improvement. Ongoing vigilance around our blind spots and attitudes to health and safety culture remains a firm commitment.

We are making sound progress in service delivery to customers. Over the year, inbound calls from customers have fallen by 20%, as service delivery and billing accuracy has improved, and acquisition of customers through digital channels has doubled. Our hardship team has ensured we have a proactive credit management process that has reduced bad debts and improved customer satisfaction.

With competition in the retail market remaining intense, getting the small things right and making the customer experience with Meridian the best it can be, is at the core of our focus. During the year customer numbers fell marginally but overall customer load increased.

We have continued to focus on our brand this year, to showcase our sustainability credentials and explain to customers why being with Meridian is helping us all create a better energy future.

New Zealand surveys – RepZ and Better Business Better World, conducted by Colmar Brunton - have ranked Meridian as the strongest performing brand in the electricity sector. Our recent acceptance to the Dow Jones Sustainability Index, one of only two New Zealand companies to achieve this feat, is another mark of our progress and our focus on being an authentically sustainable brand.

Now looking forward, I would like to talk about a couple of topical issues.

Since March this year the retirement of three thermal plants in the Upper North Island totalling almost 1100 MW of capacity, have been announced.

The System Operator – Transpower – has suggested that, in its analysis, if all the announced retirements proceed, New Zealand will need a new power station by 2019-2020, to ensure that the system can continue to meet peak demand and have sufficient resources to cover dry year risk. These are issues that our market has consistently solved since it started in 1996 and I am highly confident this will be no exception. However, the new circumstances of potential under supply, by 2019-20 raise some interesting challenges for all industry participants. Here is Meridian's perspective.

While security of supply is a macro issue, one specific risk Meridian manages diligently, as it only generates from renewable sources, is how to support customers through a dry year when generation volumes are down and market prices are high. This risk cannot be passed onto our customers - nor should it be - unless, of course, they have elected to accept this exposure. In order to manage this risk:

- Meridian looks to sell significantly less electricity in any year, than it generates on average. This usually runs at a ratio of around 80%. This means we have a buffer between our electricity sales volumes and generation production throughout most of the dry periods we experience. The slide behind me shows the position in both the 2014 and 2015 financial years, with our contracted load always being less than our physical generation.

- In addition, as insurance, we also have an option with Genesis, for which we pay an annual fee, whereby we have the right, through to November 2018, to buy up to 150 MW per annum at a fixed price at Huntly. So - this option ensures we can continue to supply customers at competitive prices without being exposed to purchasing electricity at extremely high spot prices if our fuel supply has literally - dried up!

If the Rankine units at Huntly are closed at the end of 2018, we will not be able to extend this option with Genesis. On the positive side, Meridian's need for dry year cover will have probably reduced by this time, as a result of back-to-back generation support put in place as part of the re-pricing of a tranche of the Tiwai contract this year.

But all other things being equal, we will still need to enter into some arrangement with another generator to provide cover, or alternatively reduce load – something we do not want to do.

So - while Meridian believes its own risks can be well managed, it will not be acceptable if, from an overall industry perspective, this risk is passed onto customers on the spot market or the market as a whole, faces security of supply issues.

A wider solution is required.

But what is Meridian doing? We have a team evaluating all generation options, including enhancing access to our storage in Lake Pukaki, which is currently under consideration by Environment Canterbury.

We have also assessed the impact of a Tiwai Point smelter closure, which would effectively buy the industry a few more years before a solution is required. However, Tiwai closing is not a long-term answer to dry year or security of supply issues because New Zealand still needs plant with the flexibility to generate into dry years and into peak demand periods.

We have raised the matter of a new option for dry year cover post 2018 with Genesis, that could keep the existing Rankine units open for a longer period of time. This appears to be the most efficient solution for the industry as a whole. However, there is no guarantee that we will be able to complete any commercially acceptable arrangement.

Our analysis shows that others may also be incentivised to see the Rankine units stay open which would obviously increase the chances of a positive outcome.

