meridian

CORPORATE GOVERNANCE STATEMENT FY17

Meridian's approach to corporate governance is simple: have the right structure, people, practices and policies in place to support its ability to create value in the short, medium and long term.

While delivering on this overarching objective, the Meridian Board also aims to ensure that Meridian acts transparently and in a socially and environmentally responsible way to benefit its wider stakeholder community.

As part of this commitment, the Board regularly implements and reviews Meridian's corporate governance practices, processes and policies according to the company's constitution. It also reviews the legal and regulatory environment in which Meridian operates, and applies best-practice corporate governance principles such as those set by the New Zealand Stock Exchange (NZX), the Financial Markets Authority and the Australian Securities Exchange.

This Corporate Governance Statement provides a snapshot of these practices, processes and policies following the recommendations in the NZX Corporate Governance Code 2017 ('the NZX Code').

All of Meridian's key corporate governance documents, including charters and policies, can be found here.

The annual report for the financial year ended 30 June 2017 may cross-reference this Corporate Governance Statement. This statement was approved by the Board on 23 August 2017 and is accurate as at that date.

PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

Recommendation 1.1: The board should document minimum standards of ethical behaviour to which the issuer's directors and employees are expected to adhere.

Meridian Board members and employees are expected to observe the highest standards of ethical behaviour, and support and encourage policies within Meridian that require directors and employees to observe high standards of personal integrity and display honesty in their dealings.

Meridian's Code of Conduct is a Board-approved policy that outlines the minimum expectations of behaviour and its internal reporting procedures for any breaches. The code's primary objective is to help employees to understand the behaviours that Meridian expects of them and help to answer any questions, issues or challenges they may face.

Every employee is given a copy of the code as part of the induction process and must acknowledge that they have both read and understood its content.

The code is principle-based (the underlying policies are more detailed), with topics that include:

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

Every employee is given a copy of the code as part of the induction process and must acknowledge that they have both read and understood its content. Employees also receive continual communications on, and training in, each of these areas.

During the period there were several breaches reported to the Remuneration and Human Resources Committee with action taken to address these breaches in accordance with company procedures.

In addition, the Board-approved delegation policy sets out an approval process for all Related Party transactions to ensure Meridian complies with the NZX Listing Rules on Related Parties. For this purpose, a Related Party is the Crown and any entity in which the Crown has a controlling stake (for example other mixed ownership companies and Transpower).

Recommendation 1.2: An issuer should have a financial product dealing policy which applies to employees and directors.

Meridian has a Trading in Securities Policy that is reviewed annually by the Board. The policy relates to dealings in securities and other financial products, including Meridian shares and other companies' shares. Its purpose is to ensure that Meridian and its subsidiaries' directors, employees and contractors comply with the law prohibiting insider trading and that all their dealings in Meridian securities are beyond reproach.

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

Recommendation 2.1: The Board and issuer should operate under a written charter which sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management.

The Board has an established process for selecting suitable candidates for appointment and reappointment to the Board.

The Board Charter sets out, in detail, the composition, responsibilities and roles of the Board and directors. The Board reviews its performance against the responsibilities annually.

The Board maintains a set of delegated authorities that clearly define the responsibilities delegated to management and those retained by the Board. These delegated authorities are subject to review and approval by the Board annually. The Chief Executive is accountable to the Board for the exercise of, and compliance with, the Delegated Authority Policy.

The Chief Executive and members of the Executive team have employment agreements setting out their roles and conditions of employment.

Recommendation 2.2: Every issuer should have a procedure for the nomination and appointment of directors to the board.

The Board has an established process for selecting suitable candidates for appointment and reappointment to the Board. The process starts with a Board evaluation and the development of a Board skills matrix and ensures that:

- proper checks are done
- shareholders are provided with key information about a candidate to helping in their decision-making on whether to elect or re-elect them (this includes any material adverse information the checks have revealed).

Recommendation 2.3: An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment.

On appointment, each new director signs a written agreement that outlines the terms of their appointment. The agreement covers: expected time commitments, the role of the Board, remuneration, independence requirements, disclosure requirements, shareholding qualification requirements, confidentiality obligations, indemnity and insurance provisions, intellectual property rights and cessation of appointment.

Meridian also has written agreements with executives that set out the terms of their employment.

