

**Powerful  
Thinking  
Meridian  
Energy**  
Report for the  
year ending  
June 2002

# CONTENTS

---

POWERFUL THINKING: 8 THOUGHTS THAT HAVE SHAPED OUR BUSINESS .....	2
YEAR IN REVIEW .....	20
HOW THIS REPORT IS STRUCTURED .....	21
MERIDIAN'S PURPOSE.....	22
OUR ASSETS.....	23
MARKET OVERVIEW .....	24
8 THOUGHTS EXPLAINED:	
1. SUSTAINABILITY AND BALANCE .....	27
2. OUR CUSTOMERS.....	31
3. OUR RESPONSIBILITIES .....	34
4. OUR ENVIRONMENT.....	38
5. OUR EVOLUTION AND GROWTH .....	43
6. OUR REPUTATION.....	46
7. OUR PEOPLE .....	48
8. OUR KNOWLEDGE .....	51
MANAGEMENT TEAM .....	54
BOARD OF DIRECTORS .....	56
FINANCIAL INFORMATION	
OVERVIEW .....	59
CORPORATE GOVERNANCE .....	60
BOARD OF DIRECTORS.....	63
DIRECTORS' RESPONSIBILITY STATEMENT.....	64
STATEMENT OF FINANCIAL PERFORMANCE.....	65
STATEMENT OF MOVEMENTS IN EQUITY.....	65
STATEMENT OF FINANCIAL POSITION .....	66
STATEMENT OF CASH FLOWS.....	67
NOTES TO THE FINANCIAL STATEMENTS.....	68
REPORT OF THE AUDITOR-GENERAL .....	88
STATUTORY INFORMATION.....	89
APPENDIX 1 – RESOURCE CONSUMPTION .....	92
APPENDIX 2 – GLOBAL REPORTING INITIATIVE INDEX TABLE .....	96
VERIFICATION STATEMENT.....	97
DIRECTORY .....	98
FEEDBACK FORM.....	99

## POWERFUL THINKING: 8 THOUGHTS THAT HAVE SHAPED OUR BUSINESS

---

1. If you take something out, you've got to put something back.  
Balance is a life necessity.
2. We won't just mind our own business.  
We'll mind our customers' too.
3. We answer to you.  
Because ultimately, we work for you.
4. Our power comes from nature.  
And we're making it work for us.
5. We are growing.  
That means getting better, not just bigger.
6. We have a name to live up to.  
Meridian means the peak of achievement.
7. People make our world go round.  
And give us competitive advantage.
8. Knowledge equals power.  
When it is equally shared.



# Powerful Thinking: 8 thoughts that have shaped our business

Meridian Energy has been in business for three and a half years. During that time, we have made great strides across all our activities, from generating electricity to marketing, trading and retailing energy solutions, and our reputation continues to grow.

The past 12 months have been our biggest yet. Working under sometimes difficult conditions, the achievements of the entire Meridian team have changed the shape of our company and seen us grow in new directions. Among the most notable of those changes have been the expansion of our retail business and improvements in customer service, the establishment of a solid base in Australia, and the further development of our energy services business unit, Meridian Solutions.

What has not changed is our intention to lead the market, and our commitment to do so responsibly. Which is why, this

year, you will notice another change – in the way we present this report.

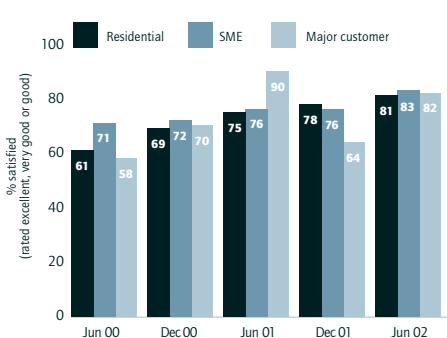
This year we have included information that was previously presented in a separate sustainability report. We've done this because sustainability is fundamental to our business and underpins every decision we make, so shouldn't be presented in isolation.

In this report, we go behind the decisions that have led to this year's result to explain the thinking that got us here, what we have achieved, and how it will direct Meridian in the future.

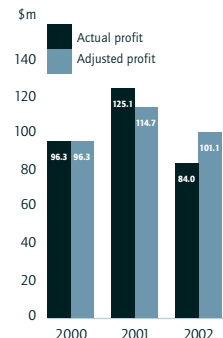
For ease of presentation, we have boiled all the thinking down to eight key thoughts profiled on the following pages that encompass the financial, social and environmental philosophies that shape our approach, and we illustrate how the thoughts were actioned in the 2001-2002 year.



