meridian

# Better energy future

**MERIDIAN ENERGY LIMITED**

*Annual Report for the year ended 30 June 2015*

# 2015 highlights

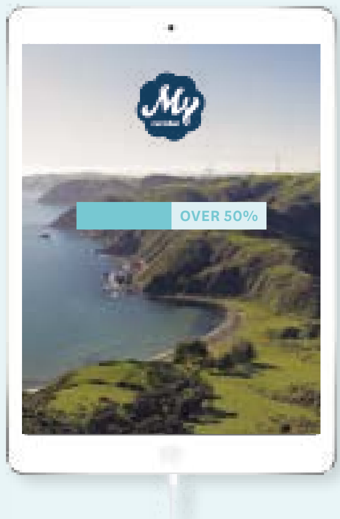
## BUILDING ON OUR REPUTATION

*Rated by Colmar Brunton as the **most reputable** electricity company in New Zealand*

## DELIVERING RETURNS TO SHAREHOLDERS

*Delivering a **36%** total shareholder return*

## ENHANCING OUR DIGITAL CAPABILITY




***Doubled** our customers using our online energy management tool, MyMeridian*

Having a good reputation is important to our success. This year we were rated by Colmar Brunton[1] as the most reputable electricity company in New Zealand. The index rated companies across four categories of reputation: social responsibility, fairness, success and trust.

We continued to deliver results for shareholders this year with EBITDAF, a key indicator of profitability, growing by 6% this year. We delivered a 36% total shareholder return[2] in the year to 30 June 2015.

We're focussed on enhancing our customer experiences online. We've more than doubled the number of customers using our online energy management tool *MyMeridian* and extended it to business customers. We have also experienced a 24% increase in people joining through our website.

1 Colmar Brunton Corporate Reputation Index 2015.
2 Share price movement plus gross dividends declared.

## In this report



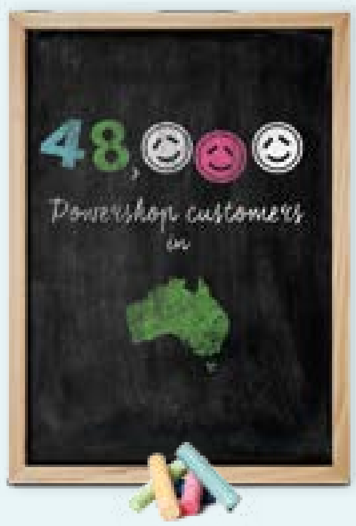
**CARING FOR OUR COMMUNITIES**

**BUILT TO LAST**

**GROWTH IN AUSTRALIA**


*We granted **$1.5m** towards community projects and sponsorship partners*

*Celebrating a **50-year** milestone of the construction of Benmore hydro dam*




*Powershop continues to grow in Australia*

We have granted $1.5 million this year to community projects and sponsorship partners. Our partnership with KidsCan, for example, continues to help the charity provide food, shoes, raincoats, basic health and hygiene items to 485 schools in 14 regions around the country.

Celebrating the 50th anniversary of Benmore power station this year was a significant milestone. We paid tribute to those who built it and recognised those who continue to maintain our assets to ensure that we keep generating renewable electricity for generations to come.

Powershop continues to grow in Australia. After launching in Victoria over a year ago and more recently in New South Wales, Powershop now has over 48,000 customers. Across both the New Zealand and Australian markets Powershop now has over 100,000 customers.

# Company overview

MERIDIAN ENERGY IS NEW ZEALAND'S LARGEST ELECTRICITY GENERATOR AND IS COMMITTED TO GENERATING ELECTRICITY FROM 100% RENEWABLE SOURCES – WIND AND WATER. MERIDIAN SUPPLIES ELECTRICITY TO POWER HOMES, BUSINESSES AND FARMS.

Meridian is listed on the New Zealand Stock Exchange (NZX) and Australian Securities Exchange (ASX) and is a mixed ownership model company, 51% owned by the New Zealand Government.

Meridian generates approximately 30% of New Zealand's electricity from its integrated chain of dams and power stations on the Waitaki River and Manapōuri power station in Southland, the largest hydro power station in New Zealand, and from five wind farms around the country.

Through the Meridian and Powershop brands, Meridian retails electricity to more than 276,000 customer connections in New Zealand, including homes, farms and businesses nationally. Powershop has more than 48,000 residential and commercial customer connections in Australia. Our focus is on continuing to achieve high levels of service and delivering value to our customers.

Meridian owns and operates Mt Millar wind farm in South Australia and Mt Mercer wind farm in Victoria.

Meridian supports a number of environmental programmes, operates Community Funds associated with each of its assets and runs a national sponsorship programme that supports organisations that make a big difference to Kiwis, such as KidsCan, Living Legends[3] and South Island Rowing.

The Meridian Group employs approximately 820 full-time-equivalent employees and has offices across New Zealand, including the company's head office in Wellington and an office in Melbourne, Australia.

## Retail

TOTAL NEW ZEALAND

**276,446**

*Customer connections*[4]

AUSTRALIA

**48,208**

*Customer connections*[5]

## Hydro

TOTAL INSTALLED CAPACITY

**2,338MW**[6]

TOTAL GENERATION

**11,911GWH**[7]

## Wind

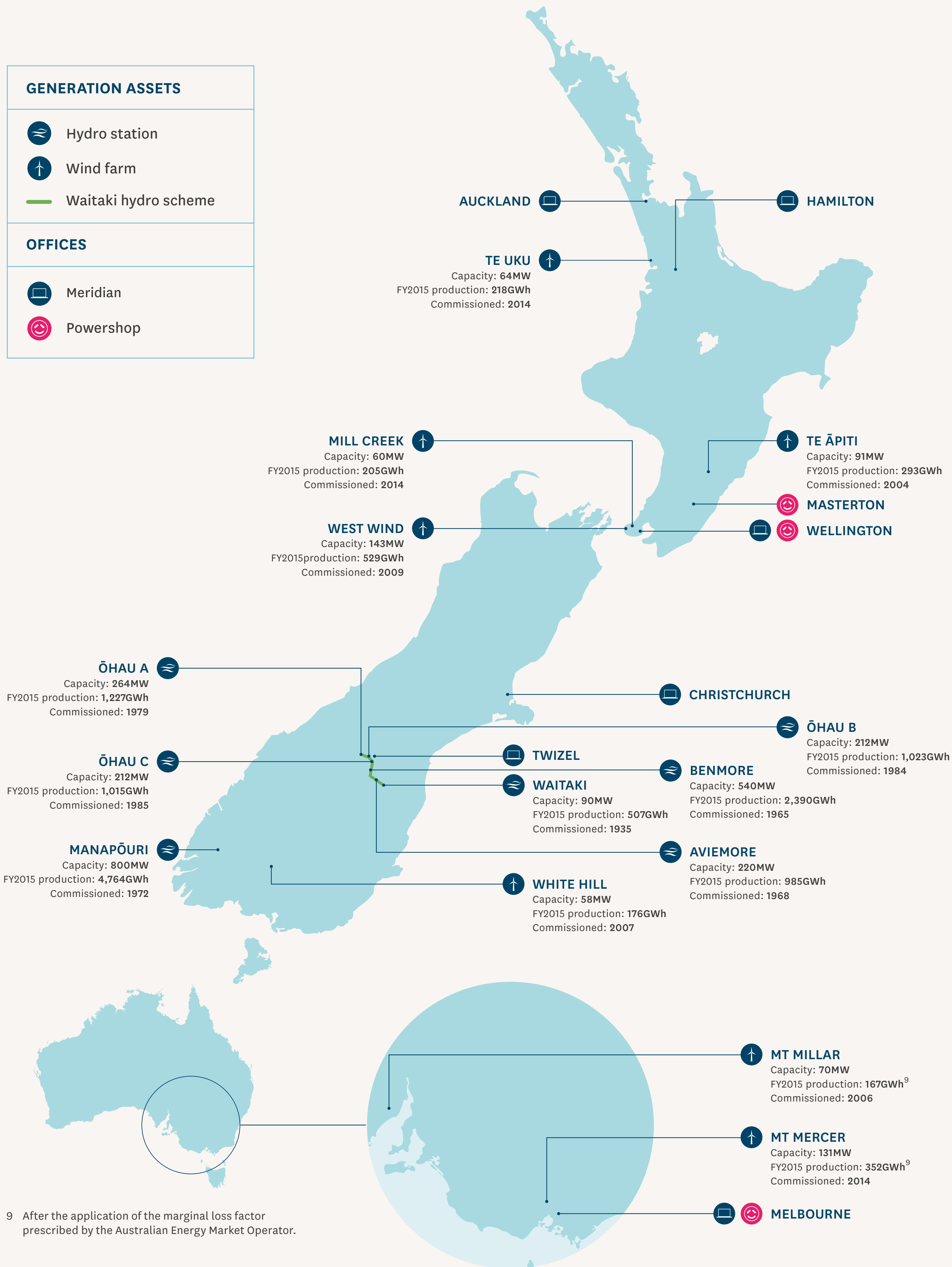
TOTAL INSTALLED CAPACITY

**617MW**[6,8]

TOTAL GENERATION

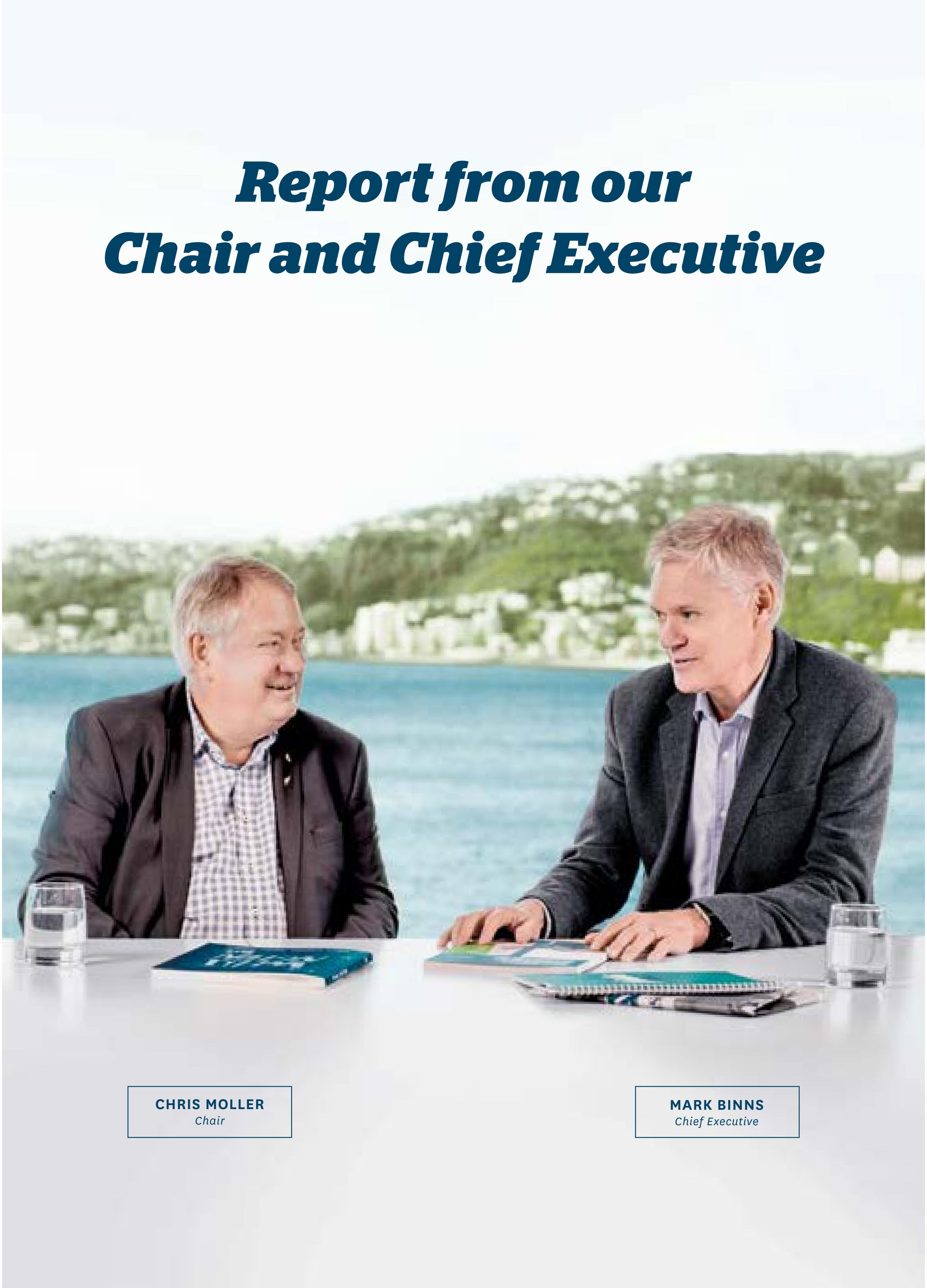
**1,940GWH**[7,8]

3 This sponsorship ended on 30 June 2015.
4 Installation control points (ICPs).
5 Financially responsible market participants.
6 Megawatts. One MW is enough to light 10,000 x 100-watt light bulbs.
7 Gigawatt hours. One GWh is equivalent to enough electricity for 125 average New Zealand homes for one year.
8 Including Mt Mercer and Mill Creek wind farms.




9 After the application of the marginal loss factor prescribed by the Australian Energy Market Operator.

# Report from our Chair and Chief Executive



**CHRIS MOLLER**
*Chair*

**MARK BINNS**
*Chief Executive*

AT THE TIME OF MERIDIAN'S INITIAL PUBLIC OFFERING IN 2013 WE HAD TO PROVIDE FINANCIAL FORECASTS FOR TWO YEARS. IT IS VERY SATISFYING FOR DIRECTORS AND MANAGEMENT TO REPORT THAT WE HAVE EXCEEDED OUR PROSPECTUS FORECASTS.

## Introduction

Meridian is committed to generating only from renewable sources, which means there is always potential variability around inflows into our hydro catchments making predictions difficult. This year was no exception with a repeat of very dry late summer and early autumn inflows.

Meridian's headline operating earnings measure of EBITDAF was up +6% on last year at $618 million and +5% up on the prospectus forecast. All other principal financial metrics were on or ahead of the prospectus forecast.

The fate of Tiwai Point smelter was again at the forefront of the company's attention, as 1 July 2015 was the first date upon which the owner, New Zealand Aluminium Smelters Ltd (NZAS), could give notice to terminate its contract with Meridian. Most shareholders will be aware that following an extension of that date Meridian and NZAS signed a variation to the Electricity Agreement.

The review of transmission pricing by the Electricity Authority (EA) took a positive step forward this year. The EA is looking at how transmission costs are recovered from all the parties that benefit from the transmission grid. The current method has been criticised as being inequitable and inefficient for many years, so it was pleasing to see the EA's Transmission Pricing Methodology (TPM) options paper issued in June 2015 set out new options that better align what parties pay with the benefits that they receive from using the national grid.

This year, overall electricity demand in New Zealand was up +3% on the previous year. Growth was evident in nearly all regions, led by agricultural demand in the provinces. While a strong irrigation season helped, we have seen an underlying increase in demand. Significant thermal plant closure is occurring and requires strategic thought by all market participants. It may mean new investment signals are moving closer.

There are, as at 30 June 2015, 26 retail brands in New Zealand. While some participants are small they are bringing new products to market, which is good for consumers and the market as a whole. The competition to attract new customers remains intense. Meridian is competing hard, but providing discounted offers to customers at the levels seen by some of our competitors is unsustainable and unprofitable. We continue to focus on keeping our customers based on fair pricing and excellent service. This year we also saw our Powershop retail offering top 100,000 customers in New Zealand and Australia.

### Financial performance

Operating earnings for the year measured by EBITDAF were $618 million, compared with the prospectus forecast of $590 million and $585 million in the previous year. This result was mainly due to a higher energy margin.

In New Zealand, retail contracted sales volumes increased 4% with further positive movement in the small and medium business segment and higher irrigation load. Sales of wholesale derivatives also increased. In Australia, we had a full year of wind production from the Mt Mercer wind farm and Powershop Australia's sales volume in MWh grew by over 500%.

Underlying Net Profit after Tax (NPAT) at $209 million was also significantly ahead (17%) of the prospectus forecast of $179 million and last year's $195 million. We continued to focus on running the business as efficiently as possible and divesting non-core and excess assets, which together with strong earnings resulted in better cash generation. Net cash flow from operating activities at $440 million was 2% ahead of last year. Total distribution to shareholders for the financial year was 18.23 cents per share (cps), 40% ahead of the distribution level of 13.01 cps from last year.

Shareholders were required to pay the Crown the remaining 50% instalment in May 2015. The Instalment Receipt (IR) process worked very well for Meridian, the Crown and shareholders. During the 18-month period during which only $1.00 was paid up under the IR security, investors enjoyed a gross dividend yield of 26% as well as a capital gain of 95%.

If the full $1.50 had been paid at the beginning of the financial year under review, total shareholder return would have been 36% for the year on a closing share price of $2.16 (23% in share price appreciation and 13% in gross dividends).

### Ordinary dividends

During the year the Board announced that it had changed the Dividend Policy by increasing the percentage of free cash flow paid out from 70-80% to 75-90%.

With the declaration of a final dividend of 8.08 cps (imputed to 55%) the total ordinary dividends declared for the year were 12.88 cps, or 83% of the free cash flow as measured by the policy.

### Capital management

At our interim results announcement in February 2015 we indicated we would proceed with a capital management programme. We noted this programme would go ahead on the basis we did not receive a termination notice from NZAS, or any material change to the company's financial position or prospects.

Given Meridian's financial position remains strong, the Board has approved a capital management programme to return capital to shareholders. Provided nothing occurs to impact the company's financial position and no significant growth opportunity presents itself, this will be a five-year programme and the directors will continually monitor the best means of returning up to $625 million to shareholders over that period. The directors have looked at the pros and cons of a share buyback programme or special dividends as a means to return capital to shareholders at this point.

A lot has been written about share buybacks and their use has, at times, been open to criticism. To proceed with a share buyback, the value to the remaining shareholders has to be demonstrable. The directors must believe the company can buy its own shares back at a price that is clearly below the current fair value of the company's shares. The directors have reviewed a range of analysts' valuations and believe as at the Board meeting on 18 August 2015, it is unlikely that a meaningful buyback programme could be fulfilled at an average price that would be clearly beneficial to those shareholders who choose not to sell their shares. As such, the directors have decided the initial method of returning capital to shareholders will be via a special dividend of 2.44 cps. In addition, the company's cash position has been enhanced by further asset sales and the resolution of a tax liability position in Australia enabling directors to declare a total special dividend of 3.95 cps.

The Board will reconsider the matter again in February 2016, or if the circumstances prevailing at any point in time should demand it.

## New Zealand Aluminium Smelters (NZAS) electricity agreement

It is important to outline the history of this matter over the last few years to understand Meridian's position and the recent changes to this agreement.

In 2013, prior to the initial public offering of Meridian, the NZAS Electricity Agreement was re-negotiated. At that time, Meridian agreed to accept a lower price than it was contractually entitled to, in return for an arrangement which would likely see NZAS releasing 172 MW from the total contracted volume of 572 MW, beginning 1 January 2017. There were many other changes, including NZAS getting rights to terminate the contract, with the first right being on 1 July this year.

The advantage that Meridian obtained from 2017 was potentially being able to sell the 172 MW released at market prices. NZAS required the flexibility to keep operating at the full 572 MW, so they talked to other generators about arrangements for the 172 MW. Meridian maintains the view that others in the industry would be significantly affected by the smelter closing and should be prepared to contract for this volume. However, Meridian was also willing to re-contract the 172 MW at market prices.

It became apparent during June that it was not possible for NZAS to complete an arrangement on acceptable terms with other generators before the 1 July deadline, so this deadline was extended to 3 August 2015.

Meridian was the only party that could conclude a deal within an acceptable timeframe and, with bi-lateral contracts from other generators, it succeeded. The variation to the agreement means Meridian is committed to cover 572 MW through to 2030 at a price that blends the price for the 400 MW already committed and a new price for the 172 MW.

While Meridian is obligated to provide cover to NZAS at 572 MW through to 2030, NZAS retains the right to terminate the contract, or to reduce the volume to 400 MW. It can do the former by giving 12 months' notice from 1 January 2017; or the latter by giving 12 month's notice at any time from now through to 30 April 2016, or at any time after 30 April 2017.

If a 400 MW notice was given NZAS has options to either curtail production, find another generator willing to cover the released 172 MW, or maintain current full production exposed to spot prices for amounts above 400 MW. In any of these scenarios Meridian would be in a position to sell the released volume at market prices.

The right to terminate the agreement is an ongoing right that NZAS can exercise from 1 January 2017, giving 12 months' notice, so the smelter could close from 1 January 2018. NZAS is exposed to the vagaries of the global aluminium markets and has been open in its criticism of the price of electricity in New Zealand – both the energy cost and how the transmission costs are levied. While we support the NZAS position on transmission

costs, which is an argument based on fairness to all parties, the price of electricity is determined by a national market, not an international one. New Zealand electricity prices sit around the middle of all OECD countries. The NZAS price is at a significant discount to this price and remains the lowest electricity price in New Zealand.

## Sustainability

Meridian's commitment to producing electricity only from renewable resources, water and wind, is at the core of what makes us an authentically sustainable business. As the largest electricity generator in New Zealand, Meridian is the most significant contributor to the Government's target of 90% renewable generation by 2025. Last year New Zealand reached the 80% renewable energy threshold, placing it in the top three countries in the OECD for generating electricity from renewable sources.

Our business strategy identifies areas critical to our success and reflects a wide range of factors including shareholder expectations, iwi and community interests in water rights and allocation and our customers' energy needs. Our sustainability framework helps us measure and monitor our performance across this range of economic, environmental and social goals.

In June this year the Government announced new emission targets for the country. These targets will be taken to the Climate Change Summit in Paris in December 2015 and we will note the outcome with interest. Carbon abatement is a complex issue. The core contribution Meridian makes to carbon reduction is our commitment to efficiently running and developing renewable energy generation. Ensuring new renewable projects are of high quality and can come in at the best price possible is a key focus for our business and will help Meridian lead the way in meeting New Zealand's 90% renewable target for 2020.

In Australia, uncertainty over the Renewable Energy Target (RET) has been an impediment to the development of renewable projects. With the target reset at 33,000 GWh it is hoped that cross-party support remains firm enough for further displacement of carbon emitting Australian generation by renewable alternatives. However, there is little doubt that the drawn out and highly politicised process around the RET review has dented investors' confidence.

Continuous focus on measuring and reducing our emissions also remains a priority for Meridian.

An example of this is our investment in a new building that will house our Twizel staff. This building will make improvements to our overall carbon footprint, as well as providing a better working environment for our staff and bring them closer to the community in which they operate. Plans for a new Christchurch building have also been signed off that will again provide a better environment for staff with a reduced environmental impact, in a higher code compliant building.

Our commitment to sustainability is based on our desire to do the right thing and it is good to be recognised for the efforts we are making. Meridian was placed seventh overall in the recent Colmar Brunton Corporate Reputation Index and the top electricity company, which measured the overall company reputation of New Zealand's top 50 companies by revenue. The index rated companies across four categories of reputation: social responsibility, fairness, success and trust. It is very pleasing that Meridian came third in the responsibility category, which is based on treating employees well and our environmental responsibility.

Sustainability credentials are integral to our reputation and market positioning. They have proven to be important to many of our stakeholders, from those involved in resource consenting decisions right through to attracting and retaining quality staff and influencing customers to both join and stay with us. We use internationally agreed standards and reporting mechanisms consistent with good sustainability practice standards. This includes our continued use of the Global Reporting Initiative.

## Health and safety

Safety at Meridian is not about numbers. It is about culture and a genuine belief that a high level of staff engagement will make Meridian a safe place to work or visit.

An audit of our safety systems and processes last year resulted in a project we named *Safety Matters*, the aim of which was to prepare for anticipated changes to health and safety legislation due later in the year. The project has re-evaluated where we have high areas of risk and our processes to handle these risks, using technical experts and the employees who deal with these risks daily. The project has also tackled company-wide attitudes to safety, embedding principles that focus on accountability and fairness in safety reporting rather than on mistakes.

While we measure Lost Time Injuries, of which we had three this year with two of low level severity and the other more serious (representing a LTI Frequency Rate of 2.27, which is below the industry average of 4.85), we have a greater focus on the management of potential fatal risks and have shifted our reporting to show triggers for risk to hopefully ensure that risk factors are eliminated before accidents can occur.

In the last two years we have improved our reporting classification, which means that some incidents captured this year may not have been reported before. This is due to increased awareness of reporting requirements and a growing culture of awareness across the organisation.

## Risk management

Meridian operates a thorough risk management framework, overseen by our Board. This provides a consistent approach to identifying, assessing and managing risk and ensures we are ready to maintain business continuity in the event of adverse circumstances.

An integral part of our risk management approach is to consider significant potential risks the business may face. This year three significant issues came into focus for the company. The first was the possible termination of the Tiwai Point Electricity Agreement with NZAS. In the lead up to the notice of termination date significant modelling of what a smelter closure would mean to the industry and our company was carried out. Negotiations with generators who may have been interested in entering into wholesale arrangements in the event of a closure were also conducted in order to ensure we were prepared should a closure have come to pass. Liaison with Transpower, the grid owner, meant we understood the timing of the work required to release lower South Island constraints to significant power flows from Southland.

Later in this report we take a closer look at how we responded to issues with several transformers at our Manapōuri power station. While the response to the problem was exemplary, it did provide us with some important insights. We took a number of longer term risk mitigation actions, including two external reviews of our transformer strategy and condition-monitoring framework. While no serious issues were discovered the lessons learned will serve to strengthen our asset management capability and improve our plant performance.

The other risk we continue to monitor is political uncertainty in Australia over renewable generation investment. While agreement has been reached on a lower target of new renewable generation under the RET, uncertainty remains with the Australian Prime Minister having clearly stated his antipathy to wind farms. Lower projected wholesale prices have resulted in Meridian taking a $33 million impairment on the carrying value of our Mt Millar wind farm.

## Environment

### Water stewardship

With almost 90% of Meridian's New Zealand annual generation coming from the Waiau and Waitaki hydro catchments, it is important that we work with stakeholders and communities who also value these natural resources. In our daily operations, we work to a suite of environmental consent conditions and stakeholder agreements. Our teams engage with stakeholders on the issues that matter to them and seek solutions that share the benefits of these resources and ensure they remain in good health for future generations.

Our relationship with Ngāi Tahu is very important given their role as tangata whenua in the Waitaki and Waiau catchments. Over the last year we have participated in the Environment Canterbury process that has proposed changes to the Waitaki Allocation Plan (WAP)[10], which sets out operational and environmental conditions for the Waitaki River. We are very pleased to have agreed a joint position on the WAP change with Ngāi Tahu and irrigators, with all parties sharing a position on how to manage flows in the lower Waitaki River and how an allocation of water should be made available for mahinga kai. The WAP is important as it is expected to form the basis of our consent renewal in 2025. A hearing for the WAP was held in June this year and decisions are expected by the end of 2015.

### Emissions

Generating electricity from renewable resources means that Meridian does not produce greenhouse gas emissions (GHG) from our generation and we have an extremely low carbon footprint for an energy company. The company emitted 2,742 tonnes of carbon dioxide equivalent ($tCO_2e$) from its corporate activities last year, which was below our 2,844$tCO_2e$ target. Meridian has a five-year emission reduction plan with a target of reducing corporate GHG emissions per full-time employee by 10%. Emissions are measured and reported quarterly which enables us to actively manage activities such as air and car travel, recycling and waste to landfill and office electricity consumption.

## Customers

Overall customer numbers for the year declined marginally while actual retail GWh volume sold increased by 4%, reflecting an increase in larger volume business customers and significant irrigation during summer and autumn.

Fair pricing and enhancing the customer experience is our focus. We have continued to improve customers' online experience and engagement with Meridian this year. Our online customer portal *MyMeridian* has been upgraded and enables customers with smart meters to see their energy use over the day, to pay online and to set up personalised alerts to help them manage their power use and costs. Over the last year *MyMeridian* has also been made available to business and agribusiness customers. Overall, *MyMeridian* users have nearly doubled this year.

With improvements to simplify our website and streamline the online joining process, combined with a strong focus on digital marketing, we have experienced a 24% increase in customers joining Meridian online.

Powershop's launch into New South Wales was a highlight this year. Powershop reached another milestone in May by surpassing 100,000 customers across Australia and New Zealand. Here in New Zealand, Powershop continues to dominate customer satisfaction awards winning the Canstar Blue awards regularly. Our Powershop offering here and in Australia is supported by IT developers in our Newtown office in Wellington and our call centre in Masterton, Wairarapa.

Meridian made two energy price changes in the year. First, we reduced the buyback rates (the price we pay for customers who export excess energy) for solar customers to make these rates broadly consistent with what we pay for any other form of electricity from the wholesale electricity market. Even after these changes we still have some of the best solar rates in the market and we believe we have approximately 60% of all solar PV customers in the country.

The second price change relates to increases made to our residential tariffs in the North Island. After holding the energy component of our electricity rates for three years, we increased prices for some North Island customers in 13 of 21 networks by 3% to 6% as of 1 July 2015.

Our smart meter roll out to customers is progressing well. In the year we deployed a further 15,300 meters and by December 2016 we aim to have nearly all our customers on smart meters. This will mean better services for customers in all networks and significant operating efficiencies for the business.

We also completed the sale of our metering business, Arc Innovations, to Vector's subsidiary AMS Limited. The relationship with AMS, which was awarded the roll out contract, has developed into a very professional working arrangement.

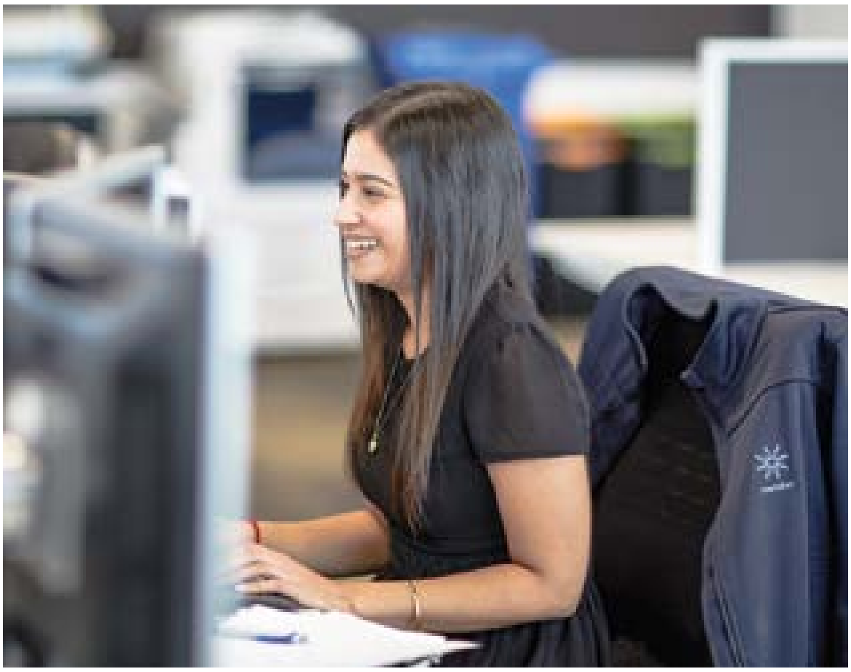
## Communities

During the year we continued supporting the communities where we operate with $1.5 million allocated to sponsorship partners and community projects.

An example of a community that has benefited from our Community Funds is the North Otago township of Duntroon. With the help of more than $100,000 from Meridian's Waitaki Community Fund over six years, Duntroon has restored and recreated some of its historic sites.

We continued to grow our partnership with KidsCan, our biggest national sponsorship. Meridian supports the charity with the distribution of food, shoes, raincoats and basic healthcare and hygiene items to schools across the country. Meridian staff continue to get behind this charity with great enthusiasm through a number of fundraising activities. The high level of staff involvement in the annual KidsCan Santa Run saw more than 70 staff participate in the event this year.

10 Waitaki Catchment Water Allocation Regional Plan.



## People

The success of any business is built on the sustained hard work and commitment of its people, and Meridian's success reflects the efforts of our employees.

It was therefore pleasing to see the uplift in employee engagement over the last 12 months to 81%, up significantly from 76% in 2014. With a response rate of 93%, the results are a sound representation of what employees think about working at Meridian.

According to respondents, the calibre, passion and commitment of our people are the defining features of Meridian, coupled with a strong sense of belonging, respect and inclusion. This reflects the effort that we have put into building a constructive and inclusive culture.

We continue to invest in developing leadership skills and the technical capabilities of staff. Our training, capability development and leadership programmes are designed to build critical skills and constructive behaviours and are proving successful in attracting and retaining talent and enhancing employee engagement.

Our employee share ownership plan – Meridian *MyShare* – is a positive point of difference for our employees. Introduced at the beginning of this financial year, *MyShare* offers New Zealand-based permanent employees the opportunity to own a slice of the company.

The level of take up for *MyShare* for the 2016 financial year is outstanding. Over 43% of our employees now participate in this scheme (up from 38% from the first offer), spread across all areas of our business.

Notable progress has been made against our diversity and inclusion objectives over the past year. We know that greater diversity and inclusivity will improve the company's performance over time and create opportunities to access a larger talent pool.

Our Diversity and Inclusion Policy was developed and implemented in 2012, and aims to ensure that Meridian has:

- a diverse workforce that is more representative of the cultures, communities and customer stakeholder groups in which we operate
- an inclusive culture and work environment where all employees are encouraged to reach their full potential and individual differences are valued and respected.

In 2013 the Board approved two measurable diversity objectives, which we report against annually:

- to increase the number of women in senior leadership roles to 30% by 2016
- to increase the overall ethnic diversity in customer-facing teams by 15% by 2016 to better reflect the New Zealand population.

In the past year progress has been made against each objective in the parent company. The number of women in senior leadership roles[11] has increased to 30%, up from 27% in June 2014. Ethnic diversity in our customer-facing roles has increased 12% since baseline data was established in November 2013.

In addition to business unit training on recognising unconscious bias and efforts aimed at enhancing inclusivity, two specific company-wide recruitment initiatives were implemented during the year to increase gender diversity. The first initiative ensures that at least one female interviewer (or at least one male in female dominated areas of the business) is included in every appointment panel for new applicants. The second initiative ensures that every shortlist for a position at Meridian should, wherever reasonably possible, include at least one female candidate.

For this financial year, we achieved gender balanced interview panels for either the first or second interview for all vacancies. While candidates attracted to our roles continue to be predominantly male (60%), by interview stage women made up approximately 50% of those shortlisted. We will continue to focus on these initiatives as part of our efforts to address gender imbalance in certain business areas, roles and levels.

## Outlook

With the future of the Tiwai Point smelter decided at least, in all probability, through to January 2018, Meridian can concentrate on delivering on a significant number of projects to improve customer experience and overall efficiency.

We are committed to supporting the EA in its review of transmission pricing and are hopeful that this time next year we will be able to comment on the EA's decision to implement one of the suggested options. We remain adamant that a beneficiary pays approach is the only rational answer to the multitude of problems with the current TPM.

Despite our unique positioning through both our brands we anticipate retail markets both sides of the Tasman will remain challenging. We anticipate further growth of Powershop in Australia. Powershop also continues to receive interest in its mobile app and platform from offshore retailers and we expect the viability of any such opportunities will be decided this year.

Until growth opportunities become clearer to us, we remain focussed on achieving more from our existing asset base, continuously improving the quality and cost effectiveness of the customer experience we offer and ensuring our shareholders receive appropriate cash returns from their investments in Meridian.

At the time of the Initial Public Offering we made it clear that following the expiry of the prospectus forecasts we would no longer issue profit forecasts. Nothing has occurred in the intervening period for us to change this view.

We would like to acknowledge the effort of Meridian's employees in delivering a highly creditable financial result for the year and thank our customers and shareholders for their ongoing and valued support.

11 Senior leadership roles are defined by job size and represent the top three job bands below Executive level.

# Our Board

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**1. CHRIS MOLLER**
***Chair***
CNZM, BCA, DIPLOMA OF ACCOUNTING, FCA (NZICA)

Chris Moller has been on the Meridian Board since May 2009 and was appointed Chair in January 2011. Chris also serves on the Remuneration and Human Resources Committee. Chris has extensive experience in New Zealand and international business at both director and executive levels. He is the former Chief Executive Officer of the New Zealand Rugby Union and co-led New Zealand's successful bid to host the Rugby World Cup 2011. His 15-year career in the dairy industry included roles as Deputy Chief Executive of Fonterra and Chief Financial Officer of the New Zealand Dairy Board. Chris is currently Chair of the NZ Transport Agency and SKYCITY Entertainment Group Limited. He is also a director of Westpac New Zealand Limited. Previously he was a director of NZX Limited, Synlait Limited, the International Cricket Council, Cricket World Cup 2015 Limited, the International Rugby Board, Rugby New Zealand 2011 Limited (which entered into voluntary liquidation following the conclusion of Rugby World Cup 2011) and National Foods (Pty) Limited.

### 2. PETER WILSON

*Deputy chair*

CA (NZICA)

Peter Wilson joined the Meridian Board in May 2011. Peter is a Chartered Accountant and business consultant, and was formerly a partner of Ernst & Young and, until recently, Chairman of Westpac New Zealand Limited. He has extensive experience in banking, business establishment, problem resolution, asset sales and management of change functions. Peter has been involved in companies undertaking capital-raising activities and has wide-ranging governance experience in the public market, in the private sector and with Crown-owned entities. Peter serves on Meridian's Audit and Risk Committee and is currently Chair of Augusta Capital Limited and Arvida Group Limited. Peter is also a director of PF Olsen Limited and Farmlands Co-operative Society Limited. Past directorships include The Colonial Motor Company Limited, Westpac Banking Corporation and NZ Farming Systems Uruguay Limited.