But nothing can be taken for granted and Meridian is also discussing similar dry year contract arrangements with other parties who have the ability to build new gas peaking plants, where we may be able to enter into financial arrangements, providing us with similar dry year cover.

Other flow on issues have been identified by Transpower as a result of the closures – including constraints on the grid at peak times in the upper North Island, which will need to be resolved and the retention of the Rankine units is again a potential solution to this issue.

As noted earlier, the Tiwai smelter is also a variable in this issue, given the amount of electricity it uses – about 12% of all electricity used in New Zealand.

We were pleased to see New Zealand Aluminium Smelters decide not to exercise its termination right in the middle of this year.

The aluminium market remains tough and prices on the London Metal Exchange in $US are now about 15% lower than they were in January this year. While the long term demand for aluminium remains positive, it is the continued expansion of supply that remains the core issue: in the year to date China has increased production 15% while so far this calendar year the rest of the world has also increased by over 2%.

While the NZD is also down against the USD over the last 12 months, it has rebounded of late and overall we assess the smelter is doing it tough. Potential upside obviously demands an increase in the aluminium price, but we also believe a positive outcome from the Transmission Pricing Review, where transmission costs are paid on a user pays basis, is going to be an important factor for the owners.

Naturally - we monitor the situation closely and regularly speak to the smelter owners, but it still remains very difficult to predict the long-term future of the facility. While finding the right balance between our interests is always difficult, we hope that market conditions improve and the smelter stays.
This uncertainty, of course, is also a significant risk for anyone contemplating investment in new electricity generation.

Let me now turn to another topic – and one we know shareholders are interested in - emerging technologies and their impact on the New Zealand electricity market.

New technology is something we consistently monitor and Meridian has been an early mover in this space. In 2010, it built the first grid connected solar farm in California, conducted an electric vehicle trial with a number of partners in Wellington city and flirted with the idea of selling electric vehicles in 2011. On the subject of solar, Meridian decided in the 2015 financial year, to change buy back rates to reflect the true value of solar electricity.

The reason for this is complex to explain, so we have created a short video for our customers, which is available on our website. But essentially we are buying electricity back at a price which approximates the price we buy electricity from the market, to supply our retail customers.

Despite the change to buy back rates, Meridian still has the most solar customers in New Zealand – with around 50% of the market - and provides a buy back rate above the ASX wholesale rates which, in our view, is still the best available.

We have also looked at the whole solar supply chain for opportunities and it is difficult to see where there is a compelling business case for investment, other than possibly project development in Australia, which currently needs a subsidy to be competitive with wind.

Electric vehicles pose a similar dilemma. Yes – we may all be driving electric vehicles in 20 to 30 year’s, but uptake is going to take time and growth will initially be dominated by hybrids. Furthermore, there is an interesting battle developing between battery and hydrogen technology that is yet to play out.

As we have done with solar pricing, we will do for electric vehicle owners, with targeted charging tariffs off the back of our smart meter roll out – which is on target for completion in early 2017.

I should also comment on battery storage as this does get significant media coverage. Batteries clearly have a role to play for network companies where they can, in certain situations, reduce peak load and avoid network upgrade costs.

We have looked at the viability of batteries to store energy in our wind farms which are “must run” generation assets. This mode of operation would see energy being stored during low price periods and released when wholesale prices are higher. But in our assessment in the NZ market, battery costs need to reduce by approximately 70% before their adoption would become viable – all other things being equal.

For most of our solar customers in New Zealand, the economics of batteries still has some way to go, although there will be individual situations where batteries will be viable.