## CUSTOMER SATISFACTION IN KEY MARKETS

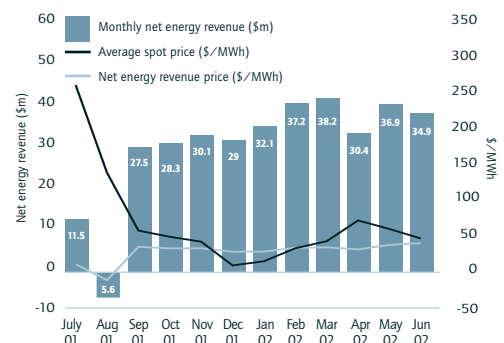


## ADJUSTED PROFIT



## REVENUE

Note: Net energy revenue price is calculated as net energy revenue/generation volume



## OUR ACHIEVEMENTS

---

The following highlights provide a snapshot of some of our key achievements during the year.

**Management of the driest winter on record.** The inflows into the Waitaki catchment area between April and July 2001 were the lowest in the 75 years of data collection records, and the inflows in the Waiau (Manapouri) catchment were also well below average. This meant we started the financial year with a severe shortage of water, which required very sensitive management of both our generation output and the management of demand in order to avoid blackouts.

**Commissioned second Manapouri tailrace tunnel prior to the 2002 winter.** This project created an additional 125 MW of capacity from the same amount of water. The project itself set new benchmarks for technology, environmental sensitivity and safety on large-scale engineering projects, and was a finalist in the *Financial Times* Global Energy Awards in 2001.

**Seamless integration of new customer base.** In June 2001 we purchased the former South Island customers of On energy, and managed a seamless transition into our larger customer contact centre, a project that was a finalist in the most successful project implementation section of the *Computerworld* Excellence Awards.

**Held residential prices during the 2001 winter shortage,** despite this having a large negative financial impact for Meridian.

**Meridian Solutions had a successful year** developing projects and entering into agreements with large industrial customers in a range of industries.

**\$84 million net profit after tax** in a year where a number of major initiatives have been achieved in a difficult operating environment. The underlying operating performance, when compared with previous years, remains sound. An adjusted net operating profit after tax of \$101.1 million was achieved after removing one-off events such as the impact of the acquisition of On energy customers.

**Paid \$100 million special dividend,** as part of our balance sheet restructuring.

**Extensive support of the communities within which we operate** and with our sponsorship partners, including sponsoring the Australasian premiere of *The Lord of the Rings: The Fellowship of the Ring*.

**Widespread consultation on Project Aqua** including the preparation of a comprehensive set of environmental assessment reports.

**Value of Australian investment has exceeded our initial expectations** on a discounted cash flow basis. Much of this value has been driven by benefits we have negotiated through renewable energy certificates, and the renegotiation of pricing arrangements.

**Settled Transpower dispute.** Following the successful defence of Transpower's court action over posted terms, Meridian entered into a full and final settlement with Transpower in respect of all outstanding charges for the disputed period from April 1999 to 26 July 2001.

**Acquired over \$900 million of new debt facilities** as part of a comprehensive funding programme over the past 12 months to refinance existing debt and re-gear our balance sheet.

**Established a forum for dialogue with major customers** in response to Christchurch business pricing concerns.

Meridian is a solid company, optimistic about what it can deliver for New Zealanders now and in the future. Through this report, we hope you are able to understand what it is that makes us different.



Francis Small  
CHAIRMAN



Keith Turner  
CHIEF EXECUTIVE



# 1.

If you take something  
out, you've got to put  
something back

Balance is a life necessity

---

Meridian is an energy company built on 'sustainability'. We committed to sustainable business practices before the term became fashionable. To us, sustainability means being in business for the long haul. It is more than an environmental commitment and applies to much more than the largely renewable resources we use to make electricity. It means we balance every decision we make according to the social and financial as well as environmental impacts it will have on our communities, our country and our planet. It also means we must communicate clearly about the impact our decisions have. We chose this course at our inception, because we fundamentally believe that being sustainable is not an option for a responsible business; it is a necessity. [More on page 27.](#)



# 2.

We won't just mind  
our own business

We'll mind our  
customers' too

---

For a retail business, it's stating the obvious to say that customer focus is essential. Over the past year it has been even more so for Meridian. At the beginning of the year we acquired approximately 116,000 new residential customers and had to gear up to meet their needs. Since they have been integrated we have improved all areas of our customer operations and have set strong service targets to ensure that customer satisfaction continues to rise.

We acknowledge we have not listened as well as we could have in the past. We have a genuine resolve to put that right by listening better and giving our customers more of what they want. We have appointed market segment managers who have the expertise to fully understand customers' needs, and have established a contact centre for small and medium business. After talking with business owners, we introduced fixed and spot price offers to balance both our own and our customers' needs. We are also working alongside major customers at their sites around the country, on energy-efficiency projects such as our plan to renovate the boiler plant that powers Dunedin's Public Hospital, the University of Otago and the Cadbury's factory. Co-operation like this is plain common sense. We help build customers' business, and they build ours. **More on page 31.**



# 3.

We answer to you  
Because ultimately,  
we work for you

---

Meridian is a state-owned enterprise (SOE), owned by all New Zealanders. That means the dividend from our activities does not go offshore, it is pumped back into the economy. As importantly, our status as an SOE means that we are conscious of our obligation to be socially responsible at all times as well as profitable. We are committed to this part of the world and we aim to make Meridian one of the great New Zealand companies.

