



Chairman's Address – Annual Meeting 26 July 2013

Welcome

I would now like to introduce my fellow directors to you. All have significant relevant experience, qualifications and skills. The focus of your board is on understanding and looking after the risks inherent in our business, and also positioning for the major decisions we see coming up. By decisions coming up, I do not just mean dealing with our current business – I mean a lot more than that – I mean being able to contribute to strategy and support and encourage management to pursue opportunity. Our focus is on value and in our industry that means good positioning for the medium to long term.

If you look across the Director team you will see experience in major engineering projects, experience in the evolution of water markets and irrigation economics, experience in IT and in customer facing systems in both banking and telecoms, and you will also see quite deep electricity sector experience.

First, I would like to introduce Mr Michael Cooney who will no doubt be familiar to many of you.

- Michael is Chairman and a Trustee of the Tauranga Energy Consumer Trust.
- Michael holds a law degree and is a consultant to the local law firm Cooney, Lees and Morgan, and previously he was a longstanding partner of the firm.

Next is Mr Marko Bogoevski.

- Marko is a Chartered Accountant and holds an MBA from Harvard University.
- Marko is Chief Executive of Infratil Limited

Next is Mr Geoff Swier.

- Geoff holds a Masters of Commerce degree. He has over 20 years' experience in micro economic reform in Australia and New Zealand focusing on the establishment of competitive energy markets and privatisation as well as the development of water industries in Australasia and Asia.
- Geoff was previously an associate member of the Australian Competition and Consumer Commission and a member of the Australian Energy Regulator.

Next to Geoff is Richard Aitken.

- Richard is Executive Chairman of the Beca Group.
- Richard holds an Engineering Honours degree and a Masters of Engineering Science degree from Sydney University. Richard has extensive engineering project management experience in major power and water infrastructure projects.
- He also has a lot of experience in contractual matters pertaining to these major projects.

Unfortunately Sam Knowles is unable to be with us today and sends his apologies.

- Sam has considerable experience in the banking and insurance industry specialising in areas including strategic planning, retail services, marketing and business development. Sam was previously Chief Executive of Kiwibank and is now a professional director.

I would also like to introduce your Chief Executive, Vince Hawksworth and also your Chief Financial Officer Robert Farron and also offer a welcome to the TrustPower senior management team, most of who are with us today.

We will hear more from Vince shortly.

Now to return to the more formal business of reviewing the 2013 financial year.

TrustPower produced a solid operating performance for the 2013 financial year.

Good progress was made in implementing the Group's growth agenda demonstrated by the commitment to invest in the 270MW Snowtown Stage 2 Wind Farm in South Australia.

TrustPower's consolidated profit after tax for the 2013 financial year fell 6% to \$123.4 million.

The Group Operating performance was considered satisfactory given lower New Zealand generation production and a challenging retail environment where pressure on margins and lower customer demand was experienced.

TrustPower announced in May this year that it had reached a conditional agreement to purchase the key assets of Energy Direct New Zealand for \$13.65 million.

The acquisition has been completed and from the start of this month TrustPower has taken over the assets of EDNZ including approximately 15,000 electricity customers and 10,000 gas customers and 37 employees based in Wanganui.

We see this as an exciting opportunity for TrustPower to grow its customer base in the lower North Island and to be involved in the retailing of gas for the first time, which we expect will enhance TrustPower's multiproduct proposition over time.

Commissioning of the 3.8MW Esk Valley Hydro project is expected to be completed next month. While final costs are expected to be close to initial budget of around \$13 million, the project has been delayed a couple of months through poor weather during the final construction phase. Once commissioned this project is expected to add around 15GWh to TrustPower's generation portfolio.

Construction of the 270MW Snowtown Stage 2 Wind Farm is progressing well and is on track in terms of budget and schedule. Civil works including wind turbine foundations are around 80% complete and the 28 km 275 kV transmission line is approximately 95% complete.

The first shipments of blades, towers and nacelles, together with the first of two transformers, have arrived at site and turbine erection is underway.

