

# Corporate Governance Statement FY19



**Meridian.**

The Power to  
Make a Difference.

**Meridian's approach to corporate governance is simple: have the right structures, 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 ASX.

This Corporate Governance Statement provides a snapshot of these practices, processes and policies following the recommendations in the NZX Corporate Governance Code dated 1 January 2019 (the NZX Code).

All of Meridian's key corporate governance documents, including charters and policies, can be found at [meridianenergy.co.nz/investors/governance](http://meridianenergy.co.nz/investors/governance).

The integrated report for the financial year ended 30 June 2019 may cross-reference this Corporate Governance Statement. This statement is accurate as at 26 August 2019.

## **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 (a code of ethics).**

**The code of ethics and where to find it should be communicated to the issuer's employees. Training should be provided regularly. The standards may be contained in a single policy document or more than one policy.**

**The code of ethics should outline internal reporting procedures for any breach of ethics, and describe the issuer's expectations about behaviour, namely that every director and employee:**

- a. acts honestly and with personal integrity in all actions;**
- b. declares conflicts of interest and proactively advises of any potential conflicts;**
- c. undertakes proper receipt and use of corporate information, assets and property;**
- d. in the case of directors, gives proper attention to the matters before them;**
- e. acts honestly and in the best interests of the issuer, as required by law, and takes account of interests of shareholders and other stakeholders;**

- f. adheres to any procedures around giving and receiving gifts (for example, where gifts are given that are of value in order to influence employees and directors, such gifts should not be accepted);**
- g. adheres to any procedures about whistle blowing (for example, where actions of a whistle blower have complied with the issuer's procedures, an issuer should protect and support them, whether or not action is taken); and**
- h. manages breaches of the code.**

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.

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
- Meridian's record management policies
- 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.

The code was reviewed by Meridian during the year ended 30 June 2019. The code was updated to reflect the change of Chief Executive and re-launched company value statements and to reflect changes in the organisation and the law. However, the substance and content was not materially changed.

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 of 1 July 2018 to 30 June 2019 there was one material breach and a small number of non-material breaches of the code of conduct 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 that Meridian engages with Related Parties on an arm's-length basis and 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 of an 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 Charter sets out, in detail, the composition, responsibilities and roles of the Board and directors. The Board reviews its performance against these 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 help in their decision-making on whether to elect or re-elect them (this includes any material adverse information the checks have revealed).

More detail on the process for nomination and appointment of directors is set out below.

### **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 for bankruptcy. The Chief Executive may be 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 and director attendance at board meetings.**

Meridian's director biographies can be found at [meridianenergy.co.nz/about-us/about-meridian/board-of-directors/](http://meridianenergy.co.nz/about-us/about-meridian/board-of-directors/).

Meridian director ownership interests can be found on page 91 of the FY19 integrated report.

Meridian director independence is discussed below at recommendation 2.8. Meridian director attendance at board meetings is set out below at recommendation 3.5.

### **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 at [meridianenergy.co.nz/investors/governance/policies/](http://meridianenergy.co.nz/investors/governance/policies/).

Information on Meridian's progress in achieving its objectives is on pages 45 and 46 of the FY19 integrated 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. 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 and iwi relationships, 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 incorporates the processes for future director appointments.

In August 2019, Meridian announced three new directors will join the Meridian Board. Michelle Henderson and Julia Hoare will commence as directors prior to Meridian's Annual Shareholders' Meeting in October 2019 and will retire and seek formal shareholder approval for their election at that meeting. Nagaja Sanatkumar will also seek formal shareholder approval for her election at the Annual Shareholders' Meeting and, if elected, will commence her role as a Director on 1 January 2020. Taking into account retirements, these new appointments will bring the gender make-up of Meridian's directors to 4 female and 4 male.

### 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 2019 is:

	As at 30 June 2019		As at 30 June 2018	
	Female	Male	Female	Male
<b>Number of directors</b>	2	5	2	6
<b>Percentage of directors</b>	28.6%	71.4%	25%	75%
<b>Number of officers*</b>	2	7	1	7
<b>Percentage of officers</b>	22.2%	77.8%	12.5%	87.5%

\*Includes positions where there is a person acting in a role pending an appointment process.