### 3. JOHN BONGARD

*Director*

BCOM, ONZM

John Bongard has been a director of Meridian since May 2011 and currently serves on the Safety and Sustainability Committee. John has more than 30 years' experience in marketing appliances around the world and has established new sales companies in Australia and in the United States. He has held a number of executive-level positions during his 36-year career with the Fisher & Paykel Group, including, until 2009, serving as Chief Executive Officer and as Managing Director of Fisher & Paykel Appliances Holdings Limited. He is currently Chair of Netball New Zealand, PSCTH Thailand and The Rising Foundation and Local Chair of BNZ Partners Highbrook. John is a director of HJ Asmuss & Co Limited, Narta Australia Pty Limited and WilliamsWarn Limited, and was previously a director of Tourism Holdings Limited. He is also Deputy Chair of Counties Manukau Pacific Trust Board.

### 4. MARK CAIRNS

*Director*

BE (HONS), BBS, POST GRAD DIP BUS ADMIN, MMGT, FIPENZ

Mark Cairns joined the Meridian Board in July 2012. He currently serves on the Audit and Risk Committee. Mark has extensive experience in port operations and transportation. He has been Chief Executive of NZX-listed Port of Tauranga Limited since 2005. Prior to joining Port of Tauranga Limited he was Chief Executive of C3 Limited (formerly Toll Owens Limited) for five years, following his role as General Manager (Central) at Fulton Hogan Limited. Mark is Chair of Quality Marshalling (Mount Maunganui) Limited and is a director of Prime Port Timaru, Northport Limited, North Tugz Limited and Port of Tauranga Trustee Company Limited. Mark has also previously held director roles in C3 Limited, Metropack Limited and Tapper Transport Limited.

### 5. JAN DAWSON

*Director*

BCOM, FCA (NZICA), FINSTD

Jan Dawson joined the Meridian Board in November 2012. Jan is Chair of the Audit and Risk Committee. Jan is also Chair of Westpac New Zealand, Deputy Chair of Air New Zealand Limited and a director of AIG Insurance New Zealand Limited and the Beca Group. Jan is a professional independent director. She was previously Chair and Chief Executive of KPMG New Zealand, following a career spanning 30 years specialising in audit and accounting services in the United Kingdom, Canada and New Zealand. She was previously President of Yachting New Zealand and a director of Goodman Fielder Limited and Counties Manukau District Health Board.

### 6. MARY DEVINE

*Director*

BCOM, MBA, ONZM

Mary Devine became a director of Meridian in May 2010. Mary is Chair of the Remuneration and Human Resources Committee. She has had a 20-year career in executive roles in private New Zealand companies. She is a former Chief Executive of Australasia's multi-channel retailer EziBuy and former Managing Director of department store J. Ballantyne & Co. Mary has extensive experience in corporate strategy, brand marketing and multi-channel retailing and was this year awarded an ONZM for services to business. She is currently a director of IAG New Zealand Limited, Top Retail Limited and Briscoe Group Limited. Mary also sits on the Advisory Board on the Transition of Canterbury Earthquake Recovery Authority.

### 7. SALLY FARRIER

*Director*

BE (HONS), MBA, GDIPAPPFIN

Sally Farrier was appointed a director of Meridian in July 2012 and serves on the Safety and Sustainability Committee. She is a professional non-executive director and corporate adviser, with extensive experience in industry restructuring and economic reform, infrastructure regulation and pricing, business strategy and risk management. Sally's professional career has focused on the utility sector (water, electricity and gas) spanning a number of consulting and director roles in New Zealand and Australia. Sally was previously an Australian National Water Commissioner, a member of the Department of Primary Industries Portfolio Strategy Board, a member of the Victorian Water Trust Advisory Council and a member of the Independent Panel for Victorian Regional Sustainable Water Strategies. In 2014 she was appointed by the ACT Treasurer as a member of a three-person Industry Panel to review an appeal by ACTEW of the Independent Competition and Regulatory Commission's 2013 price direction. Sally was formerly a director of Hydro Tasmania, Manidis Roberts Pty Limited and Western Power. She is currently an independent director of AusNet Services (ASX100) and a director of Farrier Swier Consulting Pty Limited.

### 8. ANAKE GOODALL

*Director*

BA, MBA, MPA

Anake Goodall joined the Meridian Board in May 2011 and serves on the Remuneration and Human Resources Committee. Anake has diverse management and governance experience, including being a union delegate in the meat industry and a founding director of the Makarewa Credit Union, holding various executive roles in community-based organisations, and being an adviser to the Government and iwi. In past executive roles he served as Chief Executive Officer of Te Rūnanga o Ngāi Tahu, and was before that responsible for managing all aspects of Ngāi Tahu's Treaty settlement process. Anake is currently a director of PledgeMe Limited, is Chair of the Ākina Foundation, the Hillary Institute of International Leadership and the Manawapōpore Trust. He is a member of the Te Waihora Co-Governance Group and the Canterbury Earthquake Recovery Authority Review Panel and is an Adjunct Professor at the University of Canterbury. He has previously been a member of the Environmental Protection Authority, and a director of the Enspiral Foundation and NXT Fuels Limited. Anake is a New Zealand Harkness Fellow.

### 9. STEPHEN REINDLER

*Director*

BE (HONS), AMP, FIPENZ

Steve Reindler joined the Meridian Board in September 2008 and is Chair of the Safety and Sustainability Committee. Steve is an engineer who has a background in large-scale infrastructure and heavy industry manufacturing. He has gained extensive experience through his previous executive roles at New Zealand Steel Limited and Auckland International Airport Limited, and through his industry position as inaugural Chairman of the Chartered Professional Engineers Council. He is currently Chair of Waste Disposal Services (unincorporated joint venture between Auckland Council and Waste Management NZ Limited), a director of Broome International Airport Group, Naylor Love Enterprises, Yachting New Zealand, Resolve Group Limited, and an independent adviser to AgResearch and Transfield Services Limited. Steve was previously a director of Port of Napier Limited and Stevenson Group Limited and an advisory director of Glidepath Limited. He served as a Senior Office Holder on the board of the New Zealand Institution of Professional Engineers and was President of the Institution in 2011.

# *Our executive team*

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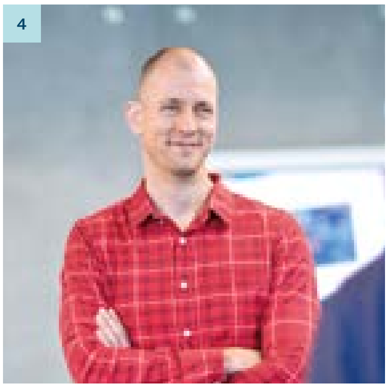

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### 1. MARK BINNS

*Chief Executive*

LLB

Mark Binns joined Meridian as Chief Executive in January 2012. Prior to this appointment Mark was Chief Executive of the Infrastructure Division of Fletcher Building Limited, the company's largest division. Mark worked at Fletcher Building and its predecessor, Fletcher Challenge Limited, for 22 years. During that period he was responsible for operations in Australia, South East Asia, India, South America, the US and the South Pacific, as well as in New Zealand. Mark also held director roles in numerous subsidiary companies of the Fletcher Building group. His career has seen him closely involved in some of New Zealand's largest infrastructure projects, including the Wiri Prison public-private partnership, Waterview Connection, Eden Park, SKYCITY, Museum of New Zealand Te Papa Tongarewa and the Manapōuri tunnel. By training, Mark is a qualified lawyer and, prior to joining Fletcher Challenge, was a partner at Simpson Grierson in Auckland.

### 2. PAUL CHAMBERS

*Chief Financial Officer*

BSC (HONS), FCA (ICAEW), CA (NZICA)

Before taking up his role at Meridian in 2009, Paul Chambers was Chief Financial Officer of Transfield Services New Zealand. Paul has extensive senior finance experience in a variety of industries, including ports, manufacturing and retail, both in the UK and in France. Paul is a Chartered Accountant and is currently a director of the Meridian subsidiaries Powershop and Meridian Energy Australia. His team has responsibility for strategy coordination, performance measurement, external reporting, funding, risk management coordination, procurement and financial transaction services.

### 3. NEAL BARCLAY

*General Manager, Markets and Production*

BCA, CA (NZICA)

Neal Barclay has been General Manager, Markets and Production since October 2009. He joined Meridian in July 2008 as Chief Financial Officer. Prior to joining Meridian, Neal, a Chartered Accountant, held a number of general manager roles in a 13-year career with Telecom New Zealand Limited. Neal is responsible for the company's New Zealand generation asset portfolio, including seven hydro power stations and five wind farms that deliver about 30% of New Zealand's electricity generation, and for the company's wholesale trading and risk positions. Neal's role also involves managing renewable projects and renewable generation options.

### 4. BEN BURGE

*Chief Executive, Meridian Energy Australia PTY Limited*

BCOM, LLB (FIRST CLASS HONS)

Ben Burge joined the Meridian Group in 2011 as the Chief Executive of Meridian Energy Australia and is responsible for Meridian's Australian business, including Powershop Australia. Ben has had extensive experience in the Australian market dealing in securities and derivatives in equities, debt and energy. Ben was the founder and Chief Executive of ASX-listed media business Emitch Limited and has held the roles of Chief Executive and partner of investment bank JT Campbell & Co, and partner of IBM in the Business Analytics and Optimisation business unit.

### 5. JACQUI CLELAND

*General Manager, Human Resources*

BBS, M.PHIL (PSYCH)

Jacqui Cleland joined Meridian as General Manager, Human Resources in September 2012. She has an extensive background in human resources and has held senior human resources management roles in New Zealand Post, New Zealand Inland Revenue and Fonterra. Jacqui was previously a trustee of the New Zealand Post Superannuation Plan. Jacqui also spent a number of years as a university lecturer, teaching and researching in a wide range of business and human resources topics. Jacqui's team focuses on developing leaders and executing strategies to help Meridian's people to utilise and grow their capabilities, competencies and skills. This ensures that the company is well supported to deliver on its business objectives and aspirations.

### 6. ALAN MCCAULEY

*General Manager, Retail*

BCA, MBA, PGDFA, CA (NZICA)

Alan McCauley joined Meridian in July 2013 as General Manager, Retail. His career in the energy industry has spanned 18 years in roles in both Australia and New Zealand. Alan was a member of the project team that established Red Energy in Australia in 2003. As General Manager of Customer Management at Red Energy until June 2013, Alan was a key member of the executive team that grew that company into a profitable and award-winning energy retailer. He has previously worked in managerial and consulting roles for Contact Energy, ECNZ and Electro Power Limited. Alan was a director of Athletics New Zealand for seven years until August 2013 and has recently retired as a director of Athletics Victoria in Melbourne.

### 7. GLEN MCLATCHIE

*General Manager, Information and Communications Technology (ICT)*

BBS, MIS

Glen McLatchie joined Meridian in May 2010 and is responsible for ensuring that the company has the appropriate ICT infrastructure, data, processes, security and applications in place to meet its requirements. Glen has more than 20 years' experience in delivering business and information technology change and has held a number of general management positions in both commercial and information technology business functions. He has held several senior management roles with a global focus based in Australia, the UK and France in a 13-year period with BP Oil International Limited. Prior to joining Meridian, Glen was the director of ICT Transformation and Strategic Planning for Contact Energy and prior to this he was the General Manager of Retail Automation Limited (a division of the former Provenco Group Limited).

### 8. JASON STEIN

*General Counsel and Company Secretary*

LLB, BCA

Jason Stein joined Meridian in 2008 as Assistant General Counsel and was appointed General Counsel and Company Secretary in 2010. Jason was also appointed General Manager of the Office of the Chief Executive in 2011. Jason is a lawyer and has held in-house roles at financial institutions and in the energy sector, including at vice president and senior counsel levels. Jason has been working in the New Zealand energy sector since 2004. He was formerly the Group Legal Manager of Vector Limited. Jason's team is responsible for providing and managing the company's legal services and providing the corporate governance and company secretarial functions to Meridian, the Board and the management team.

### 9. GUY WAIPARA

*General Manager, External Relations*

BE (HONS), MBA

Guy Waipara (Rongowhakaata) was appointed as General Manager, External Relations at Meridian in August 2010. Guy is responsible for the company's corporate reputation, which includes Meridian's brand, consenting, environmental management, relationship management, regulatory and external communications. Guy has previously held roles at Meridian in offshore business development and setting company strategy. He has more than 20 years' experience in the electricity sector and previously worked at Transpower in roles responsible for transmission planning and network development.

**100+**

*The project involved around 40 Meridian staff and more than 60 external suppliers and contractors*

*The same route was used to deliver the original transformers to the power station in the 1960s*

*The last piece of large equipment delivered to Deep Cove was the tunnel-boring machine for the second tailrace tunnel works in 1998*

**$3M**

*Each transformer cost $3 million to design, manufacture and install*

*The metal components of the old transformers were recycled to cut down on waste*

# A team effort

FIORDLAND NATIONAL PARK MAY BE ONE OF THE MOST PICTURESQUE PLACES IN THE WORLD, BUT IT'S ALSO ONE OF THE MOST REMOTE. WHEN WE RECENTLY NEEDED TO TRANSPORT THREE TRANSFORMERS WEIGHING IN AT MORE THAN 100 TONNES EACH TO MANAPŌURI POWER STATION, WE KNEW WE WERE FACING A BIG CHALLENGE.

The project began in March 2014 after an issue was discovered during the maintenance of an oil cooler in one of the power station's seven transformers. The remaining transformers were checked and while five returned to service, a second transformer was found to have a similar fault and was decommissioned.

As a result a large project with a number of work streams began involving dozens of people from Meridian, transport companies, manufacturers, environmental, regulatory and biosecurity agencies and, of course, local authorities and businesses.

As it's the largest hydro power station in the country, any issue that could affect Manapōuri generating electricity needs to be treated seriously and as quickly as possible. Thanks to Meridian's engineering team we quickly worked out what was needed, and after choosing a company to help design and manufacture the transformers we were well on our way to finding a solution. The procurement process for new transformers typically takes 18 to 24 months, so having a commission target date of just six months from business case approval was always going to provide a few challenges for the project team.

As a company that relies on generating electricity from renewable sources, Meridian has a special connection with the environment, and Manapōuri is no exception. Located within a National Park and part of a World Heritage Site, the area is home to native flora and fauna such as bottlenose dolphins and Fiordland crested penguins, which are some of the rarest of New Zealand's mainland penguins. The location and fragility of the local environment meant that we had to take special care and be well prepared before transporting and delivering such a large amount of material.

One such precaution that we took to minimise the impact on the local environment was the use of a self-ballasting vessel to ensure that no ballast water was discharged into Doubtful Sound – avoiding the risk of introducing any contaminants. Biosecurity inspections of the hull involving divers were also carried out before the ship entered New Zealand waters to ensure that it did not pose a risk to marine biosecurity.

**"...the location and fragility of the local environment meant that we had to take special care..."**

The two separate deliveries of transformers coincided with two of the busiest times in the tourist season – Christmas and Chinese New Year – when large numbers of tourists visit West Arm, Deep Cove and Doubtful Sound. This often sees over 30 coachloads travelling over Wilmot Pass each day.

The existing relationships with local authorities and businesses also helped us get the necessary approvals quickly and with little fuss. We worked closely with local tourist operators to time loads to minimise delays across Wilmot Pass and disruptions to the use of Deep Cove wharf. Local operator Real Journeys greatly assisted with planning and on-the-ground communications with other operators during deliveries.

"By including us early in the project and maintaining high levels of communication throughout, Meridian helped to minimise the disruption that this caused our operations and other operators in the area," says Assistant Operations Manager for the Manapōuri/Te Anau divisions of Real Journeys, Bruce Nicol.

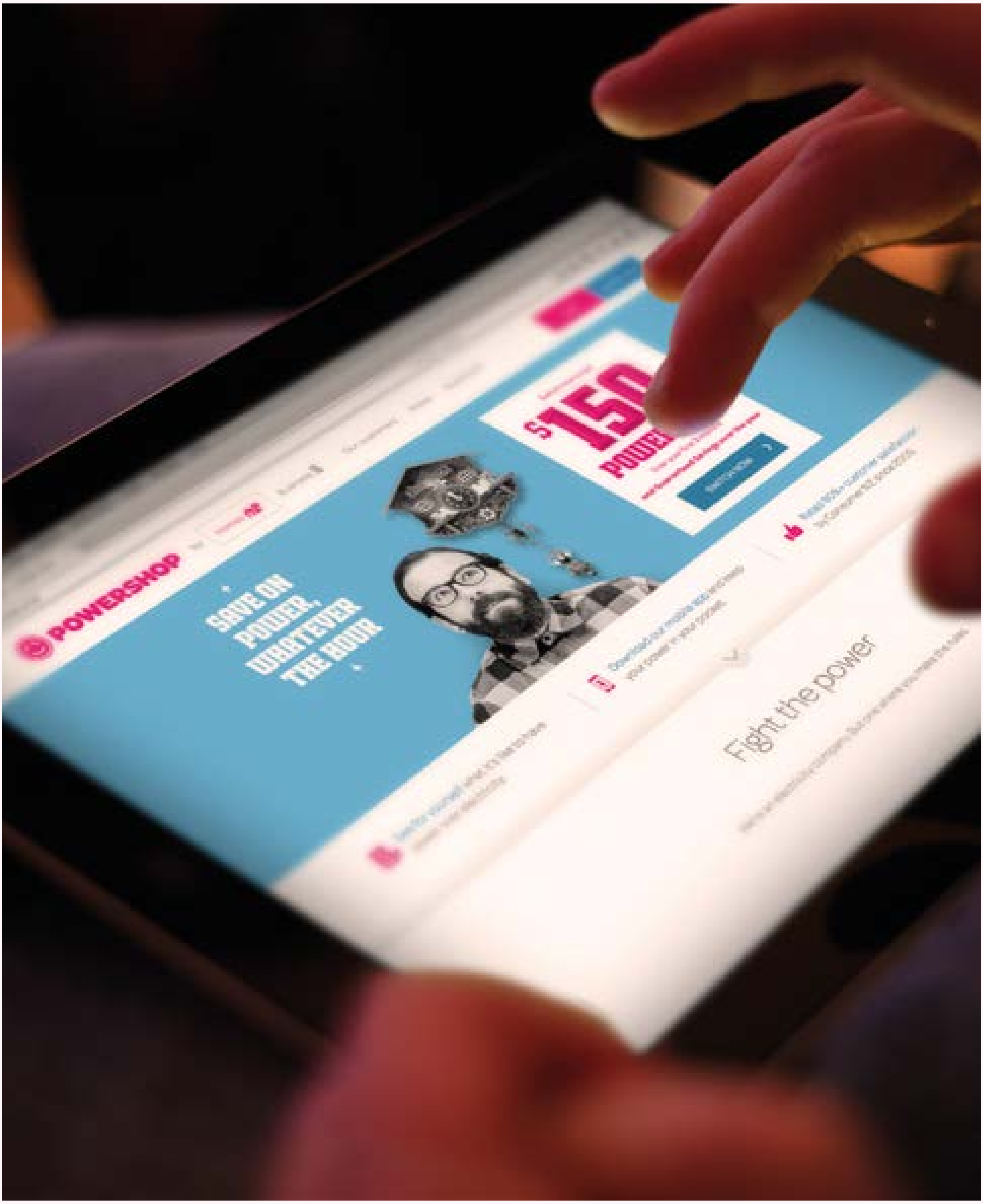
"I believe this has strengthened our relationship with Meridian and the high level of consideration, planning and cooperation allowed for a smooth operation," he says.

The location of the project and the constraints under which we were working meant that Meridian project manager Brett Horwell had to move to Manapōuri from Christchurch with his wife for nearly six months.

"This was one of the most challenging projects I have ever worked on and definitely the most rewarding," he says.

"This was a disruptive project for Meridian and we couldn't have done it without everyone diverting their attention to support the project. Our real success came from the 'can do' attitude presented by everyone right across the team and our ability to work together to overcome the numerous challenges that presented themselves along the way," says Brett.

"The experiences I gained from being part of the Manapōuri community during this project have set me in good stead for future projects in the area."


POWERSHOP
SAVE ON POWER, WHATEVER THE HOUR
Fight the power

# Powering communities

POWERSHOP HAS BECOME A 'POWERHOUSE' WHEN IT COMES TO CUSTOMER SATISFACTION, ACHIEVING SCORES OF BETWEEN 90% AND 96% IN THE ANNUAL CONSUMER NZ SURVEY FOR SEVEN CONSECUTIVE YEARS.

After opening its Masterton operations in 2009 with just 14 staff, Powershop now employs 60 expert contact centre staff. Based on Powershop's continued growth in Australia, the company expects to hire up to 70 extra staff in the next few years.

While the company is known for its innovative technology and brand, much of this success is due to the efforts that Powershop has put into customer service, achieving scores of between 90% and 96% in the annual Consumer NZ survey for customer satisfaction for seven consecutive years. Powershop has also been a regular winner of the Canstar Blue awards and it won the Roy Morgan Electricity Provider of the Year award for 2014.

Much of this is due to the call centre's philosophy of treating customers like people rather than just numbers. "We operate differently from other call centres in New Zealand," says Powershop Customer Service Manager Rod McIntyre. "We don't have flashing screens telling us how long we have spent on the phone or how many calls have come in, and we don't have hourly call targets.

"We know that trying to reach call quotas can rush conversations and mean customers become just numbers. At the Powershop call centre we listen to each customer's story to get to the bottom of the issue. We don't follow scripts and we explain things in our own words even if they're not grammatically correct," says Rod.

The Powershop customer service crew does most learning 'on the job', with new crew members sitting with experienced and established people. Lessons learned with real-time training tend to stick and it allows staff to develop their own voice, alongside their listening and problem-solving skills.

**"...we listen to each customer's story to get to the bottom of each issue..."**

"The service crew has had the real privilege of a made-to-measure customer relationship management system, where all of the information regarding a Powershop customer is in one place. This has allowed us to aim for a seamless service experience where each service crew member is a one-stop shop," says Rod.

Powershop has also seized the opportunity to use social media as a service channel, welcoming the chance to communicate directly with its customers on Facebook and Twitter.

"More and more customers are aware that they can pop a question or comment up on Facebook and get a personalised and informed answer very quickly. A great advantage of this is that other customers can see these interactions and be informed by them too," Rod says.

Powershop currently bases a large part of its operations in Masterton's Departmental Building but it recently announced plans to move to a new purpose-built building in the town. Powershop is so invested in Masterton that it plans to work with a local developer to build a 1,200-square-metre site to support its growth plan for the next five or six years.

Basing a large part of its team in small-town New Zealand could be viewed as a risk by many, but in Powershop's case it has proven to be a great decision. The company has access to a skilled and reliable workforce and good services and facilities.


500 imp/kVArh
ATLAS
EDMI Mk10D
Made in Singapore

# Smarter energy

WHEN IT COMES TO SMART METERS, KNOWLEDGE IS MOST DEFINITELY POWER. ARMED WITH MORE INFORMATION ON ELECTRICITY USAGE, RESIDENTIAL AND BUSINESS CUSTOMERS CAN GAIN CONTROL OVER HOW MUCH ENERGY THEY USE AND HOW MUCH THEY PAY FOR IT.

The first step in controlling energy use is to better understand when you use it. Smart meters and related technologies mean customers can check bills remotely and track power consumption. This offers better energy management and monitoring, resulting in energy efficiencies and savings.

To date, more than one million smart meters have been installed in homes and businesses nationally. The final piece of Meridian's smart meter roll-out programme is currently underway and is expected to be completed in early 2017. To date, around 120,000 Meridian customers have smart meters. Some of the advantages of having smart meters are immediate, such as accurate billing without the need for physical meter reading, while other benefits will be realised over the next few years.

Monitoring usage online is also an important advantage of smart meters. Like Meridian residential customers, small business and agribusiness customers can now use our online electricity management tool *MyMeridian*. With smart meters, *MyMeridian* customers can track usage in dollars or units, monitor usage, pay online and even receive texts or email alerts when they are using more electricity than planned.

## Immediate benefits

Following the installation of 50 smart meters, Meridian customer Victoria University of Wellington noticed immediate benefits. With electricity being the University's biggest utility cost, any efficiencies or savings that could be realised were welcome.

> "...this gave us insight into where to look for opportunities to save power..."

Andrew Wilks, Environmental Manager, Campus Services at Victoria University, says that once smart meters were installed they gained immediate information about how much electricity they were using at all times of the day, rather than just a monthly total.

"This gave us insight into where to look for opportunities to save power. It was also useful having all of our sites billed for the same consumption period, because without smart meters the consumption periods varied between sites depending on when the meter reader visited. This made it much easier to compare sites," he says.

Reducing energy use is also a key focus for the Campus Services team in support of the University's wider sustainability objectives. "Smart meters help to support Campus Services to deliver their energy efficiency targets," says Andrew.

The University uses the majority of its energy on heating, and smart meters have also enabled it to identify sites that had heating running longer than necessary.

## Future benefits

In the more immediate future, innovative time-of-day pricing plans are likely to be more widely available. Customers will be able to choose a plan that offers a cheaper rate for electricity at certain times of the day, for example during off-peak times, in the evening or on the weekend. Being on the right plan and shifting the time that intensive consumption of electricity takes place will deliver further savings and efficiencies.

# *The price of power*

WHEN YOU FLICK THE SWITCH TO BOIL THE KETTLE FOR A CUP OF TEA, THE LAST THING YOU WANT TO BE THINKING ABOUT IS WHERE THE ELECTRICITY THAT IS POWERING YOUR KETTLE COMES FROM, OR HOW MUCH POWER YOU'RE USING.

Yet when it comes to the price we pay for goods and services, what we pay for power is typically among the most heavily discussed and debated. Unlike some commodities, power is a staple service that we all use for basic necessities in our lives, such as heating and cooking.

To put the price of power in context, the average New Zealand household spends around $6 per day on electricity, which is similar to what Kiwis spend for telecommunications services ($5 per day). In contrast, we spend $29 on our daily food bills and $7 a day on petrol.[12] When comparing power prices internationally, New Zealand is well below the median in residential electricity prices in the OECD.[13]

We recognise that the cost of everyday living is a real challenge for some of our customers, and that is why we work with them to help manage their power costs and supply budgeting options when necessary.

We also know there are some customers who will always have difficulty paying for the power they use. We offer a range of services for customers to help manage payments to fit their circumstances, such as 'pick your own payment date', which allows customers to choose the date in each month that they want to pay their bill. We also offer a 'Level Pay' service so that customers can spread energy payments evenly and pay the same amount every month, making budgeting easier.

"We recognise that the cost of everyday living is a real challenge for some of our customers, and that is why we work with them to help manage their power costs and supply budgeting options when necessary."

We are always open to discussing payment options that meet customers' needs and for those who have difficulty paying their bills. Detailed residential bill breakdown information can be found at www.meridianenergy.co.nz/howpricingworks

We have a specialised credit care function that works closely with customers through permanent or temporary financial hardship.

This year we have been actively involved in an industry-wide retail working group dedicated to improving outcomes for vulnerable customers. This group has also worked with social agencies to ensure that all parties escalate urgent cases in a coordinated way. After changing the way we communicate and work with vulnerable customers, our disconnection rates are now the lowest they have been since 2011 and are well below half what they were a year ago.

For some of our agribusiness customers, who are generally large users of electricity, we offer the option of seasonal payments so that they can defer paying their power bills during the winter months of June through to September, when other farm costs can be typically high, until November.

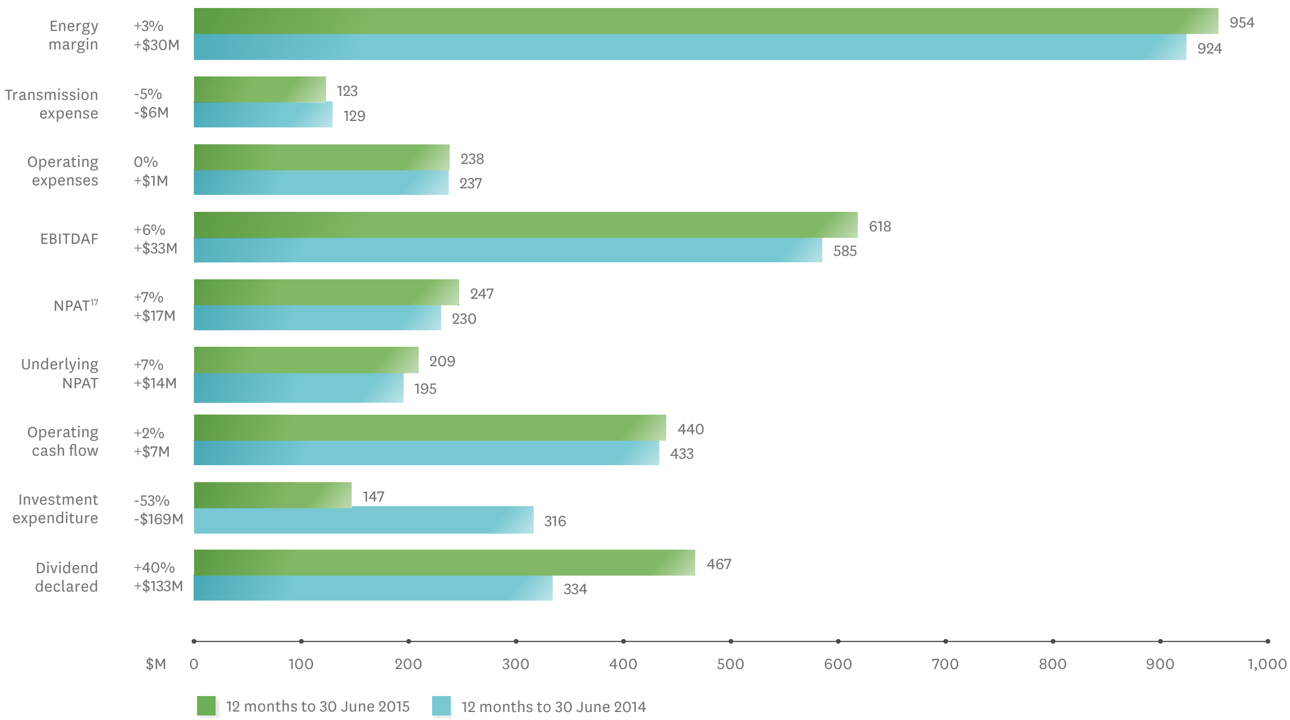
Another way we work with customers to manage their power bills is providing energy efficiency advice.[14] For business customers, for example, we provide energy efficiency advice and bring in independent experts to undertake energy audits to help businesses save power and money.

12 Household Economic Survey: Year ended June 2013. Household expenditure for selected goods and services 2007–2013, Statistics New Zealand.
13 Residential electricity prices in OECD countries for 2013.
14 www.meridianenergy.co.nz/energysaving

# Summary of Group performance

WE SAW GOOD IMPROVEMENT IN OUR MAIN FINANCIAL MEASURES, WITH OPERATING CASH FLOW, EBITDAF,[15] UNDERLYING NPAT[16] FOR THE YEAR ENDED 30 JUNE 2015 ABOVE LAST YEAR AND OUR PROSPECTUS FORECASTS.

## FINANCIAL PERFORMANCE AGAINST LAST YEAR




15 Earnings before interest, tax, depreciation, amortisation, changes in fair value of financial instruments, impairments, gains and losses on sale of assets and joint venture equity accounted earnings.

16 Net profit after tax adjusted for the effects of non-cash fair value movements and other one-off items.

17 Net profit after tax.

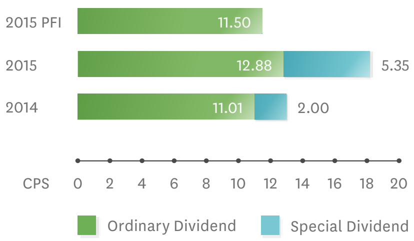
| SUMMARY GROUP INCOME STATEMENT | FINANCIAL YEAR ENDED 30 JUNE 2015 $M | 2014 $M | 2013 $M | 2012 $M | 2011 $M |
|---|---|---|---|---|---|
| New Zealand energy margin | 900 | 891 | 865 | 740 | 929 |
| International energy margin | 54 | 33 | 51 | 23 | 21 |
| Other revenue | 25 | 27 | 30 | 27 | 32 |
| Energy transmission expense | (123) | (129) | (115) | (86) | (84) |
| Employee and other operating expenses | (238) | (237) | (246) | (227) | (238) |
| **EBITDAF** | **618** | **585** | **585** | **477** | **660** |
| Depreciation and amortisation | (239) | (220) | (220) | (225) | (224) |
| Impairment of assets | (38) | - | (25) | (60) | (11) |
| Gain/(loss) on sale of assets | 19 | 7 | 107 | (2) | 174 |
| Net change in fair value of electricity hedges | (1) | (9) | 51 | 122 | (90) |
| Equity accounted earnings of joint ventures | - | - | - | (3) | (3) |
| Net finance costs | (78) | (73) | (114) | (83) | (108) |
| Net change in fair value of Treasury instruments | (32) | 27 | 43 | (68) | (14) |
| **Net profit before tax** | **249** | **317** | **427** | **158** | **384** |
| Income tax expense | (2) | (87) | (132) | (83) | (81) |
| **Net profit after tax** | **247** | **230** | **295** | **75** | **303** |

| UNDERLYING NPAT RECONCILIATION | FINANCIAL YEAR ENDED 30 JUNE 2015 $M | 2014 $M | 2013 $M | 2012 $M | 2011[1] $M |
|---|---|---|---|---|---|
| **Net profit after tax** | **247** | **230** | **295** | **75** | **303** |
| Underlying adjustments | | | | | |
| *Hedging instruments* | | | | | |
| Net change in fair value of electricity and other hedges | 1 | 9 | (51) | (122) | 90 |
| Net change in fair value of Treasury instruments | 32 | (27) | (43) | 68 | 14 |
| Premiums paid on electricity options | (15) | (20) | (18) | (15) | (14) |
| *Assets* | | | | | |
| (Gain)/loss on sale of assets | (19) | (7) | (107) | 2 | (174) |
| Impairment of assets | 38 | - | 25 | 60 | 11 |
| **Total adjustments before tax** | **37** | **(45)** | **(194)** | **(7)** | **(73)** |
| *Taxation* | | | | | |
| Tax effect of above adjustments | (13) | 10 | 62 | 13 | (13) |
| Release of capital gains tax (Macarthur) provision | (28) | - | - | - | - |
| Tax on depreciation of Powerhouse structures | (34) | - | - | 24 | - |
| Impact of tax rate changes | - | - | - | 1 | 2 |
| **Underlying net profit after tax** | **209** | **195** | **163** | **106** | **219** |

1 Results for the financial year ended 30 June 2011 include the Tekapo A and B power stations, which were sold to Genesis Energy in June 2011.

**DIVIDENDS DECLARED**

Financial Year Ended 30 June




## Dividend

Meridian's solid performance and a higher payout ratio supported a dividend higher than forecast in the company's prospectus for the year ended 30 June 2015 (FY2015). Meridian has declared a final ordinary dividend for FY2015 of 8.08 cents per share (cps), bringing the FY2015 full year ordinary dividend to 12.88 cps. This full year ordinary dividend represented 83% of free cash flow (adjusted for subsidiary and asset sales and the release of an Australian capital gains tax liability) and will be imputed to 72% of the corporate tax rate.

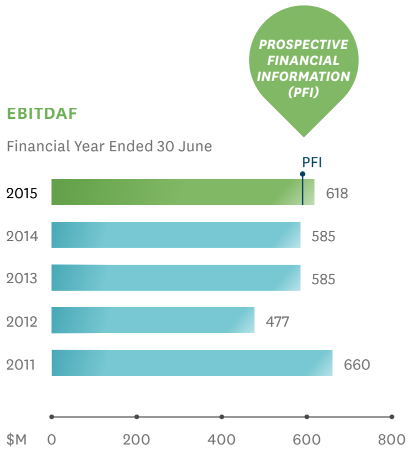
Meridian has declared a final special dividend of 3.95 cps, made up of two components. A 2.44 cps ($62.5 million) has been declared under the company's five-year capital management programme to return $625 million to shareholders. The proceeds of subsidiary and asset sales and the release of an Australian capital gains tax liability that did not eventuate have been used to support an additional 1.51 cps. The special dividend will not be imputed.

Combined with the interim special dividend of 1.40 cps, this brought the full year special dividend declared to 5.35 cps.

The total dividend declared in FY2015, which includes both ordinary and special dividends, was 18.23 cps, 59% higher than forecast in the company's prospectus.