The Chief Executive is employed until her or his employment is terminated in accordance with their employment agreement. Under the current employment agreement, the Chief Executive and Meridian have mutual rights of termination on the provision of six months' written notice. Meridian may also terminate the Chief Executive's employment on the grounds of redundancy or serious misconduct, or where an act of bankruptcy is committed. The Chief Executive is entitled to receive certain termination payments when her or his employment ends.

Recommendation 2.4: Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests.

Meridian's director biographies can be found here.

Meridian director ownership interests can be found on page 54 of the FY17 annual report.

The Board and management are required to establish measurable objectives for achieving greater diversity and inclusion within the company

Independence

Each director is required to provide the Board with all the information it needs to undertake an annual assessment of the director's independence. The Board confirms that all directors meet the formal criteria for 'independent directors' according to the NZX rules, Financial Markets Authority and Australian Securities Exchange.

Recommendation 2.5: An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it.

Under Meridian's Diversity and Inclusion Policy, the Board and management are required to establish measurable objectives for achieving greater diversity and inclusion within the company.

The Remuneration & Human Resources Committee reviews the policy's effectiveness and the proposed measurable objectives, and makes recommendations to the Board for approval as required. It then monitors the Group's progress towards achieving the objectives, ensuring that the company has effective people strategies and processes in place to support these objectives.

The Diversity and Inclusion Policy can be found here.

Information on Meridian's progress in achieving its objectives is on page 17 of the FY2017 annual report.

Board diversity

The Board aligns its diversity processes with those of Meridian, believing that this leads to better discussions on issues involving stakeholders and the best decisions for the company.

The Board is committed to ensuring a range of experiences and perspectives among its directors; this is highlighted in the directors' biographies on the Meridian website and the directors' skills matrix below. As reported in the FY16 annual report, the Board has adopted processes and targets that align with the practices required of management.

Processes

- All efforts are made to ensure that long lists for potential new directors include a mix of genders.
- Any future director replacements are interviewed by an initial panel comprising a mix of genders.

Targets

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

These processes and targets are designed to ensure that the Board make-up reflects diversity in background, gender, age, experience and thought. The

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

Current Board and Executive team gender composition

In accordance with NZX's listing rule requirements, the gender make-up of Meridian's directors and officers as at 30 June 2017 is:

	AS AT 30 JUNE 2017		AS AT 30 JUNE 2016	
	Female	Male	Female	Male
Number of directors	2	6	3	5
Percentage of directors	25%	75%	37.5%	62.5%
Number of officers	2	6	1	7
Percentage of officers	25%	75%	14%	86%

Board skills, size and composition

As part of the Board's approach to diversity, it has identified the areas of expertise and experience that are relevant to its achieving its objectives. Based on these criteria, it considers that its members currently have the depth of expertise, understanding and experience necessary to govern Meridian.

AREAS OF EXPERTISE AND EXPERIENCE	CRITERION
Listed or large company knowledge, governance and experience	✓
Former or current chief executive/senior management experience	✓
Electricity industry knowledge	✓
Understanding of government and regulatory authorities and procedures	✓
Iwi knowledge, empathy and understanding	✓
Strategy development and execution experience	✓
Marketing and sales expertise	✓
Digital/Social media understanding	✓
Broad professional engineering experience	✓

Meridian's directors are expected to understand the company's operations and undertake any necessary continuing professional development to enable them to discharge their duties

Asset management capability	✓
Trading experience	✓
Risk management capability	✓
Finance and accounting knowledge	✓
ICT systems knowledge	✓
Experience of best-practice health and safety systems	✓
Human resources' management	✓
Legal knowledge	✓
Investor relations understanding	✓

DIRECTOR TENURE

0–5 years	5–10 years	10+ years
3	5	0

Recommendation 2.6: Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer.

Meridian's directors are expected to understand the company's operations and undertake any necessary continuing professional development to enable them to discharge their duties. This includes:

- on appointment, participating in a robust induction programme coordinated by the Company Secretary
- attending management presentations and tutorial sessions, as appropriate, to gain a broader understanding and knowledge of Meridian
- attending briefings on relevant changes in legislative, regulatory and industry frameworks
- attending technical and professional development courses to keep up to date on relevant issues.