The first turbine is expected to be producing electricity in September. The 126MW Stage 2 South development is expected to be completed in April 2014 and the 144MW North development is expected to be completed in September 2014 and final handover of the total site completed in November 2014. This is TrustPower's largest investment to date and it is very pleasing to report this project is tracking to plan.

TrustPower's balance sheet as at the 2013 year end remains in good shape with shareholder's funds over \$1.5 billion and total assets close to \$3 billion.

Gearing has increased as Snowtown Stage 2 is constructed.

Following the recent refinancing of shorter term bank facilities the Group has close to \$1.5 billion of committed debt facilities of which over NZD 450 million remain undrawn.

TrustPower continues to develop further wind options in Australia and two sizable projects in Victoria and New South Wales are in development approval processes which are expected to be completed within the next 12 months.

Following Government approval of the variation to the Rakaia River Water Conservation Order, TrustPower is now in a position to store and distribute consented water from Lake Coleridge to improve irrigation reliability to various irrigator groups.

TrustPower has recently concluded long term storage and release agreements with Barrhill Chertsey Irrigation Limited and Central Plains Water. It is expected that these initial agreements will contribute to an additional irrigation supply area in mid Canterbury of around 40,000 ha.

TrustPower is continuing to work hard with stakeholders in the Canterbury region to provide an optimal large scale regional infrastructure solution that can provide a superior economic outcome over smaller scale alternatives.

TrustPower is also closely considering participation in other irrigation opportunities in New Zealand.

I also wish to comment on regulatory change processes and the proposed Central Buyer Model.

Globally the electricity sector has presented challenges with inefficient investment and operations and distorted prices being the industry norm. The move to separate out the grid and to structure a market for generation and retail has been successful in improving efficiency and allocating investment risks to private equity rather than tax payers. The institutional frameworks for these markets are relatively young and also the transmission pricing structures that support these markets are also evolving. Given this TrustPower, and all industry players expect a degree of evolution in the sector.

There are good examples internationally of countries managing regulatory/structural change well – the UK, Europe and the US have a long history of grandfathering arrangements that investors have relied upon when they made their investment. The reason for this is simply that if you want to encourage investment in long life assets you need to do this or investors will need higher returns before they can invest in other new infrastructure – this drives up costs across all infrastructure sectors. Investors judge by the country's track record.

Until recently New Zealand has also managed the evolution of the electricity market relatively well.

In a capital intensive sector it is important to avoid creating an environment of uncertainty around rule changes. It is therefore important to ensure that investments can be made with an understanding that grandfathering and managed transition will be the normal approach when major regulatory changes are made – be it to transmission pricing or to the electricity market itself.

If we stand back and look at the last ten years, the New Zealand market has delivered competitive prices for customers, cost reflective pricing applies across the transmission and distribution sectors under the governance of the Commerce Commission, and wholesale and retail prices both reflect competitive market pressures.

New Zealand's retail market is rated 'hot' for competitive pressures¹, second only to Victoria in Australia, out of the twenty four countries rated to have an active competitive retail market. Put simply what this means is that to profitably keep customers you need to keep your prices competitive, keep improving your service and