**EBITDAF**

Financial Year Ended 30 June




## EBITDAF

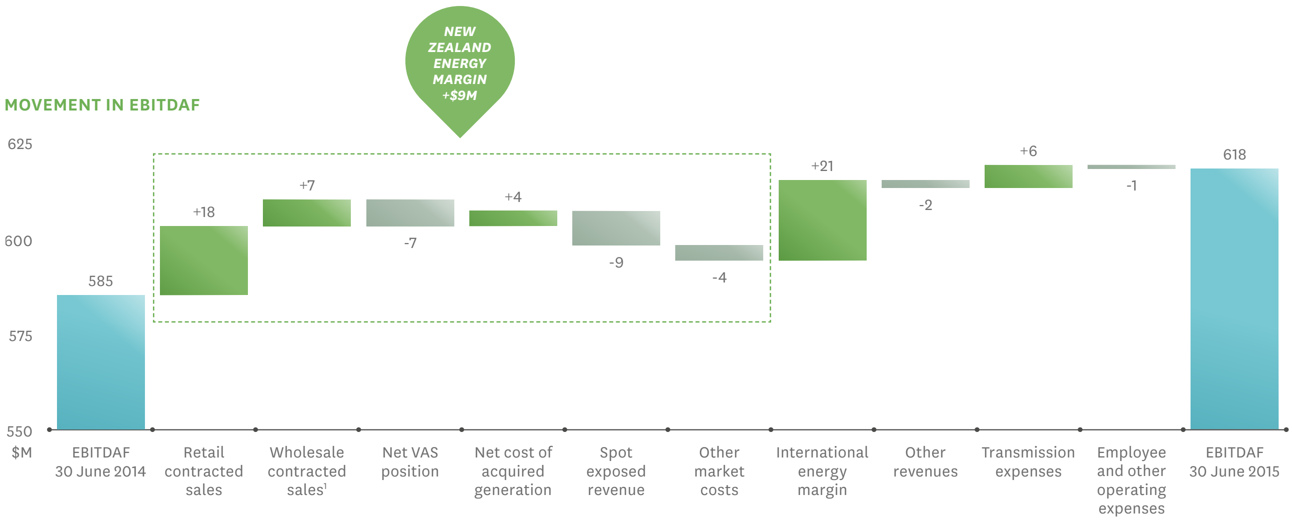
EBITDAF in FY2015 was $618 million, $33 million (+6%) higher than the year ended 30 June 2014 (FY2014). New Zealand energy margin was $9 million (+1.0%) higher than FY2014 and this is explained in more detail below.

International energy margin was $21 million (+64%) higher than FY2014. Wind generation in FY2015 included a full year of production from the Mt Mercer wind farm and was 519GWh in total, +82% higher than last year. Powershop Australia's retail sales volumes were 167GWh, +141GWh (over 500%) higher than FY2014. By 30 June 2015, Powershop Australia's customer numbers exceeded 48,000.

Transmission expense in FY2015 was $123 million, $6 million (-5%) lower than FY2014, with lower than anticipated final costs on the HVDC upgrade (North and South Island electricity transmission link). Transpower's charges in FY2016 are expected to increase.

Employee and other operating costs were $238 million in FY2015, $1 million (+0%) higher than FY2014. FY2014 included IPO costs of $8 million, while FY2015 includes higher costs from an expanding Powershop Australia business and the Mill Creek and Mt Mercer wind farms.

**MOVEMENT IN EBITDAF**




1 Wholesale contracted sales for the year ended 30 June 2015 included retail contracts for difference.

## New Zealand energy margin

New Zealand energy margin consists of:

- revenue received from sales to retail customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers), sales to large industrial customers and fixed price revenue from derivatives sold (contracted sales revenue: $925 million in FY2015, $900 million in FY2014)
- revenue from the volume of electricity that Meridian generates that is in excess of the volume required to cover contracted customer sales (spot exposed revenues: $5 million in FY2015, $14 million in FY2014)
- the cost of derivatives acquired to supplement generation and spot price risks, net of spot revenue received for generation acquired from those derivatives (net cost of acquired generation: costs of $31 million in FY2015, $35 million in FY2014)
- the net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mighty River Power (net VAS revenue: $10 million in FY2015, $17 million in FY2014)
- other associated market revenue and costs including EA levies and ancillary generation revenues such as frequency keeping (costs of $9 million in FY2015, $5 million in FY2014).

New Zealand energy margin in FY2015 was $900 million, $9 million (+1%) higher than FY2014 with Retail Contracted Sales Revenue $18 million (+3%) higher than FY2014. Improving retention rates saw Meridian largely hold its customer numbers flat during FY2015, despite aggressive competition in the New Zealand market. Residential and small business sales volumes increased (+8%), which included further movement into the small and medium business segment and higher irrigation load. Typically, irrigation is lower priced summer load, which is reflected in average residential and small business prices declining (-1%). Within this average sales price decline, residential pricing was flat during FY2015. Average corporate and industrial prices declined (-2%), in line with movements in the forward market.

Wholesale contracted sales revenue was $7 million (+2%) higher than FY2014. Wholesale derivative sales volumes were higher (+23%) at lower average prices. Sales volumes to NZAS were at the same level as FY2014 and revenue reflected a CPI change to the contract price.

Spot exposed revenue was $9 million (-64%) lower than FY2014. While generation volumes increased (+1%) and average generation prices were higher (+13%) than FY2014, higher purchase volumes (+4%) to meet higher contracted sales and higher average purchase cost (+12%) reduced spot exposed revenue during FY2015.

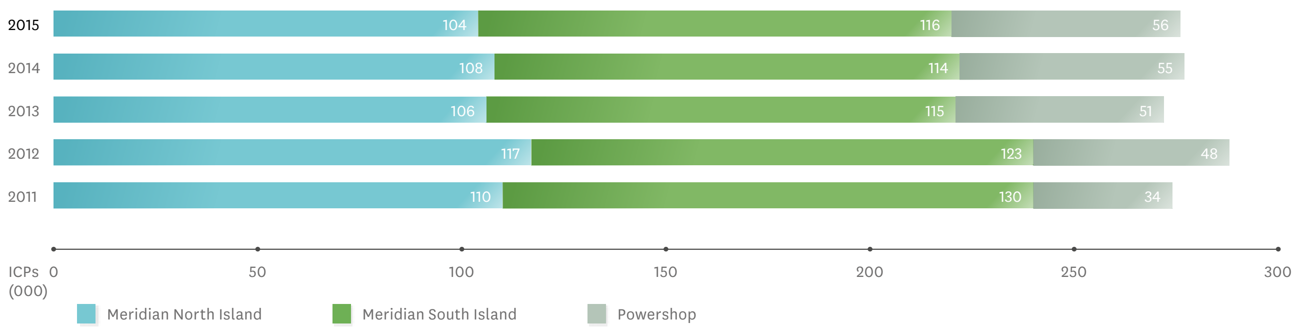
The net cost of acquired generation was $4 million (-14%) lower than FY2014 from lower acquired generation volumes at lower average prices.

Net VAS revenue was $7 million (-41%) lower than FY2014 reflecting lower levels of price separation between the North and South Islands following an upgrade to the interisland HVDC link.

| | FINANCIAL YEAR ENDED 30 JUNE | | | | |
|---|---|---|---|---|---|
| NEW ZEALAND RETAIL CONTRACTED ELECTRICITY SALES | 2015 GWH | 2014 GWH | 2013 GWH | 2012 GWH | 2011 GWH |
| Powershop residential and small to medium businesses | 598 | 546 | 506 | 444 | 267 |
| Meridian retail residential and small to medium businesses | 3,093 | 2,864 | 2,923 | 2,897 | 2,925 |
| Meridian retail corporate and industrial customers | 2,276 | 2,344 | 2,232 | 2,360 | 2,448 |
| **Total** | **5,967** | **5,754** | **5,661** | **5,701** | **5,640** |

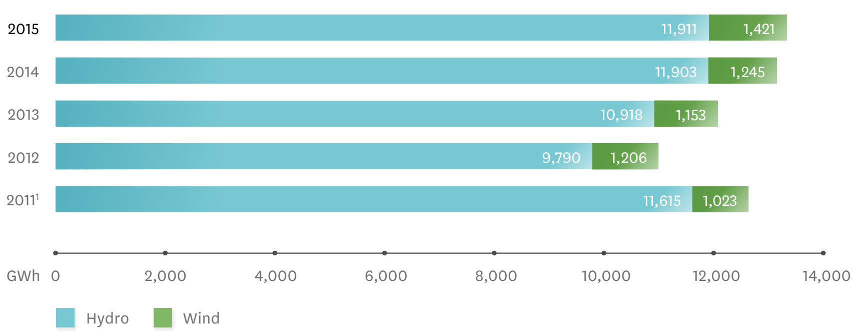
### NEW ZEALAND CUSTOMER NUMBERS

Financial Year Ended 30 June



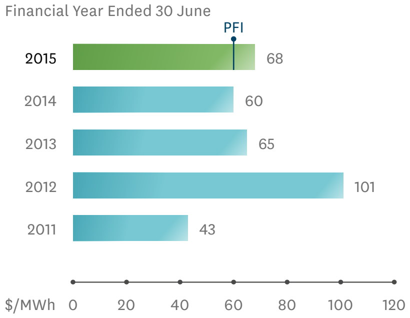

### NEW ZEALAND GENERATION

Financial Year Ended 30 June




### MERIDIAN'S AVERAGE GENERATION PRICE

Financial Year Ended 30 June




1 Hydro generation for the year ended 30 June 2011 excludes the Tekapo A and B power stations.

## Net profit after taxation

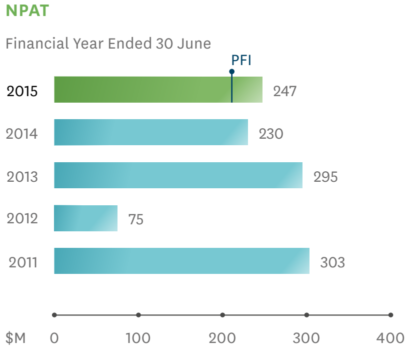
Meridian delivered NPAT of $247 million in FY2015, $17 million (+7%) higher than FY2014. Higher EBITDAF and gains on the sale of subsidiaries and assets were offset by changes in fair value movements in electricity hedges and Treasury instruments, additional depreciation on the Mill Creek and Mt Mercer wind farms and an impairment of the value of Australian generation assets.

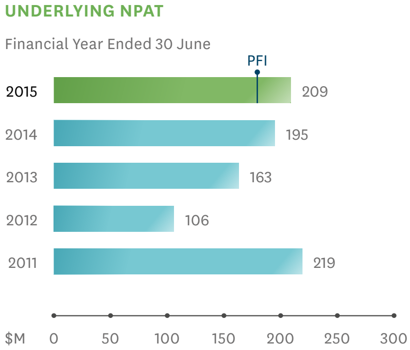
Fair value movements in electricity hedges and Treasury instruments reduced net profit before tax by $33 million in FY2015, compared with gains of $18 million in FY2014. These relate to non-cash movements in the carrying value of derivative instruments and are influenced by changes in forward prices and rates on these derivative instruments.

Net financing costs were $5 million (+7%) higher than FY2014. Interest on borrowings was lower in FY2015 reflecting lower total borrowings, however FY2014 included capitalisation of interest costs relating to construction of the Mill Creek and Mt Mercer wind farms. Meridian has maintained its BBB+ (stable outlook) credit rating from Standard & Poor's.

Income tax expense was $85 million (-98%) lower than FY2014, partly impacted by a $28 million release of an Australian capital gains tax liability that did not eventuate. A further $34 million reduction in the level of income tax expense followed the successful resolution of the dispute with Inland Revenue on the deductibility of depreciation on hydro powerhouse structures.

After removing the impact of fair value movements and other one-off or infrequently occurring events, Meridian underlying NPAT (reconciliation on page 24) was $209 million. This was $14 million (+7%) higher than FY2014, reflecting higher EBITDAF and lower premiums paid on electricity options, partly reduced by additional depreciation and higher net financing costs.



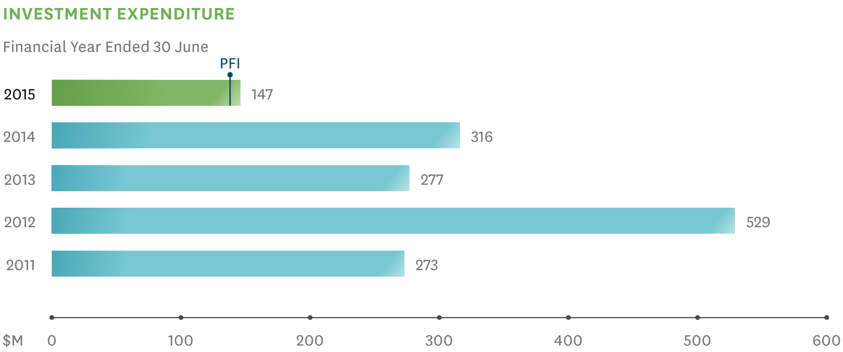

## Cash flows

| | FINANCIAL YEAR ENDED 30 JUNE | | | | |
|---|---|---|---|---|---|
| SUMMARY GROUP CASH FLOW | 2015 $M | 2014 $M | 2013 $M | 2012 $M | 2011[1] $M |
| Operating cash flows | 440 | 433 | 416 | 322 | 369 |
| Investing cash flows | (99) | (254) | (124) | (525) | 557 |
| Financing cash flows | (548) | (282) | (101) | 49 | (612) |
| **Net decrease/increase in cash** | **(207)** | **(103)** | **191** | **(154)** | **314** |

1 Results for the financial year ended 30 June 2011 include the Tekapo A and B power stations, which were sold to Genesis Energy in June 2011.

Operating cash flows in FY2015 were $7 million (+2%) higher than FY2014. Higher sales revenue in FY2015 reflected higher contracted sales volumes and higher wholesale prices, however these also drove higher purchase costs to supply customers with electricity.

Investment expenditure was $169 million (-54%) lower than FY2014, reflecting final completion of the Mill Creek and Mt Mercer wind farms in the first half of FY2015.



# Directors' statement

THE DIRECTORS ARE PLEASED TO PRESENT THE ANNUAL REPORT TO SHAREHOLDERS, INCLUDING THE FINANCIAL STATEMENTS, OF THE MERIDIAN GROUP FOR THE YEAR ENDED 30 JUNE 2015.

This report includes all information required to be disclosed under the Companies Act 1993 and by the New Zealand Stock Exchange (NZX), Australian Securities Exchange (ASX) and Financial Markets Authority (FMA).

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the company and the Group as at 30 June 2015 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed. The directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial positions of the company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the company and the Group to prevent and detect fraud and other irregularities.

**CHRIS MOLLER**
*Chair*

**PETER WILSON**
*Deputy Chair*

# Corporate governance statement

MERIDIAN'S BOARD AND MANAGEMENT ARE COMMITTED TO LEADING THE COMPANY THROUGH CORPORATE GOVERNANCE BEST PRACTICE.

## Meridian's approach to governance

The Board and management regularly review Meridian's governance practices against best practice to create and deliver shareholder value while adhering to the highest standards of ethical practice, accountability and transparency.

Meridian has adopted corporate policies and procedures that reflect best practice, incorporating principles and guidelines issued by the Financial Markets Authority and recommendations by the NZX and ASX. Meridian considers that it has complied with all the recommendations within the ASX Corporate Governance Principles and Recommendations (Third Edition), the NZX Corporate Governance Best Practice Code and the Financial Markets Authority Corporate Governance Handbook.

The Board and Committee charters and other key governance documents are available on Meridian's website www.meridianenergy.co.nz/investors/governance

## 1. Governance framework

Meridian's governance framework is designed to ensure the highest standards of business behaviour and accountability. The Board monitors best practice developments in the governance area and regularly reviews Meridian's governance practices against these developments.

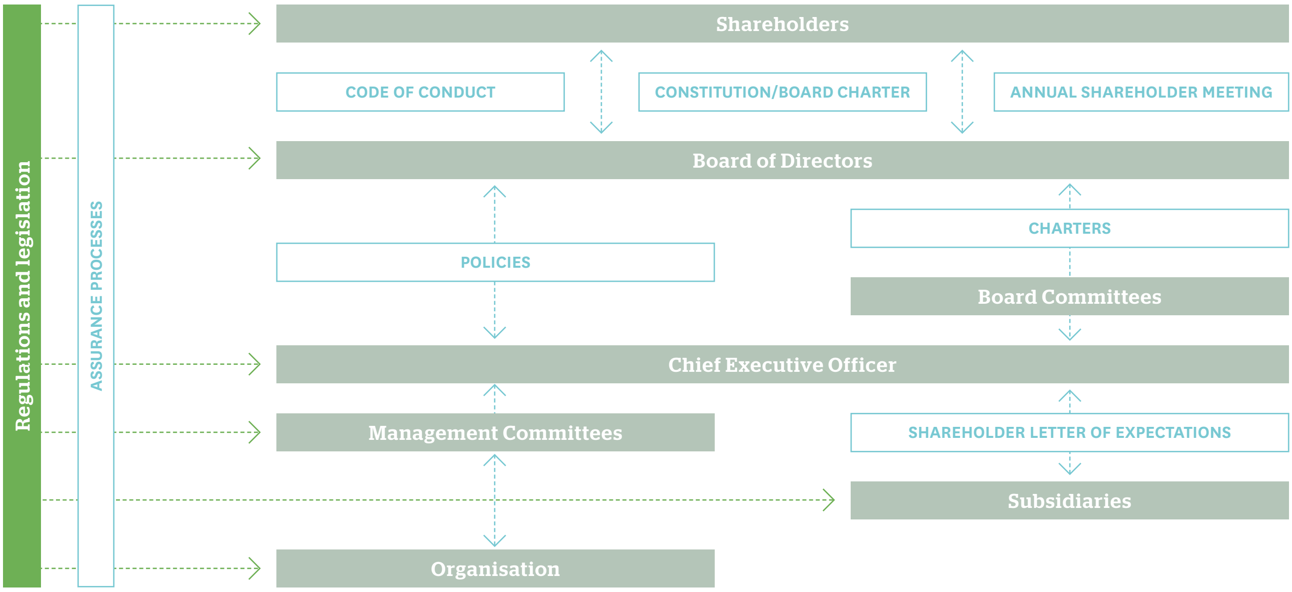
The Board is elected by the shareholders and has adopted a written charter that (along with the company's constitution) sets out the governance requirements for the Board.

The Board may, from time to time, establish appropriate committees of directors to assist the Board by focusing on specific responsibilities in greater detail than is possible when the Board meets. These committees report to the Board, making any necessary recommendations. The standing committees (outlined below) operate under their own written charters.

The Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at Meridian's expense, such legal, accounting and other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

The Chief Executive (CEO) is charged with the day-to-day running of the business. The Board maintains a formal set of delegated authorities that clearly define the responsibilities that are delegated to management and those retained by the Board. The Board also maintains a formal set of policies including Treasury, internal controls, risk, human resources, sustainability and health and safety to ensure that Meridian's directors, senior management and employees are fulfilling their functions effectively and responsibly. These policies are subject to a Board review and approval cycle.

GOVERNANCE STRUCTURE




## 2. Ethical standards

For Meridian, ethical and responsible behaviour is crucial given its aim of leading the industry in creating a better energy future. Any position of leadership cannot be attained, and more importantly retained, without integrity.

Meridian expects its Board, management and employees to act in accordance with the company's values, policies and legal obligations.

Training and information on the company's values, policies and legal obligations are provided to all employees on induction and continually throughout their time at Meridian.

### The Meridian Way (values)

- One Meridian
- Safety is for keeps
- Working like we own the company
- Customer champions
- Be sustainable.

### Code of Conduct

The values contained in the Meridian Way lie at the heart of Meridian's Code of Conduct.

It is important that Meridian employees all understand and are definitive about the expected behaviours in dealing with customers, peers, suppliers and the communities within which Meridian operates.

The Code of Conduct is designed to facilitate behaviour and decision-making in relation to the following:

- people
- health, safety and wellbeing
- environment, community and external communications
- working with suppliers and third parties
- documentation and reporting
- conflicts of interest
- gifts, hospitality and entertainment
- personal information and privacy
- using Meridian's resources
- trading environment
- insider trading
- customer service delivery
- responsible marketing
- customer complaints and dispute resolution.

Management also keep the Board informed of any breaches of the Code of Conduct. During the period there were no breaches to report.

### Whistle-blowing 'Speaking Up' Policy

Meridian encourages its staff to feel confident about raising concerns regarding actual, suspected or anticipated wrongdoings within the organisation, by offering a reporting and investigation mechanism that protects anyone who makes a disclosure from reprisal or disadvantage.

### Diversity and inclusion

Meridian is dedicated to creating an inclusive environment where all of its employees are encouraged to reach their full potential and individual differences are valued and respected.

Meridian's Diversity and Inclusion Policy provides a framework to effectively embed and support a diverse workforce and inclusive workplace for all employees of Meridian.

Meridian has a Management Diversity and Inclusion Committee, which is chaired by the General Manager Office of the CEO. This Committee is in place to ensure continued progress in reaching Meridian's diversity and inclusion objectives, rolling out initiatives across the company, and monitoring best practice developments.

### Trading in securities

Meridian's Trading in Securities Policy has been designed to assist staff and related parties to remain within the law when trading in securities. The Trading in Securities Policy provides for 'blackout periods' during which specified persons (including directors and senior management) are prohibited from trading in Meridian securities.

### Conflicts of interest

Meridian's approach to assessing and disclosing any conflicts of interest is outlined in the Code of Conduct.

Additionally, the Board is conscious of its obligation to ensure that directors avoid conflicts of interest (both real and apparent) between their duties to Meridian and their own interests. Directors are required to ensure that they immediately advise the Board of any new or changed relationships. These are then recorded in the Board's interests register, which is a standing item at each scheduled meeting of the Board.

## The Meridian Board role and responsibilities

Directors of a company must, when exercising powers or performing duties, act in good faith and the best interests of the company. With regards to this role, the Board as a whole provides strategic guidance and has effective oversight of management in order to protect and enhance the value of Meridian's assets. The Board has a responsibility to work in the interests of shareholders and is the overall and final body for decision-making within Meridian.

### 1. Shareholder relations

At its September 2014 meeting the Board reviewed the investor relations programme, including the Shareholder Communications Policy, to ensure that it facilitates effective communication with investors.

The primary aim of the investor relations programme is to allow financial market participants to gain a good understanding of the company's business, governance, financial performance and prospects.

Meridian's Shareholder Communications Policy is designed to ensure that communication with Meridian's shareholders and the investment community is effective and consistent and adheres to the principles of continuous disclosure.

The Board also encourages shareholders to attend Annual Shareholder Meetings where there are opportunities for shareholders to ask questions of their Board and auditors. Meridian will also provide a link on the Meridian website of a live webcast to its 2015 meeting for those shareholders unable to attend in person.

Shareholders can choose to receive Meridian's investor communications electronically. To receive Meridian's investor communications via email (including receiving email notifications of when reports are available online) please contact Meridian's share registry (registry details can be found in the Directory at the back of this report).

### 2. CEO and executive team performance

The performance of Meridian's CEO is evaluated and approved by the Board. Performance is measured against targets set by the Board, which include business performance, the accomplishment of key business requirements, operational performance and a number of non-quantitative objectives that are agreed at the commencement of the financial year. The last CEO evaluation was undertaken in July 2015, relating to the financial year completed on 30 June 2015.

The performance of the executive team (direct reports to the CEO) is undertaken by the CEO and the outcomes of these reviews are discussed by the CEO with the Remuneration and Human Resources Committee prior to finalisation. All executives have agreed objectives that generally link to those set for the CEO by the Board. These objectives are a mix of business performance, operational and non-quantitative measures that reflect the success of implementing Meridian's strategy. These objectives are set at the commencement of each financial year and are agreed by the CEO after they have been reviewed with the Remuneration and Human Resources Committee. The last executive evaluation was undertaken in July 2015, relating to the financial year ended 30 June 2015.

## 3. Risk management

During the period the Meridian Audit and Risk Committee reviewed Meridian's Risk Policy and Risk Management Framework and is satisfied it continues to be sound. Meridian operates an active programme to ensure ongoing risk management across the Group. Key risks include:

### Adverse hydrological conditions

Meridian's hydro generation (comprising approximately 90% of its New Zealand generation) is dependent on the availability of, and access to, water. The Waitaki and Manapōuri hydro systems are heavily influenced by seasonal hydrological conditions. Adverse hydrological conditions, resulting from dry periods or drought conditions in the catchment area of the Waitaki or Manapōuri hydro systems, may reduce water levels and significantly affect Meridian's generation capability. Low levels of storage as a result of low inflows often coincide with high wholesale market prices. If that occurs, Meridian may be forced to purchase electricity from the wholesale market at those high prices to meet its customer commitments at a time when it is generating less electricity to sell into the wholesale market. The financial consequences of the low inflows experienced in 2012 in the Waitaki catchment are an example of this risk.

### Catastrophic events

Meridian's ability to generate electricity is dependent on the continued efficient operation of its power stations. A catastrophic event such as a major earthquake, landslide, fire, flood, cyclone, explosion, act of terrorism or other disaster could adversely affect or cause a failure of any or all of Meridian's power stations or other operations, or a failure of the national high-voltage transmission grid. Such an event could also affect major consumers of electricity (including Meridian customers), which could have an adverse effect on the markets in which Meridian operates and third-party property owners. Meridian currently insures for material damage and business interruption losses up to $900 million. It is possible that the insurance portfolio will not provide sufficient cover under situations where a single catastrophic event occurs or multiple catastrophic events occur in succession or where insurers contest or delay paying an insurance claim.

### Plant failure

Meridian relies on various pieces of equipment and technology at each of its power stations. If any pieces of material equipment or technology, including, for example, turbines, control gates or canal civil structures, suffer failures requiring unplanned power station outages, replacement or repair, Meridian's generation production may be reduced. Wind farms generally use the same plant throughout one site. Serial defects may therefore have an adverse effect on the operation of a particular wind farm plant to the extent that they are not covered by warranties or other remediation.

### Tiwai

If New Zealand Aluminium Smelters (NZAS) closes its Tiwai Point aluminium smelter or significantly reduces its electricity consumption (whether or not it also terminates or breaches its agreement with Meridian), Meridian may be adversely affected. This is because such a closure or reduction is likely to result, in the near term, in a reduction in Meridian's revenue, largely caused by a reduction in electricity prices (both wholesale and retail).

The size of any such reductions in Meridian's revenue and associated losses, and therefore the severity of the impact on Meridian, would depend on a number of variables including the volume of NZAS's reduction, the period over which NZAS's reduction occurs, transmission constraints, the rate of residual New Zealand electricity demand growth and the response by generators and electricity market participants. For example, other electricity generators with thermal generation plant could elect to mothball or retire their plant, which could have the effect of reducing the supply of electricity and may moderate any reduction in wholesale electricity prices. In some circumstances the impact on Meridian may be severe.

### Health and safety

There is a risk that an incident will lead to the fatality of or serious injury to a staff member, a contractor or a member of the public. Meridian operates in a technically challenging environment with extremely large electrical and mechanical assets including underground, inside large structures, on tall wind and hydro structures and in close proximity to large volumes of water. Staff are exposed to hazards on operating assets, on construction sites, in remote locations requiring a lot of on-road and off-road driving, and at customer sites when connecting and disconnecting power.

### Use of and access to water

The government, local councils and other regulatory bodies may impose restrictions, conditions and additional costs on the ability of Meridian to access or use hydro sources. Examples include imposing limits on minimum flows or maximum nutrient levels in rivers that have hydro generation and imposing charges or royalty payments on users of water. Future plan changes may also adversely affect activities that are currently permitted without resource consents. National and regional water policies could be changed to allocate more water to agricultural users or to meet specified iwi interests or for other purposes, reducing the available flow from the Waitaki or Manapōuri catchments for Meridian. The company could be adversely affected by such restrictions, conditions or additional costs to the extent that it is not able to pass on such costs to customers.

### Legislative and regulatory risks

Meridian is subject to the risk that changes to legislation or regulation in either New Zealand or Australia (including electricity regulation, changes in policies to support renewable energy and new or changed environmental regulation) will adversely affect its sales, costs, relative competitive position, development initiatives or other aspects of its financial and operational performance, or force other undesired changes to its business model.

### Competitor behaviour

Competitor behaviour, such as aggressive pricing campaigns and the entry of new competitors, may put downward pressure on retail electricity prices and may also reduce Meridian's market share or require Meridian to increase its sales and marketing costs in order to maintain sales volumes. Competitor behaviour can also be affected by changes in customer behaviour, including reductions in demand (for example, a reduction in

consumption by the Tiwai Point aluminium smelter), the displacement of demand by technology change, and large business customers choosing to buy electricity directly on the wholesale spot market rather than entering into fixed contracts. In recent years the retail market has seen an increase in competition, which has resulted in higher switching rates. High levels of customer switching affect the cost of acquiring and maintaining Meridian's customer base.

### Information technology security

There is a risk that the security of critical information technology systems will be compromised. If such a compromise did occur it could interrupt or disable critical systems. Meridian could incur costs to stop the attack, repair the systems and mitigate any business interruption. Meridian's reputation would likely suffer due to reduced service, potential environmental damage, potential risks to public safety and perceptions of poor security, and the company could be exposed to subsequent fines and penalties.

### Factors affecting demand

a. *Longer-term electricity market exposure risks*

   The level of customer demand relative to supply from generators is a key determinant of electricity prices over the longer-term. A fall in demand or generation oversupply may adversely affect prices, potentially for a sustained period.

b. *Factors affecting demand*

   Demand can be affected by a number of factors, including levels of activity in the industrial sector, competitor behaviour, regulatory changes, population growth, economic conditions, technological advances in the more efficient use and generation of electricity (including by customers, potentially as a consequence of regulatory subsidisation of competing technologies) and weather. All of these could affect electricity prices.

## Meridian Board composition and performance

The Board and committee charters require an evaluation of Board and committee performance on an annual basis. In previous years this has been satisfied by an evaluation survey facilitated by an external party. The process also includes one-on-one meetings between the Chair and each director. In 2015 the Board determined it was appropriate for a thorough independent facilitated evaluation process to be undertaken by an international facilitator with significant experience in Board evaluations. The key areas of focus were:

- ensuring alignment on Meridian's strategic agenda
- working with management
- Board teamwork/dynamics
- Board structure and composition
- committee effectiveness.

The goal of the review was to be forward looking, yet challenging and self-reflective where it could provide a basis for improvement in the future.

To do this, the facilitator met with each director and several senior managers, including the CEO. The preliminary findings were discussed at the April 2015 Board meeting with the facilitator in attendance. Areas of focus for the Board and Committees were discussed and agreed with the Board in May 2015. The review identified that Meridian's Board was performing well on each of the key areas of focus, with a high degree of alignment and collaboration. In addition, the review identified that the current Board size could be reduced by one and still ensure proper governance.

### 1. Board skills, size and composition

At Meridian's listing on 29 October 2013, the Meridian Board was established with a group of directors with an appropriate mix of skills and diverse backgrounds. Since listing the Board has continued to focus on the mix of skills and diversity of backgrounds and approach required to develop and oversee the implementation of strategies required to make Meridian successful. With this in mind, the Board has approved the adoption of a more formalised skills matrix using the categories outlined below.

In addition the Board has approved the adoption of a number of Board targets and processes designed to ensure that the Board contains a diversity of background, gender, age, experience and thought. The Board believes that in aligning the Board diversity processes with those that exist within the company, the Board is formally reinforcing the need to have diverse views and approaches throughout the company to ensure better discussions on issues involving stakeholders and making the best decisions for the company.

### Board skills matrix

Meridian seeks to ensure that the Board has a broad range of experience and skills appropriate to meet its objectives. The Board identifies the areas of expertise and experience considered by the Board as being relevant to achieving the Board's objectives. The Board then considers whether the current mix of skills meets these criteria.

Based on these criteria, the Board considers it has the depth of expertise, understanding and experience necessary to govern Meridian. In particular, the current Board comprises of individuals with expertise and experience in the specific areas listed below. For details of individual directors see page 10.

| AREAS OF EXPERTISE AND EXPERIENCE | CRITERION |
|---|---|
| Large-scale business experience and understanding | ✓ |
| Listed company experience | ✓ |
| Experience and knowledge of the New Zealand electricity industry | ✓ |
| Financial and investment expertise | ✓ |
| Trading knowledge | ✓ |
| General engineering skills | ✓ |
| Marketing skills | ✓ |
| Government and public relations experience | ✓ |
| Information and communications technology knowledge (projects and systems) | ✓ |
| Tikanga Māori understanding | ✓ |
| Knowledge of the Australian electricity industry | ✓ |
| Understanding of health and safety practices and law | ✓ |
| Human resources practice and understanding | ✓ |
| Commercial exposure to legal framework | ✓ |

**Board size**

The Governance and Nominations Committee is responsible for making recommendations to the Board regarding the Board's size and composition. It also reviews the criteria for the selection of directors to ensure that the Board comprises the right mix of skills, diversity and experience to meet the needs of Meridian.

On 28 May 2015, John Bongard advised the Board in writing of his decision to resign with effect from 5 November 2015. The Committee took this opportunity to review whether it may be appropriate to replace Mr Bongard at this point or to continue with a Board of eight directors. The Committee had regard to the view of the recently completed Board evaluation, which concluded that governance would not be compromised if the Board comprised eight directors. The Board agreed with the Committee that there was sufficient skill and diversity on the Board and therefore there was no need to appoint another director at this point. The Board has the right to fill casual vacancies in the future subject to the terms of Meridian's constitution.

## 2. Board diversity objectives

In 2015 the Board adopted the following targets and processes designed to ensure that decisions relating to Board composition were aligned with the targets and processes applying to management. These are also designed to ensure that the Board retains diversity of thought and skills. The Board has agreed to ensure that:

**Processes**

- all efforts are made to ensure long lists for potential new directors have at least one person of each gender
- any future director replacements are interviewed by an initial panel with at least one person of each gender.

**Targets**

- the Board has a minimum number of two directors of each gender
- the Board has at least one director with detailed understanding of tikanga Māori, with particular reference to the significance of the Ngāi Tahu relationship to Meridian.

The Board confirms that it currently meets these targets and has confirmed that it will incorporate the above processes for future director appointments.

**CURRENT BOARD GENDER COMPOSITION**

| FEMALE | | MALE | |
|---|---|---|---|
| FY2014 | FY2015 | FY2014 | FY2015 |
| 3 | 3 | 6 | 6 |

## 3. Nomination and appointment of directors

The nomination and appointment of directors is governed by Meridian's constitution, Board charter and ASX and NZX Listing Rules.

Directors are subject to re-appointment every three years or in some circumstances on a more frequent basis in order for the company to comply with the ASX and NZX Listing Rules. Prior to each annual shareholder meeting, the Board determines if it will recommend to shareholders that they vote in favour of the re-election of those directors standing for re-election, having regard to performance reviews and any other matters the Board considers relevant.

If the Board appoints a new director during the year, that person will stand for election by shareholders at the next annual shareholder meeting. Whenever a new director is appointed the Board ensures that the appropriate checks are undertaken prior to putting forward a candidate to security holders for election.

Security holders are provided with relevant information on the candidates standing for election in the notice of meeting.

Upon appointment each director is required to have a written agreement with the company. This agreement outlines the terms of the director's appointment.

## 4. Director independence

The Board ensures that the majority of its directors are independent. The Board assesses director independence annually against the requirements of the New Zealand and Australian stock exchanges. Each director is required to provide the Board with all relevant information to enable it to make this assessment. The Board can confirm that within the reporting period all directors were deemed to be independent.

## 5. Director induction and access to information and advice

All Board members undertake a comprehensive induction process to enhance their understanding of the industry and Meridian's business and people, including familiarisation tours of the company's assets and operations, usually with the CEO and Chair or their delegates.

There is an ongoing programme of presentations to the Board by representatives from all business areas and subsidiaries to ensure that the Board is kept informed of the company's activities. At each meeting the Board receives information on company activities through various operational reports.

In addition it is expected that the Board, committees and each director will:

- undertake continual education so they can perform their duties effectively
- have access to members of the management team to discuss issues or obtain information on specific areas or items to be considered at Board or committee meetings
- have the right to seek independent professional advice at Meridian's expense to assist them in carrying out their responsibilities
- have the authority to secure the attendance of advisers with relevant experience and expertise when meetings are convened.

## Board committees

The Board has established four standing committees.

### 1. Audit and Risk Committee

This Committee comprises a minimum of three directors. Its primary objective is to assist the Board in fulfilling its audit and risk assurance responsibilities by:

- ensuring the integrity of the company's internal and external financial reporting
- ensuring the adequacy of the company's internal control framework and environment
- overseeing the appointment, remuneration, qualifications, independence and performance of the external auditor and the integrity of the audit process as a whole
- monitoring the performance and leadership of the independent and internal audit functions
- providing a formal forum for free and open communication between the Board, the internal and external auditors and management
- monitoring and reviewing the effectiveness of the company's process for identifying and managing risk
- ensuring that the company is in a state of readiness to maintain business continuity in the event of adverse circumstances and ensuring that the company is appropriately insured to cover losses that may occur as a result of adverse circumstances.

Members: Jan Dawson (Chair), Peter Wilson and Mark Cairns.

### 2. Remuneration and Human Resources Committee

This Committee comprises a minimum of three directors. Its primary objective is to assist the Board in fulfilling its human resources responsibilities by:

- ensuring that the company's policies and strategies that relate to employment and people align with the company's strategic objectives and performance
- ensuring that the company's remuneration policies and practices reward fairly and responsibly with a clear link to the company's strategic objectives and corporate and individual performance
- reviewing and recommending the remuneration of the directors.

Members: Mary Devine (Chair), Chris Moller and Anake Goodall.

### 3. Safety and Sustainability Committee

This Committee comprises a minimum of two directors. Its primary objective is to assist the Board in fulfilling its safety and sustainability responsibilities by overseeing:

- Meridian's actions to meet its obligations to maintain the overall wellness and occupational health and safety of its people
- integration of safety and sustainability in the formulation of Meridian's corporate strategy, Risk Management Framework, and people and culture priorities
- the social, environmental and ethical impacts of Meridian's policies and practices
- initiatives to enhance Meridian's safety and sustainable business practices and reputation as a responsible corporate citizen
- Meridian's compliance with corporate governance requirements in relation to safety and sustainability issues and reporting.