Recommendation 2.7: The board should have a procedure to regularly assess director, board and committee performance.

The Board undertakes a 'deep dive' evaluation of its performance every three years, with the next scheduled for 2018. In the interim the Chair discusses individual performance with directors, while the Board and Board sub-committees self-evaluate their performance against their charter responsibilities, with a commitment to identifying any opportunities for improvement.

The last 'deep dive' evaluation in 2016 was conducted by an international facilitator with significant experience in board evaluations. The review identified that Meridian's Board was performing well in each of five key focus areas, with a high degree of alignment and collaboration. The focus areas were:

- ensuring alignment and execution 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.

Recommendation 2.8: The Chair and the Chief Executive should be different people

The positions of Chair and Chief Executive of Meridian are held by different people.

PRINCIPLE 3: BOARD COMMITTEES

The Board has established four Board Committees that focus on specific responsibilities in greater detail than is possible for the Board as a whole. All committee proceedings are reported back to the Board.

Each committee operates under a Board-approved charter that sets out its delegation and responsibility.

Recommendation 3.1: An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should not also be the chair of the board.

Audit & Risk Committee: Jan Dawson (Chair and Independent Director), Mark Cairns (Independent Director) and Peter Wilson (Independent Director)

This committee comprises a minimum of three directors. Its primary objective is to assist the Board in fulfilling its responsibilities in all matters related to Meridian's risk management and financial accounting and reporting.

The committee meets at least four times a year, with agenda items generally relating to:

- financial governance
- external financial reporting
- external audit
- the internal control environment and internal audit
- risk management, compliance and insurance.

The committee regularly reviews Meridian's key risks and its risk management framework, which includes policies and procedures for identifying, responding to and monitoring principal business risks. The committee also undertakes an annual business continuity review.

Recommendation 3.2: Employees should only attend audit committee meetings at the invitation of the audit committee.

Under the Audit & Risk Committee Charter, the Chief Executive, Chief Financial Officer and Company Secretary attend committee meetings by invitation.

The Chief Executive and the Chief Financial Officer are required to provide a letter of representation to the Board each year, confirming a number of matters relating to the financial statements. These include that management has fulfilled its responsibilities for preparing and presenting the financial statements as required by law, in particular that:

- the financial records have been properly maintained
- the financial statements comply with generally accepted accounting principles in New Zealand
- the financial statements give a true and fair view of the financial position of the company and Group and of the results of their operations and 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
- there is a sound system of risk management and internal control, and that the system has been and continues to be operating effectively in all material respects in relation to financial reporting risks.

Other management representatives, as considered appropriate, may also attend meetings by invitation. The Audit & Risk Committee regularly meets with the auditor without management present.

Recommendation 3.3: An issuer should have a remuneration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee.

Remuneration & Human Resources Committee: Mary Devine (Chair and Independent Director), Mark Verbiest (Independent Director) and Chris Moller (Board Chair and Independent Director)

This committee comprises a minimum of three directors. Its primary objective is to assist the Board in fulfilling its responsibilities in all matters related to Remuneration & Human Resources.

The committee meets at least four times a year, with agenda items generally relating to:

- human resources
- remuneration
- diversity and inclusion
- Chief Executive objectives and performance evaluation

All executives have agreed objectives that are set at the start of each financial year

- Executive team objectives and performance evaluation.

The Chief Executive, General Manager Human Resources and Company Secretary attend committee meetings by invitation. Other management representatives, as considered appropriate, may also attend meetings by invitation.

The outcomes of evaluations of the Chief Executive's objectives and performance are reported back to, and considered and approved by, the Board. The Chief Executive's performance is measured against Board-set targets, which include business performance, the accomplishment of key business requirements, operational performance and a number of non-quantitative objectives that are agreed at the start of the financial year. The last Chief Executive evaluation was undertaken in July 2017, relating to the year ended 30 June 2017.

The performance of the Executive team (who report directly to the Chief Executive) is reviewed using a similar approach. All executives have agreed objectives that are set at the start of each financial year. They are agreed by the Chief Executive after they have been reviewed by the Remuneration & Human Resources Committee. These objectives generally link to the Chief Executive's objectives and include a mix of business performance, operational and non-quantitative measures that reflect the success of implementing Meridian's strategy. The last Executive team evaluation was undertaken in July 2017, relating to the year ended 30 June 2017. The outcomes were determined by the Chief Executive and reviewed by the Remuneration and Human Resources Committee.