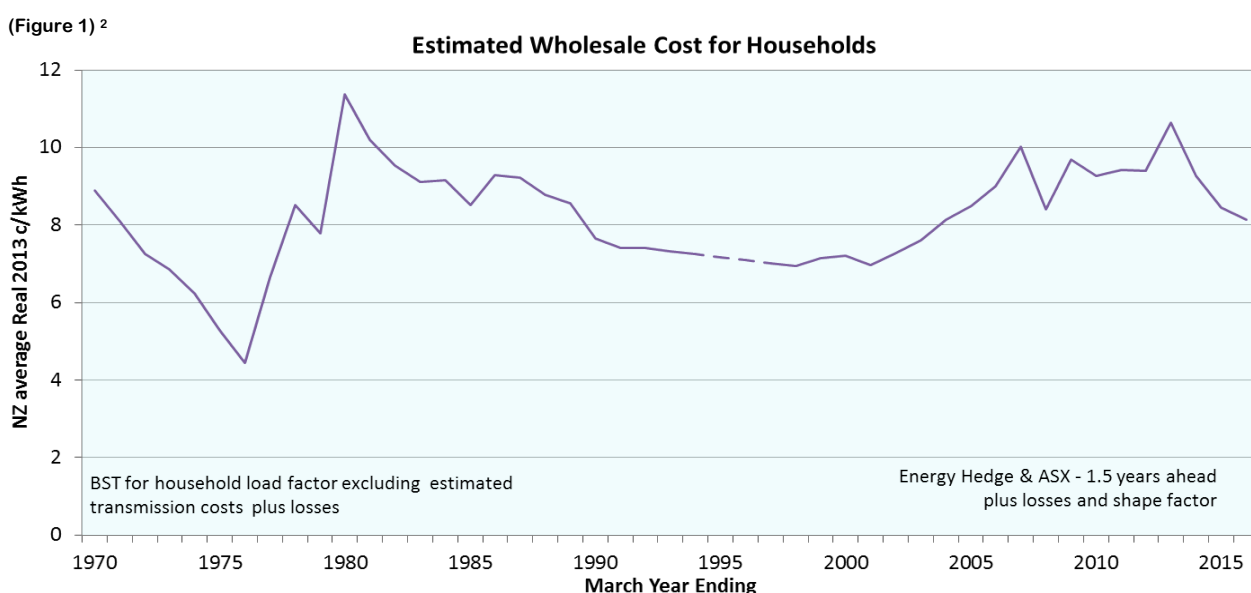
¹ VaasaETT World Energy Retail Market Rankings Report 2012

products to stay ahead of competitors, who are also continuously improving what they do and you have to keep your costs down.

Critically the sector has also delivered 1,825 MW of new generation, and a very strong and fully diversified pipeline of new projects all waiting in line – the diversity of generation options, and the diversity of ownership of these projects, ensures that there is on-going pressure for prices to be as low as possible and gives great reassurance on supply reliability.

If we look at the history of wholesale prices over the long term (See Fig 1) we can see the outcomes of competition and responses to supply shortages and surpluses as we would expect to see in a competitive market. It is a market that has gone from the cheap plentiful gas of the 1990s to a new reality of higher cost gas fields with shorter lives – the market has delivered wind and geothermal alternatives that have delivered New Zealand internationally competitive prices based on carbon free renewables.

Looking ahead we see some short term softness in the wholesale price outlook with some surplus generation capacity and unexpectedly low demand growth over the recent GFC/earthquake affected period. This interplay of supply and demand is what we would expect from a market framework.