Members: Steve Reindler (Chair), Sally Farrier and John Bongard.

### 4. Governance and Nominations Committee

This Committee comprises a minimum of three directors. Its primary objective is to assist the Board in fulfilling its responsibilities in the governance of the company by monitoring the overall governance of the business, Board (and committees) composition and performance (including Board diversity), director independence and conflicts of interest.

Currently the Governance and Nominations Committee consists of the full Board chaired by Chris Moller.

### 5. Board and committee meeting attendance

The table below sets out the attendance details for each Board and committee meeting held during the period.

BOARD MEETING ATTENDANCE

| | BOARD | AUDIT AND RISK COMMITTEE | REMUNERATION AND HUMAN RESOURCES COMMITTEE | SAFETY AND SUSTAINABILITY COMMITTEE | GOVERNANCE AND NOMINATIONS COMMITTEE |
|---|---|---|---|---|---|
| **Number of meetings** | **11** | **7** | **4** | **4** | **3** |
| Chris Moller | 11 | 5[1] | 1[2] | - | 3 |
| Peter Wilson | 11 | 7 | - | - | 3 |
| John Bongard | 10 | - | 3[1] | 2[2] | 3 |
| Mark Cairns | 11 | 7 | - | - | 3 |
| Jan Dawson | 11 | 7 | - | - | 3 |
| Mary Devine | 10 | - | 4 | - | 3 |
| Sally Farrier | 10 | - | - | 4 | 3 |
| Anake Goodall | 11 | - | 4 | - | 2 |
| Steve Reindler | 11 | - | - | 4 | 3 |

1 Committee member until November 2014.
2 Committee member from November 2014.

## Reporting and disclosure

Meridian believes that high standards of reporting and disclosure are essential for proper accountability between Meridian and its investors, employees and stakeholders. The following processes have been put in place to uphold the integrity and timeliness of reporting and disclosures.

### 1. Market Disclosure Policy

Meridian is committed to promoting investor confidence by providing timely and balanced disclosures of all material matters relating to the company.

The Market Disclosure Policy establishes procedures designed to ensure that directors, management and employees are aware of and fulfil Meridian's disclosure obligations under the NZX Main Board and ASX Listing Rules.

### 2. Internal audit

Internal audits of Meridian provide independent assurance to the Board and management that key risks are being adequately managed and the company's internal control framework is operating effectively.

Meridian's internal audit function has been provided via a co-sourced arrangement with KPMG, managed by Meridian's Group Financial Controller.

The auditor meets with the Audit and Risk Committee without management present at each meeting that considers internal audit matters.

### 3. External reporting assurance

The CEO and the CFO are required to provide letters of representation to the Board in relation to financial statements, confirming a number of matters including that:

- management have fulfilled their responsibilities for preparing and presenting the financial statements as required by law and, in particular, that the:
  - financial records have been properly maintained
  - financial statements comply with generally accepted accounting principles in New Zealand
  - financial statements give a true and fair view of the financial position of the company and group and of the results of its operations and its cash flows for the year then ended
- all transactions have been recorded in the accounting records and are reflected in the financial statements
- the financial statements are free of material misstatements, including omissions.

In addition, the CEO and CFO have provided assurance that the letter of representation provided as part of the financial statements sign-off was founded on a sound system of risk management and internal control and that the system was and continues to be operating effectively in all material respects in relation to financial reporting risks.

## External auditors

### 1. External audit independence

The Board has adopted a strict policy to maintain the independence of the company's external auditor, including reviewing all other services performed and recommending to the Office of the Auditor-General that there be lead audit partner rotation after a maximum of every five years.

The Audit and Risk Committee is responsible for making recommendations to the Board concerning the appointment of Meridian's external auditor and their terms of engagement. Under section 29B of the Public Finance Act 1989, the Auditor-General has appointed Michael Wilkes of Deloitte to audit Meridian. The external auditor meets with the Audit and Risk Committee on a regular basis and with the Board a minimum of twice yearly without Management present.

### 2. Auditor fees

The Auditor-General has appointed Michael Wilkes of Deloitte as auditor of the company. Michael Wilkes has been auditor of the company since 2012. The amount payable by Meridian and its subsidiaries to Deloitte as audit fees in respect of 2015 was $0.6 million (2014: $0.6 million).

Other services undertaken by Deloitte during the year totalled $0.1 million (2014: $0.6 million). These related to other assurance activities for the purpose of annual financial reporting including reviews of carbon emissions, securities register, solvency return of insurance captive and trustee reporting.

# Remuneration report

MERIDIAN IS COMMITTED TO FAIR, RESPONSIBLE AND EQUITABLE REMUNERATION AND ENSURING A CLEAR RELATIONSHIP BETWEEN PERFORMANCE AND REMUNERATION.

## Director and employee remuneration

The Remuneration and Human Resources Committee ensures human resources and remuneration policies are aligned with company strategy and performance objectives. More information regarding the Remuneration and Human Resources Committee is set out on page 35 of the Corporate Governance Statement.

## Director remuneration – Meridian Energy Limited

### Directors' fees

Prior to listing, Meridian's shareholders approved the ordinary director fees and committee fees. These fees took effect from the date the company listed. In future, any increase in the aggregate fees payable to non-executive directors of Meridian must be approved by shareholders. If such an increase is sought, then at that time the Board will provide shareholders with all the relevant information to make any decision required.

Directors' remuneration is only paid in the form of directors' fees. Additional fees are paid to the Chair and Deputy Chair and in respect of work carried out by individual directors on various Board committees to reflect the additional responsibilities of these positions. Currently this is as follows:

| BOARD/COMMITTEE[1] | CHAIR | DEPUTY CHAIR | MEMBER |
|---|---|---|---|
| Board | $165,000 | $114,000 | $91,000 |
| Audit and Risk Committee | $15,000 | - | $7,500 |
| Remuneration and Human Resources Committee | $12,500 | - | $5,000 |
| Safety and Sustainability Committee | $12,500 | - | $5,000 |

1 There are no fees payable to members of the Governance and Nominations Committee.

Directors are also entitled to be reimbursed for costs directly associated with carrying out their duties, including travel costs.

Remuneration paid to non-executive directors in their capacity as directors of Meridian during the year ended 30 June 2015 was:

| DIRECTOR NAME | BOARD FEES | COMMITTEE FEES | TOTAL FEES |
|---|---|---|---|
| Chris Moller (Chair[2]) | $165,000 | - | $165,000 |
| Peter Wilson (Deputy Chair) | $114,000 | $7,500 | $121,500 |
| John Bongard | $91,000 | $5,000 | $96,000 |
| Mark Cairns | $91,000 | $7,500 | $98,500 |
| Jan Dawson | $91,000 | $15,000 | $106,000 |
| Mary Devine | $91,000 | $12,500 | $103,500 |
| Sally Farrier | $91,000 | $5,000 | $96,000 |
| Anake Goodall | $91,000 | $5,000 | $96,000 |
| Stephen Reindler | $91,000 | $12,500 | $103,500 |
| **Total** | **$916,000** | **$70,000** | **$986,000** |

2 Committee membership fees are not payable to the Chair of the Board.

Remuneration paid to non-executive directors in their capacity as directors of subsidiaries of Meridian during the year ended 30 June 2015 was:

| FY2015 | $ |
|---|---|
| Stanley Brogan (Damwatch Pty Limited) | AU$3,000 |
| John Journee (Powershop New Zealand Limited) | NZ$50,000 |
| Rowan Simpson (Powershop New Zealand Limited) | NZ$40,000 |

Meridian employees appointed as directors of Meridian subsidiaries do not receive any directorship fees.

## Chief Executive remuneration

### Employment agreement

Meridian has entered into an employment agreement with Mark Binns in relation to his employment with Meridian as Chief Executive (CE). The CE receives an annual base salary of $1,122,000. He is also entitled to receive up to 65% of his annual base salary in the form of a short-term incentive (STI) that is payable at the discretion of the Board of Meridian. The amount of the STI payment will be based on the achievement by the CE of certain performance hurdles for the previous financial year. The CE is a member of KiwiSaver, so he receives matched employer contributions of 4%. Mr Binns is also entitled to participate in the Executive long-term incentive plan (Executive LTI Plan).

The total remuneration of the CE may be reviewed each financial year at the discretion of the Board of Meridian. Mr Binns will be employed as CE until his employment is terminated in accordance with his employment agreement. Pursuant to the employment agreement, the CE and Meridian have mutual rights of termination on the provision of six months' written notice. Meridian may also terminate the CE's employment on the grounds of redundancy or serious misconduct or where an act of bankruptcy is committed. The CE will be entitled to receive certain termination payments following the termination of his employment.

In the year ended 30 June 2015, Mr Binns received:

- a base salary of $1,122,000.
- a performance-related STI payment of $739,167, before tax and KiwiSaver contributions, relating to the year ended 30 June 2014. The amount of this STI payment was determined by assessing the company's financial performance in the 2013/14 financial year and Mr Binns' achievements against a number of specific non-financial performance targets, set by the Board at the start of the 2013/14 financial year.
- Meridian contributions to Mr Binns' KiwiSaver account of $74,447.

Following the end of the 2014/15 financial year, the Board approved a performance-related STI of $713,693, before tax and KiwiSaver contributions, relating to the year ended 30 June 2015, which will be paid in late August 2015. The amount of this STI payment was determined by assessing the company's financial performance for the year ended 30 June 2015 and Mr Binns' achievements against a number of specific non-financial performance targets, set by the Board at the start of the 2014/15 financial year.

### Employee remuneration

Meridian is committed to fair, responsible and equitable remuneration and reward practices in the workplace, taking into account internal and external relativity and the company's ability to meet its commercial objectives.

Individual performance and market relativity are the key drivers of all remuneration-based decisions. Remuneration includes a mix of fixed and variable components that are a mixture of cash and non-cash-based, as follows:

- fixed remuneration, which includes base salary and employer KiwiSaver contributions and relates to the base requirements of the role

- at-risk discretionary remuneration for individuals invited to participate in STI schemes, at the discretion of the CE, based on the achievement of predetermined company profit levels and individual performance targets
- at-risk discretionary remuneration for the executive management team entitled to participate in the Executive LTI Plan
- a range of market-based cash benefits including life insurance, redundancy payments and paid parental leave
- a range of non-cash benefits such as discounted banking services and medical insurance
- employees can elect to participate in an employee share ownership plan, *MyShare*.

## Executive remuneration

Meridian has written agreements with executives setting out the terms of their employment. With regards to executive remuneration, Meridian aims to motivate and reward executives with a level and mix of remuneration that reflects their roles and accountabilities within the company and appropriately aligns the interests of executives with those of shareholders. Executives may be offered a STI at the discretion of Meridian. Performance is reviewed against company financial performance hurdles and individual strategic objectives that are set and then reviewed by the Board on an annual basis.

Under the Executive LTI Plan, executives purchase Meridian shares funded by an interest-free loan from the company, with the shares held on trust by the trustee of the Executive LTI Plan.

The shares are held on trust until the end of a three-year vesting period. In the case of the first offer under the Executive LTI Plan, shares will be held by the trustee until the conclusion of the 2016 financial year. Instalment receipts purchased for the first offer made under the Executive LTI Plan were purchased as part of the Initial Public Offering at the final price payable under the Initial Public Offering retail offer. Any future purchases of shares under the Plan will be made at their market price at the time.

Vesting of shares (including shares initially represented by instalment receipts) with an executive at the conclusion of a three-year vesting period is dependent on continued employment through the three-year period, the company's absolute total shareholder return being positive and the company's total shareholder return relative to a benchmark peer group meeting certain criteria. If shares vest, the relevant executive is entitled to a cash amount that, after the deduction of tax (but before other applicable salary deductions), is equal to the amount of their loan balance for shares that have vested. That cash amount is applied towards the repayment of their loan balance.

Under the Executive LTI Plan, where total shareholder return measures are used, performance is measured against a benchmark peer group comprising of certain energy generator/retailer competitor companies as at the start of the vesting period. Vesting of shares is dependent on two factors. Firstly, the company must achieve a positive absolute total shareholder return in the measurement period.

Secondly, the company's performance relative to the performance of the benchmark peer group is measured, with a sliding scale to apply for the number of shares to vest:

- if the company's total shareholder return performance in the measurement period exceeds the 50th percentile total shareholder return of the benchmark peer group, 50% of an executive's shares will vest
- 100% of an executive's shares will vest upon meeting the performance of the 75th percentile of the benchmark peer group, with vesting on a straight-line basis between these two points
- no shares will vest if the company's total shareholder return in the measurement period is less than the 50th percentile total shareholder return of the benchmark peer group.

In the event that the total shareholder return performance in absolute terms is less than zero, or in relative terms does not meet the peer group relative total shareholder return hurdle (being the 50th percentile total shareholder return of the benchmark group), or if the participant ceases to be employed by the company other than for a qualifying reason, the shares will be forfeited to the trustee without compensation and the relevant executive will receive no benefits under the Plan. Where the total shareholder return exceeds the 50th percentile of the benchmark peer group but is below the 75th percentile, those shares that have not vested will be forfeited to the trustee without compensation.

To comply with the laws of overseas jurisdictions, a cash award plan may be adopted for members of the executive management team based outside New Zealand. The terms of any cash award plan, including performance hurdles and measurement period, would seek to replicate the terms of the Executive LTI Plan, except to the extent that a gross cash award payment (calculated by reference to the market price of shares at the vesting date) vests at the end of the vesting period instead of shares. Such a plan exists in relation to the Chief Executive of Meridian Energy Australia.

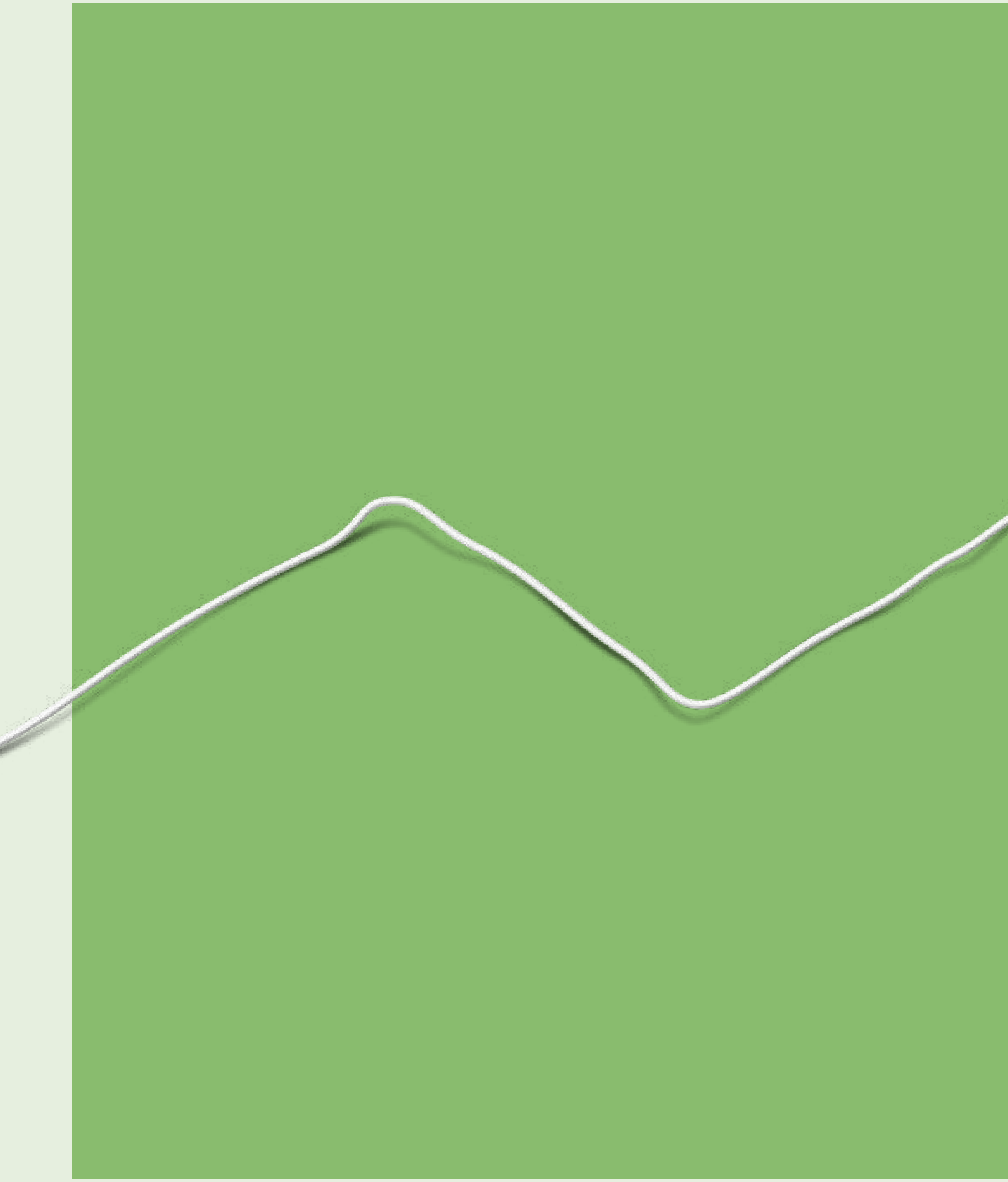
Meridian has a policy to ensure that participants of the Executive LTI Plan, and any cash awards plan, are not permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Plan.

## Employee remuneration range

The number of employees and former employees of Meridian Energy Limited and its subsidiaries (not including directors) who during the year ended 30 June 2015 received cash remuneration and other benefits (including at-risk performance incentives, KiwiSaver contributions and redundancy compensation) exceeding $100,000 is outlined below:

| REMUNERATION BAND | NUMBER OF EMPLOYEES |
|---|---|
| 100,000 to 109,999 | 55 |
| 110,000 to 119,999 | 54 |
| 120,000 to 129,999 | 52 |
| 130,000 to 139,999 | 39 |
| 140,000 to 149,999 | 21 |
| 150,000 to 159,999 | 14 |
| 160,000 to 169,999 | 20 |
| 170,000 to 179,999 | 8 |
| 180,000 to 189,999 | 13 |
| 190,000 to 199,999 | 11 |
| 200,000 to 209,999 | 13 |
| 210,000 to 219,999 | 8 |
| 220,000 to 229,999 | 7 |
| 230,000 to 239,999 | 2 |
| 240,000 to 249,999 | 1 |
| 250,000 to 259,999 | - |
| 260,000 to 269,999 | 6 |
| 270,000 to 279,999 | 2 |
| 280,000 to 289,999 | 2 |
| 290,000 to 299,999 | 2 |
| 300,000 to 309,999 | 1 |
| 310,000 to 319,999 | 2 |
| 320,000 to 329,999 | 2 |
| 330,000 to 339,999 | 1 |
| 340,000 to 349,999 | 4 |
| 390,000 to 399,999 | 2 |
| 430,000 to 439,999 | 1 |
| 490,000 to 499,999 | 1 |
| 500,000 to 509,999 | 1 |
| 550,000 to 559,999 | 1 |
| 570,000 to 579,999 | 1 |
| 600,000 to 609,999 | 1 |
| 620,000 to 629,000 | 1 |
| 640,000 to 649,000 | 1 |
| 780,000 to 789,999 | 1 |
| 830,000 to 839,999 | 1 |
| 1,930,000 to 1,939,999 | 1 |
| **Total number of employees** | **353**[3] |

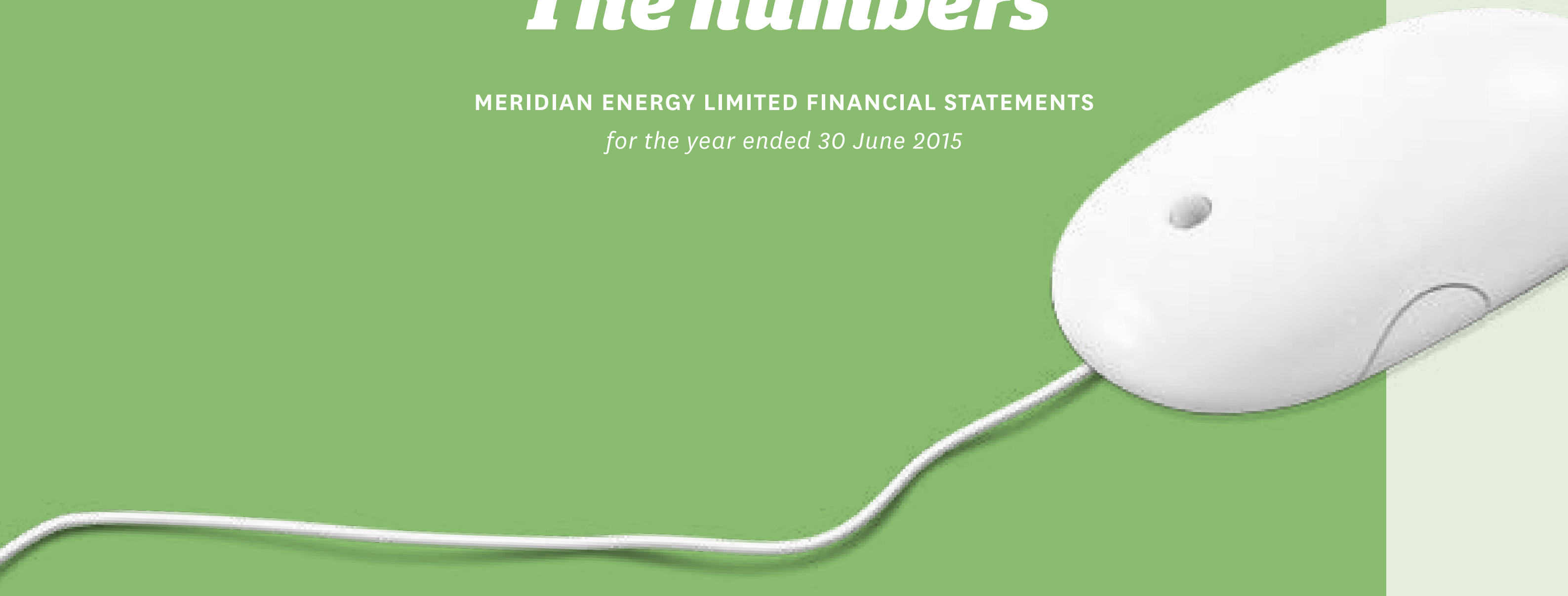
3 This includes 23 employees who are no longer employed by Meridian Energy Limited and its subsidiaries.



# *The numbers*

**MERIDIAN ENERGY LIMITED FINANCIAL STATEMENTS**

*for the year ended 30 June 2015*



## Group Financial Statements



## Notes to the Group Financial Statements



## Auditor's Report



| KEY | KEY JUDGEMENTS AND ESTIMATES | SUBSEQUENT EVENT | RISKS |
|---|---|---|---|

## Income Statement *For the year ended 30 June 2015*

| | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Operating revenue | A2 | **2,904** | 2,509 |
| Operating expenses | A3 | **(2,286)** | (1,924) |
| **Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)** | | **618** | 585 |
| Depreciation and amortisation | A3 | **(239)** | (220) |
| Impairment of assets | A3 | **(38)** | - |
| Gain on sale of assets | A2 | **19** | 7 |
| Net change in fair value of electricity and other hedges | D2 | **(1)** | (9) |
| **Operating profit** | | **359** | 363 |
| Finance costs | A3 | **(86)** | (82) |
| Interest income | A2 | **8** | 9 |
| Net change in fair value of Treasury instruments | D2 | **(32)** | 27 |
| **Net profit before tax** | | **249** | 317 |
| Income tax expense | A4 | **(2)** | (87) |
| **Net profit after tax attributed to the shareholders of the parent company** | | **247** | **230** |

| | | | |
|---|---|---|---|
| **Earnings per share (EPS) attributed to ordinary equity holders of the parent** | | **Cents** | Cents |
| Basic earnings per share | C3 | **9.6** | 9.0 |
| Diluted earnings per share | C3 | **9.6** | 9.0 |

## Comprehensive Income Statement *For the year ended 30 June 2015*

| | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| **Net profit after tax** | | **247** | 230 |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Asset revaluation | B1 | **329** | - |
| Deferred tax on the above item | A4 | **(92)** | - |
| | | **237** | - |
| *Items that may be reclassified to profit or loss:* | | | |
| Net gain/(loss) on available for sale investments | | **-** | (2) |
| Net gain/(loss) on cash flow hedges | | **(2)** | (15) |
| Reclassify foreign currency translation reserve | | **(2)** | 5 |
| Exchange differences arising from translation of foreign operations | | **20** | (15) |
| Income tax on the above items | A4 | **-** | 5 |
| | | **16** | (22) |
| **Other comprehensive income for the year, net of tax** | | **253** | (22) |
| **Total comprehensive income for the year, net of tax** | | **500** | 208 |
| **Total comprehensive income attributed to shareholders of the parent company** | | **500** | **208** |

*The notes to the financial statements form an integral part of these financial statements.*

# Balance Sheet *As at 30 June 2015*

| | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | C5 | **69** | 276 |
| Trade receivables | C6 | **191** | 183 |
| Financial instruments | D2 | **48** | 20 |
| Assets classified as held for sale | F1 | **7** | 27 |
| Other assets | | **19** | 17 |
| **Total current assets** | | **334** | 523 |
| **Non-current assets** | | | |
| Property, plant and equipment | B1 | **7,097** | 6,929 |
| Intangible assets | B2 | **47** | 54 |
| Deferred tax | A4 | **36** | 21 |
| Financial instruments | D2 | **147** | 63 |
| **Total non-current assets** | | **7,327** | 7,067 |
| **Total assets** | | **7,661** | 7,590 |
| **Current liabilities** | | | |
| Payables and accruals | | **192** | 221 |
| Employee entitlements | | **16** | 15 |
| Current portion of term borrowings | C7 | **213** | 133 |
| Finance lease payable | C8 | **1** | 1 |
| Financial instruments | D2 | **34** | 38 |
| Liabilities classified as held for sale | F1 | **-** | 1 |
| Current tax payable | | **22** | 57 |
| **Total current liabilities** | | **478** | 466 |
| **Non-current liabilities** | | | |
| Term borrowings | C7 | **863** | 959 |
| Deferred tax | A4 | **1,400** | 1,350 |
| Provisions | | **8** | 7 |
| Finance lease payables | C8 | **51** | 48 |
| Financial instruments | D2 | **101** | 125 |
| Term payables | | **12** | 1 |
| **Total non-current liabilities** | | **2,435** | 2,490 |
| **Total liabilities** | | **2,913** | 2,956 |
| **Net assets** | | **4,748** | **4,634** |
| **Shareholders' equity** | | | |
| Share capital | C2 | **1,597** | 1,599 |
| Reserves | | **3,151** | 3,035 |
| **Total shareholders' equity** | | **4,748** | **4,634** |

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 18 August 2015.

**CHRIS MOLLER**, *Chair, 18 August 2015*

**JAN DAWSON**, *Chair, Audit and Risk Committee, 18 August 2015*

*The notes to the financial statements form an integral part of these financial statements.*

## Changes in Equity *For the year ended 30 June 2015*

| | NOTE | GROUP $M SHARE CAPITAL | SHARE OPTION RESERVE | REVALUATION RESERVE | FOREIGN TRANSLATION RESERVE | CASH FLOW HEDGE RESERVE | AVAILABLE FOR SALE RESERVE | RETAINED EARNINGS | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2013** | | **1,600** | **-** | **3,074** | **(13)** | **9** | **2** | **16** | **4,688** |
| Net profit for the 2014 financial year | | - | - | - | - | - | - | 230 | **230** |
| **Other comprehensive income** | | | | | | | | | |
| Net loss on cash flow hedges | D2 | - | - | - | - | (15) | - | - | **(15)** |
| Net loss on available for sale investment | | - | - | - | - | - | (2) | - | **(2)** |
| Reclassify foreign currency translation reserve | | - | - | - | 5 | - | - | - | **5** |
| Exchange differences from translation of foreign operations | | - | - | - | (15) | - | - | - | **(15)** |
| Income tax relating to other comprehensive income | A4 | - | - | - | - | 5 | - | - | **5** |
| **Total other comprehensive income, net of tax** | | **-** | **-** | **-** | **(10)** | **(10)** | **(2)** | **-** | **(22)** |
| **Total comprehensive income for the year, net of tax** | | **-** | **-** | **-** | **(10)** | **(10)** | **(2)** | **230** | **208** |
| Share-based payment transactions | | - | - | - | - | - | - | - | **-** |
| Own shares acquired | C2 | (1) | - | - | - | - | - | - | **(1)** |
| Dividends paid | C4 | - | - | - | - | - | - | (261) | **(261)** |
| **Balance at 30 June 2014 and 1 July 2014** | | **1,599** | **-** | **3,074** | **(23)** | **(1)** | **-** | **(15)** | **4,634** |
| Net profit for the 2015 financial year | | - | - | - | - | - | - | 247 | **247** |
| **Other comprehensive income** | | | | | | | | | |
| Asset revaluation | B1 | - | - | 329 | - | - | - | - | **329** |
| Net loss on cash flow hedges | D2 | - | - | - | - | (2) | - | - | **(2)** |
| Reclassify foreign currency translation reserve | | - | - | - | (2) | - | - | - | **(2)** |
| Exchange differences from translation of foreign operations | | - | - | - | 20 | - | - | - | **20** |
| Income tax relating to other comprehensive income | A4 | - | - | (92) | - | - | - | - | **(92)** |
| **Total other comprehensive income, net of tax** | | **-** | **-** | **237** | **18** | **(2)** | **-** | **-** | **253** |
| **Total comprehensive income for the year, net of tax** | | **-** | **-** | **237** | **18** | **(2)** | **-** | **247** | **500** |
| Share-based payment transactions | F2 | | 1 | - | - | - | - | - | **1** |
| Own shares acquired | C2 | (2) | - | - | - | - | - | - | **(2)** |
| Dividends paid | C4 | - | - | - | - | - | - | (385) | **(385)** |
| **Balance at 30 June 2015** | | **1,597** | **1** | **3,311** | **(5)** | **(3)** | **-** | **(153)** | **4,748** |

*The notes to the financial statements form an integral part of these financial statements.*

## Cash Flow *For the year ended 30 June 2015*

| | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| **Operating activities** | | | |
| Receipts from customers | | **2,348** | 2,083 |
| Interest received | | **8** | 9 |
| | | **2,356** | 2,092 |
| Payments to suppliers and employees | | **(1,742)** | (1,480) |
| Interest paid | | **(78)** | (80) |
| Income tax paid | | **(96)** | (99) |
| | | **(1,916)** | (1,659) |
| **Operating cash flows** | C5 | **440** | 433 |
| **Investment activities** | | | |
| Sale of property, plant and equipment | | **19** | 41 |
| Sale of other assets | | **29** | 21 |
| | | **48** | 62 |
| Purchase of property, plant and equipment | | **(131)** | (284) |
| Capitalised interest | | **-** | (9) |
| Purchase of intangible assets | | **(15)** | (22) |
| Purchase of investments | | **(1)** | (1) |
| | | **(147)** | (316) |
| **Investing cash flows** | | **(99)** | (254) |
| **Financing activities** | | | |
| Proceeds from borrowings | | **366** | 134 |
| | | **366** | 134 |
| Shares purchased for long-term incentive | | **(2)** | (1) |
| Dividends | | **(385)** | (261) |
| Term borrowings | | **(527)** | (154) |
| | | **(914)** | (416) |
| **Financing cash flows** | | **(548)** | (282) |
| **Net decrease in cash and cash equivalents** | | **(207)** | **(103)** |
| Cash and cash equivalents at beginning of year | | **276** | 383 |
| Cash removed on sale of subsidiaries | | **-** | (2) |
| Effect of exchange rate changes on net cash | | **-** | (2) |
| **Cash and cash equivalents at end of year** | | **69** | **276** |

*The notes to the financial statements form an integral part of these financial statements.*

# About this report

## IN THIS SECTION

**The notes to the financial statements include information which is considered relevant and material to assist the reader in understanding the financial performance and position of Meridian. Information is considered relevant and material if:**

- **the amount is significant because of its size and nature;**
- **it is important for understanding the results of Meridian;**
- **it helps to explain changes in Meridian's business; or**
- **it relates to an aspect of Meridian's operations that is important to future performance.**

Meridian Energy Limited is a for profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. Meridian's core business activities are the generation, trading and retailing of electricity and the sale of complementary products and services. The registered office of Meridian is 33 Customhouse Quay, Wellington. Meridian Energy Limited is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). As a Mixed Ownership Company, majority owned by Her Majesty the Queen in Right of New Zealand, it is bound by the requirements of the Public Finance Act 1989.

These financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice (GAAP) in New Zealand and comply with International Financial Reporting Standards (IFRS) and the New Zealand equivalents (NZ IFRS), as appropriate for a for profit entity;
- in accordance with the requirements of the Financial Markets Conduct Act 2013;
- on the basis of historical cost, modified by revaluation of certain assets and liabilities; and
- in New Zealand Dollars, with all values rounded to millions ($M) unless otherwise stated.

### Key judgements and estimates

In the process of applying the Group's accounting policies and the application of accounting standards, Meridian has made a number of judgements and estimates. The estimates and underlying assumptions are based on historic experience and various other factors that are considered to be appropriate under the circumstances. Actual results may differ from these estimates.

Judgements and estimates which are considered material to understanding the performance of Meridian are found in the following notes:

| | | |
|---|---|---|
| Note A2: | Income | Page 50 |
| Note A4: | Taxation | Page 52 |
| Note B1: | Property, Plant and Equipment | Page 53 |
| Note B2: | Intangible Assets | Page 56 |
| Note D2: | Financial Instruments | Page 65 |
| Note F2: | Share-Based Payments | Page 73 |
| Note F5: | Commitments | Page 75 |

## Other accounting policies

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

## Basis of consolidation

The Group financial statements comprise the financial statements of Meridian Energy Limited and its subsidiaries and controlled entities, as contained in note E1 Subsidiaries.

The financial statements of members of the Group are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the Group financial statements, all material intra-group transactions, balances, income and expenses have been eliminated. Subsidiaries are consolidated on the date on which control is obtained to the date on which control is lost. Where entities under common control are amalgamated, the carrying values of the assets and liabilities are combined, with any gain or loss on amalgamation recognised in equity.

## Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rate prevailing at balance date 30 June 2015.

The assets and liabilities of international subsidiaries are translated to New Zealand Dollars at the closing rate at balance date. The revenues and expenses of these subsidiaries are translated at rates approximating the exchange rate at the date of the transactions.

Exchange differences arising from the translation of subsidiary financial statements are recorded in the foreign currency translation reserve (equity). Cumulative translation differences are recognised in the income statement in the period in which any international subsidiary is disposed of.

The principal functional currency of international subsidiaries is Australian Dollars, and the closing rate at 30 June 2015 was 0.8774 (30 June 2014: 0.9286). A full list of international subsidiary functional currencies is listed in note E1 Subsidiaries.

# Significant matters in the financial year

IN THIS SECTION

**Significant matters which have impacted Meridian's financial performance and position and an explanation of non-GAAP measures used within the notes to the financial statements.**

### New generation assets

During the financial year Meridian concluded the full commissioning of two new wind farms, the 60MW Mill Creek farm near Wellington and the 131MW Mt Mercer farm in Victoria, Australia. The capital costs of both wind farms are now fully recognised within property, plant and equipment and are contributing generation earnings recognised in electricity sales revenue.

### Powershop growth in Australia

Meridian has expanded its Powershop retail business in Australia offering consumers an ability to purchase electricity online in Victoria and New South Wales. This growth can be seen within the financial performance of the international segment in note A1 Segment Performance.

### Generation structures and plant revaluation

At 30 June 2015 Meridian revalued its generation structures and plant assets (the last valuation occurred on 30 June 2013). Meridian uses an independent valuer to determine a valuation range on which the Board's ultimate valuation decision is based. The outcome of this valuation is a net $0.3 billion increase, taking the net book value of generation structures and plant assets to $6.9 billion. Refer to note B1 Property, Plant and Equipment on page 53.

Core drivers in this valuation are:

- There has been no material change in underlying electricity market fundamentals in New Zealand. The uplift in asset values largely reverses depreciation since the last revaluation, reflecting the long life of this asset group.
- The Australian Renewable Energy Target scheme (RET) has been reviewed and the target has been reduced from 41,000 GWh to 33,000 GWh. This change, along with the abolition of carbon pricing, has resulted in an impairment of $33 million in the net book value of Australian generation assets.

### Taxation – deductibility of depreciation on powerhouse structures

Meridian successfully concluded its dispute in relation to the tax deductibility of powerhouse structure depreciation with Inland Revenue. This results in the reversal of tax adjustments totalling $34 million made in 2010 and 2012. Refer to note A4 Taxation on page 52 for further detail.

### Taxation – Macarthur sale capital gains

On selling its interest in the Macarthur wind farm Meridian provided $28 million for a potential capital gains taxation liability. Meridian requested a ruling from the Australian Tax Office, who ruled that no capital gains tax arises from the sale. Therefore the provision held has been released. Refer to note A4 Taxation on page 52 for further detail.

## Non-GAAP measures

Meridian refers to non-GAAP financial measures within these financial statements and accompanying notes. The limited use of non-GAAP measures is intended to supplement GAAP measures to provide readers with further information to broaden their understanding of Meridian's financial performance and position. They are not a substitute for GAAP measures. As these measures are not defined by NZ GAAP, IFRS, or any other body of accounting standards, Meridian's calculations may differ from similarly titled measures presented by other companies. The measures are described below, including page references for reconciliations to the financial statements.