Recommendation 3.4: An issuer should establish a nomination committee to recommend director appointments to the board (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.

Meridian does not have a separate nomination committee as its functions are carried out by the full Board in line with the responsibilities under the Meridian Board Charter. The procedures for director removals and appointments are governed by the company's constitution and the requirements of the NZX listing rules.

Recommendation 3.5: An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance.

In addition to the Audit & Risk Committee and Remuneration & Human Resources Committee, the Board considers it appropriate to have a Safety and Sustainability Committee.

Safety and Sustainability Committee: Stephen Reindler (Chair and Independent Director), Anake Goodall (Independent Director) and Peter Wilson (Independent Director)

This committee comprises a minimum of two directors. Its primary objective is to assist the Board in fulfilling its responsibilities and objectives in all matters related to safety and sustainability.

The committee meets at least four times a year; this includes at least three meetings and an operational site visit which may be undertaken by the full Board. Agenda items relating to safety generally include:

- people and culture
- progress against strategy
- safety performance
- safety activity (internal and external)
- Board action and education.

Agenda items relating to sustainability generally include:

- progress against the sustainability programme of work
- Meridian's reputation as a sustainability leader
- Meridian's brand strength and customer loyalty measures
- the status of key relationships with government, regulators, the electricity industry, iwi, communities near Meridian's generation assets, suppliers and contractors
- the management of natural resources (Meridian's Resource Management Act 1991 consent conditions and its environmental footprint outside those conditions)
- progress on initiatives that cross into other committees' areas where the sustainability function is leading the initiatives or heavily involved in a supporting role.

Board and committee meeting attendance

The table below sets out the attendance details for each Board and committee meeting during FY17.

	BOARD	AUDIT & RISK COMMITTEE	REMUNERATION & HUMAN RESOURCES COMMITTEE	SAFETY AND SUSTAINABILITY COMMITTEE
No. of meetings	**10**	**5**	**4**	**4**
Chris Moller	10		4	1
Peter Wilson	10	4		4
Mark Cairns	9	5		
Jan Dawson	10	5		
Mary Devine	10		4	
Sally Farrier*	4			1
Anake Goodall	10		3	1
Steve Reindler	10			4
Mark Verbiest**	3			

**Sally Farrier resigned from the Board in October 2016.*

***Mark Verbiest joined the Board in March 2017.*

Recommendation 3.6: The board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer including any communication between insiders and the bidder. It should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.

As a mixed-ownership company, majority-owned by Her Majesty the Queen in Right of New Zealand, Meridian is bound by the requirements of the Public Finance Act 1989. This means there are constitutional restrictions on any party owning more than 10% of the company. These restrictions are set out on pages 55 and 56 of the FY17 annual report. Given those restrictions, the Board has determined it is not appropriate to adopt a takeover protocol, although there are protocols to ensure compliance with the constitution.

PRINCIPLE 4: REPORTING AND DISCLOSURE

Recommendation 4.1: An issuer's board should have a written continuous disclosure policy.

Meridian is committed to promoting investor confidence by providing timely and balanced disclosures of all material matters relating to the company. Meridian believes that high standards of reporting and disclosure are essential for proper accountability between the company and its investors, employees and stakeholders. No-one is permitted, until adequate public disclosure has been made, to communicate to anyone any material information concerning the business and affairs of Meridian and its subsidiaries, except in accordance with the company's Market Disclosure Policy.

The policy includes a requirement for the Board to consider at each Board meeting whether any information its members discuss requires disclosure.

Recommendation 4.2: An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.

Key governance documents are available to investors and stakeholders on Meridian's website. They include the Code of Conduct, Trading in Securities Policy, Market Disclosure Policy, Diversity and Inclusion Policy, Remuneration Policy, Whistleblowing Policy, Audit Independence Policy, Sustainability Policy, and Board and Committee Charters.

Recommendation 4.3: Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non-financial targets are measured.

Meridian publishes audited interim and full-year financial statements that are prepared in accordance with relevant financial standards.