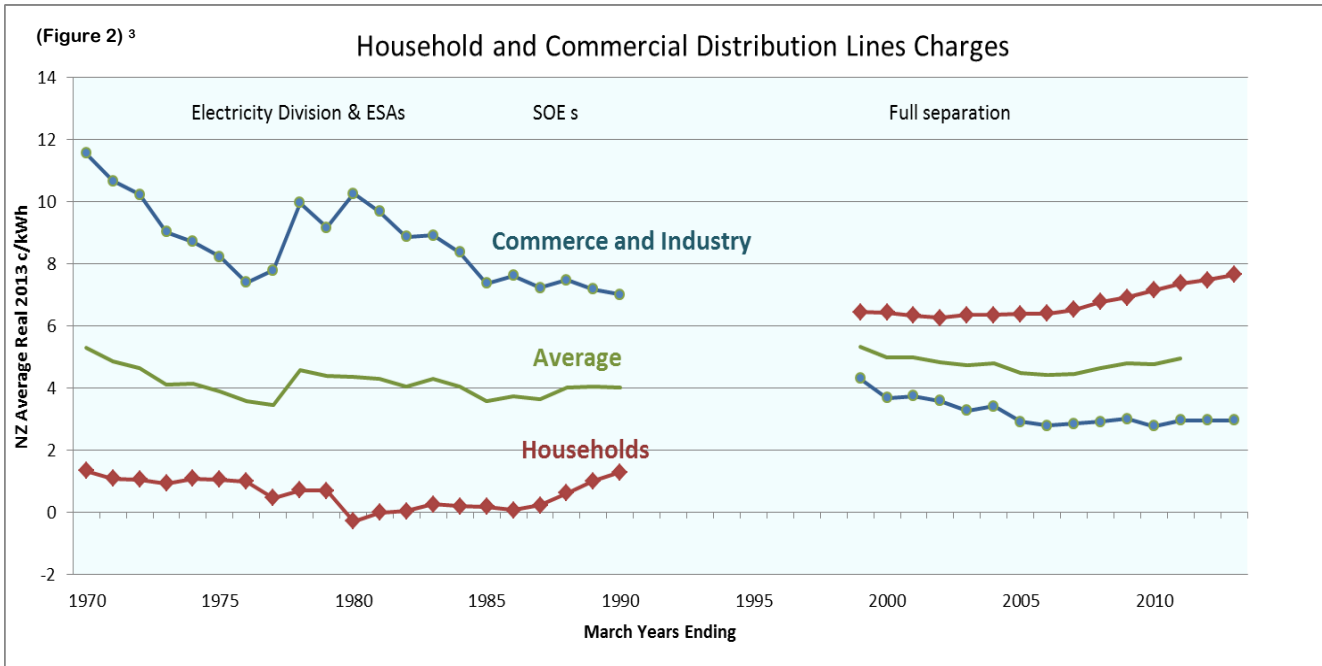


In its World Energy Outlook 2012, the OECD has reported that electricity prices grew more quickly than inflation in most OECD countries during 2005 to 2010 and further, that for the next twenty years, the outlook is for 15% real price rises.

New Zealand is almost unique in that our outlook is for modest, real wholesale price rises as our competitive market has produced a very good pipeline of renewable projects based off our world class wind and geothermal. Almost uniquely, New Zealand has little exposure to carbon prices in its price outlook.

When we look at retail prices we see the same thing, competitive outcomes. The story with New Zealand’s retail price history is however more complex because we have also addressed deep rooted distortions and cross subsidies (see Fig 2).

² Fig 1: Wholesale cost for Households
 Source: Annual Statistics Electric Power Development and Operation, Electricity Division Annual Reports, Energy Hedge, ASX, Bertram et al "Hydro New Zealand" 1992, and MCO estimates.



In this graph we see the effects of moving electricity distribution out of locally elected direction to regulated commercial entities. Two trends stand out.