### EBITDAF

Earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings.

EBITDAF is reported in the income statement allowing the evaluation of Meridian's operating performance without the non-cash impact of depreciation, amortisation, fair value movements of hedging instruments and other one-off and/or infrequently occurring events and the effects of Meridian's capital structure and tax position. This allows better comparison of operating performance to other electricity industry companies than GAAP measures that include these items.

### Energy margin

Energy margin provides a measure of financial performance that, unlike total revenue, accounts for the variability of the wholesale electricity market and the broadly offsetting impact of the cost of Meridian's retail electricity purchases and revenues from generation. Meridian uses the measure of energy margin within Meridian's segmental financial performance in note A1 Segment Performance on page 48.

### Net debt

Net debt is a metric commonly used by investors as a measure of Meridian's indebtedness that takes account of liquid financial assets. Meridian uses this measure within its capital management, and this is outlined in note C1 Capital Management on page 57.

# A. Financial performance

**IN THIS SECTION**

**This section explains the financial performance of Meridian, providing additional information about individual items in the income statement, including:**

**a) Accounting policies, judgements and estimates that are relevant for understanding items recognised in the income statement;**

**b) Analysis of Meridian's performance for the year by reference to key areas including: performance by operating segment, revenue, expenses and taxation.**

## A1 Segment Performance

Meridian's operating segments have been determined according to the nature of the products and services and the location where they are sold. The Chief Executive (the chief operating decision-maker) monitors the operating performance of each segment for the purpose of making decisions on resource allocation and strategic direction. The Chief Executive considers the business from the perspective of three operating segments: Wholesale, Retail and International.

The financial performance of the operating segments is assessed using energy margin and EBITDAF (see page 47 for a definition of these measures) before unallocated central corporate expenses.

Balance sheet items are not reported to the Chief Executive at an operating segment level.

The accounting policies of the Group have been consistently applied to the operating segments.

A description of operating segments follows:

### Wholesale segment

Includes activity associated with Meridian's New Zealand:

- generation of electricity and its sale into the wholesale electricity market;
- purchase of electricity from the wholesale electricity market and its sale to the Retail segment and to large industrial customers, including New Zealand Aluminium Smelters (NZAS) (which represents the equivalent of 38% (30 June 2014: 38%) of Meridian's New Zealand generation production); and
- development of renewable energy generation opportunities.

### Retail segment

Includes activity associated with retailing of electricity and complementary products through its two brands (Meridian and Powershop) in New Zealand. Electricity sold to residential, business and industrial customers on fixed price variable volume contracts is purchased from the Wholesale segment at an average annual fixed price of $80-$85 per MWh and electricity sold to business and industrial customers on spot (variable price) agreements is purchased from the Wholesale segment at prevailing wholesale spot market prices. The transfer price is set in a similar manner to transactions with third parties.

### International segment

Includes activity associated with the generation and retailing of electricity in Australia and formerly in the USA (Meridian ceased its USA operations upon selling CalRENEW-1 LLC on 15 May 2014).

### Unallocated

Includes activities and centrally-based costs that are not directly allocated to other segments.

## A1 Segment Performance *continued*

| | WHOLESALE | | RETAIL | | INTERNATIONAL | | UNALLOCATED | | INTER-SEGMENT | | GROUP | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 $M | 2014 $M | 2015 $M | 2014 $M | 2015 $M | 2014 $M | 2015 $M | 2014 $M | 2015 $M | 2014 $M | 2015 $M | 2014 $M |
| Contracted sales net of distribution costs | **311** | 300 | **614** | 601 | **20** | 5 | **-** | - | **-** | - | **945** | 906 |
| Virtual asset swap margins | **10** | 17 | **-** | - | **-** | - | **-** | - | **-** | - | **10** | 17 |
| Net cost of acquired generation | **(31)** | (36) | **-** | - | **-** | - | **-** | - | **-** | - | **(31)** | (36) |
| Meridian generation spot revenue | **908** | 790 | **-** | - | **44** | 31 | **-** | - | **-** | - | **952** | 821 |
| Inter-segment electricity sales | **496** | 539 | **-** | - | **-** | - | **-** | - | **(496)** | (539) | **-** | - |
| Cost to supply contracted sales | **(888)** | (812) | **(511)** | (503) | **(10)** | (3) | **-** | - | **496** | 539 | **(913)** | (779) |
| Other market revenue/(costs) | **(8)** | 1 | **(1)** | (6) | **-** | - | **-** | - | **-** | - | **(9)** | (5) |
| **Energy margin** | **798** | **799** | **102** | **92** | **54** | **33** | **-** | **-** | **-** | **-** | **954** | **924** |
| Other revenue | **7** | 10 | **15** | 20 | **-** | - | **33** | 12 | **(30)** | (15) | **25** | 27 |
| Energy transmission expenses | **(120)** | (127) | **-** | - | **(3)** | (2) | **-** | - | **-** | - | **(123)** | (129) |
| **Gross margin** | **685** | **682** | **117** | **112** | **51** | **31** | **33** | **12** | **(30)** | **(15)** | **856** | **822** |
| Employee expenses | **(27)** | (28) | **(32)** | (32) | **(7)** | (8) | **(23)** | (23) | **1** | - | **(88)** | (91) |
| Other operating expenses | **(53)** | (51) | **(59)** | (56) | **(21)** | (10) | **(20)** | (31) | **3** | 2 | **(150)** | (146) |
| **EBITDAF** | **605** | **603** | **26** | **24** | **23** | **13** | **(10)** | **(42)** | **(26)** | **(13)** | **618** | **585** |
| Depreciation and amortisation | | | | | | | | | | | **(239)** | (220) |
| Impairment of assets | | | | | | | | | | | **(38)** | - |
| Gain on sale of assets | | | | | | | | | | | **19** | 7 |
| Net change in fair value of electricity and other hedges | | | | | | | | | | | **(1)** | (9) |
| **Operating profit** | | | | | | | | | | | **359** | **363** |
| Finance costs | | | | | | | | | | | **(86)** | (82) |
| Interest income | | | | | | | | | | | **8** | 9 |
| Net change in fair value of Treasury instruments | | | | | | | | | | | **(32)** | 27 |
| **Net profit before tax** | | | | | | | | | | | **249** | **317** |
| Income tax expense | | | | | | | | | | | **(2)** | (87) |
| **Net profit after tax** | | | | | | | | | | | **247** | **230** |
| *Reconciliation of energy margin* | | | | | | | | | | | | |
| Electricity sales revenue | **2,160** | 1,863 | **1,129** | 1,121 | **86** | 37 | **-** | - | **(496)** | (539) | **2,879** | 2,482 |
| Electricity expenses | **(1,362)** | (1,064) | **(563)** | (603) | **(15)** | (2) | **-** | - | **496** | 539 | **(1,444)** | (1,130) |
| Electricity distribution expenses | **-** | - | **(464)** | (426) | **(17)** | (2) | **-** | - | **-** | - | **(481)** | (428) |
| **Energy margin** | **798** | **799** | **102** | **92** | **54** | **33** | **-** | **-** | **-** | **-** | **954** | **924** |

## A2 Income

| OPERATING REVENUE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Electricity sales revenue | **2,879** | 2,482 |
| Electricity related service revenue | **14** | 16 |
| Other revenue | **11** | 11 |
| | **2,904** | **2,509** |

| TOTAL REVENUE BY GEOGRAPHIC AREA | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| New Zealand | **2,818** | 2,471 |
| Australia | **86** | 35 |
| USA | **-** | 3 |
| **Total operating revenue** | **2,904** | **2,509** |

| GAIN ON SALE OF ASSETS | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Gain on sale of property, plant and equipment | | **3** | 12 |
| Gain/(loss) on sale of subsidiaries | E1 | **15** | (5) |
| Gain on sale of investments | | **1** | - |
| | | **19** | **7** |

| | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| **Interest income** | **8** | **9** |

## Operating revenue

### Electricity sales revenue

Revenues received or receivable from:

- electricity generated and sold into wholesale electricity markets;
- electricity sold to retail customers;
- the fixed price leg of electricity hedges sold; and
- the floating price leg of electricity hedges purchased.

Electricity sales revenues are influenced by the quantity of electricity generated, the wholesale spot price and the volume and price of electricity sold to residential, business, industrial and wholesale customers. Revenue is recognised at the time of supply.

### Key judgements and estimates

Meridian exercises judgement in estimating retail electricity sales, where customer electricity meters are unread at balance date. These estimates of customer electricity usage over the unread period are based on customers' historical consumption patterns.

### Electricity-related service revenue

Revenues received or receivable from the sale of complementary products and services to retail customers and the provision of dam maintenance services.

### Other revenue

Includes revenues from non-core activities such as finance leases, land leases and farming revenues.

### Interest income

Interest income is recognised on a time proportionate basis using the effective interest method.

## A3 Expenses

| OPERATING EXPENSES | | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Electricity expenses | | **1,444** | 1,130 |
| Electricity distribution expenses | | **481** | 428 |
| Electricity transmission expenses | | **123** | 129 |
| Employee expenses | | **88** | 91 |
| Other expenses | | **150** | 146 |
| | | **2,286** | **1,924** |

| DEPRECIATION AND AMORTISATION | | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Depreciation | B1 | **218** | 199 |
| Amortisation of intangibles | B2 | **21** | 21 |
| | | **239** | **220** |

| FINANCE COSTS | | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Interest on borrowings | | **80** | 88 |
| Interest on finance lease payable | C8 | **6** | 4 |
| Less capitalised interest | B1 | **-** | (10) |
| | | **86** | **82** |

| IMPAIRMENT OF ASSETS | | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Property, plant and equipment | B1 | **33** | - |
| Intangible assets | B2 | **2** | - |
| Other assets | | **3** | - |
| | | **38** | **-** |

### Electricity expenses

The cost of electricity and related services from:

- purchases from wholesale markets to supply customers;
- the fixed cost of electricity hedges purchased to supplement Meridian's electricity generation; and
- the variable cost of electricity hedges sold.

### Electricity distribution expenses

The cost of distribution companies transporting electricity between the national grid and customers' properties.

### Electricity transmission expenses

Meridian's share of the cost of the high voltage direct current (HVDC) link between the North and South Islands of New Zealand and the cost of connecting Meridian's generation sites to the national grid by grid providers.

### Employee expenses

Provision is made for benefits owing to employees in respect of wages and salaries, annual leave, long service leave and employee incentives for services rendered. Provisions are recognised when it is probable they will be settled and can be measured reliably. They are carried at the remuneration rate expected to apply at the time of settlement.

Contributions to defined contribution plans (largely KiwiSaver) were $3 million in 2015 (30 June 2014: $3 million).

### Impairment of non-financial assets

Meridian reviews the recoverable amount of its tangible and intangible assets at each balance date. If the carrying value of an asset exceeds the recoverable amount an impairment expense is recognised in the income statement, unless the assets are carried at a revalued amount, in which case the impairment is treated as a revaluation decrease in equity. Any reversal of previous losses is recognised immediately in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase in equity.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and present value of future cash flows expected to be generated by the assets (value in use).

The impairment of property, plant and equipment relates to the revaluation of Australian generation assets (for further details of the revaluation of the generation structures and plant refer to note B1 Property, Plant and Equipment).

## A4 Taxation

| | GROUP | |
|---|---|---|
| INCOME TAX EXPENSE | 2015 $M | 2014 $M |
| Current income tax charge | **60** | 111 |
| Adjustments to tax of prior years | **-** | (6) |
| **Total current tax expense** | **60** | **105** |
| Deferred tax | **(58)** | (18) |
| **Total income tax** | **2** | **87** |
| *Reconciliation to profit before tax* | | |
| **Profit before tax** | **249** | **317** |
| Income tax at applicable rates | **68** | 88 |
| Expenditure not deductible for tax | **2** | 6 |
| Income not subject to tax | **(6)** | (4) |
| Capital gains tax liability provision movement | **(28)** | - |
| Reinstated building tax depreciation | **(34)** | - |
| Income tax (over)/under-provided in prior year | **-** | (3) |
| **Income tax expense** | **2** | **87** |

| | GROUP | |
|---|---|---|
| DEFERRED TAX | 2015 $M | 2014 $M |
| **Balance at beginning of year** | **1,329** | **1,352** |
| *Temporary differences in income statement:* | | |
| Property, plant and equipment | **(8)** | (5) |
| Finance lease payables | **5** | 6 |
| Financial instruments | **(9)** | (10) |
| Carried forward unused tax losses | **(14)** | (9) |
| Building tax depreciation change | **(34)** | - |
| Intangible assets | **2** | - |
| | **(58)** | **(18)** |
| *Temporary differences in other comprehensive income:* | | |
| Revaluation reserve movements | **92** | - |
| Other | **-** | (5) |
| | **92** | (5) |
| Effect of retranslating foreign currencies | **(1)** | - |
| Effect of sale of subsidiaries | **4** | - |
| Other | **(2)** | - |
| **Balance at end of year** | **1,364** | **1,329** |
| *Made up of:* | | |
| Asset revaluation | **1,034** | 942 |
| Accelerated depreciation | **395** | 434 |
| Term payables | **(1)** | - |
| Financial instruments | **(23)** | (20) |
| Other | **(5)** | (6) |
| **Deferred tax liability** | **1,400** | **1,350** |
| Carried forward unused tax losses | **(36)** | (21) |
| Other | **-** | - |
| **Deferred tax asset** | **(36)** | **(21)** |
| **Total deferred tax** | **1,364** | **1,329** |

### Current income tax expense

Income tax expense is the income tax assessed on taxable profit for the year. Taxable profit differs from profit before tax reported in the income statement as it excludes items of income and expense that are taxable or deductible in other years and also excludes items that will never be taxable or deductible. Meridian's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at balance date, being 28% for New Zealand and 30% for Australia.

Income tax expense components are current income tax and deferred tax.

Upon selling Meridian Wind Macarthur Holdings Limited in June 2013 for a gain of $101 million, a provision for a potential Australian capital gains tax of $28 million (A$26 million) was recognised. This liability has not eventuated and consequently the provision has been released.

Following the successful resolution of the dispute with Inland Revenue relating to the deductibility of depreciation on hydro powerhouse structures, $34 million has been reinstated to deferred tax.

### Deferred tax assets and liabilities

Deferred tax is income tax which is expected to be payable or recoverable in the future as a result of the unwinding of temporary differences. These arise from differences in the recognition of assets and liabilities for financial reporting and for the filing of income tax returns. Deferred tax is recognised on all temporary differences, other than those arising:

- from goodwill; and
- from the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the accounting nor taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

### Unused tax losses

Relate to Australian operations and will be utilised against future taxable income from retail and generation activities in that country.

### Offsetting deferred tax balances

Deferred tax assets and liabilities are offset only if there are legally enforceable rights to set off current tax assets against current tax liabilities and when they relate to the same taxable entity and taxation authority.

### Key judgements and estimates

Deferred tax assets are recognised to the extent it is probable that future taxable profit will be available to use the asset. This is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset.

# B. Assets used to generate and sell electricity



IN THIS SECTION

This section shows the assets Meridian uses in the production and sale of electricity to generate operating revenues. In this section of the notes there is information about:

a) Property, plant and equipment.

b) Intangible assets.

## B1 Property, Plant and Equipment

| GROUP ($M) | GENERATION STRUCTURES AND PLANT AT FAIR VALUE | LAND AND BUILDINGS AT COST | OTHER PLANT AND EQUIPMENT AT COST | WORK IN PROGRESS AT COST | TOTAL |
|---|---|---|---|---|---|
| Cost or fair value | 6,467 | 23 | 127 | 245 | **6,862** |
| Less accumulated depreciation | (4) | (2) | (87) | - | **(93)** |
| **Net book value at 30 June 2013** | **6,463** | **21** | **40** | **245** | **6,769** |
| Additions | 7 | - | - | 388 | **395** |
| Transfers – work in progress | 311 | 4 | 59 | (374) | **-** |
| Disposals | (2) | - | 1 | - | **(1)** |
| Foreign currency exchange rate movements[1] | (17) | - | - | (15) | **(32)** |
| Transfers – held for sale assets and liabilities | - | 10 | (11) | (1) | **(2)** |
| Transfers – intangible assets | - | - | - | (1) | **(1)** |
| Depreciation expense | (180) | - | (19) | - | **(199)** |
| **Net book value at 30 June 2014** | **6,582** | **35** | **70** | **242** | **6,929** |
| Cost or fair value | 6,766 | 37 | 147 | 242 | **7,192** |
| Less accumulated depreciation | (184) | (2) | (77) | - | **(263)** |
| **Net book value at 30 June 2014** | **6,582** | **35** | **70** | **242** | **6,929** |
| Additions | - | - | - | 75 | **75** |
| Transfers – work in progress | 193 | 3 | 29 | (225) | **-** |
| Transfers – intangible assets | - | - | - | (6) | **(6)** |
| Disposals | (2) | (5) | 1 | - | **(6)** |
| Transfers – held for sale assets and liabilities | - | (7) | 4 | - | **(3)** |
| Foreign currency exchange rate movements[1] | 27 | - | 3 | - | **30** |
| Generation structures and plant revaluation: | | | | | |
| Increase taken to revaluation reserve | 329 | - | - | - | **329** |
| Decrease taken to income statement | (33) | - | - | - | **(33)** |
| Depreciation expense | (200) | (1) | (17) | - | **(218)** |
| **Net book value at 30 June 2015** | **6,896** | **25** | **90** | **86** | **7,097** |
| Cost or fair value | 6,896 | 28 | 159 | 86 | **7,169** |
| Less accumulated depreciation[2] | - | (3) | (69) | - | **(72)** |
| **Net book value at 30 June 2015** | **6,896** | **25** | **90** | **86** | **7,097** |

1 Through the foreign currency translation reserve in other comprehensive income.
2 Includes the reversal of accumulated depreciation on generation structures and plant at revaluation date.

At 30 June 2015, had the generation structures and plant been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately $2.8 billion (2014: $2.8 billion).

# B1 Property, Plant and Equipment *continued*

## Recognition and measurement

Generation structures and plant assets (including land and buildings) are held on the balance sheet at their fair value at the date of revaluation, less any subsequent depreciation and impairment losses. All other property, plant and equipment are stated at historic cost less accumulated depreciation and any accumulated impairment losses.

**Fair value and revaluation of generation structures and plant**

Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.

Meridian uses an independent valuer, who uses an income valuation approach assessing both the capitalisation of earnings and discounted cash flows (DCFs) to establish a valuation range on which the Board's ultimate valuation decision is based.

Any increase arising on revaluation is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged to the income statement to the extent it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation represents the revalued amount.

Subsequent additions to generation structures and plant assets are recorded at cost, which is considered fair value, including costs directly attributable to bringing the asset to the location and condition necessary for its intended purpose and financing costs where appropriate.

**Revaluation of generation structures and plant**

Meridian revalued its generation structures and plant assets at 30 June 2015. An independent valuer assessed values using capitalisation of earnings and DCFs when determining a valuation range. The final valuation range aligned closely to the outcome of the capitalisation of earnings calculation.

This revaluation resulted in a net increase of $296 million in the carrying value of generation structures and plant assets. The impact of the revaluation is recognised as an increase of $329 million (gross of deferred tax) in the revaluation reserve and a $33 million impairment of Australian generation assets recognised in the income statement.

As a consequence of this revaluation, accumulated depreciation on these assets is reset to nil. There was no depreciation impact of this revaluation in the income statement.

## Generation structures and plant valuation technique and key inputs

The Meridian Board uses its judgement to decide on the appropriateness of key valuation techniques and inputs for fair value measurement. Judgement is also used in determining the estimated remaining useful lives of assets.

As the valuation of generation structures and plant does not fully use observable market data, it is classified as a level 3 fair value (a definition of the other levels is included in D2 Financial Instruments). There has been no movement between levels in the period.

As discussed above, the independent valuer uses an income approach which involves incorporating two techniques in establishing a valuation range being capitalisation of earnings and DCF. The fair value adopted aligns closely to the capitalisation of earnings value. This methodology calculates value by reference to an assessment of future maintainable earnings and capitalisation multiples as observed from market prices of listed companies with broadly comparable operations to Meridian. In preparing the capitalisation of earnings valuation, an EBITDAF multiple range at which to capitalise Meridian's historical and forecast earnings was determined.

**The table below describes the key valuation inputs and their sensitivity to changes:**

| KEY INPUT TO MEASURE FAIR VALUE | DESCRIPTION | RANGE OF UNOBSERVABLE INPUTS | SENSITIVITY | IMPACT ON VALUATION |
|---|---|---|---|---|
| Future NZ wholesale electricity prices | The price received for NZ generation | $63MWh to $81MWh by 2035 (in real terms) | + $3MWh | $347M |
| | | | - $3MWh | ($347M) |
| Future Australia wholesale electricity prices | The price received for Australian generation | A$51MWh to A$98MWh by 2035 (in real terms) | + 5% | A$25M |
| | | | - 5% | (A$25M) |
| NZ generation volume | Annual generation production | 13,159GWh p.a. | + 250GWh | $219M |
| | | | - 250GWh | ($219M) |
| Australian generation volume | Annual generation production | 579GWh p.a. | + 5% | A$25M |
| | | | - 5% | (A$25M) |
| Operating expenditure | Meridian's cost of operations, including transmission expenses | $243M p.a. | + $10M | ($128M) |
| | | | - $10M | $128M |
| EBITDAF earnings multiple | Valuation multiple derived from earnings and valuations of comparable companies | 11.3x EBITDAF | + 0.5x | $323M |
| | | | - 0.5x | ($323M) |

Sensitivities show the movement in fair value as a result of a change in each input (keeping all others constant).

## B1 Property, Plant and Equipment *continued*

**Financing costs (capitalised interest)**

Interest is capitalised during construction of new assets or the refurbishment of existing assets that take a substantial period of time to complete and where borrowing costs are directly attributable to the activity. The Interest capitalised reflects either the actual borrowing costs incurred or Meridian's weighted average borrowing cost applicable to general borrowings (after removing any specific borrowings). For non-specific financing, a capitalisation rate of 6.80% p.a. was used in 2015 (30 June 2014: 6.80% p.a.).

Costs cease to be capitalised as soon as the asset is ready for use.

Finance costs totalling $0.4 million were capitalised in 2015 (30 June 2014: $10 million).

**Depreciation**

Depreciation of property, plant and equipment assets, other than freehold land, is calculated on a straight-line basis. This allocates the cost or fair value amount of an asset, less any residual value, over its estimated remaining useful life.

### Key judgements and estimates useful lives

Meridian makes estimates of the remaining useful lives of assets, which are as follows:

- Generation structures and plant up to 80 years
- Buildings up to 67 years
- Other plant and equipment up to 20 years.

The residual value and useful lives are reviewed and if appropriate, adjusted at each balance date.

**Disposals or retirement**

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

## B2 Intangible Assets

| GROUP ($M) | SOFTWARE | OTHER | TOTAL |
|---|---|---|---|
| Cost or fair value | 117 | 16 | **133** |
| Less accumulated amortisation | (66) | (13) | **(79)** |
| **Net book value at 30 June 2013** | **51** | **3** | **54** |
| Additions | 20 | - | **20** |
| Foreign currency exchange rate movements[1] | - | (1) | **(1)** |
| Transfers – property, plant and equipment | 2 | - | **2** |
| Amortisation expenses | (21) | - | **(21)** |
| **Net book value at 30 June 2014** | **52** | **2** | **54** |
| Cost or fair value | 139 | 15 | **154** |
| Less accumulated amortisation | (87) | (13) | **(100)** |
| **Net book value at 30 June 2014** | **52** | **2** | **54** |
| Additions | 10 | - | **10** |
| Impairment | - | (2) | **(2)** |
| Transfers – property, plant and equipment | 6 | - | **6** |
| Amortisation expenses | (21) | - | **(21)** |
| **Net book value at 30 June 2015** | **47** | **-** | **47** |
| Cost or fair value | 155 | 13 | **168** |
| Less accumulated amortisation | (108) | (13) | **(121)** |
| **Net book value at 30 June 2015** | **47** | **-** | **47** |

1 Through the foreign currency translation reserve in other comprehensive income.

**Software**

Acquired computer software licences, that are not considered an integral part of related hardware, are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Additionally, costs directly associated with the production of identifiable and unique software products that will generate economic benefits beyond one year are also recognised as intangible assets.

All these costs are amortised over their useful lives on a straight-line basis.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

### Key judgements and estimates – useful lives

Meridian uses its judgement in determining the remaining useful lives and residual value of intangible assets. These are reviewed and, if appropriate, adjusted at each balance date.

Software assets useful lives are estimated to be up to 10 years.

# C. Managing funding

**IN THIS SECTION**

**This section explains how Meridian manages its capital structure and working capital, the various funding sources and how dividends are returned to shareholders. In this section of the notes there is information about:**

**a) Equity and dividends;**

**b) Net debt;**

**c) Receivables and payables.**



## C1 Capital Management

### Capital risk management objectives

Meridian's objectives when managing capital are to provide appropriate returns to shareholders whilst maintaining a capital structure that safeguards the ability to remain a going concern and optimises the cost of capital.

Capital is defined as the combination of shareholders' equity, reserves and net debt.

Meridian manages its capital through various means including:

- adjusting the amount of dividends paid to shareholders
- raising or returning capital
- raising or repaying debt.

Meridian regularly monitors its capital requirements using various measures which consider debt facility financial covenants and credit ratings, the key measures being net debt to EBITDAF and interest cover. The principal external measure is Meridian's credit rating from Standard and Poor's.

Meridian is in full compliance with debt facility financial covenants.

| | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Share capital | | **1,597** | 1,599 |
| Retained earnings | | **(153)** | (15) |
| Other reserves | | **3,304** | 3,050 |
| | | **4,748** | **4,634** |
| Drawn borrowings | C7 | **991** | 1,146 |
| Finance lease payable | C8 | **52** | 49 |
| Less: cash and cash equivalents | C5 | **(69)** | (276) |
| | | **974** | **919** |
| **Net capital** | | **5,722** | **5,553** |

| NET DEBT TO EBITDAF | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| Drawn borrowings | C7 | **991** | 1,146 |
| Finance lease payable | C8 | **52** | 49 |
| Operating lease commitments | F5 | **37** | 42 |
| Less: cash and cash equivalents | C5 | **(69)** | (276) |
| Add back: restricted cash | C5 | **22** | 7 |
| Add back: cash buffer[1] | | **12** | 67 |
| **Net debt (A)** | | **1,045** | **1,035** |
| **EBITDAF (B)** | | **618** | **585** |
| **Net debt to EBITDAF (times) (A/B)** | | **1.7** | **1.8** |

1 The cash buffer is calculated as 25% of unrestricted cash and cash equivalents.

| EBITDAF INTEREST COVER | NOTE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|---|
| **EBITDAF (B)** | | **618** | **585** |
| Interest on borrowings | A3 | **80** | 88 |
| Interest on finance lease | A3 | **6** | 4 |
| **Interest (C)** | | **86** | **92** |
| **EBITDAF Interest cover (times) (B/C)** | | **7.2** | **6.4** |
| **Standard & Poor's rating** | | **BBB+** | **BBB+** |

## C2 Share Capital

| SHARE CAPITAL | GROUP 2015 SHARES | GROUP 2015 $M | GROUP 2014 SHARES | GROUP 2014 $M |
|---|---|---|---|---|
| Shares issued | 2,563,000,000 | 1,600 | 2,563,000,000 | 1,600 |
| Treasury shares held | (1,708,270) | (3) | (965,016) | (1) |
| **Share capital** | **2,561,291,730** | **1,597** | **2,562,034,984** | **1,599** |

All shares issued are fully paid and have equal voting rights. All shares participate equally in any dividend distribution or any surplus on the winding up of the Company.

The movement in Treasury shares relates to the purchase of shares by participants and held on trust as part of a long-term equity settled incentive plan for New Zealand-based senior executives (refer note F2 Share-Based Payments).

## C3 Earnings per Share

| BASIC AND DILUTED EARNINGS PER SHARE (EPS) | GROUP 2015 | GROUP 2014 |
|---|---|---|
| Profit after tax attributable to shareholders of the parent company ($M) | 247 | 230 |
| Weighted average number of shares used in the calculation of EPS | 2,563,000,000 | 2,563,000,000 |
| Basic EPS (cents per share) | 9.6 | 9.0 |
| Diluted EPS (cents per share) | 9.6 | 9.0 |

## C4 Dividends

| DIVIDENDS DECLARED AND PAID | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Interim ordinary and special dividend 2015: 6.20cps (2014: 4.20cps) | **159** | 109 |
| Final ordinary and special dividend 2014: 8.80cps (2013: 6.00cps) | **226** | 152 |
| **Total dividends paid** | **385** | **261** |

| DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY | 2015 | 2014 |
|---|---|---|
| Final ordinary dividend 2015: 8.08cps (2014: 6.80cps) | **207** | 175 |
| Special dividend 2015: 3.95cps (2014: 2.00cps) | **101** | 51 |

| IMPUTATION CREDIT BALANCE | 2015 | 2014 |
|---|---|---|
| Imputation credits available for future use | **24** | 51 |

### Dividend policy

Meridian's dividend policy considers free cash flow, working capital requirements, medium-term investment programme, maintaining BBB+ credit rating and risks from short and medium-term economic, market and hydrology conditions.

### Subsequent event – dividend declared

On 18 August 2015 the Board declared a partially imputed final ordinary dividend of 8.08 cents per share. Additionally the Board declared an un-imputed special dividend of 3.95 cents per share.

### Imputation credit balance

The imputation credits available for future use reflects the balance available on 18 August 2015, therefore recognising any tax payments between balance date and 18 August 2015.

## C5 Cash and Cash Equivalents

| CASH AND CASH EQUIVALENTS | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Current account | **51** | 242 |
| Money market account | **18** | 34 |
| **Cash and cash equivalents** | **69** | **276** |

Cash and cash equivalents is made up of cash on hand, on-demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are not subject to a significant risk of change in value.

All cash and cash equivalents are invested with Meridian's banks or held as collateral by JP Morgan.

### Restricted cash

Meridian trades electricity hedges on the ASX using JP Morgan as a broker. As a result, a proportion of the funds it holds on deposit are pledged as margin which varies depending on market movements and contracts held. At 30 June 2015, this collateral was $22 million (30 June 2014: $7 million).

All other cash and cash equivalent balances are available for use.

| RECONCILIATION OF NPAT TO CASH FLOWS FROM OPERATING ACTIVITIES | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| **Net profit after tax** | **247** | **230** |
| *Adjustments for operating activities non-cash items:* | | |
| Depreciation and amortisation | **239** | 220 |
| Movement in deferred tax | **(58)** | (18) |
| Net change in fair value of financial instruments | **33** | (18) |
| Proceeds from closeout of aluminium commodity swap | **-** | 55 |
| Electricity option premiums | **(16)** | (21) |
| Share-based payments | **1** | - |
| | **199** | **218** |
| *Items classified as investing activities:* | | |
| Impairment of assets | **35** | - |
| Gain on sale of assets | **(19)** | (7) |
| | **16** | **(7)** |
| *Items classified as financing activities:* | | |
| Amortisation of prepaid debt facility fees | **1** | 2 |
| | **1** | **2** |
| *Changes in working capital items:* | | |
| (Increase)/decrease in accounts receivable | **(8)** | 72 |
| Increase in other assets | **(2)** | (5) |
| Decrease in payables and accruals | **(29)** | (39) |
| Increase/(decrease) in current tax payable | **(35)** | 6 |
| Working capital items in investing activities | **61** | (53) |
| Working capital items in financing activities and other non-cash items | **(10)** | 9 |
| | **(23)** | **(10)** |
| **Cash flow from operating activities** | **440** | **433** |

## C6 Trade Receivables

| TRADE RECEIVABLES | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Current billed and accrued receivables | **185** | 176 |
| Past due 1 to 30 days | **6** | 5 |
| Past due 31 to 60 days | **1** | 2 |
| Past due 61 to 90 days | **2** | 1 |
| Past due greater than 90 days | **2** | 2 |
| Less: Provision for doubtful debts | **(5)** | (3) |
| **Total trade receivables** | **191** | **183** |
| Accounts receivable past due but not impaired | **6** | 7 |
| **Movement in provision for doubtful debts** | | |
| Opening provision | **(3)** | (4) |
| Provision created in the year | **(7)** | (7) |
| Provision used in the year | **5** | 8 |
| **Closing provision for doubtful debts** | **(5)** | **(3)** |

### Trade receivables, measurement and recognition

Trade receivables are measured on initial recognition at fair value, and are subsequently carried at amortised cost. The overdue amounts are largely related to electricity sales to retail customers. Allowances are made for estimated unrecoverable amounts (provision for doubtful debts), and these are recognised in the income statement. The provision for doubtful debts is measured as the difference between the trade receivables carrying amount and expected future cash flows, which has considered customer credit history and historical recovery of receivables.

Trade receivables written off during the year were $5 million (30 June 2014: $8 million).

## C7 Borrowings

| GROUP (NZ$M) | CURRENCY BORROWED IN | GROUP 2015 DRAWN FACILITY AMOUNT | GROUP 2015 TRANSACTION COSTS PAID | GROUP 2015 FAIR VALUE ADJUSTMENT | GROUP 2015 CARRYING AMOUNT | GROUP 2014 DRAWN FACILITY AMOUNT | GROUP 2014 TRANSACTION COSTS PAID | GROUP 2014 FAIR VALUE ADJUSTMENT | GROUP 2014 CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|---|---|
| **Current borrowings** | | | | | | | | | |
| Unsecured borrowings | NZD | 60 | (1) | - | 59 | 135 | (2) | - | 133 |
| Unsecured borrowings | USD | 146 | - | 8 | 154 | - | - | - | - |
| **Total current borrowings** | | **206** | **(1)** | **8** | **213** | **135** | **(2)** | **-** | **133** |
| **Non-current borrowings** | | | | | | | | | |
| Unsecured borrowings | NZD | 339 | (1) | - | 338 | 285 | (2) | - | 283 |
| Unsecured borrowings | AUD | - | - | - | - | 307 | (1) | - | 306 |
| Unsecured borrowings | USD | 446 | (1) | 80 | 525 | 419 | - | (49) | 370 |
| **Total non-current borrowings** | | **785** | **(2)** | **80** | **863** | **1,011** | **(3)** | **(49)** | **959** |
| **Total borrowings** | | **991** | **(3)** | **88** | **1,076** | **1,146** | **(5)** | **(49)** | **1,092** |

### Borrowings, measurement and recognition

Borrowings are recognised initially at fair value of the drawn facility amount, net of transaction costs paid. Borrowings which have not been designated as hedged items (all borrowings with the exception of USD borrowings) are subsequently stated at amortised cost using the effective interest method. Borrowings which have been designated as hedged items (USD borrowings) are carried at amortised cost plus a fair value adjustment under hedge accounting requirements. The total carrying value of all borrowings is considered to approximate fair value. This is classified as a level 2 fair value (a definition of the levels is included in note D2 Financial Instruments).

Meridian uses cross currency interest rate swap (CCIRS) hedge contracts to manage its exposure to interest rates and borrowings sourced in currencies different to that of the borrowing entity's reporting currency.

Meridian's (net) cost of funds for the year was 6.26% (30 June 2014: 6.74%).

## C7 Borrowings *continued*

| FUNDING FACILITIES – GROUP (NZ$M) | CURRENCY BORROWED IN | GROUP 2015 | | | GROUP 2014 | | |
|---|---|---|---|---|---|---|---|
| | | FACILITY AMOUNT | DRAWN FACILITY AMOUNT | UNDRAWN FACILITY AMOUNT | FACILITY AMOUNT | DRAWN FACILITY AMOUNT | UNDRAWN FACILITY AMOUNT |
| **Bank facilities** | | | | | | | |
| New Zealand bank funding[1] | NZD | 525 | 65 | 460 | 300 | - | 300 |
| Australian bank funding[1] | AUD | - | - | - | 431 | 307 | 124 |
| EKF funding[2] | NZD | 110 | 110 | - | 120 | 120 | - |
| **Bank facilities** | | **635** | **175** | **460** | **851** | **427** | **424** |
| **Other sources of borrowings** | | | | | | | |
| Renewable energy bonds[3] | NZD | 75 | 75 | - | 200 | 200 | - |
| Floating rate notes[1] | NZD | 100 | 100 | - | 100 | 100 | - |
| Fixed rate bonds[4] | USD | 591 | 591 | - | 419 | 419 | - |
| Commercial paper[5] | NZD | 50 | 50 | - | - | - | - |
| **Total other sources of borrowings** | | **816** | **816** | **-** | **719** | **719** | **-** |
| **Total facilities** | | **1,451** | **991** | **460** | **1,570** | **1,146** | **424** |

1 Funding bears interest at the relevant market floating rate plus a margin.
2 EKF facility is an unsecured 12-year amortising term loan, provided by the official export credit agency of Denmark, for the construction of Te Uku wind farm.
3 Renewable Energy Bonds are senior unsecured retail bonds bearing an interest rate of 7.55%.
4 US Dollar fixed rate bonds are unsecured fixed rate bonds issued in the US Private Placement Market.
5 New Zealand Dollar commercial papers are senior unsecured short-term debt obligations paying a fixed rate of return over a set period of time.