### 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 it 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.


In FY 18, the Board developed and agreed a new director skills matrix following an evaluation undertaken by an independent party with significant experience in board evaluations. This matrix outlines an independent view on the strategic capabilities required to be demonstrated by the Board based on external research and Board and Management perspectives. The overall assessment was based on the evaluation of feedback on directors' contribution to the company over the FY18 year.

The Board considered how many expert "seats" (a director with this skill set to an expert level) would be ideal, noting that generally directors fill 1-2 key "seats" on the Board but also bring 1-2 secondary skills relevant to the matrix.

Meridian's matrix identifies the Board has the appropriate level of capability in all areas, with some opportunity for future Board learning, development and/or appointments suggested.

The matrix is as follows:

Capability (arranged alphabetically)	Overall Status	Number of expert seats
<b>Accounting, finance and capital markets</b> deep involvement operating within capital markets, investment community knowledge and connections	 Balanced	
<b>Broad commercial expertise</b> in listed and regulated entities, capital markets	 Focus given rotations	
<b>Customer centricity</b> including next generation insight, digital and customer experience	 Balanced	
<b>Digitalisation and Technology</b> including expertise in technology platforms and data models	 Focus of future Board appointments / learning	
<b>Engineering / physical infrastructure</b> including core understanding of generation, operational health and safety	 Balanced	
<b>Industry expertise</b> including regulatory / NZ and AU electricity market, wholesale trading, sustainability	 Focus of future Board appointments / learning	
<b>Iwi connectivity</b> understanding of tikanga Māori and iwi relationship with special reference to Ngāi Tahu	 Balanced	

Key :  = Director with this capability on the Board

The Board is now in the process of identifying concrete ways to develop the learning opportunities.

Director tenure					
0-5 years	1	5-10 years	5	10+ years	1

**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.

In FY19, the directors visited two operational sites, Manapouri and Mt Mercer in Australia. As well as engaging with stakeholders they undertook site safety briefings and independent learnings.

**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. The 2018 review was undertaken by an independent party with significant experience in board evaluations, and is discussed more generally in relation to recommendation 2.5 above as it relates to director skills and capabilities.

The next deep dive will be undertaken in 2021.

In addition to the review, 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.

**Recommendation 2.8: A majority of the board should be independent directors.**

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, the NZX Corporate Governance Code, Financial Markets Authority and ASX.

**Recommendation 2.9: An issuer should have an independent chair of the board. If the chair is not independent, the chair and the CEO should be different people.**

The Chair is an independent director. The positions of Chair and Chief Executive of Meridian are held by different people.

### Principle 3: Board Committees

The Board has established three Board Committees (described below) 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 be an independent director and not 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 bi-annually to the Audit & Risk Committee a certification in respect of Meridian's financial reports and an internal control opinion relating to the operation of Meridian's internal risk management framework. Together, 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 separately with the external and internal auditors 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
- Senior Executive team objectives and performance evaluation
- overseeing the preparation of certain reports related to the above matters.

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 2019, relating to the year ended 30 June 2019.

The performance of the Senior 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 2019, relating to the year ended 30 June 2019. 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:** Peter Wilson (Chair and Independent Director) and Anake Goodall (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 strategic objective.
- safety performance including safety structure on sites.
- safety activity (internal and external).
- Board action and education.
- Site visits and safety procedures review.

Agenda items relating to sustainability generally include:

- progress against the sustainability programme of work
- Meridian's reputation as a sustainability leader
- Meridian's sustainability brand strategies
- the management of natural resources (Meridian's Resource Management Act 1991 consent conditions as they apply to sustainability and Meridian's wider 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 following table sets out the attendance details for each Board and committee meeting during FY19.

	Board	Audit & Risk Committee	Remuneration & Human Resources Committee	Safety and Sustainability Committee
<b>No. of meetings</b>	10	5	5	3**
<b>Chris Moller</b>	10		5	
<b>Peter Wilson</b>	10	5		3
<b>Mark Cairns</b>	10	5		
<b>Jan Dawson</b>	10	5		
<b>Mary Devine</b>	10		5	
<b>Anake Goodall</b>	10			3
<b>Steve Reindler*</b>	2			1
<b>Mark Verbiest</b>	10		5	

\* Steve Reindler ceased to be a director in August 2018.