As caretakers of the southern lakes and rivers we appreciate that we are entrusted to do just that: 'take care'. And that extends to everything we touch – the physical landscape, the human communities, the spiritual and natural world we inhabit. Good working relationships will be the major factor in achieving results that work for everyone. We're actively working to encourage more open communication with all parties with which we work, we're continuing to sponsor the arts and we're putting a priority on our work with communities and the children who will eventually take over the job of 'caretakers' themselves. **More on page 34.**



# 4.

Our power comes  
from nature

And we're making  
it work for us

---

As an electricity generator and retailer, Meridian relies on the weather. But as the weather is not always predictable, we have to think about smart ways of responding to whatever it delivers. We have to adopt an 'if life gives you lemons, make lemonade' philosophy. We've got to innovate and create solutions with the potential power that nature provides. And we are doing just that, generating electricity with hydro, wind and biomass technologies. For this to be sustainable, we must make sure we leave as light a footprint as possible. That's non-negotiable, because what we do in our backyard is everybody's business. More on page 38.



# 5.

We are growing

That means  
getting better,  
not just bigger

---

Three and a half years ago, Meridian emerged out of ECNZ as an electricity generator and retailer. Since then we have more than doubled our customer base and now have a direct relationship with 230,000 customers. That has lent new impetus to our focus on improving the service we offer. At the same time, we are expanding our generation business by finding new ways to produce more from existing assets and exploring new projects in New Zealand and Australia.

The outstanding companies of the future will not necessarily be the biggest, but the smartest. We are working with some of the best brains, sourcing ideas from New Zealand and around the world to create tomorrow's world-leading initiatives to enable us, our customers, and the communities in which we operate to build better, more competitive businesses. Project Aqua, the proposed multi-use hydro project on the lower Waitaki River is one such project. It will combine irrigation facilities to the benefit of the local area, with generation facilities to meet New Zealand's growing energy needs. More on page 43.



# 6.

We have a name  
to live up to

Meridian means the  
peak of achievement

---

When we formed this company we chose our name to reflect our intentions. Meridian means 'the peak of achievement'. It also means 'the reference point' and we want to set the standard as the reference company for the New Zealand energy industry, by both our financial performance and our behaviour. We are certainly not there yet – but we are taking significant steps in the right direction. We have made a commitment to becoming a peak performing organisation and have adopted the team-based framework proven successful by some of the world's leading businesses, from legendary sports teams to manufacturers, advertising agencies and technology giants.

Benchmarking against best global practice will be one way of measuring our success – but being better, by definition, must also mean being different in some ways. It's healthy to challenge the status quo and push the boundaries of conventional wisdom. Breakthroughs are made by people who dream big and ask "why not?". We know that the reputations of truly great companies are built on this kind of thinking. At the end of the day, there is one success measure that matters most to us – the reputation we have with our customers and stakeholders. More on page 46.



# 7.

People make our  
world go round

And give us  
competitive advantage

---

We have an exceptional group of people at Meridian and we value them. Positive, motivated people are good to work with and good for business. We are proud of our continuing staff satisfaction levels, which at 97% are way above the industry average. The reasons for this are many: the opportunities of our organisational structure that enables us to be at our most creative and productive best, initiatives for both career and personal development, and rewarding interaction with the community through schemes such as our Kiwi Can sponsorship.

Our strong internal culture is driven and sustained by the Meridian Events Team (METS) made up of people from all our offices who create events to celebrate key milestones and foster 'the Meridian Way' – a term we coined to signify the behaviours to which we aspire. We also make sure that we form working partnerships with individuals, groups and businesses who are 'in sync' with the Meridian Way and have similar aspirations to excel. [More on page 48.](#)



# 8.

Knowledge  
equals power

When it is  
equally shared

---

Good and bad experiences over the past few years have taught us a lot. We have learned that clear communication and consultation helps avert many problems and that knowledge needs to flow both ways in a working relationship and particularly in a complicated industry like ours. The cumulative effect of sharing tends to create more power for all parties. When everyone has all the facts, people can make better-informed choices, blame-laying can be avoided and the net result is a better outcome for all concerned.

This approach worked for us last year when as soon as we realised lake levels could become critical, we initiated a nationwide power-saving education campaign and helped avert power shortages. Effective sharing of knowledge has also been fundamental to the success of our environmental team in building exceptional levels of trust and goodwill throughout the history-making second tailrace tunnel project at Manapouri. [More on page 51.](#)