## C8 Finance Lease Payable

| FINANCE LEASE PAYABLE ANALYSIS | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| **Minimum lease payments** | | |
| Not later than 1 year | **7** | 7 |
| Later than 1 year and not later than 2 years | **7** | 7 |
| Later than 3 years and not later than 5 years | **23** | 20 |
| Later than 5 years | **120** | 121 |
| **Gross investment in finance lease** | **157** | **155** |
| Less future finance costs | **(105)** | (106) |
| **Present value of minimum lease payments** | **52** | **49** |
| *Analysed as:* | | |
| Not later than 1 year | **1** | 1 |
| Later than 1 year and not later than 3 years | **1** | 1 |
| Later than 3 years and not later than 5 years | **2** | 1 |
| Later than 5 years | **48** | 46 |
| **Gross investment in finance lease** | **52** | **49** |
| *Comprising:* | | |
| Current | **1** | 1 |
| Non-current | **51** | 48 |
| | **52** | **49** |

### Finance lease payable, measurement and recognition

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Meridian recognises liabilities under finance lease arrangements as payable at an amount equal to the present value of the minimum lease payments. Finance lease payments are apportioned between principal repayments, relating to the lease payable, and interest expenses. The interest reflects a constant periodic charge over the term of the lease. Finance lease payables are classified as financial liabilities at amortised cost.

### Finance lease details

Meridian entered into a finance lease for the Mill Creek transmission line with Wellington Electricity. The lease is for a period of 25 years from commencement in 2014.

Mt Mercer Windfarm Pty Limited entered into finance leases with SP Ausnet and Transmission Operations Australia (TOA) for transmission connection assets at the Elaine Terminal Station for the Mt Mercer wind farm. SP Ausnet constructed the interface to provide transmission services, while TOA was engaged to construct the Elaine Terminal Station. The term of the lease agreements is 25 years from the connection commencement date, being 10 November 2014.

Meridian reported a finance lease interest expense of $6 million (30 June 2014: $4 million) in finance costs in the income statement.

The net book value of assets subject to a finance lease and included in note B1 Property, Plant and Equipment is $49 million (30 June 2014: $48 million). All assets are classified as other plant and equipment.

# D. Financial instruments used to manage risk

### IN THIS SECTION

**This section explains the financial risks Meridian faces, how these risks affect Meridian's financial position and performance, and how Meridian manages these risks. In this section of the notes there is information:**

**a) Outlining Meridian's approach to financial risk management.**

**b) Analysing financial (hedging) instruments used to manage risk.**

## D1 Financial Risk Management

Meridian's activities expose it to a variety of financial risks. Its financial risk management framework focuses on the unpredictability of financial markets and wholesale electricity markets. The Board approves policies including Group Treasury, Electricity Hedging and Credit policies which set appropriate principles and risk tolerance levels to guide management in carrying out financial risk management activities to minimise potential adverse effects on the financial performance and economic value of the Group. In order to hedge certain risk exposures, Meridian uses derivative financial instruments (hedges). These hedges are not always designated as financial instruments in a hedging relationship for accounting purposes. Meridian does not enter into speculative trades.

### Financial instrument recognition

Meridian designates or classifies financial hedging instruments as either:

- ***Fair value hedge***, hedges of the fair value of recognised assets or liabilities or a firm commitment; or
- ***Cash flow hedge***, hedges of a particular cash flow associated with a recognised asset or liability or a highly probable forecast transaction; or
- ***Held for trading***, financial instruments which have not been designated in a hedging relationship.

Hedging instruments are recognised at fair value on the date the contract is agreed and are re-measured on a periodic basis. The recognition of movements in fair value depends upon the hedging instrument and its designation or classification, as summarised in the following. Realised gains or losses are recognised in the income statement or balance sheet on the same line as the hedged item.

**Fair value hedge**

Changes in the fair value of hedges that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity.

**Cash flow hedge**

Changes in fair value of hedges which are designated and qualify as cash flow hedges and are considered effective for accounting purposes are recognised in the cash flow hedge reserve (in equity) and in other comprehensive income. The gain or loss relating to any ineffective element is recognised immediately in the income statement.

Amounts accumulated in other comprehensive income are recycled in the income statement in the periods when the forecast transaction takes place.

**Held for trading**

Hedges that do not qualify for hedge accounting or for which hedge accounting is not actively sought are classified as being held for trading, with changes in fair value recognised immediately in the income statement.

## D1 Financial Risk Management *continued*

## Management of Meridian's key financial risks

### Credit risk

Meridian is exposed to the risk of default in relation to: electricity sales to wholesale and retail customers, hedging instruments, guarantees and deposits held with banks and other financial institutions.

Management monitors the size and nature of retail customer exposure and acts to mitigate the risk deemed to exceed acceptable levels.

Individual credit limits are set for wholesale electricity customers based on internal or external credit ratings in accordance with limits set by the Board. Where customers are not independently credit rated, an assessment of credit quality is made, taking into account financial position, past experience and other relevant factors. These assessments and the utilisation of credit limits and security provided by wholesale customers are reviewed and monitored by the Chief Financial Officer.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The carrying amounts of financial assets recognised on the balance sheet best represent Meridian's maximum likely exposure to credit risk at the date of this report. Meridian does not have any significant credit risk concentrations.

### Liquidity risk

Meridian is exposed to the dynamic nature of the electricity market and weather patterns, which can impact liquidity.

Meridian maintains flexibility in funding by keeping committed surplus credit lines available of at least $200 million which ensures it has sufficient headroom under normal and abnormal conditions.

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements which provide credit support of $99 million for the collateral requirements of Meridian's trading business (30 June 2014: $103 million). Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

### Electricity price risk

Meridian is exposed to changes in the spot price of electricity it receives for electricity generated or pays to buy electricity to supply customers. Additionally inflows into Meridian's storage lakes are variable therefore the volume of electricity required to supply customers may exceed generation production.

In order to firm up the prices received from or paid to the wholesale markets Meridian uses hedge contracts within approved Board parameters. Hedges are either traded on the Australian Securities Exchange (ASX) or directly with other generators, retailers and customers. The hedging strategy focuses on the net exposure by estimating both expected generation and electricity purchases required to support contracted sales. In addition, Meridian's Australian wind farms earn Renewable Energy Certificates (in the form of Large Scale Generation Certificates (LGCs)). LGC options and forward contracts are used to hedge this price risk.

#### Material hedge agreement with NZAS

On 7 August 2013, Meridian and NZAS entered into an electricity price agreement. This agreement is for a period of up to 18 years and is based on 400MW to 572MW of continuous consumption at the Tiwai smelter. The agreed energy price is subject to escalation with reference to the Consumer Price Index (CPI) (All Groups) and world aluminium prices.

| | NET FAIR VALUE ON THE BALANCE SHEET | | FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT | | OUTSTANDING AGGREGATE NOTIONAL PRINCIPALS | |
|---|---|---|---|---|---|---|
| ACCOUNTING TREATMENT | 2015 $M | 2014 $M | 2015 $M | 2014 $M | 2015 | 2014 |
| **Electricity hedges, LGC options and forward contracts**<br>Classified as held for trading. Changes in fair value are recognised in the income statement within "Net change in fair value of electricity and other hedges". | **61** | 23 | **(1)** | (9) | Electricity hedges: 89,721GWh<br>LGC options: 1.2 million | 93,003GWh<br>1.1 million |

D FINANCIAL INSTRUMENTS USED TO MANAGE RISK

## D1 Financial Risk Management *continued*

### Funding risks

Meridian is exposed to foreign exchange changes on borrowings made in currencies which differ from the reporting currency and interest rate changes on floating rate borrowings.

Meridian uses CCIRS to manage changes in foreign currency which swap all foreign currency denominated interest and principal repayments to the reporting currency of the borrowing entity. The combination of the foreign denominated debt and CCIRS results in floating rate borrowings in the entity's reporting currency. Meridian manages interest rate changes on floating rate borrowings by using interest rate swaps (IRS) which swap interest rates between floating and fixed.

| ACCOUNTING TREATMENT | NET FAIR VALUE ON THE BALANCE SHEET | | FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT | | OUTSTANDING AGGREGATE NOTIONAL PRINCIPALS[1] | |
|---|---|---|---|---|---|---|
| | 2015 $M | 2014 $M | 2015 $M | 2014 $M | 2015 $M | 2014 $M |
| **CCIRS** | **84** | (51) | **-** | (1) | **593** | 743 |
| Designated as a combination of fair value and cash flow hedges. | | | | | | |
| CCIRS – fair value hedge | **88** | (49) | **-** | (1) | **-** | - |
| Converts fixed interest borrowings to floating in the originating currency, with changes in the fair value recorded in the income statement in "Net change in fair value of Treasury instruments", together with any changes in the fair value of the hedged borrowings. See note C7 Borrowings. | | | | | | |
| CCIRS – cash flow hedge | **(4)** | (2) | **-** | - | **-** | - |
| Converts floating interest in the originating borrowing currency to the reporting currency of the borrowing entity with a credit margin. Changes in fair value relating to the effective hedge portion is recognised in other comprehensive income, with any ineffective portion recognised in the income statement within "Net change in fair value of Treasury instruments". | | | | | | |
| **IRS** | **(85)** | (52) | **(32)** | 28 | **2,234** | 2,433 |
| Classified as held for trading, with changes in fair value recognised in the income statement within "Net change in fair value of Treasury instruments". | | | | | | |

1 These cover multiple legs including offsetting legs and maturities out to 2029.

## D2 Financial Instruments

### Fair value of hedging financial instruments

The recognition and measurement of hedging financial instruments requires management estimation and judgement. These estimates can have a significant risk of material adjustment in future periods (see the following page for further details). The table below shows the fair value of financial instrument assets and liabilities, grouped within a three-level fair value hierarchy based on the observability of valuation inputs. There have been no transfers between levels in respect of these assets and liabilities.

| | GROUP $M | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | |
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Financial instruments – assets** | | | | | | | | |
| *Held for trading:* | | | | | | | | |
| Electricity hedges | 14 | - | 89 | **103** | 6 | - | 67 | 73 |
| Interest rate swaps | - | 8 | - | **8** | - | 5 | - | 5 |
| *Cash flow hedges:* | | | | | | | | |
| Foreign exchange contracts | - | - | - | **-** | - | 3 | - | 3 |
| Cross currency interest rate swaps | - | 4 | - | **4** | - | 2 | - | 2 |
| *Fair value hedges:* | | | | | | | | |
| Cross currency interest rate swaps | - | 80 | - | **80** | - | - | - | - |
| **Total** | **14** | **92** | **89** | **195** | **6** | **10** | **67** | **83** |
| *Current* | | | | **48** | | | | 20 |
| *Non-current* | | | | **147** | | | | 63 |
| **Financial instruments – liabilities** | | | | | | | | |
| *Held for trading:* | | | | | | | | |
| Electricity hedges | 13 | - | 29 | **42** | 10 | - | 40 | 50 |
| Interest rate swaps | - | 93 | - | **93** | - | 57 | - | 57 |
| *Cash flow hedges:* | | | | | | | | |
| Foreign exchange contracts | - | - | - | **-** | - | 3 | - | 3 |
| Cross currency interest rate swaps | - | - | - | **-** | - | 3 | - | 3 |
| *Fair value hedges:* | | | | | | | | |
| Cross currency interest rate swaps | - | - | - | **-** | - | 50 | - | 50 |
| **Total** | **13** | **93** | **29** | **135** | **10** | **113** | **40** | **163** |
| *Current* | | | | **34** | | | | 38 |
| *Non-current* | | | | **101** | | | | 125 |
| **Held for sale financial instruments – assets** | | | | | | | | |
| **Listed securities** | | | | **-** | **4** | **-** | **-** | **4** |

- ***Level 1 Inputs*** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Electricity hedges traded on the ASX are classified as level 1.
- ***Level 2 Inputs*** – Either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs other than quoted prices included in Level 1. IRS, CCIRS and foreign exchange contracts have level 2 inputs and are valued using a DCF valuation technique.
- ***Level 3 Inputs*** – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below provides a summary of the movements in the fair value of level 3 financial instruments:

| | GROUP | |
|---|---|---|
| RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS | 2015 $M | 2014 $M |
| **Opening balance** | **27** | 20 |
| Cost of hedges acquired | **29** | 4 |
| Re-measurement | **4** | 3 |
| **Closing balance** | **60** | **27** |

## D2 Financial Instruments *continued*

### Fair value technique and key inputs

In estimating the fair value of an asset or liability, Meridian uses market-observable data to the extent it is available. Where observable inputs are not available, Meridian engages third party experts to support the establishment of appropriate valuation techniques and inputs to valuation models. The Audit and Risk Committee of Meridian determines the overall appropriateness of key valuation techniques and inputs for fair value measurement. The Chief Financial Officer explains fair value movements in his report to the Board.

Where the fair value of a financial instrument is calculated as the present value of the estimated future cash flows of the instrument DCFs, three key types of inputs and assumptions are used by the valuation technique. These are:

- forward price curves referenced to the ASX for electricity, published market interest rates and published forward foreign exchange rates;
- discount rates based on the forward IRS curve adjusted for counterparty risk; and
- contracts run their full term.

**The table below describes the additional key inputs and techniques used in the valuation of level 3 financial instruments:**

| FINANCIAL ASSET OR LIABILITY | DESCRIPTION OF INPUT | RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS | RELATIONSHIP OF INPUT TO FAIR VALUE |
|---|---|---|---|
| ***Electricity hedges***, valued using DCFs | ***Price***, where quoted prices are not available or not relevant (i.e. for long dated and large volume contracts such as the contract with NZAS), Meridian's best estimate of long-term forward wholesale electricity prices is used. This is based on a fundamental analysis of expected demand and the cost of new supply. | \$55MWh to \$98MWh (in real terms), excludes observable ASX prices. | An increase in forward wholesale electricity price increases the fair value of buy hedges and decreases the fair value of sell hedges. A decrease in forward wholesale electricity price has the opposite effect. |
| | ***Forecast CPI***, an internal inflation rate estimate. | 2.25% | An increase in the forecast rate increases the fair value of the NZAS contract. A decrease has the opposite effect. |
| | ***Other factors***, include:<br>• London Metal Exchange quoted prices for primary aluminium.<br>• Calibration factor applied to forward price curves as a consequence of initial recognition differences. | | |

**Sensitivity analysis**

The table below summarises the impact significant inputs will have on the valuation of hedging financial instruments and therefore on Meridian's profit and equity. The sensitivity analysis assumes all other variables are held constant.

| | | IMPACT ON AFTER-TAX PROFIT | | IMPACT ON EQUITY | |
|---|---|---|---|---|---|
| GROUP ($M) | SENSITIVITY | 2015 | 2014 | 2015 | 2014 |
| **Interest rate hedges** | | | | | |
| New Zealand benchmark bill rate | -100 bps | **(28)** | (24) | **(28)** | (24) |
| | +100 bps | **26** | 22 | **26** | 22 |
| Australian benchmark bill rate | -100 bps | **(6)** | (9) | **(6)** | (9) |
| | +100 bps | **6** | 9 | **6** | 9 |
| **Electricity hedges**[1] | | | | | |
| Electricity prices | -10% | **132** | 138 | **132** | 138 |
| | +10% | **(125)** | (134) | **(125)** | (134) |
| Discount rates | -100 bps | **1** | 1 | **1** | 1 |
| | +100 bps | **(1)** | (1) | **(1)** | (1) |

1 The majority of impacts on after-tax profit and equity result from level 3 electricity hedges.

## D2 Financial Instruments *continued*

### Changes in fair value of financial instruments recognised in the income statement

This table provides a summary of changes in fair value which have been recognised within the income statement.

| FAIR VALUE CHANGES RECOGNISED IN THE INCOME STATEMENT | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Net change in fair value of Treasury instruments: | | |
| Cross currency interest rate swaps | **(138)** | (9) |
| Borrowings – fair value of hedged risk | **138** | 8 |
| **Fair value hedges** | **-** | **(1)** |
| Interest rate swaps | **(32)** | 28 |
| **Held for trading – interest rate swaps** | **(32)** | **28** |
| **Total net change in fair value of Treasury instruments** | **(32)** | **27** |
| Net change in fair value of electricity and other hedges: | | |
| Electricity hedges | **(1)** | (9) |
| **Total net change in fair value of electricity and other hedges** | **(1)** | **(9)** |
| **Total** | **(33)** | **18** |

**Level 3 analysis**

The following is a summary of how financial instruments which have been classified as level 3 (certain electricity hedges) have been recognised in the income statement:

- Fair value movements recognised in net change in fair value of electricity and other hedges in FY2015 is $4 million (2014: $3 million).
- Fair value movements of electricity hedges in FY2015 which are held at balance date is nil (2014: $6 million).
- Electricity and LGC hedges settled in FY2015 and recognised in operating revenue and operating expenses is $(100) million (2014: $(44) million).

### Initial recognition difference

An initial recognition difference arises when the modelled value of an electricity hedge differs from the transaction price (which is the best evidence of fair value). This difference is accounted for by recalibrating the valuation model by a fixed percentage to result in a value at inception equal to the transaction price. This recalibration is then applied to future valuations over the life of the contract.

The resulting difference shown in the table reflects potential future gains or losses yet to be recognised in the income statement over the remaining life of the contract.

| MOVEMENTS IN RECALIBRATION DIFFERENCES ARISING FROM ELECTRICITY HEDGING | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Opening difference | **912** | 186 |
| Initial differences in new hedges | **15** | 853 |
| Volumes expired and amortised | **(65)** | (159) |
| Recalibration for future price estimates and time | **102** | 32 |
| **Closing difference** | **964** | **912** |

# D2 Financial Instruments *continued*

## Movements in cash flow hedge reserve

The table below shows the movements in the cash flow hedge reserve. There has been no ineffectiveness recognised in the income statement from the cash flow hedges.

| | GROUP $M | | | |
|---|---|---|---|---|
| | FOREIGN EXCHANGE CONTRACTS | CROSS CURRENCY INTEREST RATE SWAP | TAX | TOTAL |
| **Balance at 1 July 2013** | **11** | **2** | **(4)** | **9** |
| Re-measurement | (121) | (4) | 37 | **(88)** |
| Applied to the cost of the hedged item | 110 | - | (32) | **78** |
| **Balance at 30 June 2014 and 1 July 2014** | **-** | **(2)** | **1** | **(1)** |
| Re-measurement | (54) | (2) | 16 | **(40)** |
| Applied to the cost of the hedged item | 54 | - | (16) | **38** |
| **Balance at 30 June 2015** | **-** | **(4)** | **1** | **(3)** |

## Gross amounts held in cash flow hedge reserve

The table below shows when the gross amounts held in the cash flow hedge reserve are expected to impact the income statement (CCIRS) or the balance sheet (foreign exchange contracts and IRS). The cash flows are aligned to those of the underlying hedged item.

| | 2015 GROUP $M | | | | | 2014 GROUP $M | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | DUE WITHIN 1 YEAR | DUE IN 1 TO 2 YEARS | DUE IN 3 TO 5 YEARS | DUE AFTER 5 YEARS | TOTAL | DUE WITHIN 1 YEAR | DUE IN 1 TO 2 YEARS | DUE IN 3 TO 5 YEARS | DUE AFTER 5 YEARS | TOTAL |
| Cross currency interest rate swaps | - | - | - | (4) | **(4)** | 1 | - | (1) | (2) | **(2)** |
| **Total** | **-** | **-** | **-** | **(4)** | **(4)** | **1** | **-** | **(1)** | **(2)** | **(2)** |

## Contractual maturities

The following tables are an analysis of the contractual undiscounted cash flows (settlements expected under the contracts) relating to financial liabilities and a reconciliation from total undiscounted cash flows to carrying amounts.

Meridian expects to meet its future obligations from operating cash flows and debt financing.

| | 2015 GROUP $M | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | DUE WITHIN 1 YEAR | DUE IN 1 TO 2 YEARS | DUE IN 3 TO 5 YEARS | DUE AFTER 5 YEARS | TOTAL UNDISCOUNTED CASH FLOWS | IMPACT OF OTHER NON-CASH ITEMS | IMPACT OF INTEREST/FX DISCOUNTING | 2015 CARRYING VALUE |
| Borrowings | (247) | (184) | (425) | (376) | **(1,232)** | 3 | 153 | **(1,076)** |
| Finance leases | (7) | (7) | (23) | (120) | **(157)** | - | 105 | **(52)** |
| Payables, accruals and other | (209) | (20) | - | - | **(229)** | - | 1 | **(228)** |
| Interest rate swaps/options | (26) | (23) | (36) | (23) | **(108)** | - | 15 | **(93)** |
| Electricity hedges | (78) | (29) | (64) | (1,089) | **(1,260)** | 910 | 308 | **(42)** |
| | **(567)** | **(263)** | **(548)** | **(1,608)** | **(2,986)** | **913** | **582** | **(1,491)** |

## D2 Financial Instruments *continued*

| | 2014 GROUP $M | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | DUE WITHIN 1 YEAR | DUE IN 1 TO 2 YEARS | DUE IN 3 TO 5 YEARS | DUE AFTER 5 YEARS | TOTAL UNDISCOUNTED CASH FLOWS | IMPACT OF OTHER NON-CASH ITEMS | IMPACT OF INTEREST/FX DISCOUNTING | 2014 CARRYING VALUE |
| Borrowings | (189) | (238) | (648) | (199) | **(1,274)** | 4 | 178 | **(1,092)** |
| Finance leases | (7) | (7) | (20) | (121) | **(155)** | - | 106 | **(49)** |
| Payables, accruals and other | (236) | (1) | - | (7) | **(244)** | - | - | **(244)** |
| Interest rate swaps/options | (23) | (14) | (20) | (12) | **(69)** | - | 12 | **(57)** |
| Electricity hedges | (73) | (71) | (55) | (1,145) | **(1,344)** | 876 | 418 | **(50)** |
| Foreign exchange contracts | (3) | - | - | - | **(3)** | - | - | **(3)** |
| Cross currency interest rate | (1) | (37) | (76) | (20) | **(134)** | - | 81 | **(53)** |
| | **(532)** | **(368)** | **(819)** | **(1,504)** | **(3,223)** | **880** | **795** | **(1,548)** |

### Financial instruments which are offset

In certain circumstances Meridian is permitted to offset the fair value of financial instruments. This includes where Meridian is subject to International Swaps and Derivatives Association (ISDA) master agreements with its counterparties. The table below shows the financial instrument assets and liabilities which have been offset within Meridian's financial statements.

| | GROUP 2015 $M | | | | | |
|---|---|---|---|---|---|---|
| | GROSS VALUE | SET OFF VALUE | NET PER FINANCIAL STATEMENTS | NOT SET OFF[1] | COLLATERAL | NET |
| **Financial instrument assets** | | | | | | |
| Electricity hedges – offset | 241 | (153) | **88** | - | - | **88** |
| Electricity hedges – not offset | 15 | - | **15** | - | - | **15** |
| Treasury financial instruments | 92 | - | **92** | (8) | - | **84** |
| **Total financial instrument assets** | **348** | **(153)** | **195** | **(8)** | **-** | **187** |
| **Financial instrument liabilities** | | | | | | |
| Electricity hedges – offset | (195) | 153 | **(42)** | - | 22 | **(20)** |
| Treasury financial instruments | (93) | - | **(93)** | 8 | - | **(85)** |
| **Total financial instrument liabilities** | **(288)** | **153** | **(135)** | **8** | **22** | **(105)** |

| | GROUP 2014 $M | | | | | |
|---|---|---|---|---|---|---|
| | GROSS VALUE | SET OFF VALUE | NET PER FINANCIAL STATEMENTS | NOT SET OFF[1] | COLLATERAL | NET |
| **Financial instrument assets** | | | | | | |
| Electricity hedges – offset | 275 | (207) | **68** | - | - | **68** |
| Electricity hedges – not offset | 5 | - | **5** | - | - | **5** |
| Treasury financial instruments | 10 | - | **10** | (7) | - | **3** |
| **Total financial instrument assets** | **290** | **(207)** | **83** | **(7)** | **-** | **76** |
| **Financial instrument liabilities** | | | | | | |
| Electricity hedges – offset | (257) | 207 | **(50)** | - | 7 | **(43)** |
| Treasury financial instruments | (113) | - | **(113)** | 7 | - | **(106)** |
| **Total financial instrument liabilities** | **(370)** | **207** | **(163)** | **7** | **7** | **(149)** |

1 Legally offsettable but not intended to be settled on a net basis.

# E. Group structure

**IN THIS SECTION**

**This section provides information to help readers understand the Meridian Group structure and how it affects the financial position and performance of the Group. In this section of the notes there is information about:**

**a) Subsidiaries.**

**b) Investments in joint ventures.**

## E1 Subsidiaries

The consolidated financial statements include the financial statements of Meridian Energy Limited and the subsidiaries listed below. They all have share capital consisting solely of ordinary shares that the Group holds directly, and the proportion of ownership interests held equals the Group's voting rights. Meridian Energy Limited provides support to its subsidiaries where necessary in order to ensure they meet their obligations as they fall due.

| | | | | INTEREST HELD BY THE GROUP | |
|---|---|---|---|---|---|
| NAME OF ENTITY | PRINCIPAL ACTIVITY | FUNCTIONAL CURRENCY | OWNERSHIP CHANGE | 2015 | 2014 |
| Damwatch Engineering Limited | Professional Services | New Zealand Dollar | | 100% | 100% |
| Damwatch Projects Limited | Professional Services | New Zealand Dollar | | 100% | 100% |
| Damwatch Pty Limited | Professional Services | Australian Dollar | | 100% | 100% |
| MEL Solar Holdings Limited | Holding Company | New Zealand Dollar | | 100% | 100% |
| Meridian Australia Holdings Pty Limited[1] | Holding Company | Australian Dollar | | 100% | 100% |
| Meridian Energy Australia Pty Limited[1] | Management Services | Australian Dollar | | 100% | 100% |
| Meridian Energy Captive Insurance Limited | Insurance Company | New Zealand Dollar | | 100% | 100% |
| Meridian Energy International Limited | Non-trading Entity | New Zealand Dollar | | 100% | 100% |
| Meridian Energy Markets Pty Limited[1] | Non-trading Entity | Australian Dollar | | 100% | 100% |
| Meridian Finco Pty Limited[1] | Financing Company | Australian Dollar | | 100% | 100% |
| Meridian Limited | Non-trading Entity | New Zealand Dollar | | 100% | 100% |
| Meridian LTI Trustee Limited | Trustee Company | New Zealand Dollar | | 100% | 100% |
| Meridian Wind Australia Holdings Pty Limited[1] | Holding Company | Australian Dollar | | 100% | 100% |
| Meridian Wind Monaro Range Holdings Pty Limited[1] | Holding Company | Australian Dollar | | 100% | 100% |
| Meridian Wind Monaro Range Pty Limited[1] | Holding Company | Australian Dollar | | 100% | 100% |
| Mt Mercer Windfarm Pty Limited[1] | Electricity Generation | Australian Dollar | | 100% | 100% |
| Mt Millar Wind Farm Pty Limited[1] | Electricity Generation | Australian Dollar | | 100% | 100% |
| Powershop Australia Pty Limited | Electricity Retailing | Australian Dollar | | 100% | 100% |
| Powershop New Zealand Limited | Electricity Retailing | New Zealand Dollar | | 100% | 100% |
| Three Rivers Holding (No.1) Limited[1] | Holding Company | New Zealand Dollar | | 100% | 100% |
| Three Rivers Holding (No.2) Limited[1] | Holding Company | New Zealand Dollar | | 100% | 100% |
| *Entities sold, dissolved or amalgamated* | | | | | |
| ARC Innovations Limited | Metering Services | New Zealand Dollar | 1/12/2014 | 0% | 100% |
| Meridian (Whisper Tech No.2) Limited[3] | Non-trading Entity | New Zealand Dollar | 26/9/2014 | 0% | 100% |
| Meridian (Whisper Tech) Limited[3] | Non-trading Entity | New Zealand Dollar | 26/9/2014 | 0% | 100% |
| Meridian Energy USA Incorporated[2] | Development | US Dollar | 8/10/2014 | 0% | 100% |
| Whisper Tech (UK) Limited[2] | Non-trading Entity | British Pound | 19/9/2014 | 0% | 100% |
| Whisper Tech Limited[3] | Non-trading Entity | New Zealand Dollar | 26/9/2014 | 0% | 100% |
| WhisperGen Limited[3] | Non-trading Entity | New Zealand Dollar | 26/9/2014 | 0% | 100% |

1 Members of guaranteeing group.
2 Dissolved.
3 Amalgamated into Meridian Energy International Limited.

## E1 Subsidiaries *continued*

| DISPOSAL OF SUBSIDIARIES | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| **Assets and liabilities disposed of:** | | |
| Cash and cash equivalents | **-** | 2 |
| Accounts receivable | **2** | - |
| Property, plant and equipment | **7** | 16 |
| Other long-term assets | **4** | 1 |
| Current payables | **(1)** | - |
| **Assets and liabilities disposed** | **12** | **19** |
| Cash proceeds | **20** | 19 |
| Stamp duty refund | **5** | - |
| Reclassification of foreign currency translation reserve | **2** | (5) |
| **Gain/(loss) on disposal** | **15** | **(5)** |

### Disposal of subsidiaries 2015

- On 1 December 2014 Meridian sold its entire interest in Arc Innovations Limited. A gain of $8 million is recognised in the Group income statement.
- A refund of stamp duty was received relating to the 2013 sale of Meridian Wind Macarthur Holdings Pty Limited.
- On dissolving Meridian Energy USA Incorporated a $2 million gain is recognised in the Group income statement.

### Disposal of subsidiaries 2014

On 15 May 2014 the Group sold its entire interest in CalRENEW-1 LLC, a controlled entity of the parent. A loss of $5 million was recognised in the Group income statement.

## E2 Joint Ventures

| NAME OF ENTITY | COUNTRY AND DATE OF INCORPORATION | PRINCIPAL ACTIVITY | GROUP VOTING RIGHTS 2015 | VOTING RIGHTS 2014 | INTEREST HELD 2015 | INTEREST HELD 2014 | CARRYING VALUE 2015 | CARRYING VALUE 2014 |
|---|---|---|---|---|---|---|---|---|
| EDDI Project JV | New Zealand, 01/05/12 | Dam Management Systems | **50%** | 50% | **50%** | 50% | - | - |
| Hunter Downs Development Company | New Zealand, 01/07/13 | Irrigation Development | **50%** | 50% | **65%** | 100% | - | - |

E GROUP STRUCTURE

# F. Other

## IN THIS SECTION

**This section includes the remaining information relating to Meridian's financial statements which is required to comply with financial reporting standards.**

## F1 Held for Sale Assets and Liabilities

| ASSETS AND LIABILITIES HELD FOR SALE | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Arc Innovations Limited | - | 13 |
| Farming assets | **7** | 14 |
| **Total assets held for sale** | **7** | 27 |
| Farming liabilities | - | - |
| Arc Innovations Limited | - | (1) |
| **Total liabilities held for sale** | - | (1) |
| **Total net assets** | **7** | **26** |
| *Represented by the following classes of asset and liability:* | | |
| Accounts receivable | - | 1 |
| Available for sale investments | - | 4 |
| Intangible assets | - | 1 |
| Property, plant and equipment | **7** | 21 |
| **Total assets held for sale** | **7** | 27 |
| Payables and accruals | - | (1) |
| **Total liabilities held for sale** | - | (1) |
| **Total net assets** | **7** | **26** |

### Held for sale assets and liabilities, measurement and recognition

Assets and liabilities are classified as held for sale if the sale of an asset or disposal group is highly probable and is available for immediate sale in its present condition subject only to normal sale terms. Meridian measures a held for sale asset at the lower of its carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

### Farming assets

Meridian is committed to an active programme to sell land, buildings and other farm assets that are no longer required for development projects.

### Arc Innovations Limited

On 1 December 2014 Meridian sold its entire interest in Arc Innovations Limited.

## F2 Share-Based Payments

### Long-term incentive (LTI)

During 2014, Meridian implemented a long-term equity settled incentive plan for certain New Zealand-based senior executives.

Under the plan, executives purchase Meridian shares at market value funded by an interest-free loan granted by Meridian (for accounting purposes these are considered to be zero-priced options). The shares purchased are held by a trustee company with the executives entitled to exercise the voting rights attached to the shares and receive dividends, the proceeds of which are used to repay the interest-free loan.

At the end of each vesting period (three years), Meridian will pay a bonus to each executive to the extent their performance targets have been met which is sufficient, after tax, to repay the initial loan associated with the shares which vest. The shares upon which performance targets have been met then fully vest to the executives. The loan owing on shares which do not vest (the forfeited shares) will be novated from the plan members to the trustee company and fully repaid by the transfer of forfeited shares.

The performance targets relate to Meridian achieving a positive total shareholder return over the vesting period and the Company's performance relative to the benchmark peer group (being a number of NZX and ASX listed electricity generators and energy retailers).

### Share-based payments, measurement and recognition

The fair value of equity settled options at the grant date is recognised as an expense, together with a corresponding increase to the share option reserve within equity, over the vesting period in which the performance and/or service conditions are fulfilled. The total amount to be expensed is based on the initial fair value of each option along with the best estimate of the number of equity instruments that will ultimately vest which includes an assessment of the likelihood that service conditions will be met.

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as below:

| | GROUP | |
|---|---|---|
| | 2015 $M | 2014 $M |
| Expense for equity settled share-based payment transactions | **0.9** | 0.4 |

### Movement in zero-priced share options

| | | NUMBER OF SHARES | | | | | |
|---|---|---|---|---|---|---|---|
| GRANT DATE | VESTING DATE | BALANCE AT START OF THE YEAR | GRANTED DURING THE YEAR | EXERCISED DURING THE YEAR | EXPIRED DURING THE YEAR | BALANCE AT THE END OF THE YEAR | EXERCISABLE AT THE END OF THE YEAR |
| **Group – 2015** | | | | | | | |
| 17/9/2014 | 30/06/2017 | | 743,254 | - | - | | - |
| **Total** | | **908,166** | **743,254** | **-** | **-** | **1,651,420** | **-** |
| **Group – 2014** | | | | | | | |
| 29/10/2013 | 30/06/2016 | | 908,166 | - | - | | - |
| **Total** | | **-** | **908,166** | **-** | **-** | **908,166** | **-** |

The weighted average fair value of options granted during the year at grant date (determined using peer group performance probability weightings) was $1.04 per option (2014: $0.83).

## F3 Related Parties

Meridian transacts with other Government owned or related entities independently and on an arm's length basis. Transactions cover a variety of services including trading energy, transmission, postal, travel and tax.

Some directors of the Group may be directors or officers of other companies or organisations with whom members of the Group may transact. Such transactions are all carried out independently on an arm's length basis.

All transactions between companies within the Group are carried out on a commercial and arm's length basis.

### Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | GROUP | |
|---|---|---|
| | 2015 $M | 2014 $M |
| **Directors fees** | **1.1** | **1.2** |
| **Chief Executive Officer, Senior Management Team and Subsidiary Chief Executives** | | |
| Salaries and short-term benefits | **7.9** | 8.6 |
| Post-employment benefits | **-** | 0.4 |
| Redundancy benefits | **-** | 0.1 |
| Future long-term incentives | **1.0** | 0.4 |
| | **8.9** | **9.5** |

## F4 Auditor's Remuneration

| | GROUP | |
|---|---|---|
| AUDITOR'S REMUNERATION TO DELOITTE FOR: | 2015 $M | 2014 $M |
| Audit and review of New Zealand-based Company's financial statements | **0.5** | 0.5 |
| Audit of overseas-based Company's financial statements | **0.1** | 0.1 |
| **Total audit fees** | **0.6** | **0.6** |
| IPO-related services | **-** | 0.5 |
| Other | **0.1** | 0.1 |
| **Total auditor's remuneration** | **0.7** | **1.2** |

The Board has adopted a policy to maintain the independence of the Company's external auditor, including a review of all other services performed by Deloitte and recommending to the Office of the Auditor General that there be lead partner rotation after a maximum of five years. The Auditor General has appointed Michael Wilkes of Deloitte as auditor of the company. He has been auditor of the company since 2012.

The audit fee includes the Office of the Auditor General overhead contribution of $27,000 (2014: $27,000).

Other services undertaken by Deloitte during the year included other assurance activities including reviews of carbon emissions, securities registers, solvency return of insurance captive and trustee reporting.

## F5 Commitments

| NON-CANCELLABLE OPERATING LEASE COMMITMENTS ARE AS FOLLOWS: | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Less than 1 year | **6** | 6 |
| Later than 1 year and not later than 3 years | **10** | 11 |
| Later than 3 years and not later than 5 years | **6** | 9 |
| More than 5 years | **15** | 16 |
| **Total operating lease commitments** | **37** | **42** |

| CAPITAL EXPENDITURE COMMITMENTS | GROUP 2015 $M | GROUP 2014 $M |
|---|---|---|
| Property, plant and equipment | **7** | 30 |
| Software | **-** | 4 |
| **Total capital expenditure commitments** | **7** | **34** |

### Operating leases, measurement and recognition

Operating leases are leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items.

Operating lease payments are recognised in other operating expenses on a straight-line basis over the term of the lease. Lease payments were $5.1 million in 2015 (30 June 2014: $5.3 million).

In Australia, Meridian has entered into lease agreements for land when developing wind farms. These leases range up to 25 years with options to renew.

Meridian also leases office space with terms of the leases ranging from one to 12 years, with options to extend up to 12 years. Lease contracts contain rent review clauses including CPI increases and market rental reviews in the event Meridian exercises its options to renew.

### Guarantees

Meridian Energy Limited provided a bank guarantee of A$38 million (30 June 2014: A$38 million) to the financiers of the purchaser of the Macarthur wind farm, guaranteeing that it will comply with its various obligations under the Refinancing Coordination Deed.

