Renewing Our Future.

Meridian Energy Limited.

Integrated Report 2020.

Meridian.

Renewing Our Future.

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Introduction

Climate action is more important than ever

The world has changed for all of us this year. This year, global issues have grabbed everyone's attention. The significant scale and impact of the fires in Australia highlighted the need for action on climate change. Protests in the United States have drawn global attention to racial inequality. And the global COVID-19 pandemic has exacerbated existing inequality and political tensions in many countries, overwhelming public health systems and wreaking havoc on local and regional economies. All three have highlighted the threat levels and complexities that humanity now faces.

In this context, what we do at Meridian matters even more – generating affordable, clean, renewable power is key to taking us all into a more equitable and sustainable future.

We believe that it is within our power – as businesses and individuals – to create a sustainable future that is regenerative and restorative, where global warming is contained to 1.5 degrees, we are no longer socially divided by wealth, gender, race or culture, and biodiversity is a part of our everyday lives. This is an urgent task given our current trajectory to runaway climate change and biodiversity loss that threatens the viability of our society and economy. This urgency drives Meridian's purpose of Clean Energy for a Fairer and Healthier World and directs us to take action towards that vision of a positive future.

The crucial role of energy

Access to energy is fundamental to how we live today. We need energy to do our work, live our lives and power our cities and industries – without it, we are left in the dark, literally. But just as COVID-19 has prompted us to rethink the way we live our day-to-day lives, the Australian bushfires made it clear that it is also time for New Zealand and Australia to be rethinking and renewing our future in terms of the energy we use and how we use it.

The energy required to power our lives and societies needs to come from renewable sources. The electricity sector in New Zealand is advanced on that score, and all of Meridian's electricity generation is renewable. We harness the amazing power of wind, water and sun to create clean energy for a fairer and healthier world. In Australia, the legacy of thermal fuels is proving harder to overturn. Powershop is providing Australian consumers with a unique point of difference that will enable us to continue to grow and stand out as the best choice for those Australian's wanting more environmentally friendly choices.

Greater accessibility

Beyond the electricity sector, Aotearoa has a unique opportunity to use our highly renewable electricity grid to take the carbon out of how we move around and how we produce many of our products. But to really make a difference, energy must also be affordable, and we need to play our part in reducing energy hardship. Our goal is to make the renewable energy we generate as accessible as possible to as many households, businesses and industries as possible. It's why we pioneered the abolition of prompt-payment discounts in New Zealand and why we continue to press for reforms in how power is priced and distributed.

Sustainability underpins success

As the COVID-19 pandemic has shown, the world we think we know can change around us. We made these systems that govern our lives, and when we need to, we can recreate them. The actions we've taken in Aotearoa to address the pandemic should give us all confidence to take actions for our climate and to create a better future for ourselves and those who'll come after us. Looking ahead, we believe that sustainable businesses will be the winners. We want to make meaningful contributions to both the human impacts on the planet and a more equitable society.

The success of our business shows that financial returns and social responsibility are interdependent, not either/or. At Meridian, we look to work together to power how people live, acknowledge how embedded we all are in the natural environment, and deliver our investors strong returns. If you've invested in Meridian Energy, bought power from us and/or supported the changes we seek, you're already contributing to renewing the future of all of us.

Let's make the changes that matter.
Together we have the power to make a difference.

Focusing on what's important

We rely on the effective management of a wide range of resources, including our physical assets, our technology platforms, our financial capital, our people and their knowledge, our many relationships and the natural resources we use to generate electricity and value.

We want to report openly, responsibly and objectively on how the resources we've utilised and the decisions we've made have delivered positive changes for the future.

Our process

In FY18 we undertook a detailed assessment to identify the issues that our stakeholders recognised as material to our business and therefore of interest in our reporting. To ensure our reporting was relevant to our sector, we undertook a review of the Global Reporting Initiative (GRI) topics. We also reviewed material topics regularly reported by electricity generators and retailers in New Zealand and Australia. And we identified the United Nations Sustainable Development Goals (SDGs) that we believe are most relevant to our business model. Our commitment to making a renewable difference for the future led us to focus on two SDGs – SDG7 Affordable and Clean Energy and SDG13 Climate Action – as these apply to areas where we believe we can make the biggest difference. Finally, we examined Board papers together with those issues that had received media coverage, and our risk register.