\*\*The full board also undertook two operational site visits.

**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. The board 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 Meridian. These restrictions are set out on pages 99 and 100 of the FY19 integrated 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 has a Market Disclosure Policy under which it 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 environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.**

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

Meridian's annual report is an integrated report which reviews Meridian's financial, economic and environmental performance for the financial year ending 30 June 2019 and is prepared in accordance with the International Integrated Reporting Council's Integrated Reporting Framework. 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. This also requires an organisation to answer the question: "What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?" Further, the non-financial information included in this year's integrated report has been prepared in accordance with the core requirements of the Global Reporting Initiative's Sustainability Reporting Standards. 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).

In addition to interim and full-year financial statements, and integrated 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 83 of the FY19 integrated 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 New Zealand. A copy of the Summary Directors' Fees Report was provided to shareholders and can be found at [meridianenergy.co.nz/investors](http://meridianenergy.co.nz/investors).

### **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 77 to 84 of the FY19 integrated 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 pages 79 to 80 of the FY19 integrated 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. An issuer should 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 ISO 31000 Risk management—Guidelines 2018.

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 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, Treasury Policy and Safety and Health 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 Meridian'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 FY19 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.

### Material Risks:

- Closure of New Zealand's Aluminium Smelter located at Tiwai Point, or a significant reduction in its electricity consumption, see page 53 of the FY19 integrated report;
- Adverse hydrological conditions, see page 59 of the FY19 integrated report;
- A catastrophic event affecting Meridian's power stations or the national high voltage transmission grid, see page 64 of the FY19 integrated report;
- Failure of critical equipment or technology at Meridian's power stations, see page 65 of the FY19 integrated report;
- Health and safety, see page 70 of the FY19 integrated report;
- Restrictions, conditions or costs related to Meridian's use of and access to water, see page 68 of the FY19 integrated report;
- Legislative and regulatory risk, see page 51 of the FY19 integrated report;
- Competitor behaviour resulting in downward pressure on retail electricity prices, a reduction in Meridian's market share or increased costs, see page 37 of the FY19 integrated report;
- Information technology security, see page 64 of the FY19 integrated report; and
- Factors affecting long term demand for electricity, see page 52 of the FY19 integrated report.

**Recommendation 6.2: An issuer should disclose how it manages its health and safety risks and should report on its 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 many 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 operates in a continual safety 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 70 of the FY19 integrated 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 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 either in person or through a designate since listing in 2013. The Chair of the Board announces the auditor's attendance and shareholders can ask questions of the external auditor 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 at [meridianenergy.co.nz/investors](http://meridianenergy.co.nz/investors).

**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 at [meridianenergy.co.nz/investors/governance](http://meridianenergy.co.nz/investors/governance).

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 and stakeholder base, the Board's policy is to rotate the locations of Meridian's annual shareholder meetings. Therefore, having held the 2016, 2017 and 2018 meetings in Christchurch, Wellington and Auckland respectively, the 2019 meeting will take place in Christchurch. 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 ([meridianenergy.co.nz](http://meridianenergy.co.nz)), or by directly contacting the Investor Relations Manager ([investors@meridianenergy.co.nz](mailto:investors@meridianenergy.co.nz)).

**Recommendation 8.3: Quoted equity security holders 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: If seeking additional equity capital, issuers of quoted equity securities should offer further equity securities to existing equity security holders of the same class on a pro-rata basis, and on no less favourable terms, before further equity securities are offered to other investors.**

Meridian has not sought additional equity capital.

**Recommendation 8.5: The board should ensure that the notices of annual or special meetings of quoted equity security holders is posted on the issuer's website as soon as possible and at least 20 working days prior to the meeting.**

Meridian's Notice of Meeting is made available on its website at least 20 working days prior to each annual meeting of shareholders.

### Additional Dow Jones Sustainability Index Disclosures

#### Privacy breaches

Meridian received no formal complaints regarding breaches of customer privacy from regulatory bodies or third parties during FY19.\*

#### Average Tenure of Directors

The average director tenure is 7.25 years.

#### Expertise on Board

Chris Moller and Mark Verbiest fill the industry expertise seats on the board.

\*Formal complaint in relation to a third party means a complaint through a formal resolution process such as Utilities Disputes Limited



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