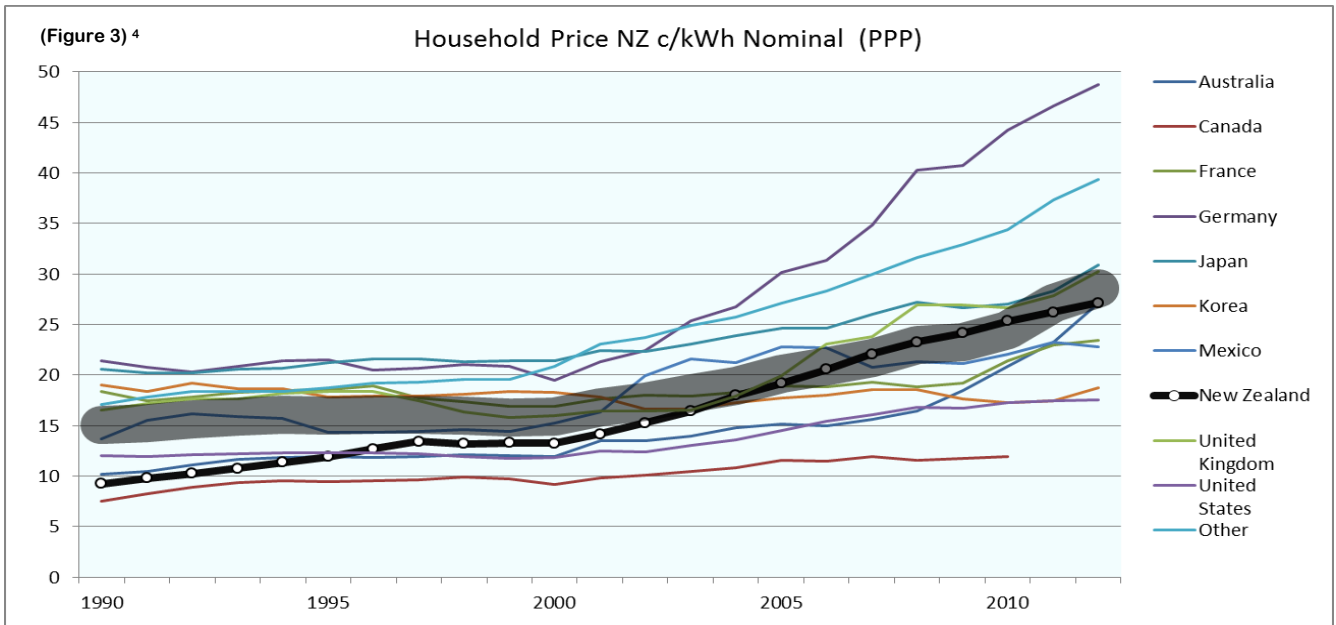
Firstly households used to pay nothing for use of the distribution system – it was all paid for by commercial and industrial customers. This isn't quite correct – households didn't pay directly but of course we did indirectly through higher costs for the things we bought off commerce and industry and in less jobs growth etc. Of course there was some distortion here also, as there was no reflection of actual costs in residential prices, so we also underinvested in efficiency at the household level – on average we kept using our old inefficient light bulbs and on average we were a bit late in choosing a 4 or 5 star energy efficient appliance over the cheaper models.

The second stand out is the total revenues for distribution went up when we moved to a standardised regulatory rate base for distribution. While it can get lost in history, in many cases we are now paying lower local body rates, or we are receiving a dividend distribution or a rebate from a trust but we are also now paying fair cost reflective prices for our use of the electricity distribution system.

So with this background we can now look at Household Electricity Prices in New Zealand. We have moved from subsidised artificially low household prices of the 1990s to now lie more in the average band of international household prices as shown in Figure 3.