Once we had a long list of relevant topics, we prioritised them on the basis of their importance to our stakeholders and their impacts on our business.

We gathered the views of stakeholders through a series of internal workshops that included people in our business who actively engage with the many groups with which we interacted. The workshops generated valuable insights into who our key stakeholders are, the levels and nature of the impacts we have on them, their importance to us, and the impacts, real and potential, that they have on our business.

We used the outputs from this process in two ways: they fed into the development of our sustainability roadmap; and we used them to consider our stakeholders and what they most want to know from us in preparing our annual report.

Updating our materiality assessment

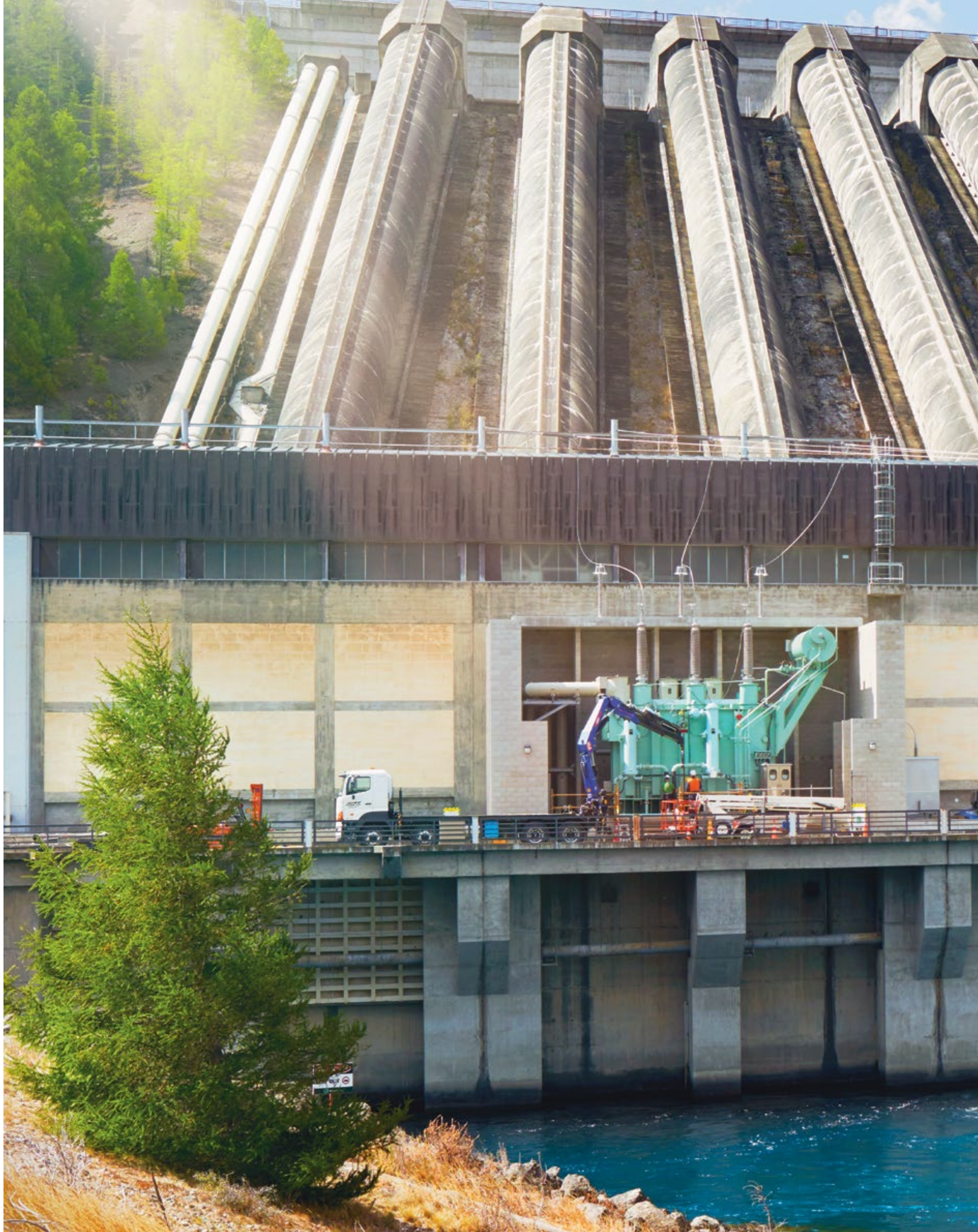
Each year we update our assessment of the issues that are material to our business, and on what and how we should report. For example, we ask our Board to review the previous year's report and make recommendations, and we also look at how the matters we've raised have been covered in the media.