Each year, non-financial information is disclosed in the annual report. Material risks are discussed (including how those risks are managed and how non-financial targets are measured) and are also covered in this Corporate

Governance Statement (see Principle 6).

This year's annual report is an integrated report as defined by the International Integrated Reporting Council. This requires an organisation to answer the question: "What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?'. Value is defined according to the dimensions of time and financial and non-financial resources, and for both the organisation and others.

In addition to interim and full-year financial statements, and annual reporting, Meridian regularly publishes investor presentations, including six-monthly result announcements. These presentations provide readers with regular updates on the progress against Meridian's strategy, areas of the company's environmental, social and governance performance and longer-term sector developments.

Each month Meridian also publicly discloses an operating report, intended to provide readers with access to timely information on the electricity market and Meridian's performance. The report contains information on current conditions in the electricity market, such as national lake storage levels, forward wholesale prices and customer switching levels. The report also has information on Meridian's operating performance in the previous month, including the company's inflow, storage levels, generation and sales.

PRINCIPLE 5: REMUNERATION

Recommendation 5.1: An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report.

Information on Meridian's director remuneration can be found on page 45 of the FY17 annual report. It includes a breakdown of remuneration for committee roles and the fees and benefits received for any other services provided to Meridian (of which there was none).

The Director fee pool was last approved by shareholders in October 2016. Meridian's Board considered and presented the proposal to increase the director fee pool, including taking into account:

- the skills and wide-ranging experience that are a requirement for Meridian's directors given the size and complexity of the business and that Meridian is one of New Zealand's largest listed companies with a significant and engaged investor base
- the importance of attracting and retaining directors with the skills and diversity of thinking to govern with the objective of creating shareholder value
- the actual and likely number of hours spent by Board members in preparing for and attending meetings and the complexity of the work being considered at those meetings
- the incremental accountability and commitment that accompanies specific roles (for example, Chair and committee Chair).

The Board also sought and considered independent advice from PwC, which reviewed the remuneration of directors of comparable listed companies in

Meridian has no formal Remuneration Policy for the remuneration of directors; however, shareholders are kept informed of any changes in the way the company allocates the pool of approved director fees

New Zealand. A copy of the Summary Directors' Fees Report was provided to shareholders and can be found here.

Recommendation 5.2: An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria.

The Board (on the recommendation of the Remuneration & Human Resources Committee) sets Meridian's Remuneration Policy and framework, which supports the company in attracting, retaining and motivating high-calibre people to achieve its business objectives and create shareholder value.

The Remuneration Policy provides the principles for remuneration decision-making, ensuring overall alignment with business needs. The policy can be found on Meridian's website.

Meridian also has a policy under which participants in the executive long term incentive plan are not permitted to enter into transactions (through the use of derivatives or otherwise) that limit the economic risk of participating in the plan. More information on remuneration can be found on pages 48-50 of the FY17 annual report.

Meridian has no formal Remuneration Policy for the remuneration of directors; however, shareholders are kept informed of any changes in the way the company allocates the pool of approved director fees. If the total fee pool increases, the process outlined in recommendation 5.1 is followed.

Recommendation 5.3: An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short term incentives and long term incentives and the performance criteria used to determine performance based payments.

Information on the Chief Executive's remuneration can be found on page 49 of the FY17 annual report.

PRINCIPLE 6: RISK MANAGEMENT

Recommendation 6.1: An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. A framework should also be put in place to manage any existing risks and to report the material risks facing the business and how these are being managed.

Approach to risk management

Meridian's risk management programme is operated according to a Risk Management Policy that meets New Zealand Standard AS/NZS ISO 31000 Risk Management—Principles and guidelines.

The policy was developed to embed a Group-wide risk management capability that takes a consistent approach to identifying, assessing, controlling, monitoring and reporting on the key risks that may affect the company's ability to achieve its objectives and/or protect its people, assets and reputation.

Risk management responsibilities

Risk management is ingrained in Meridian's strategic and operational

> The Board has approved policies and procedures for Meridian and its subsidiaries to ensure that treasury operations are conducted in a risk-averse, non-speculative way

activities, including business planning, investment analysis, portfolio and project management and day-to-day operations. Meridian takes a managed approach to risk that sets tolerances for appropriate risk taking, acceptance or avoidance, depending on the consequences and likelihood of risks' occurrence, and the potential associated benefits or opportunities.