Meridian Energy Limited has provided parent guarantees for various construction and grid connection obligations of Mt Mercer Wind Farm Pty Limited. The maximum liability under these guarantees is $46 million (30 June 2014: $193 million).

Meridian Energy Limited signed a Parent Company Guarantee (PCG) on 30 April 2014 for the benefit of CalRENEW-1 Holdings LLC (holding company of SunEdison Inc). The PCG related to Meridian Energy USA Inc's (MEUSA) sale of CalRENEW-1 LLC pursuant to a Unit Purchase Agreement (UPA). Under the PCG, the parent guarantees MEUSA's obligations in the UPA, which include historic payment obligations and some representations and warranties. The PCG expires on 30 April 2017.

## F6 Contingent Assets and Liabilities

There were no contingent assets or liabilities at 30 June 2015 (30 June 2014: nil).

## F7 Subsequent Events

There are no subsequent events other than dividends declared on 18 August 2015. Refer to note C4 Dividends for further details.

## F8 Changes in Financial Reporting Standards

In the current year, Meridian has adopted all mandatory new and amended Standards. The application of these new and amended Standards has had no material impact on the amounts recognised or disclosed in the financial statements.

Meridian is not aware of any Standards at issue but not yet effective (other than those listed below) which would materially impact on the amounts recognised or disclosed in the financial statements. Meridian intends to adopt when they become mandatory.

NZ IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017). NZ IFRS 15 will be effective in Meridian's 2018 financial year. The full impact of this Standard has not yet been determined.

NZ IFRS 9 Financial Instruments (effective 1 January 2018) – NZ IFRS 9 will be effective in Meridian's 2019 financial year. This standard requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. The standard also broadens the eligibility for hedge accounting as it introduces an objectives-based test that focuses on the economic relationship between hedged items and hedging instruments. The full impact of this standard has not yet been determined.

## F9 PFI Comparison

| CONSOLIDATED GROUP INCOME STATEMENT | ACTUAL 2015 $M | FORECAST 2015 $M |
|---|---|---|
| Energy margin – New Zealand | **900** | 896 |
| Energy margin – International | **54** | 62 |
| Other revenue | **25** | 23 |
| Electricity transmission expenses | **(123)** | (134) |
| **Gross margin** | **856** | **847** |
| Employee and other operating expenses | **(238)** | (257) |
| **Earnings before interest, tax, depreciation, amortisation, changes in fair value of derivatives and other significant items (EBITDAF)** | **618** | **590** |
| Depreciation and amortisation | **(239)** | (233) |
| Impairment of assets | **(38)** | - |
| Gain/(loss) on sale of assets | **19** | - |
| Net change in fair value of electricity and other hedges | **(1)** | (4) |
| **Operating profit** | **359** | **353** |
| Net finance expenses | **(78)** | (78) |
| Net change in fair value of Treasury instruments | **(32)** | 18 |
| **Net profit before tax** | **249** | **293** |
| Tax | **(2)** | (82) |
| **Net profit after tax** | **247** | **211** |

### Variance analysis income statement

Profit after tax is ahead of PFI by $36 million (17%). Core influences on this result include:

- EBITDAF benefited from lower than forecast transmission, employee and other operating expenses;
- Gains made from the sale of ARC innovations Limited, sale of farming assets and refund of stamp duty associated with the sale of Macarthur wind farm in 2013;
- An impairment of Australian generation assets;
- Successful resolution of the dispute with Inland Revenue in relation to the deductibility of powerhouse structure depreciation; and
- The release of a provision held in relation to a potential capital gains tax liability from the sale of Macarthur wind farm.

## F9 PFI Comparison *continued*

| CONSOLIDATED GROUP STATEMENT OF COMPREHENSIVE INCOME | ACTUAL 2015 $M | FORECAST 2015 $M |
|---|---|---|
| **Net profit after tax** | **247** | 211 |
| *Items that will not be reclassified to profit or loss:* | | |
| Asset revaluation | **329** | - |
| Deferred tax on the above item | **(92)** | - |
| | **237** | **-** |
| *Items that may be reclassified to profit or loss:* | | |
| Asset revaluation | | |
| Net gain/(loss) on cash flow hedges | **(2)** | (11) |
| Reclassify foreign currency translation reserve | **(2)** | - |
| Exchange differences arising from translation of foreign operations | **20** | - |
| Income tax on the above items | **-** | 3 |
| **Total other comprehensive income for the year, net of tax** | **16** | **(8)** |
| **Total comprehensive income for the year, net of tax attributed to shareholders of Meridian** | **500** | **203** |

### Variance analysis income statement

Total comprehensive income benefited from higher than forecast profit after tax and the revaluation of generation structures and plant assets (refer to note B1 Property, Plant and Equipment for further details).

Exchange differences arising from translation of foreign operations reflects exchange rate movements in the year. The PFI assumed no foreign exchange movements.

## F9 PFI Comparison *continued*

| CONSOLIDATED GROUP BALANCE SHEET | ACTUAL 2015 $M | FORECAST 2015 $M |
|---|---|---|
| Cash and cash equivalents | **69** | 73 |
| Trade receivables | **191** | 267 |
| Financial instruments | **48** | 30 |
| Assets classified as held for sale | **7** | - |
| Other assets | **19** | 70 |
| **Total current assets** | **334** | **440** |
| Property, plant and equipment | **7,097** | 6,865 |
| Intangible assets | **47** | 40 |
| Deferred tax | **36** | 13 |
| Financial instruments | **147** | 149 |
| Other assets | **-** | 1 |
| **Total non-current assets** | **7,327** | **7,068** |
| **Total assets** | **7,661** | **7,508** |
| Payables, accruals and employee entitlements | **208** | 269 |
| Current portion of term borrowings | **213** | 167 |
| Finance lease payable | **1** | - |
| Financial instruments | **34** | 30 |
| Liabilities classified as held for sale | **-** | 3 |
| Current tax payable | **22** | 25 |
| **Total current liabilities** | **478** | **494** |
| Term borrowings | **863** | 1,015 |
| Deferred tax | **1,400** | 1,354 |
| Provisions | **8** | - |
| Finance lease payables | **51** | - |
| Financial instruments | **101** | 63 |
| Term payables | **12** | 52 |
| **Total non-current liabilities** | **2,435** | **2,484** |
| **Total liabilities** | **2,913** | **2,978** |
| **Net assets** | **4,748** | **4,530** |
| **Shareholders' equity** | | |
| Share capital | **1,597** | 1,600 |
| Reserves | **3,151** | 2,930 |
| **Total shareholders' equity** | **4,748** | **4,530** |

### Variance analysis balance sheet:

Meridian's net assets are $218 million (5%) higher than forecast. A significant amount of this movement is a consequence of the revaluation of generation structures and plant assets, which is described in note B1 Property, Plant and Equipment on page 53.

## F9 PFI Comparison *continued*

| CONSOLIDATED GROUP STATEMENT IN CHANGES OF EQUITY | 2015 ACTUAL $M | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SHARE CAPITAL | SHARE OPTION RESERVE | REVALUATION RESERVE | FOREIGN TRANSLATION RESERVE | CASH FLOW HEDGE RESERVE | AVAILABLE FOR SALE RESERVE | RETAINED EARNINGS | TOTAL EQUITY |
| **Balance at 1 July 2014** | **1,599** | **-** | **3,074** | **(23)** | **(1)** | **-** | **(15)** | **4,634** |
| Net profit for the year | - | - | - | - | - | - | 247 | **247** |
| **Other comprehensive income** | | | | | | | | |
| Asset revaluation | - | - | 329 | - | - | - | - | **329** |
| Net loss on cash flow hedges | - | - | - | - | (2) | - | - | **(2)** |
| Reclassify foreign currency translation reserve | - | - | - | (2) | - | - | - | **(2)** |
| Exchange differences from translation of foreign operations | - | - | - | 20 | - | - | - | **20** |
| Income tax relating to other comprehensive income | - | - | (92) | - | - | - | - | **(92)** |
| Total other comprehensive income, net of tax | - | - | 237 | 18 | (2) | - | - | **253** |
| **Total comprehensive income for the year, net of tax** | **-** | **-** | **237** | **18** | **(2)** | **-** | **247** | **500** |
| Share-based payment transactions | | 1 | - | - | - | - | - | **1** |
| Own shares acquired | (2) | - | - | - | - | - | - | **(2)** |
| Dividends paid | - | - | - | - | - | - | (385) | **(385)** |
| **Balance at 30 June 2015** | **1,597** | **1** | **3,311** | **(5)** | **(3)** | **-** | **(153)** | **4,748** |

| CONSOLIDATED GROUP STATEMENT IN CHANGES OF EQUITY | 2015 FORECAST $M | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SHARE CAPITAL | SHARE OPTION RESERVE | REVALUATION RESERVE | FOREIGN TRANSLATION RESERVE | CASH FLOW HEDGE RESERVE | AVAILABLE FOR SALE RESERVE | RETAINED EARNINGS | TOTAL EQUITY |
| **Balance at 1 July 2014** | **1,600** | **-** | **3,074** | **(13)** | **(1)** | **2** | **(56)** | **4,606** |
| Net profit for the year | - | - | - | - | - | - | 211 | **211** |
| **Other comprehensive income** | | | | | | | | |
| Net loss on cash flow hedges | - | - | - | - | (11) | - | - | **(11)** |
| Income tax relating to other comprehensive income | - | - | - | - | 3 | - | - | **3** |
| Total other comprehensive income, net of tax | - | - | - | - | (8) | - | - | **(8)** |
| **Total comprehensive income for the year, net of tax** | **-** | **-** | **-** | **-** | **(8)** | **-** | **211** | **203** |
| Dividends paid | - | - | - | - | - | - | (279) | **(279)** |
| **Balance at 30 June 2015** | **1,600** | **-** | **3,074** | **(13)** | **(9)** | **2** | **(124)** | **4,530** |

## F9 PFI Comparison *continued*

| CONSOLIDATED GROUP CASH FLOW | ACTUAL 2015 $M | FORECAST 2015 $M |
|---|---|---|
| **Operating activities** | | |
| Receipts from customers | **2,348** | 2,559 |
| Interest received | **8** | 3 |
| | **2,356** | **2,562** |
| Payments to suppliers and employees | **(1,742)** | (1,968) |
| Interest paid | **(78)** | (80) |
| Income tax paid | **(96)** | (85) |
| | **(1,916)** | **(2,133)** |
| **Operating cash flows** | **440** | **429** |
| **Investment activities** | | |
| Sale of property, plant and equipment | **19** | - |
| Sale of other assets | **29** | - |
| | **48** | **-** |
| Purchase of property, plant and equipment | **(131)** | (108) |
| Purchase of intangible assets | **(15)** | (30) |
| Purchase of investments | **(1)** | - |
| | **(147)** | **(138)** |
| **Investing cash flows** | **(99)** | **(138)** |
| **Financing activities** | | |
| Proceeds from borrowings | **366** | - |
| | **366** | - |
| Shares purchased for long term incentive | **(2)** | - |
| Dividends paid | **(385)** | (279) |
| Term borrowings paid | **(527)** | (12) |
| | **(914)** | (291) |
| **Financing cash flows** | **(548)** | **(291)** |
| **Net (decrease)/increase in cash and cash equivalents** | **(207)** | **-** |
| Cash and cash equivalents at beginning of year | **276** | 73 |
| Effect of exchange rate changes on net cash | **-** | - |
| **Cash and cash equivalents at end of year** | **69** | **73** |

### Variance analysis cash flow

Core factors which influenced cash flow differences include:

- Stronger than forecast financial performance (see Consolidated Income Statement variance analysis);
- Proceeds from the sale of subsidiaries and other assets;
- The level of cash applied to capital investment is higher than forecast, mainly a timing difference following a lower level of investment in FY2014;
- Higher than forecast level of term borrowings repaid; and
- Dividends paid to shareholders were $106 million (38%) higher than forecast.

# Independent Auditor's Report

**TO THE SHAREHOLDERS OF MERIDIAN ENERGY LIMITED GROUP REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

**The Auditor-General is the auditor of Meridian Energy Limited and its subsidiaries and other controlled entities. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Group, consisting of Meridian Energy Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.**

## Opinion

We have audited the financial statements of the Group on pages 41 to 80, that comprise the balance sheet as at 30 June 2015, the income statement, comprehensive income statement, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, its financial position as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 18 August 2015. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

## Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence shareholders' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand (being in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards).

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

## Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, our firm carries out other assurance assignments for the Group in the areas of carbon emissions audit, review of the interim financial statements, audit of the equity register and renewable energy bond register and reporting in our capacity as auditors to the supervisor for the renewable energy bonds, which are compatible with those independence requirements. In addition, principals and employees of our firm deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our independence as auditor of the Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Group.

MICHAEL WILKES
*Deloitte*
*On behalf of the Auditor-General*
*Christchurch, New Zealand*

# Statutory information and other disclosures

## 1. Meridian directors during the year ending 30 June 2015 for the Group

Meridian directors are listed on page 12 of the report. No directors resigned during the accounting period 1 July 2014 to 30 June 2015. On 28 May 2015 John Bongard advised the Board of his decision to resign with effect from 5 November 2015.

## 2. Indemnities and insurance

As permitted by Meridian's constitution, Deeds of Indemnity have been given to directors for liabilities and costs they might incur in respect of their actions or omissions in their capacity as directors. The indemnity does not cover dishonest, fraudulent, malicious or wilful acts or omissions by directors in their capacity as directors.

From 1 May 2015 Meridian's directors' and officers' liability insurance was renewed to cover risks normally covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions by directors in their capacity as directors.

## 3. Donations

The Meridian Group made no donations during the period. Meridian does not make donations to political parties. All donations must be approved by the Board.

## 4. Information used by directors

No notices were received by any members of the Board requesting the use of company information received in their capacity as directors that would not otherwise have been available to them.

### 5. Directors' interests

Pursuant to sections 140 and 211(e) of the Companies Act 1993, the general disclosures of interest made during the accounting period 1 July 2014 to 30 June 2015 by directors of Meridian Energy Limited and its subsidiaries are listed as follows:

| NAME | POSITION | DISCLOSURES |
|---|---|---|
| Gillian Blythe | Alternate Director, Powershop New Zealand Limited | Director, Southern Hospitality Limited |
| Mark Cairns | Director, Meridian Energy Limited | Director, North Tugz Limited (Cessation)<br>Director, Coda GP Limited |
| Jan Dawson | Director, Meridian Energy Limited | Director and Shareholder, Goodman Fielder (Cessation) |
| Mary Devine | Director, Meridian Energy Limited | Advisory Board Member, Transition of CERA<br>Director, Top Retail<br>Trustee, NZ Hockey Foundation (Cessation) |
| Anake Goodall | Director, Meridian Energy Limited | Shareholder, Tesla (TSLA.US)<br>Shareholder, SolarCity (SCTY.US)<br>Shareholder, Mighty River Power<br>Shareholder, Genesis (Cessation)<br>Director, NXT Fuels Limited (Cessation) |
| John Journee | Director, Powershop New Zealand Limited | Employee, The Warehouse Group Limited (Cessation) |
| Chris Moller | Director, Meridian Energy Limited | Director, Rugby New Zealand 2011 Limited (Cessation)<br>Shareholder, Blackrock New Energy Technology Shareholder, Investment Limited (Cessation)<br>Trustee, Westpac Regional Stadium Trust (Cessation)<br>Shareholder, Blackrock New Energy Subsidiary (Cessation)<br>Shareholder, Woodside Petroleum (Cessation) |
| Stephen Reindler | Director, Meridian Energy Limited | Independent Chair, Waste Disposal Services (Unincorporated JV between Auckland Council and Waste Management NZ Limited) |
| Rowan Simpson | Director, Powershop New Zealand Limited | Shareholder, Xero Limited<br>Shareholder, Revert Limited<br>Shareholder, Timely Limited<br>Shareholder, SMX Limited<br>Shareholder (as Trustee of the Kimo Trust), Willis Bond Capital Partners Limited and Willis Bond Capital Partners No.2 Limited<br>Shareholder, Southgate Labs Limited |
| Peter Wilson | Director, Meridian Energy Limited | Bondholder, Mighty River Power<br>Chair, Westpac New Zealand Limited (Cessation) |

Meridian Energy Limited's full interests register is available for inspection on request by a shareholder.

### 6. Directors' interests in Meridian securities

As at 30 June 2015 Meridian Energy Limited directors disclosed the following acquisitions and disposals of relevant interests in Meridian Energy Limited securities during the financial year pursuant to sections 146 and 148 of the Companies Act 1993.

| DIRECTOR | DATE | NUMBER ACQUIRED (OR DISPOSED)[1] | CONSIDERATION PAID |
|---|---|---|---|
| ($.50 per instalment receipt) | | | |
| John Bongard | 21 May 2015 | 54,000 | $27,000 |
| Mark Cairns | 21 May 2015 | 174,480 | $87,240 |
| Jan Dawson | 21 May 2015 | 51,300 | $25,650 |
| Mary Devine | 21 May 2015 | 51,210 | $25,605 |
| Sally Farrier | 21 May 2015 | 54,000 | $27,000 |
| Anake Goodall | 21 May 2015 | 62,500 | $31,250 |
| Chris Moller | 21 May 2015 | 92,880 | $46,440 |
| Stephen Reindler | 21 May 2015 | 51,300 | $25,650 |
| Peter Wilson | 21 May 2015 | 64,170 | $32,085 |

1 All the transactions relate to the transfer of instalment receipts to shares following final instalment payment and the total amount of securities the directors held as at 30 June 2015.

## 7. Executives' interests in Meridian securities

Meridian Energy Limited executives disclosed the following interests in Meridian securities as at 30 June 2015.

| EXECUTIVE | NUMBER OF SHARES IN WHICH A RELEVANT INTEREST IS HELD | NUMBER OF SHARES IN WHICH A BENEFICIAL INTEREST IS HELD ON TRUST IN ACCORDANCE WITH MERIDIAN'S EXECUTIVE LTI PLAN[1] |
|---|---|---|
| Neal Barclay | 19,840 | 180,952 |
| Mark Binns | 136,841 | 530,793 |
| Paul Chambers | 10,441 | 188,190 |
| Jacqui Cleland | 11,841 | 114,000 |
| Alan McCauley | - | 134,167 |
| Glen McLatchie | 10,836 | 144,762 |
| Jason Stein | 11,841 | 130,857 |
| Guy Waipara | 11,841 | 126,667 |

1 Refer to Meridian's Remuneration report starting on page 37.

## 8. Stock exchange listings

Meridian is listed on both the New Zealand and Australian stock exchanges.

## 9. Waivers from the New Zealand and Australian stock exchanges

There were no waivers granted and published by NZX within or relied upon by Meridian Energy Limited in the 12 months.

## 10. Non-standard designation

In New Zealand, the company is listed with a 'non-standard' (NS) designation on the NXZ Main Board. This is due to particular provisions of the constitution, including the requirements regulating ownership and transfer of Meridian securities. The designation is also required as a condition of the waivers and approvals described above.

## 11. ASX disclosures

Meridian has been admitted to the official list of the ASX. As a requirement of admission Meridian must make the following disclosures:

- Meridian's place of incorporation is New Zealand
- Meridian is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (including substantial holdings and takeovers).

## 12. Shareholding restrictions

The Public Finance Act was amended in June 2012 to include restrictions on the ownership of certain types of securities issued by each mixed ownership model company (including Meridian) and the consequences of breaching those restrictions. The Constitution incorporates these restrictions and mechanisms for monitoring and enforcing them.

A summary of the restrictions on the ownership of shares under the Public Finance Act and the constitution is set out below. If the company issues any other class of shares, or other securities confer voting rights, in the future, the restrictions summarised below would also apply to those other classes of shares or voting securities.

### 51% holding

The Crown must hold at least 51% of the shares on issue.

The company must not issue, acquire or redeem any shares if such issue, acquisition or redemption would result in the Crown falling below this 51% holding.

### 10% Limit

No person (other than the Crown) may have a 'relevant interest'[18] in more than 10% of the shares on issue (10% Limit).

The company must not issue, acquire or redeem any shares, if it has actual knowledge that such issue, acquisition, redemption or transfer will result in any person other than the Crown exceeding the 10% Limit.

#### *Ascertaining whether a breach has occurred*

If a holder of shares breaches the 10% Limit or knows or believes that a person who has a relevant interest in shares held by that holder may have a relevant interest in shares in breach of the 10% Limit, the holder must notify the company of the breach or potential breach.

Meridian may require a holder of shares to provide the company with a statutory declaration if the Board knows or believes that a person is, or is likely to be, in breach of the 10% Limit. That statutory declaration is required to include, where applicable, details of all persons who have relevant interests in shares as a result of the shares held by or on behalf of that holder.

#### *Determining whether a breach has occurred*

The company has the power to determine whether a breach of the 10% Limit has occurred. In broad terms, if:

- the company considers that a person may be in breach of the 10% Limit; or
- a holder of shares fails to lodge a statutory declaration when required to do so or lodges a declaration that has not been completed to the reasonable satisfaction of the company; or

Meridian is required to determine whether or not the 10% Limit has been breached and, if so, whether or not that breach was inadvertent. The company must give the affected shareholder the opportunity to make representations to the company before it makes a determination on these matters.

#### *Effect of exceeding the 10% Limit*

A person who is in breach of the 10% Limit must:

- comply with any notice that they receive from the company requiring them to dispose of shares or their relevant interest in shares, or take any other steps that are specified in the notice, for the purpose of remedying the breach and reducing their holding below the 10% Limit
- ensure that they are no longer in breach within 60 days after the date on which they became aware, or ought to have been aware, of the breach. If the breach is not remedied within that timeframe, the company may arrange for the sale of the relevant number of shares on behalf of the relevant shareholder. In those circumstances the company will pay the net proceeds of sale, after the deduction of any other costs incurred in connection with the sale (including brokerage and the costs of investigating the breach of the 10% Limit), to the relevant shareholder as soon as practicable after the sale has been completed.

18 In broad terms, a person has a 'relevant interest' in a share if the person (a) is the registered holder or beneficial owner of the share; or (b) has the power to exercise, or control the exercise of, a right to vote attached to the share or has the power to acquire or dispose of, or to control the acquisition or disposition of, that share. A person may also have a 'relevant interest' in a share in which another person has a 'relevant interest' depending on the nature of the relationship between them.

If a relevant interest is held in any shares in breach of the 10% Limit then, for as long as that breach continues:

- no votes may be cast directly by a shareholder in respect of any of the shares in which a relevant interest is held in excess of the 10% Limit
- a registered holder of shares in which a relevant interest is held in breach of the 10% Limit will not be entitled to receive, in respect of the shares in which a relevant interest is held in excess of the 10% Limit, any dividend or other distribution authorised by the Board in respect of the shares.

However, if the Board determines that a breach of the 10% Limit was not inadvertent, or that it does not have sufficient information to determine that the breach was not inadvertent, the restrictions on voting and entitlement to receive dividends and other distributions described in the preceding paragraphs will apply in respect of all of the shares (as applicable) held by the relevant shareholder or holder (and not just the shares in which a relevant interest is held in excess of the 10% Limit).

The Board may refuse to register a transfer of shares if it knows or believes that the transfer will result in a breach of the 10% Limit or where the transferee has failed to lodge a statutory declaration requested from it by the Board within 14 days of the date on which the company gave notice to the transferee to provide such statutory declaration.

### *Crown directions*

The Crown has the power to direct the Board to exercise certain of the powers conferred on it under the constitution. For example, where the Crown suspects that the 10% Limit has been breached but the Board has not taken steps to investigate the suspected breach, the Crown may require the company to investigate whether a breach of the 10% Limit has occurred or to exercise a power of sale of the relevant share that has arisen as described under the heading Effect of exceeding the 10% Limit above.

### *Trustee corporations and nominee companies*

Trustee corporations and nominee companies (that hold securities on behalf of a large number of separate underlying beneficial holders) are exempt from the 10% Limit provided that certain conditions are satisfied.

### Share cancellation

In certain circumstances shares can be cancelled by Meridian through a reduction of capital, share buyback or other form of capital reconstruction approved by the Board and, where applicable, shareholders.

## 13. Twenty largest registered quoted equity security holders as at the balance date

The table below sets out the company's 20 largest registered shareholders as at 30 June 2015.

| NAME | NUMBER OF SHARES | % OF ISSUED SHARES |
|---|---|---|
| Her Majesty The Queen In The Right Of New Zealand | 1,307,586,374 | 51.02% |
| National Nominees New Zealand Limited[1] | 184,304,006 | 7.19% |
| HSBC Nominees (New Zealand) Limited A/C State Street[1] | 74,633,519 | 2.91% |
| Accident Compensation Corporation[1] | 59,035,442 | 2.30% |
| HSBC Nominees (New Zealand) Limited[1] | 53,944,780 | 2.11% |
| Citibank Nominees (New Zealand) Limited[1] | 48,806,709 | 1.90% |
| New Zealand Superannuation Fund Nominees Limited[1] | 46,435,637 | 1.81% |
| JPMorgan Chase Bank NA NZ Branch[1] | 43,881,073 | 1.71% |
| Custodial Services Limited | 28,631,583 | 1.12% |
| BNP Paribas Nominees (NZ) Limited[1] | 24,432,324 | 0.95% |
| Tea Custodians Limited Client Property Trust Account[1] | 23,812,017 | 0.93% |
| BNP Paribas Nominees (NZ) Limited[1] | 18,722,033 | 0.73% |
| FNZ Custodians Limited | 11,882,695 | 0.46% |
| Custodial Services Limited | 11,369,858 | 0.44% |
| ANZ Wholesale Australasian Share Fund[1] | 10,552,217 | 0.41% |
| Investment Custodial Services Limited | 9,837,803 | 0.38% |
| Citicorp Nominees Pty Limited | 8,866,810 | 0.35% |
| National Nominees Limited | 8,764,027 | 0.34% |
| JBWere (NZ) Nominees Limited | 8,700,000 | 0.34% |
| Masfen Securities Limited | 8,700,000 | 0.34% |

1 Held through New Zealand Central Securities Depository Limited (NZCSD). NZSCD provides a custodial service that allows electronic trading of securities by its members. As at 30 June 2015, 619,760,483 Meridian ordinary shares (or 24.18% of ordinary shares on issue) were held through NZCSD.

### 14. Substantial security holders

The following information is provided in compliance with 30 June 2015. The total number of voting securities of Meridian Energy Limited at that date was 2,563,000,000.

| NAME | RELEVANT INTEREST IN NUMBER OF SHARES | % OF SHARES HELD AT THE DATE OF NOTICE | NATURE OF RELEVANT INTEREST | DATE OF NOTICE |
|---|---|---|---|---|
| SHARES | | | | |
| Her Majesty the Queen In The Right Of New Zealand | 1,307,586,374 | 51.02% | | 21 May 2015 |
| The Bank of New York Mellon Corporation | 156,507,986 | 6.11% | | 25 May 2015 |

### 15. Distribution of security holders and holdings as at 30 June 2015

The table below sets out the distribution of security holders and holdings as at 30 June 2015.

| SIZE OF HOLDING | NUMBER OF SECURITY HOLDERS | % OF SECURITY HOLDERS | NUMBER OF SHARES | HOLDING QUANTITY % |
|---|---|---|---|---|
| 1 to 1,000 | 7,067 | 14.48% | 6,927,802 | 0.27% |
| 1,001 to 5,000 | 23,478 | 48.09% | 69,691,101 | 2.72% |
| 5,001 to 10,000 | 9,712 | 19.89% | 77,633,003 | 3.03% |
| 10,001 to 50,000 | 7,573 | 15.51% | 157,489,909 | 6.14% |
| 50,001 to 100,000 | 641 | 1.31% | 46,296,832 | 1.81% |
| 100,001 to 500,000 | 269 | 0.55% | 53,447,534 | 2.08% |
| 500,001 and over | 85 | 0.17% | 2,151,513,819 | 83.95% |
| **Total** | **48,825** | **100.00%** | **2,563,000,000** | **100.00%** |

### 16. Distribution of bondholders and holdings as at 30 June 2015

The table below sets out the distribution of bondholders and holdings as at 30 June 2015.

| SIZE OF HOLDING | NUMBER OF BONDHOLDERS | % OF BONDHOLDERS | NUMBER OF BONDS | % OF BONDS |
|---|---|---|---|---|
| 1,001 to 5,000 | 46 | 6.05% | 230,000 | 0.31% |
| 5,001 to 10,000 | 131 | 17.21% | 1,247,000 | 1.66% |
| 10,001 to 50,000 | 435 | 57.16% | 12,906,000 | 17.21% |
| 50,001 to 100,000 | 72 | 9.46% | 5,706,000 | 7.61% |
| 100,001 to 500,000 | 54 | 7.10% | 11,964,000 | 15.95% |
| 500,001 and over | 23 | 3.02% | 42,947,000 | 57.26% |
| **Total** | **761** | **100.00%** | **75,000,000** | **100.00%** |

### 17. Security holders with less than marketable parcel of shares

As at 30 June 2015, there were three security holders (with a total of 526 ordinary shares) holding less than a marketable parcel of shares under the ASX Listing Rules. The ASX Listing Rules define a marketable parcel of shares as a parcel of shares with a value of not less than AUD500.

## 18. Subsidiary companies

The following tables outline subsidiaries of Meridian Energy Limited during the accounting period and any changes to those subsidiaries and persons who held office as directors. Alternate directors are indicated with an (A).

### NEW ZEALAND SUBSIDIARIES

| COMPANY NAME | DIRECTORS | FURTHER INFORMATION |
|---|---|---|
| MEL Solar Holdings | Mark Binns, Paul Chambers | |
| Three River Holdings No. 1 Ltd | Mark Binns, Paul Chambers, Jason Stein (A), Kelvin Mason (A) | |
| Three River Holdings No. 2 Ltd | Mark Binns, Paul Chambers, Jason Stein (A), Kelvin Mason (A) | |
| Meridian Energy Captive Insurance Ltd | Mark Binns, Paul Chambers, Jason Stein (A) | |
| Meridian Energy International Ltd | Mark Binns, Paul Chambers, Jason Stein (A) | |
| Meridian Ltd | Mark Binns, Paul Chambers, Jason Stein (A) | |
| Powershop New Zealand Ltd | John Journee, Rowan Simpson, Paul Chambers, Gillian Blythe (A) | |
| Whisper Tech Limited | Thomas Hannah, Jason McDonald | Amalgamated to become Meridian Energy International Limited on 26/09/14 |
| WhisperGen Ltd | Thomas Hannah, Jason McDonald | Amalgamated to become Meridian Energy International Limited on 26/09/14 |
| Meridian (Whisper Tech) Ltd | Thomas Hannah, Jason McDonald | Amalgamated to become Meridian Energy International Limited on 26/09/14 |
| Meridian (Whisper Tech No. 2) Ltd | Thomas Hannah, Jason McDonald | Amalgamated to become Meridian Energy International Limited on 26/09/14 |
| Arc Innovations Ltd | Mark Binns, Paul Chambers | Sold 1/12/14 |
| Meridian LTI Trustee Limited | Mary Devine (appointed 13/09/14), John Bongard (appointed 13/09/14), Anake Goodall (appointed 13/09/14) | |
| Damwatch Engineering Ltd | Neal Barclay, Peter Amos | |
| Damwatch Projects Ltd | Peter Amos | |

### AUSTRALIAN SUBSIDIARIES

| COMPANY NAME | DIRECTORS |
|---|---|
| Meridian Energy Australia Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Meridian Energy Markets Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Meridian Finco Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Meridian Wind Monaro Range Holdings Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Meridian Wind Monaro Range Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Mt Millar Wind Farm Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Meridian Australia Holdings Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Meridian Wind Australia Holdings Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Mt Mercer Windfarm Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Powershop Australia Pty Ltd | Mark Binns, Paul Chambers, Ben Burge |
| Damwatch Pty Limited | Stanley Brogan, Peter Amos |

### USA SUBSIDIARIES

| COMPANY NAME | DIRECTORS | FURTHER INFORMATION |
|---|---|---|
| Meridian Energy USA, Inc | Member: Guy Waipara | Dissolved 08/10/14 |

### UK SUBSIDIARIES

| COMPANY NAME | DIRECTORS | FURTHER INFORMATION |
|---|---|---|
| WhisperTech (UK) Limited | Thomas Hannah | Dissolved 19/09/14 |

### 19. Voting rights attached to each class of security

Each share gives the holder a right to attend and vote at a meeting of shareholders. Holders have the right to cast one vote per share on a poll of any resolution put to the shareholders.

Meridian's debt securities do not hold any voting rights attached; however, holders are welcome to attend the annual shareholders' meetings.

The total number of voting securities of Meridian Energy Limited as at 30 June 2015 was 2,563,000,000.

### 20. Share buybacks

On 18 February 2015 Meridian Energy Limited announced its intention to undertake a capital return to its shareholders over a five-year period by way of share buyback, special dividend or a combination of both. The intention to undertake such a return was subject to a number of caveats including any decision by NZAS to terminate their electricity contract relating to the Tiwai smelter, material capital expenditure requirements, material changes in financial position and other relevant issues. No buyback was undertaken in the period to which this Annual Report relates. Details of any buyback will be announced on the NZX and ASX in the required form, and a disclosure document sent to all shareholders.

### 21. Exercise of NZX disciplinary powers

The NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Meridian Energy Limited during the period.

### 22. Disclosure in relation to ASX 4.10.19

The company used its cash, and assets in a form readily convertible to cash, in the period from 29 October 2013 to 30 June 2015 in a way consistent with its business objectives.

### 23. Credit rating as at 30 June 2015

Meridian Energy Limited had a Standard & Poor's corporate credit rating of BBB+/Stable/A-2.

### 24. Registration as foreign company

Meridian has registered with the Australian Securities and Investments Commission as a foreign company. Meridian has been issued with an Australian Registered Body Number of 151 800 396.

## Disclosure of management approach

### 1. Economic

#### Economic performance

Meridian operates as a vertically integrated electricity generator and retailer with two retail brands (Meridian and Powershop). The company has sophisticated risk management systems and the generation and retail portfolio is managed to reduce the earnings volatility that can arise from adverse hydrological conditions and wholesale electricity prices. Meridian has a significant contract (contract for difference) with NZAS, which consumes approximately 40% of Meridian's electricity generation.

Meridian provides electricity to many customer segments in New Zealand, with particular expertise in the agricultural sector, whilst Powershop provides an online service to business and residential customers. Both brands are focused on reducing cost in the retail supply chain, providing market-leading customer service and utilising smart metering to further enhance efficient, online customer service. Powershop, established in the Australian (Victoria) retail market in 2013, recently expanded into New South Wales and currently has over 48,000 Australian customers.[19]

Meridian was listed on the New Zealand (NZX) and Australian (ASX) stock exchanges on 29 October 2013 and is now a mixed-ownership-model company, 51% owned by the New Zealand Government.

The company's prospectus comprehensively outlined its business risks and opportunities and financial information.[20] Meridian reports on its economic performance through half-year and annual reports. The company's continuous disclosure policy requires ad-hoc announcements when necessary.

Meridian's strategy sets the direction of the company while the business plan outlines the initiatives the company will undertake to execute the strategy. The Meridian Management System is a formal process followed to link the strategy with operations through the development of a business plan and to embed processes to measure execution.

The Meridian Board approves the business plan and reviews progress when it meets during the year.

### 2. Environmental

Meridian's Sustainability Policy articulates the company's intent regarding environmental matters, such as collaborating with stakeholders to manage water catchments effectively and helping to minimise the electricity industry's contribution to climate change. The full policy can be viewed at www.meridianenergy.co.nz/SustainabilityPolicy

#### Water

By New Zealand standards Meridian's hydro operations are large scale. There are two main geographical areas in which the company has hydro operations: Manapōuri in Fiordland and Waitaki in South Canterbury.

These catchments are the focal point of our operations and our environmental commitments.

Meridian's generation assets have direct impacts on local environments and communities. Hydro dams and canals have diverted water, inundated land and modified water bodies resulting in changes to ecology and biodiversity. There are also increased recreational and tourism opportunities, including employment, for local communities.

Meridian views effective water management as a balance of achieving renewable electricity generation, maintaining environmental conditions and engaging with stakeholders on the issues that matter to them the most. Meridian's hydro generation assets are all situated within the Ngāi Tahu takiwā (tribal area), with the majority on the Waitaki River. This river is referred to as representing the tears of Aoraki, Ngāi Tahu's ancestral mountain, which spill into Lake Pūkaki and eventually make their way south along the river to the coast. As such, the river is an essential element of the identity of Ngāi Tahu as an iwi, and Ngāi Tahu and Meridian work together to maintain a healthy river, particularly in regards to water quality and access to mahinga kai (food and resources gathering).

The company manages environmental effects through a comprehensive regulatory compliance system developed to meet a suite of legislative and regulatory requirements, including the Resource Management Act 1991 (RMA), and a number of stakeholder agreements. These requirements cover all of our operations and include river flows, lake levels and our impacts on flora and fauna. Our approach to operations and environmental management includes the precautionary approach of the RMA. We work closely with others to achieve these requirements. Environmental effects are regularly monitored, managed and reported under the compliance regime administered by local government.

19 As at 30 June 2015.
20 www.meridianenergy.co.nz/OfferDocument

This year we had 15 non-compliance events under the RMA across all of our generation assets and development sites. All non-compliant events were addressed thoroughly and reported to the Meridian Board.

**Biodiversity**

Meridian seeks to understand the effects the company has as an electricity generator, to monitor change and work with stakeholders on initiatives to mitigate these impacts. Impacts are identified and assessed at the planning stages of developments (through initial environmental impact assessments) and monitored throughout the construction phases and the lifetimes of the assets through the regulatory compliance system obligations and direct agreements with stakeholders.