For FY20 we've adjusted the rating of energy hardship, based on the topic's importance to the Government as reflected in the Electricity Price Review, and in the context of the global COVID-19 pandemic and its current and potential impact on New Zealanders. We've also added two new material topics – dam safety and information security.

Please refer to page 12 for more information on what matters to us and our stakeholders.

In addition, we've again been assessed for inclusion in the Asia Pacific Dow Jones Sustainability Index and we've responded to the Carbon Disclosure Project (CDP). The CDP is a not-for-profit that runs a global disclosure system for investors, companies, cities, states and regions to be transparent about their environmental impacts. We use feedback from these assessments and our assurance processes to continually improve our disclosures.

We plan to undertake another full materiality assessment in FY21.



We are one of New Zealand's largest organisations

$5,083m Down
Net assets

$12b Up
Total market capitalisation

$3,405m Down
FY20 Revenue

$854m Up
FY20 EBITDAF*

*EBITDAF is a non-GAAP financial measure comprising of earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges, impairments and gains or losses on sale of assets.

10%

Legislated maximum share

Listed on both the

NZX & ASX

Majority owned by the

New Zealand Government

This is our business

NZ

5 Offices
867 Employees
(86 at our power stations)

Customers

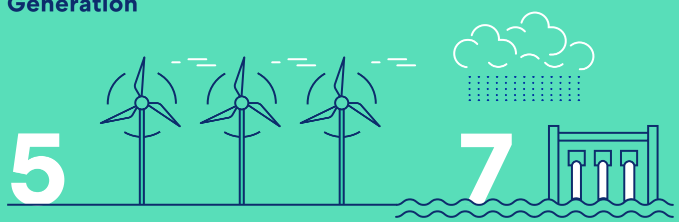
324K

Customer connections

~15% national retail volume[1]

Retailing as:
Meridian Energy
Powershop

Generation



~30% national electricity generation

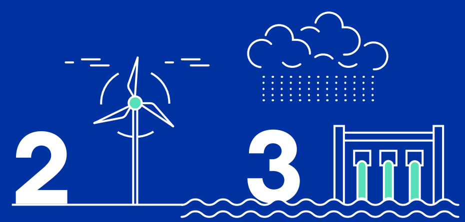
AU

1 Office
84 Employees
(16 at our power stations)

174K

Customer connections (incl gas)

Retailing as:
Powershop, and providing energy services
to DC Power and Kogan Energy



FLUX

2 Offices
162 Employees
(3 in the UK)

Licensing the Flux platform and the Powershop brand

1 Excludes Tiwai Point Aluminium Smelter

These are our customers

NZ

Meridian
235K
Customer connections:
residential
business
corporate
agri-business

Powershop NZ
89K
Customer connections:
residential
business

AU

Powershop Australia
136K
Electricity customer connections

38K
Carbon-neutral gas customer connections

FLUX

Under licence
The Powershop brand and Flux platform operate under licence to the large UK electricity retailer npower

155K
npower customer connections

Transitioning to the Flux platform

All on the Flux platform

All on the Flux platform

Now over 513,000 customer connections on the Flux platform in total

NZAS
A large financial contract with New Zealand Aluminium Smelter (NZAS) at Tiwai Point, equivalent to around 38% of Meridian's generation

