Better together.

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Chairman's Address

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Welcome shareholders and viewers to Trustpower Limited's 2020 annual meeting. For the first time we are presenting this meeting entirely virtually from the Truspower boardroom in Tauranga. It's an odd experience. You can see and hear me, but all I have are television screens and a camera and a nagging worry that I'm speaking to a near empty room.

But I do have some company. With me in the boardroom today are directors Sam Knowles, Susan Peterson, Kevin Baker, Keith Turner and David Prentice. We also have our Leadership Team who David will introduce when he presents shortly. Online from Melbourne, Victoria we have director Geoff Swier.

This meeting is duly constituted. Proper notice was given and we have the minimum five shareholders present in the room so are certain that we have a quorum.

Going virtual was a decision we made when there was greater uncertainty about the people distancing consequences of COVID-19. It was the right decision and we may, depending on feedback and engagement, move to a permanent virtual model. But we know that some shareholders do like face to face and being able to talk one on one post the meeting. So this year we will also hold an informal shareholder briefing in Tauranga, and provide details shortly, and if we move to permanent virtual we will also hold such briefings.

The year to 31 March 2020 and since then were, and remain, challenging for Trustpower, the electricity sector and New Zealand as a whole.

I'll focus on COVID-19, the NZAS decision to close Tiwai point, Freshwater reforms, electricity and broadband markets and some corrections to our corporate governance disclosures, but before doing that I want to acknowledge directors Sam Knowles and Geoff Swier. Sam is here in Tauranga today and Geoff is with us virtually from Melbourne.

Sam resigns from the Board effective today, having first joined in 2007 at the encouragement of the late Lloyd Morrison. He was then CEO of Kiwibank and has since moved into a range of director roles, with a special interest in innovation and entrepreneurship. He is a past chair of one of New Zealand's most successful innovators, Xero. He has always had a deep understanding of, and interest in, customers and the challenges for any organisation, like Trustpower, to have the right products, service levels, acquisition and retention strategies, brands, underlying technology etc to attract and keep those customers, and meet their needs while being efficient with the costs. Of course, his contribution was wider than but it his constructive challenges on those issues that I will particularly miss. On behalf of the Board I thank him for what he has brought and contributed over the past 13 years. It has helped Trustpower create value in many ways.

Geoff will also leave the Board before our next annual meeting. His background was, and still is, in economics in the utility sectors. He has spent many thousands of hours helping governments and private sector companies in Australia, New Zealand and elsewhere, including Trustpower, think about, and adapt to, the complex markets in which our wholesale products, ie electricity, are manufactured and traded. Unflappable, considered and always respectful and insightful on a whole range of issues he also has contributed a significant amount to Trustpower's successes, also over the last 13 years, and we thank him for that. Fortunately, he is not being lost to the New Zealand energy sector as he continues as a director of Tilt Renewables, a company he was instrumental in seeding and creating though a spin-off from Trustpower.

We are well into a process to appoint replacement directors and expect to make announcements in the near term.

On the issues that have mattered to Trustpower since our last annual meeting, COVID-19 of course dominates. We have coped well and, just as importantly, so have our customers. As I said when we released our annual result, the Trustpower organisation, especially our operational and frontline staff and our IT and operating systems continued to perform to very high standards, generating and dispatching electricity and engaging with and supporting our customers. Overall, to date, the financial consequences for Trustpower have been modest. Customers are continuing to pay their monthly invoices. But we know that the immediate Government help – principally through the wage subsidy scheme – comes to an end in September and hardship for some in the community will increase. We will continue to do what we have been doing for the past months and work with customers facing hardship to agree payment plans and help them get Government support. Disconnection is always a last resort.

Economically, there is worse to come. The direct economic stimulation of the wage subsidy scheme is ending and sectors that have not been directly affected are, none-the-less, putting growth and expansion plans on hold. I've heard of many businesses delaying investment decisions for 12 months or so, diminishing short term economic activity. Partly as a result, our central business case is for muted demand and a higher proportion of customers having payment issues. But we have mitigations for each scenario and none should cause a material adverse economic impact on Trustpower.

Shareholders will be interested in Trustpower's views on the NZAS decision to close the Tiwai Point aluminum smelter next year. Like many we were surprised by the speed at which closure is happening. We don't know aluminum markets, or how to operate a smelter, but we did think that closure would happen over a longer period giving the electricity market longer to adjust. But that hasn't happened, so faster adaptation is required. Closure means greater and faster investment by Transpower to facilitate electricity heading north. All of this has been analysed and is well understood. The challenge will be to get these transmission projects consented, contracted and built as soon as possible. Thermal plant in Taranaki and Waikato will close and new generation projects will be deferred. Lots of complexity can added to the analysis – but the essence is simple – ~12% of national demand is being lost in 13 months' time and it will take many years for new demand to replace that and for the generation and transmission sectors to adapt. Specifically for Trustpower, we anticipate the greatest effect to be in lower wholesale energy prices received by our 80MW Waipori hydrogeneration scheme 55km from Dunedin. We also buy electricity from Tilt Renewables from its nearby 36MW windfarm at Mahinerangi. We pay Tilt Renewables based on historic ASX prices so in the short run this contract might look expensive for us versus spot market prices or current ASX pricing, but in later years our purchase price will average down to reflect softer wholesale prices so we see the long run consequences for this contract as neutral. Our generation further north in the

South Island and in the North Island will be less adversely affected. We anticipate heightened retail and commercial and industrial competition, at differing levels in different regions. That is the market at work, and we will respond accordingly.