Meridian's policies, including the Delegation of Authority Policy, provide a framework for decision-making and risk management.

The Board has approved policies and procedures for Meridian and its subsidiaries to ensure that treasury operations are conducted in a risk-averse, non-speculative way. They apply to measuring, monitoring, controlling and, where relevant, reducing all financial risks within the Meridian Group, and include but are not limited to funding, interest rate, currency and liquidity risks.

The Audit & Risk Committee has overall responsibility for ensuring that management's risk management framework, including policies and procedures, is appropriate and that it appropriately identifies, considers and manages risks.

The Audit & Risk Committee reviews the company's risk profile regularly, and receives reports on the operation of risk management policies and procedures. The internal audit function reports to the Audit & Risk Committee on the extent and effectiveness of Meridian's financial controls, and the committee reports this information to the Board.

During FY17 the Audit & Risk Committee reviewed Meridian's Risk Management Policy and risk management framework and is satisfied that they continue to be sound.

Material Risks:

Tīwai

If New Zealand's Aluminium Smelter (NZAS) closes its Tīwai Point 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 would likely result, in the near term, in a reduction in Meridian's revenue, largely caused by a reduction in electricity prices (both wholesale and retail). NZAS consumes around 40% of Meridian's generation output in any year, depending on generation output and demand.

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 in which the 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 choose to mothball or retire their plant, which could have the effect of reducing the supply of electricity and moderate any reduction in wholesale electricity prices.

Adverse hydrological conditions

Meridian's hydro generation (comprising approximately 90% of its New Zealand generation) depends on the availability of, and access to, water. The

Meridian operates in a technically challenging environment, with extremely large electrical and mechanical assets

Waitaki and Manapōuri hydro systems are heavily influenced by seasonal hydrological conditions. Adverse hydrological conditions, resulting from dry periods or drought conditions in the Waitaki or Manapōuri hydro system catchments, may reduce water levels and significantly affect Meridian's generation capability.

Low storage levels as a result of low inflows often coincide with high wholesale market prices. In these situations 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's 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. Similar conditions existed in the last few months of FY17.

Catastrophic events

Meridian's ability to generate electricity depends 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 has insurance for up to $935 million to cover material damage and business interruption losses. However, it is possible that this won't be enough should a single catastrophic event occur or multiple catastrophic events occur in succession, or where insurers contest or delay paying insurance claims.

Plant failure

Meridian relies on various pieces of equipment and technology at its power stations. If any critical equipment or technology, including, for example, turbines, control gates and canal civil structures, or control systems 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 to the extent that it's not covered by warranties or other remediation.

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, a customer 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 close 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 authorities and other regulatory bodies may impose restrictions, conditions and additional costs on Meridian's ability to access or use hydro sources.

Competitor behaviour, such as aggressive pricing campaigns and the entry of new competitors, may put downward pressure on retail electricity prices

Examples include imposing minimum flow or maximum nutrient levels in rivers that have hydro generation, and imposing charges or royalty payments on water users. 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 catchment for Meridian.

The company could be adversely affected by such restrictions, conditions or additional costs to the extent that it's 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 regulations) 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 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 Tīwai 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 enter fixed contracts. There is intense competition in the retail market. High customer switching levels 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 manage any subsequent 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

Longer-term electricity market exposure risks

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

Factors affecting demand

Demand can be affected by a number of factors, including activity levels in

Each of Meridian's sites has a safety and health committee made up of staff representatives who receive appropriate ongoing training

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), weather and catastrophic events. All of these could affect electricity prices.

During FY17 the Audit & Risk Committee reviewed Meridian's Risk Management Policy and risk management framework and is satisfied that they continue to be sound. Meridian operates an active risk management programme across the Group.

Recommendation 6.2: An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.

Meridian's risk management approach is outlined in Recommendation 6.1.

The Meridian Board established the Safety and Sustainability 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 operates in the safest way possible.

Meridian's corporate Safety and Health Policy underpins the company's core values and behaviour. It applies to all Meridian sites, operations and subsidiaries. The company has a number of initiatives in place to ensure staff safety and health, including an employee-driven safety culture initiative and a company-wide process for recording health and safety incidents, including near-misses, improving awareness of site hazards and safety audits.