Now in South Australia
Powershop can now be found in four Australian states, giving us broad coverage in Australia

This is what we generate

NZ

New Zealand's largest electricity generator
~30% national electricity generation

1.7M
Waitaki and Manapōuri generate around 50% of NZ's total hydro

Equivalent to the power needs of around 1.7 million New Zealand homes yearly

200K
White Hill
West Wind
Mill Creek
Te Āpiti
Te Uku

Equivalent to the power needs of around 200,000 New Zealand homes yearly

AU

Generating <1% of the National Energy Market
Enough electricity for about 167k homes yearly

50K
Hume
Burrinjuck
Keepit

Equivalent to the power needs of around 50,000 Australian homes yearly

116K
Mt Millar
Mt Mercer

Equivalent to the power needs of around 116,000 Australian homes yearly

FLUX

flux

What matters to us and our stakeholders

		Financial performance						
Material topics	Financial impacts of climate change	Sustainability leadership		Financial performance		Good governance, ethical behaviour, reporting		Operational carbon emissions
Stakeholder Interests	Sustainability used as a driver of long-term value [1]		Good corporate citizen [2]	Commercial rationale for use of capital [3]	Dividends [4]	Transparency and good communication [5]	Fair and robust process for the tendering and selection of suppliers [6]	Climate ac zero car
Key Stakeholders	Investors, the Crown, shareholders						Suppliers	NZ Public (and th

Our response

1. Incorporate integrated thinking principles in our business
2. Our purpose is clean energy for a fairer and healthier world refer to **page 31**
3. Maintain our portfolio of generation options with a disciplined and appropriate expenditure of capital
4. Generate solid financial returns for our shareholders
5. Commitment to a high standard of reporting, including <IR>, GRI, CGS, GHG, CDP, DJSI and TCFD
6. Maintain a policy, specific rules and detailed guidelines for tendering, selecting and managing suppliers and contractors View our Code of Conduct here

Climate action			
	Action on climate change	Pipeline of generation options	Plant performance
…tion for a net …bon future [7]		Security of supply [8]	
…eir elected officials)		Electricity sector	

Putting customers first			
Contribution to public policy	Customer satisfaction	Electricity pricing	Support for vulnerable customers
Open, fair and efficient markets in New Zealand and Australia [9]	Easy customer experience [10]	Fair price for electricity (inequality) [11]	
Regulators	Customers		

Responsible generation						
Dam safety	Process safety	Contribution to local communities	Environmental compliance	Impact on biodiversity	Impact on water	Access to water (strength of relationships related to water)
Assets are safe for their communities [12]		Investment in local prosperity [13]	Long term planning [14]	Protecting the environment [15]	Water quality (and rights and interests in water) [16]	Respect and value the role of Māori in Aotearoa and kaitiakitanga [17]
Asset communities			Local government		Ngāi Tahu and other iwi	

Great place to work			
Diversity and equal opportunity	Employee engagement	Retaining expertise	Occupational health and safety
Diverse and inclusive culture [18]	Fair pay [19]	Growth and development opportunities [20]	Safe working environment [21]
Employees			

7. View our Climate Action Plan here
8. Maintain our portfolio of generation options with a disciplined and appropriate expenditure of capital Asset maintenance
9. Support regulators in their efforts to create efficient markets that deliver security of supply
10. Invest in delivering outstanding customer experience through the use of our Flux platform View fluxfederation.com
11. Support to customers in financial hardship above and beyond regulatory requirements. View our Medically Dependent or Vulnerable page Competitive pricing and support for an open and efficient market
12. Work closely with local communities from the time of consent to address concerns when it comes to building new assets View our Stakeholder Engagement Guidelines
13. Contribute to asset communities as a local employer, through our staff as community members, and through our 'Power Up' community funds View our Power Up Community fund page
14. Long-term consents and operational management plans
15. Biodiversity projects related to our assets and local communities View our Environmental Management Guidelines
16. Manage our own impacts and contribute to the debate when it affects our ability to operate our hydro power stations View our Water Stewardship page
17. Work closely with Ngāi Tahu and other iwi to recognise the kaupapa of Ki Uta Ki Tai (from the mountains to the sea), and ensure their interests are reflected in management and decision-making View our Stakeholder Engagement Guidelines
18. Rainbow Tick, Gender Tick, Diversity Policy View our Diversity and Inclusion page
19. Commitment to living wages and pay equity View our Remuneration Policy
20. Internal learning and development programme View our Careers page
21. Support a culture of health and safety View our Code of Conduct