In the long run, New Zealand will end up with a stronger and more efficient electricity market. 12% to a single customer at a single location might have made sense 50 years ago in a regulated electricity market, but it doesn't today. We will have a more comprehensive and resilient distribution network and renewable generation will be built closer to demand. There will also be an acceleration in electrification of industrial processes. This was all going to happen, it will just happen faster. But there is one caveat to this. Some sector experts calculate that the electricity generation will quickly get to about 94% renewable. We're comfortable with that, but we re-iterate what we've said in the past – that gas powered generation needs to stay in the New Zealand market to help with the inherent volatility in wind and water (and in the future solar) generation. Only if we know that thermal generation is available to provide resilience and back up will we and others commit to building more new renewable generation. Recent changes to the Resource Management Act, that will make it harder to consent thermal generation, are not helpful and may work against decarbonisation.

We will keep a close eye on our competitors plans for thermal plant closures and their development projects. None of this will deflect from our plans to get more generation out of our existing hydro schemes. These quantities aren't material on a national basis and the gains will be had over many decades.

One of the most important contributions that Trustpower can make to New Zealand is to continue to operate our hydroelectric schemes to their potential to provide New Zealanders with low cost, zero carbon electricity. I return to this theme each year. We understand and respect the privilege we have in operating our schemes in around nine locations across New Zealand – Bay of Plenty, King Country, Taranaki, Manawatu, Tasman, Marlborough, West Coast, Canterbury and Otago. We hold around 429 resource consents, which we assiduously monitor, and we work closely with our local communities to minimise the effects. To keep generating to the optimal level requires supportive regulations and legislation. It is in that context that aspects of the forthcoming National Policy Statement for Freshwater Management 2020 are disappointing. That NPS will recognise the critical importance of the hydro generation sector in helping reduce our carbon emissions, but it plans to make an arbitrary and ill-founded distinction in how local authorities must in the future consider consenting and reconsenting hydro generation. When reconsenting the large schemes of our large competitors (Meridian, Genesis, Mercury and Contact) on five named waterways and catchments these schemes may be exempted from some of the freshwater quality bottom line standards. None of Trustpower's schemes will enjoy that same privilege, yet we produce exactly the same product – 100% renewable, zero carbon electricity. The final form of this NPS is not yet set. We are lobbying the Ministry for the Environment to remove this arbitrary distinction and recognise, without favour, the contribution that all hydro generators make to a low carbon future. We hope to avoid having to challenge it in the courts.

Trustpower is best known as an electricity and, more recently, broadband retailer. ~100% of our own generation output is sold through retail channels. I have just been critical of a proposed Government action so it's only fair that I should comment favourably on the regulatory settings that affect our retail business. Last year the Electricity Price Review was completed. This was undertaken as part of a 2017 election commitment. We support almost all of the recommendations from the EPR. We believe that a good balance was struck between the different interest groups – particularly retailers and consumers. Likewise, the telecommunications regulatory settings are working well. Trustpower has been able to organically grow to the more than 100,000 broadband customers, and we expect to get more. In both sectors we have workably competitive markets, consumers have choice and there's plenty of innovation by us, and our competitors.

Trustpower prides itself on its reporting to shareholders and stakeholders. But, every so often, we don't get the detail right. In this year's annual report there were some mistakes in the description of the status of some directors and committee memberships and we did not update our NZX Corporate Governance Code disclosure post David Prentice becoming Chief Executive Officer in January 2020 and ceasing to be classified as an independent director. To be clear, Trustpower departs from that Code in having a non-independent chair – that is me through my association with Infratil, Trustpower's 51% shareholder - and in not having a majority of independent directors, although our non-independent director have three different statuses and no one of those of those status groups represents an equality or majority of all directors. The Board approved an updated disclosure earlier today, and this will loaded onto our website in the next few days.

Finally, I wish to pay particular thanks to David Prentice, our new CEO, and the wider Trustpower team. COVID-19 put this company, and New Zealand, under a lot of stress. We embraced that and delivered. Our staff helped keep the lights on and supported our customers. We had frontline retail staff working at home from the dining room table, the bedroom and caravans in the driveway. We had generation staff continuing to work at remote locations around New Zealand. Thank you for that.

When David took over as CEO in mid-January he was blissfully unaware of what was in store. But like all the others he got on with the job, and we thank him for that. Now I invite him to the lecturn to address his first annual meeting.