You cannot finish a discussion on technology without talking about wind. It is still significantly more efficient for us, with opportunities in New Zealand currently at a Levelised Cost of Energy (LCOE) around $75 to $82 per MWh, compared to the best solar opportunities in Australia – with clearly better climatic conditions – at somewhere between $A105 to $125 per MWh . But the wind story is not over from a cost reduction perspective – we have been collaborating with one of Europe’s largest wind turbine manufacturers with a view to taking cost out and improving yield, in an attempt to get the levelised cost of wind farms to under $70 per MWh in this country. This initiative is ambitious but illustrates the belief that the cost of wind generation can be driven down further.

As an aside, you may be interested to know that our last wind farm – Mill Creek outside Wellington – last month had a capacity factor of 57%. Yes – it was a known high wind month but this level of capacity factor is very high by world standards where, at the time of the IPO, the global average was 25%. On an annual basis to the end of October, this wind farm produced 104% of the GWH's predicted in the Business Case, which was prepared over 3 years ago.

Some shareholders may question why some of the technologies discussed seem to be adopted at a slower pace than some off-shore markets.

The principle difference lies in the fact that the NZ electricity market is already dominated by renewables at over 80% of generation. Other markets, such as Australia and Germany, are, or have been, dominated by fossil and nuclear generation and subsidies have accelerated a transition to renewable generation and new technologies.

Whilst the Board and I are committed to being careful with the Company's capital, you can rest assured that we will invest when there is a strategic imperative or there are opportunities where we feel there is good potential to reach acceptable rates of return. We won't be investing just for the sake of it.
This leads me to the final area of comment around technology. Meridian has a unique product in the retail market with Powershop.

We have doubled our customer numbers since entering the Australian market and this year Powershop reached a milestone of 100,000 customers on both sides of the Tasman. Based on this success, we are in discussions with a Northern Hemisphere retailer, which is interested in franchising the Powershop service platform and brand. If this opportunity comes to fruition, it will illustrate our ability to sell our own internal IT and service platform solution in a market of real scale. We will hopefully be in a position to confirm whether an acceptable deal has been negotiated before Christmas.

Now the outlook. At the time of the IPO, we made it clear that the Board would not, at the expiry of the forecast period in the Prospectus, be making financial forecasts. We provide monthly operating reports that allow analysts, and shareholders, to see how well the year is progressing and to update their models. We will be monitoring where the analysts' consensus forecast is over the year and if there is a material divergence with our own forecasts, we will provide some commentary to the market.

Our last Monthly Operating Report was for the month of September.

Points to note from this are that Meridians' retail sales volume for the first quarter of the year was up by 5.9% against the same period last year, as business and commercial volumes grew and the average price was up nearly 4.2% on the same basis.

We are noting some significant early irrigation load, which may be indicative of the El Nino weather pattern that is predicted. Theoretically, this will see wetter than normal conditions in our catchments and drier conditions in eastern regions. However there are no guarantees that this pattern will play out and to what level – as a result, we need to remain vigilant as to any developing trends and the potential implications for our generation profile.

As at last Monday, our main catchment of Lake Pukaki was 135% of average for this time of year and we are in our traditional higher inflow period through to Christmas. This leaves us comfortable with our generation capacity at least through to the end of the calendar year, however, we are cautious with the late Summer and Autumn period – bearing in mind that last summer was the 4th in a row where inflows through the late summer/early autumn period were below average.

So in summary – subject to all the usual caveats – there is nothing, at this point in time, in our view of upcoming trading or requirements for capital, that would prevent the Board openly discussing the next instalment of the Capital Management programme in February next year.

In conclusion, we have proven over the last two years that there is real value in sticking to what you are good at and looking for continuous improvement. Our commitment to only generating from renewable resources will continue. It has been the foundation of our strategy since 1999, it is what we are recognised for and we will be staying the course. Maintaining an authentically sustainable point of difference will, we believe, only become more and more important over time.

Our customer experience will keep improving and we will continue to invest in digital service offerings to ensure customers have as simple and transparent a service as possible.

Looking after our people will remain our highest priority. We have a strong employment brand and keeping our people safe and highly engaged is the key to being a high performing business.

Nga mihi nui kia koutou ……THANK YOU

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