Directors' statement

Our commitment to effective governance

This integrated report has been prepared using the International Integrated Reporting Council's Integrated Reporting Framework. The Board has established processes to ensure the quality and integrity of this integrated report and has entrusted Management with preparing and presenting it accordingly.

About this report

This integrated report reviews our financial, economic, social and environmental performance for the year ended 30 June 2020 (FY20).

It reflects our deeply held view that the way in which Meridian uses the natural forces at its disposal and takes care of its customers, people, local communities, iwi and the environment renew our future, both as a business and collectively. Our approach strengthens Meridian's ability as a significant publicly listed company to deliver attractive shareholder returns and to deliver value to all of our stakeholders.

The Meridian Group is listed on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX), and we're substantial in scale in a New Zealand context, with operating revenue in FY20 of $3,405 million, EBITDAF of $854 million and net assets of $5,083 million, although we have a modestly sized workforce of around 1,110 people who are directly employed by or contracted to us, and third parties who provide us with ICT, facilities' management and meter-reading services. We're one of New Zealand's largest companies on the NZX, with a total market capitalisation in excess of $12 billion.

We are majority owned by the New Zealand Government, and we are precluded by legislation from having any other significant shareholders (i.e. more than 10% holding).

The report covers the performance of the Meridian Group, including the Parent Meridian Energy entity, Powershop and Dam Safety Intelligence in New Zealand, Meridian Energy Australia and Powershop Australia, and Flux Federation (our electricity retailing software business which operates in New Zealand and the United Kingdom). Unless otherwise stated the information in this report covers the Group, although for many of the topics discussed the Parent company is the primary focus as the other businesses are smaller in size (less than 10% of Group revenue). Powershop New Zealand has been operationally included into the Meridian Parent company results, and as such is no longer reported on separately in terms of non-financial information.

To ensure all data in this report is as accurate as possible, the financial information has been prepared in accordance with appropriate financial reporting standards (see page 131) and audited by Mike Hoshek for Deloitte Limited on behalf of the Auditor-General (see the Independent Auditor's Report on page 173). The non-financial information has been prepared on accordance with the Core requirements of the Global Reporting Initiative's (GRI's) Sustainability Reporting Standards (the 'GRI Standards') and this sustainability content has been subjected to a limited assurance engagement by Deloitte Limited (see the Independent Accountant's Assurance Report on page 177).

The Meridian Group Greenhouse Gas Inventory Report FY20 is summarised on pages 47 and 48 of this report, and has been subjected to a reasonable assurance engagement by Deloitte Limited New Zealand.

Our commitment to effective governance

Boards have an important role in directing companies' activities. Strategy days and regular meetings allow the Meridian Energy Board members to share their thoughts and challenge Management on the direction they wish to take the business.

The Board closely monitors how the company is managing the various long-term drivers of value, such as retaining access to water, building employee engagement, investing in new assets, enhancing environmental performance, satisfying customers and building the Company's reputation and brand.

The Board also sets Meridian's overall appetite for risk and its approach to risk management. A summary of Meridian's key risks can be found in the FY20 Corporate Governance Statement available at www.meridianenergy.co.nz/assets/Investors/Governance/Meridian-Energy-Corporate-Governance-Statement.pdf and they are discussed throughout this report. Information on the remainder of the risks and how we manage them are also detailed where relevant throughout this report.

Meridian complies with the NZX Corporate Governance Code recommendations in all material respects (other than in respect of recommendation 3.6 – see page 122 for more details).