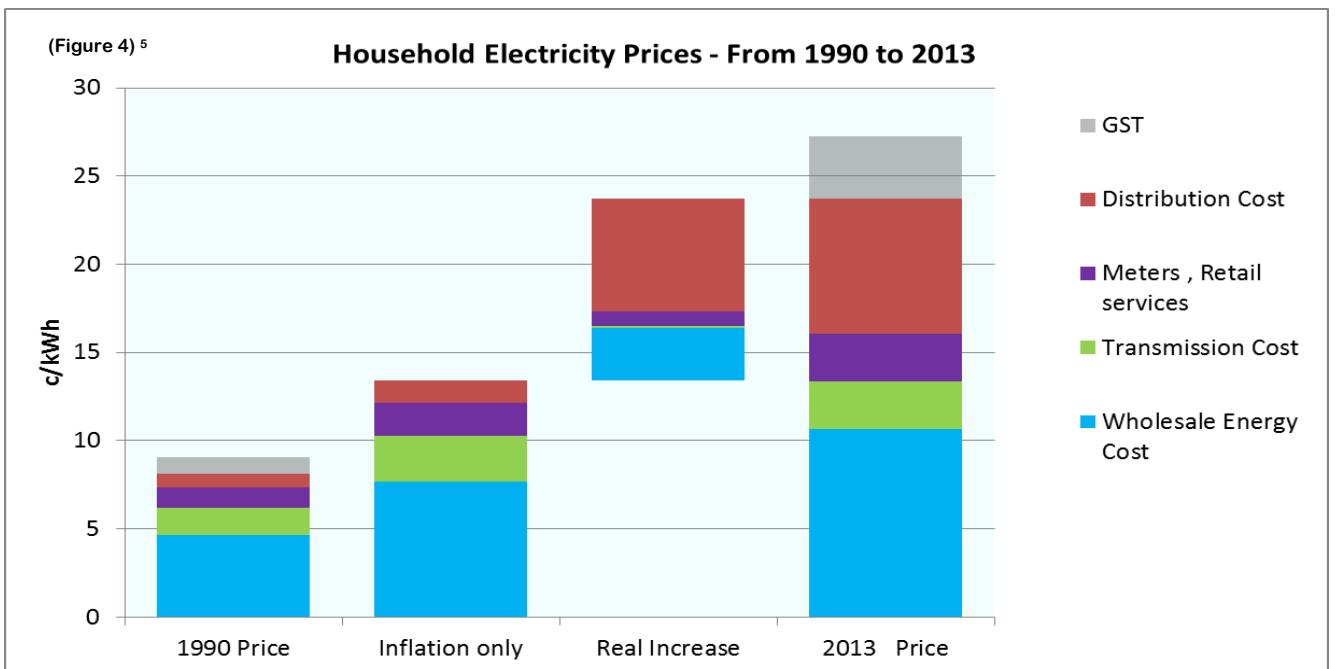
³ Fig 2: Distribution Lines Charges

Sources: Annual Statistics Electric Power Development and Operation, Electricity Division Annual Reports, Bertram et al "Hydro New Zealand" 1992, Energy Hedge, ASX, MoBIE datafile, MoBIE Quarterly and Annual price surveys and MCO estimates.



Source IEA

Since 1990, New Zealand households have seen prices move from about 9 c/kWh to 27 c/kWh today. This is an 18 c/kWh increase in prices. But it is important to unbundle this so we can understand the reasons for this price rise. We have done this in Figure 4.



The 18 c/kWh price change is made as follows:

- 5.5 c/kWh is due to general inflation;
- 6.5 c/kWh of this is due to moving distribution prices to a cost reflective basis free of cross subsidy;
- GST now adds 3.6 c/kWh to household prices compared to only 1 c/kWh in 1990; and finally
- 3 c/kWh is due to higher wholesale energy costs.

⁴ Fig 3: International comparison
Sources: IEA, OECD for PPP, MoBIE International Comparisons and Australian Bureau of Statistics.

⁵ Fig 4: Household Electricity Price breakdown
Sources: Annual Statistics Electric Power Development and Operation, Electricity Division Annual Reports, Statistics New Zealand, Bertram et al "Hydro New Zealand" 1992 Energy Hedge, ASX, MoBIE datafile, MoBIE Quarterly and Annual price surveys and MCO estimates.

The wholesale energy price change reflects the end of cheap plentiful Maui gas and our transition to renewable wind and geothermal generation.

Household prices have simply moved in line with wholesale energy costs and the non-subsidised costs of delivering power to households. As I said there is a little complexity in household electricity price trends however, when the reasons for these are understood, I believe this supports the view that the industry is working well.

A household bill comes from both the 'how much', the quantity, as well as from the price. In New Zealand electricity prices are where they should be given our costs of producing and delivering electricity – where we can make progress though is through building standards and retrofits on our old housing and rental stock – thus ensuring that the how much is also efficient. As a country we can do more to help the disadvantaged in our communities but this should be targeted with need and not through across the board distortion to prices or by returning to cross subsidies.

A facts based assessment of NZ wholesale and retail prices shows the effects of removing substantial cross subsidies to households and also the end of the era of cheap plentiful Maui gas.

Cost reflective prices for commerce, industry and households is not a 'smoking gun' justifying a massive industry restructure – quite the opposite, it is the hall mark of a well-functioning and well-structured market.

This was the conclusion reached in a 2006 major Government review – seven years later this is even more clearly the case.