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

Meridian is compliant in all aspects of NZS 7901:2014—Electricity and gas industries—Safety management systems for public safety, and now operates in a continual improvement environment. Meridian takes the wellbeing of its staff seriously, with initiatives including free consultations with an external agent to help them through difficult times both at work and outside work.

Meridian's health and safety performance is reported on page 18 of the FY17 annual report.

PRINCIPLE 7: AUDITORS

Recommendation 7.1: The board should establish a framework for the issuer's relationship with its external auditors.

Meridian's Audit Independence Policy can be found on the Meridian website. The Meridian Board has adopted a strict policy to maintain the independence of the company's external auditor, including recommending to the Office of the Auditor-General that there be lead audit partner rotation after a maximum of every five years.

The external auditor's firm can't undertake any non-audit work that could be reasonably regarded as compromising the independence of the external auditor. All non-audit work must be pre-approved by the Chief Financial Officer, up to a fee limit of $100,000, or by the Audit & Risk Committee above that limit. The Chief Financial Officer notifies the Board through their report of any approved engagements.

The Audit & Risk Committee is responsible for making recommendations to the Board on 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 Trevor Deed of Deloitte to audit Meridian. The external auditor meets regularly with the Audit & Risk Committee, a minimum of twice yearly without management present.

Recommendation 7.2: The external auditor should attend the issuer's Annual Meeting to answer questions from shareholders in relation to the audit.

Meridian's external auditor is invited to Meridian's annual shareholder meetings and has attended since listing in 2013. The Chair of the Board announces the auditor's attendance and shareholders can ask questions of them should they wish.

Recommendation 7.3: Internal audit functions should be disclosed.

Meridian operates a co-sourced model for internal audits consisting of dedicated Meridian staff and KPMG. The key benefits of this include:

- internal knowledge of Meridian's business and operations, which enables the programme to focus on functional risks
- a seamless integration of risk management, the internal control framework and the internal audit, which further drives the effectiveness of the internal control environment.

The co-sourced internal auditors meet the Audit & Risk Committee without management present. The internal audit function undertakes a number of regular probity and process reviews together with more in-depth reviews on specific matters agreed with the Audit & Risk Committee.

Internal audit and assurance activity updates are provided regularly to the Audit & Risk Committee.

PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS

Recommendation 8.1: An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.

Key investor information can be found here.

Recommendation 8.2: An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

Meridian's Shareholder Communications Policy is designed to ensure that communication with Meridian's shareholders and the wider investment community is effective and consistent and adheres to the principles of continual disclosure. A copy can be found here.

Meridian is committed to timely and balanced disclosure, which includes advising shareholders on any major decisions

The Board reviews the Shareholder Communications Policy annually. It also reviews the investor relations programme to ensure the full, fair and timely disclosure of relevant information to Meridian's shareholders and the investment community on a broad, non-exclusive basis. The primary aim of the investor relations programme is to support financial market participants' understanding of the company's business, governance, financial performance and prospects.

Meridian provides options for shareholders to receive and send communications electronically, to and from both Meridian and Meridian's share registrar.

In recognition of Meridian's national retail shareholder base, the Board's policy is to rotate the locations of Meridian's annual shareholder meetings. Therefore, having held the 2014, 2015 and 2016 meetings in Wellington, Auckland and Christchurch respectively, the 2017 meeting will take place in Wellington. More information will be provided closer to the time in the Notice of Meeting.

For those who are unable to attend the meeting in person, a link will be provided on Meridian's website to a live webcast.

In the meantime, shareholders may, at any time, direct questions or requests for information to directors through the Chair or to management through Meridian's website, or by directly contacting the Investor Relations Manager.

Recommendation 8.3: Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested

Meridian is committed to timely and balanced disclosure, which includes advising shareholders on any major decisions. Meridian has processes to ensure that it follows the mandatory listing rule requirements relating to change in the essential nature of the business, including major transactions under the Companies Act 1993.

Recommendation 8.4: Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.

Meridian has conducted voting at its annual shareholder meetings by way of poll and on the basis of one share, one vote.

Recommendation 8.5: The board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.

Meridian's Notice of Meeting is made available at least 28 days prior to the meeting.