Our Board structure

Meridian recruits Board members with a range of skills and experience. Biographies of our Directors and the Executive Team are available at meridianenergy.co.nz/who-we-are. All Directors are independent directors.

While the Company's Constitution doesn't require it, Meridian's Board has a collective view that Ngāi Tahu, who has mana whenua (authority over the land) over the majority of the South Island where Meridian's assets are, is such an important stakeholder that a position on the Board should always be considered. This role is currently undertaken by Anake Goodall, the former Chief Executive Officer of Te Rūnanga o Ngāi Tahu (Ngāi Tahu's governing body).

Three new female Board members have all joined our Board this financial year, bringing gender balance to our Board as well as contributing to the Board's expertise. Michelle Henderson brings electricity industry, engineering and safety experience. Julia Hoare is a former financial audit partner from PwC, where she established and lead PwC's sustainability and climate change practice while remaining a tax partner. And Nagaja Sanatkumar brings extensive retail business insights, particularly from her leadership roles more recently at Amazon and Icebreaker, another New Zealand brand with a strong brand based on sustainability.

Our Board

Diversity of perspective is important. Meridian recruits Board members with a range of skills and experience.

Mark Verbiest
Chair

Peter Wilson
Deputy Chair

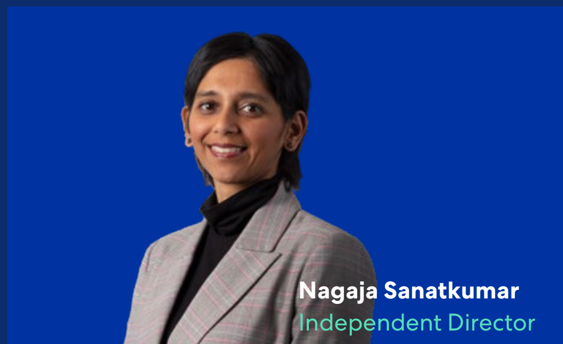
Jan Dawson
Independent Director

Julia Hoare
Independent Director

Anake Goodall
Independent Director

Mark Cairns
Independent Director

Michelle Henderson
Independent Director



Nagaja Sanatkumar
Independent Director

View Director Biographies at:
www.meridianenergy.co.nz/who-we-are/about-meridian/board-of-directors

The role of committees

Committees support the Board by providing detail on specific issues and having subject matter experts provide insights and advice. The Committees, and the Board as a whole, cover the spectrum of resources on which we depend for our business success, feed into the Company's overall strategy and direction and keep the Board well informed of day-to-day operations.

The Board and Committees also oversee progress on our SDGs. The Safety and Sustainability Committee has responsibility for our progress on SDG7 Affordable and Clean Energy and SDG13 Climate Action. The Board as a whole oversees our progress as a responsible generator, particularly as it pertains to the Waitaki reconsenting process. Our Remuneration and Human Resources Committee oversees Meridian's maintenance and development of being a great place to work. Our Audit and Risk Committee assists the Board in fulfilling its responsibilities in matters related to risk management and financial accounting and reporting.

Resources	Board oversight
Financial and manufactured capital (our cash and assets)	Audit and Risk Committee
Technology	Full Board
Human capital	
— Our people and expertise	People and Remuneration Committee
— Health and safety	Safety and Sustainability Committee
Relationships and reputation	
— Our people	People and Remuneration Committee
— All other groups	Safety and Sustainability Committee and full Board
Natural resources	Safety and Sustainability Committee
Significant risks around resources, including risks due to climate change	Audit and Risk Committee

The role of people and culture

Our people are critical to the successful delivery of our strategic goals, policies and processes.

The Board has approved a wide range of policies that Management are required to adhere to and incorporate in the company's operations, including a Code of Conduct, the content of which all employees agree to honour. The Code provides guidance to staff on the behaviours that are expected and how to handle the issues and challenges they may face. Our approach to remunerating our people is on page 96.

If you'd like further information

As a business with a significant retail shareholder base, we're constantly looking for ways to be as accessible and open as possible.