TrustPower operates in a tough competitive sector and, despite our relentless pursuit of value, no new investor in TrustPower in the last seven years has made an adequate return – the Government was right when it concluded, in 2006, that the sector was clearly heading towards active competition in both generation and retail.

It is tough competitive market and we need to work hard to provide you our shareholders with an adequate return. We will do this through keeping our costs down, by excellence in customer service and product innovation and excellence in asset management and in our new project execution – and we are excited about what we can achieve for shareholders with wind projects in Australia.

So why are some political parties and industry commentators now proposing a radical retrenchment back to a Central Buyer model?

The Central Buyer model is simply a return to a Single Wholesale Seller with a Bulk Supply Tariff and a central bureaucracy of public servants setting wholesale prices and price structures, as was done by the old NZ Electricity Department.

This model offers little prospect of an efficient and dynamic electricity sector.

Currently all market participants are under relentless pressure to do things better and cheaper and, as with all industries with strong competitors and free customer choice, this is the best model known to produce the lowest possible industry costs and prices. Retail margins are under strong competitive retail market pressure and this looks like a permanent and fully appropriate and enduring reality for the sector.

There is much at risk with the Central Buyer model and it will be extremely complex to introduce with a wide range of unintended consequences.

There is no doubt any introduction of this policy will diminish the current incentives on all companies in the sector to improve efficiency and search out better and cheaper options both for customer service and for power generation.

In the current market, if TrustPower has a good idea to squeeze more energy from our hydro stations we set about doing it – in the Central Buyer world we would have to work through a major contractual barrier – we would need to traipse down to Wellington and try and negotiate a contract change or worse still, participate in some inefficient bureaucratic tender process. Mostly no one would bother – replicate this across the whole system and, we have an inefficient industry, higher costs and before long higher prices.

The Central Buyer is a cost pass on model, not a market model. The difference is clearly illustrated by considering the issue that if major load should be lost, or during periods of excess generation capacity, the Central Buyer has to put up prices to cover costs whereas, in a market, prices soften during periods of excess supply.

As I said earlier, the institutional frameworks for competitive electricity sectors are still young and evolving and we should expect changes. TrustPower will work constructively with any reform agenda – we will contribute our views to help ensure these changes are both informed and well managed.

TrustPower shareholders have invested a great deal over the last fifteen years to have a broad pipeline of new generation options and to improve the efficiency and reliability of our power stations and to find win-win solutions for stakeholders when we renew our resource consents.

We have seen the market value of our assets go up and down in response to the outlook for energy prices in New Zealand – just like the value of Auckland houses or Southland dairy farms have gone up and down – we do not believe there are any ‘windfall’ gains or losses in this – it’s just a reflection of market risks, market outlooks and market values.

In summary, it is my view that there is ‘no smoking gun’ signalling that the electricity industry needs dramatic restructuring – quite the converse, the industry is showing all the signs of being efficient and competitive.

Will the Central Buyer model deliver lower prices than a competitive market framework? I don’t believe so – only a return to subsidies can do that.

The Central Buyer proposal has not arisen out of any study on productivity or industry efficiency or view that this model will perform better for New Zealand. Rather it seems to have grown out of desire to find a means to fund subsidies by expropriating value from the owners of hydro power stations.

This seems to be based on some notion that the Government gave away these power stations to private owners for nothing, which is not the case at all.

All the privately owned hydro power stations in New Zealand have either been bought at full market value at the time of purchase or they have been built by the private owners. These owners have looked after the assets, improved their efficiency and looked after stakeholder relations with great care. The market value of the power stations has, just like the value of houses in Auckland, moved up and down – this is not a smoking gun to expropriate value.

We do not believe your property should be subject to the risk of arbitrary expropriation. We do not think New Zealand can afford to be seen as a country that may expropriate private property as this will increase investment costs across all our new infrastructure like Transmission Gully, and new irrigation infrastructure. It

will all cost more than it needs to, because we have, for no good reason, increased risks to investors in these long life asset proposals.

I will now hand over to Vince for his presentation.

Thank you