Impacts mainly relate to effects on water-based species resulting from inundation, dry river beds and changes in habitat or habitat loss. For example, the Waiau and the Waitaki catchments are the natural habitats of thousands of native eels, and building and operating dams in these areas has had an impact on their migratory habits. Meridian and Ngāi Tahu consider that the eel population is a key indicator of the quality of these waterways.

As the tangata whenua of the area, Ngāi Tahu has historically relied on a healthy eel population for mahinga kai. We recognise the cultural importance of eel to Ngāi Tahu and work with them closely to ensure the protection of the species and ensure that this taonga is preserved for generations to come.

To provide a sustainable population of eel in the Waiau and Waitaki catchments, we move thousands of eels each year by trapping and transferring the elver into dam headwaters and migrating adults back downstream. These processes involve Ngāi Tahu and other local stakeholders in overseeing and delivering the trap and transfer programme.

Protecting biodiversity is particularly important at Manapōuri, which is located in a National Park and UNESCO World Heritage Area. Our monitoring in this area is extensive and includes lake, river and marine environments including lake shore, river biology and geomorphology and biological and physical characteristics (temperature, salinity and fauna) in Deep Cove, Fiordland. This information is provided to Environment Southland annually as part of our resource consent requirements. Further details of these and other initiatives are available on Meridian's website.[21]

This year the introduction of international freight ships into Deep Cove (see Manapōuri story on page 15) brought identified risks to biodiversity. Potential risks were researched, managed and monitored, including through the use of a self-ballasting vessel, adherence to the Department of Conservation's Marine Mammal Code of Practice and international certification for oil prevention and anti-fouling systems.

**Greenhouse gas emissions**

Meridian measures and manages its greenhouse gas (GHG) emissions with the objective of understanding, transparently disclosing and reducing the emission intensity of its operations. Meridian has calculated its GHG emissions since 2001. Meridian has Greenhouse Gas Measurement and Management Guidelines that include the following:

- the objectives of GHG emission measurement and management
- what is to be measured and managed
- how frequently it will be measured
- responsibilities for measurement and management
- processes and procedures for collating data, including measurement tools.

Meridian produces an annual GHG inventory report. Meridian's reporting processes and emission classifications are consistent with international protocols and standards and reports are prepared in accordance with Part 7.3.1 of the requirements of the International Organization for Standardization ISO 14064-1.[22] Meridian's Chief Financial Officer is responsible for the contents of the inventory, which is audited by Deloitte, a third-party independent assurance provider. A reasonable level of assurance is achieved over the assertions and quantifications included in the GHG inventory report.

The organisational boundary encompasses companies and sites under the operational control of Meridian, its subsidiaries, associate companies and joint ventures in the Meridian Group. Meridian applies an operational control approach, allowing the company to focus on those emission sources over which we have control and in relation to which we can therefore implement management actions, consistent with Meridian's corporate responsibility objectives.

The Meridian Group's annual GHG inventory report for 2015 is on Meridian's website at www.meridianenergy.co.nz/ghg

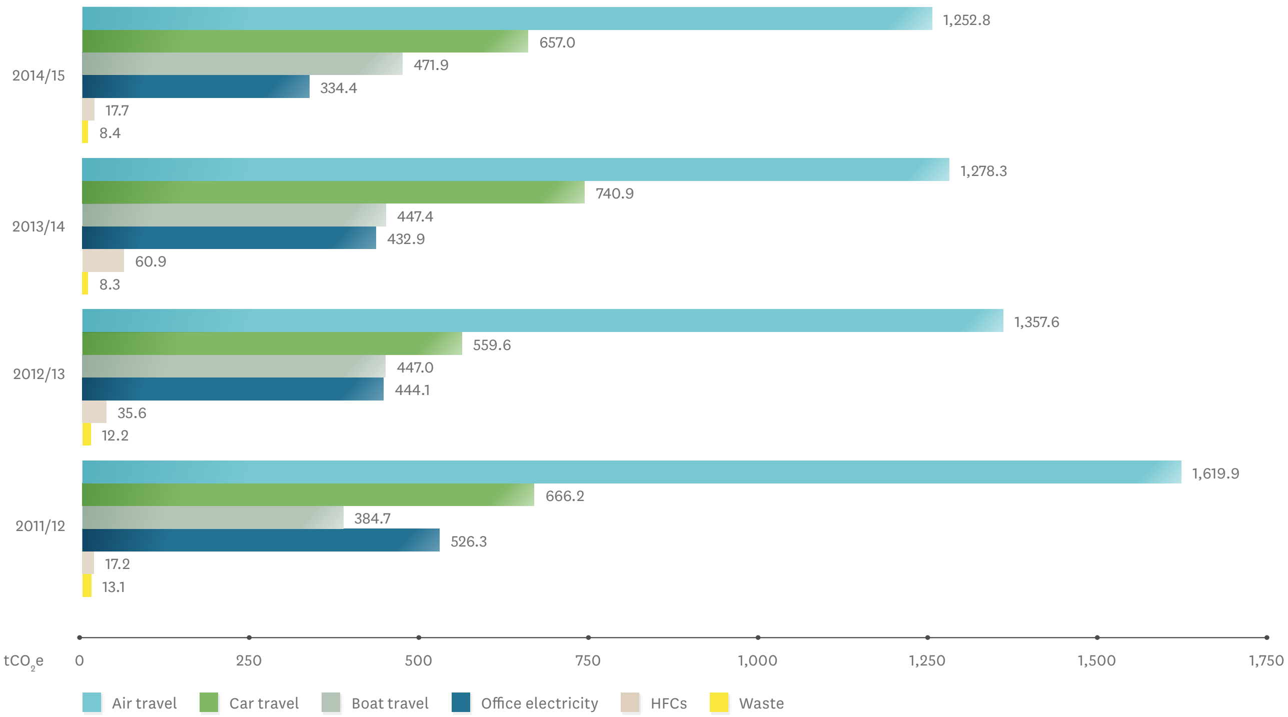
The following information pertains to Meridian Energy (the parent company) only.

Meridian has committed to reducing the emission intensity of its operations and has a five-year emission management plan with targets. Emission measurement results and progress against targets are reported to senior management and Board committees quarterly.

21 www.meridianenergy.co.nz/sustainability

22 International Organization for Standardization: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals, Reference number ISO 14064-1:2006 (E).

## CORPORATE EMISSIONS




| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Direct emissions (Scope 1) | 1,040 | 1,546 | 964 | 1,102 |
| Indirect emissions (Scope 2) | 1,611 | 2,040 | 2,408 | 3,641 |
| Indirect emissions (Scope 3) | 2,699 | 30,572 | 7,759 | 44,092 |
| **Total emissions (Scope 1, 2 and 3)** | **5,350** | **34,158** | **11,131** | **48,835** |

### FY15 emissions

Meridian's electricity generation from the renewable sources of wind and water does not produce GHG emissions. Meridian's total GHG emissions this year were 5,350 tonnes of carbon dioxide ($CO_2$) emissions ($tCO_2e$). Using thermal fuel such as coal or gas to produce a similar amount of electricity would result in millions of $tCO_2e$.

### Our performance

Meridian focuses on reducing the corporate GHG emissions resulting from activities over which the company has the most control. These include business travel (air, car and boat), waste and office electricity. The corporate emissions portion of our overall footprint of 5,350 $tCO_2e$ this year was 2,742 $tCO_2e$. Relative to the number of full-time employees, this is an 8.2% decrease from last year. This decrease is a result of reductions in business travel and electricity use.

### MERIDIAN GROUP WORKFORCE

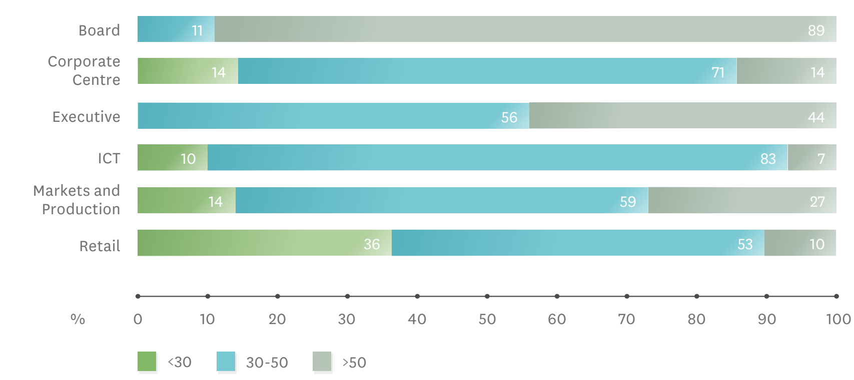
| | FEMALE | MALE | TOTAL |
|---|---|---|---|
| Permanent employees | | | |
| Full time | 346 | 446 | 792 |
| Part time | 16 | 5 | 21 |
| Temp/Fixed term employees | 45 | 34 | 79 |
| Contractors | | | |
| Professional contractors | 10 | 50 | 60 |
| Vendor services | 95 | 237 | 332 |
| **Total** | **512** | **772** | **1,284** |

### MERIDIAN GROUP – REGION OF WORK

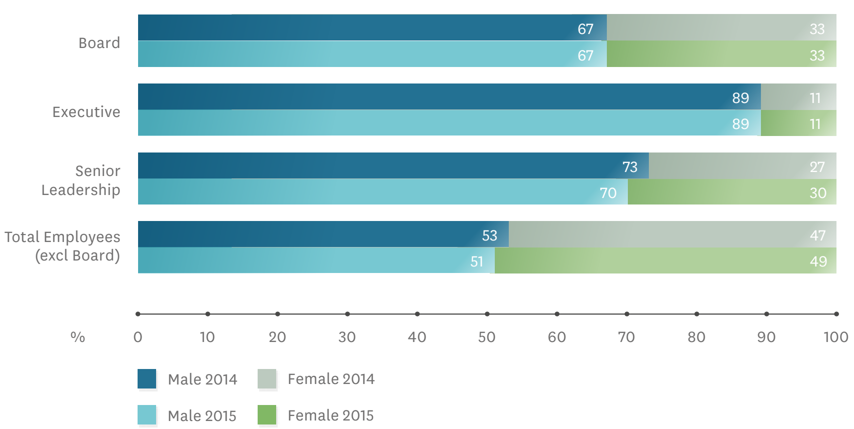
| | FEMALE | MALE | TOTAL |
|---|---|---|---|
| Australia | 18 | 38 | 56[1] |
| New Zealand | 423 | 551 | 974 |
| Offsite[2] | 71 | 183 | 254 |
| **Total** | **512** | **772** | **1,284** |

1 9% of these staff are covered by collective bargaining agreements.
2 Refers to contractors who are not located on a Meridian site. The majority of this group is based elsewhere in New Zealand or Australia.

### DIVERSITY BY AGE FOR MERIDIAN ENERGY




### DIVERSITY BY GENDER FOR MERIDIAN ENERGY




#### Continuing reductions

We are on track to meet our five-year emission reduction target, which has an overall reduction of corporate GHG emissions per full-time staff member by 10%.

Efficiencies will be gained through a range of initiatives, including building a new Twizel office and air, car and taxi travel reductions. Staff engagement is key and initiatives such as featuring staff with sustainability stories on our internal website encourage staff to think about sustainability in the workplace. In our 2015 Employee Engagement Survey, 79.6% of our staff agreed that sustainability is important to Meridian and our people act accordingly. In addition, 83.3% reported that they take sustainability into account where it is relevant to their jobs.

Emissions for Scopes 1 and 2 and Scope 3 categories have been quantified using a calculation method based on activity data multiplied by GHG emission factors. Emission factors have been primarily sourced from the New Zealand Ministry for the Environment or, where these were not available, from the United Kingdom's Department of Environment, Food and Rural Affairs.

## 3. Social

#### Employment

We recognise that building a diverse workforce and inclusive workplace culture is a strategic asset that will support enhanced relationships with stakeholders, better customer service, improved business performance, a stronger corporate reputation and enable us to access a broader talent pool.

Our commitment to diversity and inclusion extends to all people-related activities including attraction, selection and retention, performance management and remuneration, employment provisions, capability development, talent management and succession planning.

The current composition of the workforce by employment status, region of work, age and gender is as illustrated. The company has set diversity objectives in relation to gender and ethnicity and progress is reported on page 9.

### Health and safety

Meridian considers the health and safety of our staff a top priority. The Meridian Board established a committee to assist the Board in fulfilling its responsibilities and objectives in all matters related to safety and sustainability. The Committee drives initiatives including the Fatal Risk Programme and the development of the company's Safety Framework document, while continually reviewing reported data to ensure that the company is operating in the safest manner possible.

Meridian's corporate Safety and Health policy underpins core values and behaviour. It applies to all Meridian sites, operations and subsidiaries. The policy provides the framework for management within Meridian, creating a company culture that demonstrates world-class performance.

Everyone has a responsibility to work safely; to challenge unsafe behaviour and stop work if they do not believe this to be safe. Focus is placed on the way we communicate and collaborate with and care for each other, including contractors, visitors and the public.

The company has a number of initiatives in place to ensure staff health and safety, including an employee-driven safety culture initiative, the Safety Climate Project, and a company-wide process for recording health and safety incidents, including near-misses, improving awareness of site hazards and safety audits. Meridian also supports StayLive, an electrical industry health and safety forum.

Each of Meridian's sites has a health and safety committee made up of volunteer staff representatives. These committees represent all employees and are overseen by the Corporate Health and Safety Manager and the senior Executive team, who personally undertake site safety audits throughout the year. Contractor hours worked and incidents on site are reported to the Executive team and Board on a monthly basis.

Meridian retains tertiary status under ACC's Workplace Safety Management Practices programme.

Meridian takes the wellbeing of our staff seriously. The company offers staff free consultations with an external agent for behavioural health services, to help staff through difficult issues including with non-work-related advice and support.

### Local communities

Building strong community relationships is essential to Meridian's long-term licence to operate as an electricity generator. With generation assets located in communities around the country, it is important that Meridian maintains good community relationships from the planning stages of building a new development project and throughout the life of the asset.

Building a new generation asset is a large development project that has impacts on the environment and local communities. While each development project is unique, Meridian's approach is based on working with communities on planning and construction issues. Meridian takes its responsibilities seriously and works with the relevant authorities on monitoring and meeting standards and extensive resource consent conditions during and post-construction. The most common issues that the company monitors and manages involve landscape and visual amenity, noise, health, ecology, traffic and roading.

Detailed expert assessments of and evidence on these issues are made publicly available as part of the decision-making processes by local councils and the Environment Court. Meridian considers public feedback and makes appropriate changes and modifications during and post-construction. This includes, for example, creating a website to enable community input online[23] and establishing a Community Liaison Group, led by an independent chair and made up of representatives from the community, local government and Meridian.

Meridian has dedicated community liaison roles working with the communities, and the people in these roles take a consultative and inclusive approach to ensure that Meridian remains a good neighbour for the lives of the assets and that we contribute to the communities in meaningful ways. This involves supporting and funding community projects and initiatives, ongoing liaison and being open to feedback.

### Local community funds

Meridian's Community Funds programme supports community projects located near its generation assets. Funding allocations are managed by a panel of community representatives and Meridian staff to ensure that Meridian supports projects that meet genuine community needs. A 2013 survey of residents in the Waitaki Community Fund area revealed that 86% of respondents felt the right projects were being supported by Meridian.

In the 2015 financial year, Meridian invested a total of $1.5 million in community projects and sponsor partners. We sponsor a range of national and local sporting, environmental and community projects through financial support and staff voluntary work. This provides us with an opportunity to engage with our customers and local communities. Sponsorship is an important part of growing our brand awareness, but all of the activities and initiatives that we support are closely linked to our values and principles. Our largest partnership is with KidsCan, a charity that offers practical, hands-on assistance to thousands of children in schools throughout New Zealand. We also support Sustainable Coastlines to clean up marine debris, South Island Rowing with the Meridian Rowing Centre at Lake Ruataniwha and the Southern Regional Performance Centre.

**COMMUNITY FUND AMOUNT ALLOCATED IN 2015**

| | |
|---|---|
| Waitaki | $259,119 |
| Manapōuri Te Ānau | $162,762 |
| West Wind | $100,858 |
| White Hill | $45,305 |
| Te Uku | $43,996 |
| Te Āpiti | $42,617 |
| Mill Creek | $50,000 |
| **Total** | **$704,657** |

23 www.clg-millcreek.co.nz/

**Sustainability framework**

Meridian's sustainability framework highlights the things that matter most to us and our stakeholders. We set targets and monitor and report on our progress across a range of economic, social and environmental goals.

Performance against the key framework indicators is reported throughout the relevant sections of this report. This table provides a summary of our performance for FY2012–2015.

| KEY AREA | OVERALL GOAL | KEY INDICATOR | 2015 PERFORMANCE | | | |
|---|---|---|---|---|---|---|
| Water stewardship | To collaborate with stakeholders to manage water catchments effectively | Collaboration with stakeholders on water use | • Collaborated with all levels of government and/or relevant stakeholders in government and hydro sectors re economic impacts of flow change and freshwater reform<br>• Achieved agreement on specific matters with Ngāi Tahu and stakeholders for submissions on the Waitaki Catchment Water Allocation Regional Plan Change 3<br>• Worked with Environment Southland to achieve recognition and clarification in the High Court of the unique legislative arrangements that apply to the operation of the Manapōuri Hydro Scheme | | | |
| Renewable energy | To maintain and develop renewable energy assets, and help minimise the electricity industry's contribution to climate change | Habitat enhancement and restoration | Project River Recovery, Waiau River Restoration, Te Uku Wetlands, Waiau Ngāi Tahu Elver Trap and Transfer | | | |
| | | | PERFORMANCE | | | |
| | | | 2012 | 2013 | 2014 | 2015 |
| | | Net energy output | 10,996GWh | 12,071GWh<br>Mill Creek underway | 13,431GWh<br>Mill Creek first power | 13,851GWh<br>Benmore 50th and Waitaki refurbishment |
| Energy services | To provide our customers with good service, value for money and the opportunity to lower their impacts on the environment | Sustainable offering uptake | 66,000 customers taking up at least one sustainable offering | 131,000 customers taking up at least one sustainable offering | 155,000 customers taking up at least one sustainable offering | 178,000 customers taking up at least one sustainable offering |
| Engaged communities | To support and connect with the communities in which we operate and interact | Community funding and sponsorships | $1.96 million | $1.25 million granted to community organisations and sponsorship partners including KidsCan sponsorship | $1.42 million granted to community organisations and sponsorship partners including KidsCan sponsorship | $1.5 million granted to community organisations and sponsorship partners including KidsCan sponsorship |
| Working sustainably | To incorporate sustainability in our culture, policies, processes and systems, and engage our people in sustainability issues, supporting them to make business decisions with a long-term view | Lost-time injuries | 2 | 0 | 1 | 3 |
| | | Employee engagement | 76% | 78.9% | 76.1% | 81% |
| | | Corporate GHG emissions | 3,227t$CO_2$e | 2,856t$CO_2$e | 2,969t$CO_2$e | 2,742t$CO_2$e |
| Financial return | To provide shareholders with a financial return that meets their expectations, given the risks associated with its business | Total shareholder return | N/A | N/A | 27.7%[1] | 36.2% |

1 Based on Meridian's share price movement and gross dividends declared during the financial year.

### Supply chain

In 2015 the Meridian Group had direct orders with around 5,000 vendors from more than 50 countries, which included non-buying services (paying local authorities or landowners for example).

As a vertically integrated generator and retailer of electricity, Meridian manages its supply chain within the context that it produces and retails its core product. Meridian sources products and services within sustainable procurement guidelines to build and maintain generation assets and to run the retailing and corporate business functions. The most material inputs to our supply chain are the goods and services supporting our generation facilities, in particular the following projects either initiated or completed in FY15:

- Three Main Unit Transformers for Manapōuri sourced from the Wilson Transformer Company in Australia
- Generation Excitation Equipment for the Aviemore and Ōhau A power stations supplied from Andritz Hydro in Austria
- Replacement Voltage Transformers for the Benmore power station sourced from Electrotecnica Arteche Hermanos SL of Spain
- Replacement Main Unit Transformer Heat Exchangers sourced from GEA Heat Exchangers (China) Co via CG Power Systems Indonesia
- A wind farm component replacement and refurbishment programme primarily focused on building a knowledge base of the turbine construction and failure mode achieved through building local capability for the replacement or refurbishment of turbine components and maintenance practices. This has reduced the supply chain risk, the cost of components and freight, and the subsequent GHG emissions whilst maintaining or uplifting asset performance and revenue.

### Carbon trading

As a renewable electricity generator, Meridian has no direct obligations under the Emissions Trading Scheme for fossil fuel generation. Meridian's Te Āpiti and White Hill wind farms were allocated Kyoto-compliant carbon credits under the Government's Projects to Reduce Emissions Scheme until last year when the first commitment period of the Kyoto Protocol ended.

Meridian received 13,551 New Zealand Units this year under the Emissions Trading Scheme (ETS Forestry post-1989) relating to the Rototuna forest in Northland.

### Membership and commitments

| MEMBERSHIP ORGANISATION |
|---|
| Australian Stock Exchange User Group |
| Business New Zealand |
| The Sustainable Business Council |
| Electricity Authority Wholesale Advisory Group |
| Electricity Authority Retail Advisory Group |
| Electricity Authority Security and Reliability Council |
| Electricity Authority Reserves and Frequency Management Group |
| Electricity Authority Locational Price Risk Technical Group |
| Electricity Authority Multiple Frequency Keeping Technical Steering Group |
| Electricity Authority Multiple Frequency Keeping Technical Steering Group |
| Electricity and Gas Complaints Commissioner Scheme |
| New Zealand Institute for the Study of Competition and Regulation |
| StayLive (safety forum) |
| New Zealand Business and Parliament Trust |

| COMMITMENTS |
|---|
| Zero Harm Pledge |

## 4. Relationships

### Iwi

Meridian recognises the value of positive and proactive relationships with iwi, particularly with Ngāi Tahu, as Meridian's hydro operations are situated within the Ngāi Tahu takiwā.

Meridian has established relationships with Te Rūnanga o Ngāi Tahu and its constituent Papatipu Rūnanga and subsidiary companies. Areas of shared interest and discussion range from strategic Board of Directors issues to commercial joint ventures and operational on-the-ground support. Rūnanga members are involved in a range of activities arising from their kaitiaki responsibilities, often focused on mahinga kai.

Our relationships with iwi in our wind farm asset areas are not as active. This is primarily attributable to the scale and impacts of our operations and structures typically being located on privately-held land.

## Stakeholders

Meridian undertakes comprehensive strategy development and implementation planning to enable us to identify, understand and engage effectively with our stakeholders. We recognise that effective relationship management is a core component of success for any organisation. We identify stakeholders that can influence our success and work to develop and manage those relationships at a corporate level and through community and stakeholder engagement. Stakeholder relationships are the responsibility of staff across the organisation and recognised as an essential part of our business. The diverse nature of our business as both an electricity generator and a retailer means our stakeholders are also diverse. We engage with different stakeholders as required depending on current work programmes and stakeholder need. For example, during the construction of a wind farm we have intense engagement with the local community, during a statutory plan development process we engage widely with stakeholders, and if making changes to residential tariffs or billing we focus on residential customer communications.

At times Meridian and our stakeholders have differing interests in relation to water. Meridian appreciates that there are divergent interests; however, we are committed to listening to others and trying to find mutually acceptable solutions where possible. The Hunter Downs irrigation project has raised funds amongst the South Canterbury farming community, the Government and Meridian, and is preparing to proceed to full design and feasibility. If the project proceeds it will be a positive outcome for both agriculture and hydro generation, as it will provide tens of thousands of hectares of irrigation in South Canterbury with water sourced from below Meridian's lowest dam on the Waitaki River.

Meridian makes millions of transactions a year and strives to get things right to ensure that customers are satisfied and receive good service. The company is improving customer interactions, particularly through online and self-service and the deployment of smart meters to all customers. Complaints are viewed as an opportunity to improve and staff work with customers to reach resolutions to any issues. The stakeholder table below outlines our key stakeholders and how we interact with them. Examples of specific contact we've had this year are included throughout the report.

No specific external engagement was undertaken to prepare this report.

| STAKEHOLDER | KEY INTERESTS AND CONCERNS | MERIDIAN'S RESPONSE | ENGAGEMENT METHOD |
|---|---|---|---|
| Generation communities | • Honest and open communication and engagement<br>• Consequences of our role as a generator – environmental, commercial, social and cultural | • Ongoing participation in the community where appropriate<br>• Early engagement and consultation<br>• Compliance with resource consent conditions<br>• Community Funds<br>• Project websites | • Newsletters<br>• Community meetings<br>• Open days and drop-in hubs<br>• Community liaison groups<br>• Dedicated community liaison staff<br>• Participation in community events<br>• Community surveys<br>• Asset-based event sponsorship e.g. White Hill Classic |
| Iwi | • Tangata whenua – guardians of the natural resources within their rohe<br>• Consequences of the company's role as a generator – environmental, commercial, social and cultural<br>• Honest and open communication<br>• Strategic engagement<br>• Commercial partnership opportunities | • Partnership approaches that recognise iwi aspirations<br>• Sponsorship opportunities<br>• Capability building<br>• Working groups for management of natural resources<br>• Memoranda of understanding<br>• Mitigation responses | • Iwi engagement<br>• Participation in iwi events<br>• Regular meetings/hui<br>• Event hosting |
| Customers | • Affordable power<br>• Customer service<br>• Accurate billing<br>• Access to data to help understand energy use<br>• Security of supply<br>• Energy efficiency and sustainability | • Assistance to customers during state of emergency<br>• Unbundling of network and energy costs in billing<br>• Improved disconnection process<br>• Smart meters and regular meter reads<br>• Energy efficiency advice and sustainability offerings | • Customer contact centre and account managers<br>• Newsletters<br>• Website and customer portal<br>• Customer satisfaction surveys<br>• Direct mail and email<br>• Sponsorship |
| Employees | • An employment experience that meets expectations<br>• An employer who genuinely cares for the wellbeing of staff<br>• An employer who is well respected in the community | • Focus on leadership, capability development and performance<br>• Management development programme<br>• Graduate and apprenticeship programmes<br>• Health and safety at work focus, including wellness programme<br>• Recognition of staff requirements during uncertain times<br>• Credible approach to sustainability | • Employee engagement surveys<br>• Intranet<br>• Senior management updates to staff<br>• Staff events<br>• Competency-based learning modules<br>• Leadership and capability development programmes<br>• Individual development plans for employees<br>• One-on-one performance reviews and feedback |

| STAKEHOLDER | KEY INTERESTS AND CONCERNS | MERIDIAN'S RESPONSE | ENGAGEMENT METHOD |
|---|---|---|---|
| Shareholders | • Commercial performance<br>• Efficient delivery of services, transparency on drivers of performance and profit<br>• Responsible employer | • Sound business planning based on long-term financial objectives<br>• Improved reporting including quarterly operational reports and material disclosures<br>• Commitment to health and safety and corporate social responsibility | • Consistent communications that adhere to the principles of continuous disclosure and include:<br>• material market updates<br>• annual shareholder meetings<br>• annual and half-year reports<br>• earnings and dividend announcements<br>• monthly operating reports<br>• investor presentations |
| Government and electricity sectors | • Contribution to economic growth through development<br>• Efficient use of resources<br>• Environmental responsibility<br>• Competitive market outcomes | • Engagement with the Government electricity regulator and electricity sector on key energy policy issues<br>• Development of cost-competitive renewable energy generation<br>• Commitment to sustainability and environmental stewardship<br>• Submissions supporting competitive and rational market outcomes | • Policy submissions<br>• Open engagement<br>• Participation in appropriate forums |
| Suppliers and contractors | • Insights into timing and certainty of future work programmes and initiatives<br>• Accurate and timely service request data<br>• Fair and open procurement | • Promotion of early notification of significant work programmes<br>• Active application of supplier relationship management practices<br>• Fair, open, transparent and reasonable market engagement processes<br>• Development of clear and well defined requirements<br>• Encouragement of local business participation wherever possible | • Market engagement documentation<br>• Contract negotiations<br>• Supplier meetings to discuss ongoing relationships<br>• Supplier briefings<br>• Conferences/speaking engagements |
| General community | • Security of supply<br>• Leader in sustainability and renewable generation<br>• Contributor to communities from social, economic and environmental perspectives | • Management of water resources<br>• Development of cost-competitive renewable energy generation<br>• Commitment to renewable energy generation, sustainability and corporate social responsibility<br>• Sustainable procurement policy | • Brand advertising campaigns<br>• Website<br>• Sponsorship<br>• Annual Report<br>• Media releases<br>• Educational material<br>• Public meetings |
| Local government | • Responsible developer of infrastructure<br>• Security of supply<br>• Contribution to the local economy<br>• Sustainably manage resources | • Participation in processes to support best practice<br>• Commitment to sustainability and environmental stewardship | • Meetings<br>• Submissions<br>• Hearing presentations<br>• Working group and committee participation |
| Non-governmental organisations | • Impacts on natural resources and local community initiatives<br>• Open and honest communication | • Engagement and consultation as appropriate<br>• Support for projects as appropriate<br>• Sustainability framework to reduce impacts of operations | • Meetings<br>• Correspondence<br>• Joint memberships of forums<br>• Presentations<br>• Membership of organisations<br>• Responses to information requests |
| Investors (lenders) | • Profitable, good employer<br>• Socially and fiscally responsible<br>• Return on investment<br>• Ability to meet interest and principal obligations on debt<br>• Open and honest communication | • Sound business planning based on long-term financial objectives<br>• Clear and regular operation reports and material disclosures | • Regular meetings and open engagement<br>• Asset tours<br>• Prospectus<br>• Investment statement<br>• Rating reports<br>• Investor briefings<br>• Clear and regular operation reports and material disclosures |

## Global Reporting Initiative Index

Meridian considers that this report has been prepared in accordance with the core option of the Global Reporting Initiative (GRI) G4 guidelines. The principles of the GRI G4 Reporting Guidelines and AA1000 have been followed in determining the content of this report. Meridian has not sought external assurance for this report.

| G4 | GENERAL STANDARD DISCLOSURE | PAGE |
|---|---|---|
| **Strategy and analysis** | | |
| G4-1 | CEO statement regarding sustainability | 7 |
| **Organisational profile** | | |
| G4-3 | Name of reporting organisation | front cover |
| G4-4 | Primary brands, products and/or services | 2 |
| G4-5 | Location of the organisation's headquarters | 2 |
| G4-6 | Countries in which the organisation operates | 2 |
| G4-7 | Nature of ownership and legal form | 2 |
| G4-8 | Nature of markets served | 2, 6–8 |
| G4-9 | Scale of the reporting organisation | 2 |
| G4-10 | Employee statistics | 9, 92 |
| G4-11 | Percentage of total employees covered by collective bargaining agreements | 92 |
| G4-12 | The organisation's supply chain | 95 |
| G4-13 | Significant changes in size, structure or ownership | no significant changes |
| G4-14 | Precautionary approach or principle | 89 |
| G4-15 | External charters, principles and initiatives | 95 |
| G4-16 | Association or advocacy organisation memberships | 95 |
| **Identified material aspects and boundaries** | | |
| G4-17 | Entities included in financial statements and this report | 88 |
| G4-18 | Defining report content and implementing reporting principles | 96, 99–100 |
| G4-19 | Listing material aspects | index |
| G4-20 | Aspect boundaries within the organisation | 99 |
| G4-21 | Aspect boundaries outside the organisation | 99 |
| G4-22 | Report the effects of any restatements | no restatements to report |
| G4-23 | Report any significant changes in scope and aspect boundaries | no significant changes to report |
| **Stakeholder engagement** | | |
| G4-24 | List stakeholder groups | 96–97 |
| G4-25 | Basis for identification and selection of stakeholders | 96–97 |
| G4-26 | Organisation's approach to stakeholder engagement | 96–97 |
| G4-27 | Key stakeholder topics and concerns and the organisation's responses | 96–97 |
| **Report profile** | | |
| G4-28 | Reporting period | front cover, 100 |
| G4-29 | Date of most recent report | 100 |
| G4-30 | Reporting cycle (annual, biennial etc) | annual reporting, 100 |
| G4-31 | Contact point for questions regarding the report | back cover |
| G4-32 | GRI content index and 'in accordance' option | 98–99 |
| G4-33 | External assurance policy and practice | 98 – external assurance has not been sought for this report |
| **Governance** | | |
| G4-34 | Governance structure of the organisation | 29–36 |
| **Ethics and integrity** | | |
| G4-56 | Description of the organisation's values, principles, standards and norms of behaviour | 30–31 |
| **Electric utilities sector disclosures** | | |
| EU1 | Installed capacity | 2 |
| EU2 | Net energy output | 2–3 |
| EU3 | Number of customer accounts | 1–2 |
| EU4 | Length of transmission and distribution lines | length insignificant |
| EU5 | Allocation of $CO_2$ emission allowances | 95 |

SPECIFIC STANDARD DISCLOSURES

| MATERIAL ASPECTS | DMA AND INDICATORS | INDICATOR DETAIL | PAGE/LINK |
|---|---|---|---|
| **Category: Economic** | | | |
| Economic performance | G4-EC1 | Direct economic value generated and distributed | financial section |
| **Category: Environmental performance** | | | |
| Water | G4-EN9 | Water sources significantly affected by withdrawal of water | 15, 89–90 |
| Biodiversity | G4-EN12 | Significant impacts on biodiversity | 15, 90 |
| | EU13 | Biodiversity of offset habitats | 90 |
| Emissions | G4-EN15 | Direct GHG emissions (Scope 1) | 91 – a comprehensive emissions inventory can be found at www.meridian.co.nz/ghg |
| | G4-EN16 | Energy indirect GHG emissions (Scope 2) | 91 |
| | G4-EN17 | Other indirect GHG emissions (Scope 3) | 91 |
| | G4-EN19 | Reduction of GHG emissions | 8, 90–91 |
| **Category: Social** | | | |
| Occupational health and safety | G4-LA5 | Percentage of total workforce represented in formal Health and Safety Committees | 93 |
| Diversity and equal opportunity | G4-LA12 | Breakdown of governance bodies and employees by diversity indicators | 9, 33–34, 92 |
| Local communities | G4-SO1 | Operations with local community engagement, impact assessments and development programmes | 8, 15, 93 |
| | EU22 | People physically or economically displaced and compensation | no displacement occurred |
| Pricing | | Key issues from customers, media and industry | 8, 21 |

| MERIDIAN MATERIAL ISSUE | G4 CATEGORY AND ASPECTS | MATERIAL WITHIN THE ORGANISATION | MATERIAL EXTERNAL TO THE ORGANISATION | RELEVANCE OUTSIDE THE ORGANISATION |
|---|---|---|---|---|
| Financial return | Economic – economic performance | ✓ | ✓ | Stakeholders are interested in wealth creation |
| Water stewardship | Environmental – water | ✓ | ✓ | Collaboration with stakeholders to manage water catchment effectively |
| Renewable energy | Environmental – biodiversity | | ✓ | Habitat enhancement and restoration |
| Energy service – customers – pricing | Meridian selected | ✓ | ✓ | This is important to our customers and those seeking to understand pricing across the industry |
| Engaged communities | Society – local communities | ✓ | ✓ | Our community funding and support in the local communities where our assets are located is important to the communities and the staff who live in them |
| Working sustainably | Social – employment | ✓ | | |
| | Social – occupational health and safety | ✓ | | |
| | Environmental – emissions | ✓ | ✓ | Reducing GHGs is an important contribution to global climate change mitigation |

# About this report

THIS ANNUAL REPORT IS A REVIEW OF MERIDIAN'S PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015.

Last year Meridian produced a similar combined report for financial and non-financial performance. For the financial year the Meridian Group included the parent company Meridian Energy Limited and its operational subsidiaries Damwatch, Powershop and Meridian Australia. Arc Innovations was sold on 1 December 2014. Unless otherwise stated, statements of non-financial information refer to Meridian Energy Limited, the parent company, only.

Care has been taken to ensure that all data in this report is as accurate as possible. Where assumptions have been made they are clearly stated and explained. Included in this report is a summary of the GHG inventory for Meridian Energy Limited (the parent company – a more detailed version has been audited by Deloitte) and a Global Reporting Initiative (GRI) index of reporting components covered.

Meridian considers that this report has been prepared in accordance with the core option of the GRI G4 guidelines. The principles of the GRI G4 Reporting Guidelines and AA1000 have been followed in determining the content of this report. Meridian has not sought external assurance for this report.

The issues discussed in this report reflect our most significant impacts and the key concerns and expectations of our stakeholders. They include economic, environmental and social issues. The issues have been gathered over the year from stakeholders, the Meridian Safety and Sustainability Committee, senior executives, employees, Ngāi Tahu and media, industry and sector commentary. The issues have then been analysed, prioritised and aligned with our key strategic themes and the G4 material aspects and standard disclosures.

More information on key stakeholders, their interests and Meridian's response can be found in the stakeholder analysis table on pages 96 and 97.

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### Banker

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Peter Wilson, *Deputy Chair*
John Bongard
Mark Cairns
Jan Dawson
Mary Devine
Sally Farrier
Anake Goodall
Stephen Reindler

### Management team

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Neal Barclay
Ben Burge
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Jacqui Cleland
Alan McCauley
Glen McLatchie
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Guy Waipara

If you have any questions or would like to comment on Meridian's Annual Report, please email investors@meridianenergy.co.nz meridian

www.meridian.co.nz

ISSN 1173-6305