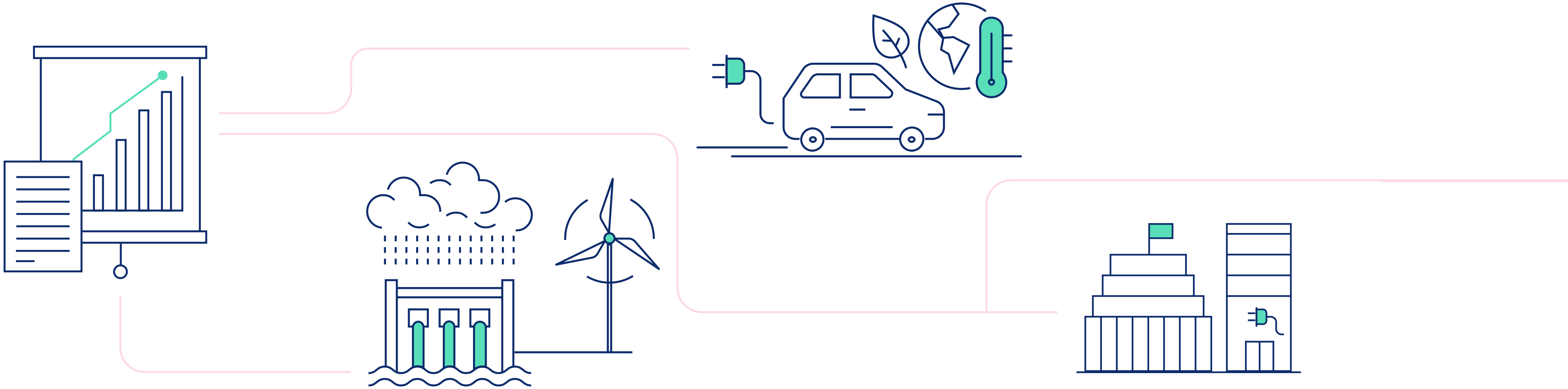
We hope you'll be able to attend the 2020 annual shareholder meeting in person. The Board has a policy of rotating the location of the meeting between Auckland, Wellington and Christchurch, and our 2020 meeting will be held in Wellington. We'll provide you with more information closer to the time in the Notice of Meeting. If you can't attend, you'll find a link to a live webcast on the Meridian website.

In the meantime, if you're a shareholder, please feel free to ask questions, request information or comment on this report via Meridian's website or by directly contacting the Investor Relations Manager at investors@meridianenergy.co.nz.

Our Executive Team

Neal Barclay	Chief Executive
Tania Palmer	Chief People Officer
Mike Roan	Chief Financial Officer
Lisa Hannifin	Chief Customer Officer
Guy Waipara	General Manager, Generation and Natural Resources
Jason Woolley	General Counsel and Company Secretary
Claire Shaw	General Manager, Corporate Affairs and Sustainabillity
Jason Stein	Chief Executive, Meridian Energy Australia Pty Limited, Powershop Australia Pty Limited
Nic Kennedy	Chief Executive, Flux Federation Limited
Chris Ewers	General Manager, Wholesale

Vertical integration



Wholesale market price variation

Wholesale market prices can vary significantly in New Zealand depending on what technologies are able to generate electricity at any point in time. Prices can be significantly affected by rainfall, as well as gas availability. In the short to medium term, we manage this risk for our physical supply customers by offering fixed pricing. We also offer financial contracts to businesses that buy directly from the spot electricity market to limit their exposure to price variations. These contracts, plus a range of other financial instruments and forward contracts, also help control our commercial risks around price volatility and they smooth out our earnings across the year.

Dynamics of supply and demand

The wholesale market price is affected by the dynamics of supply and demand. If there is too much electricity available, the wholesale price goes down. If the over supply persists, older, less economic generation plant may shut down in response. Alternatively, if demand for electricity is rising over time, the wholesale price will generally track up. If there is not enough generation to meet rising demand, the price for the available electricity goes up, improving the business case for investment in new power stations. The additional generation made possible by the investment in new plant restores the supply-demand balance and the price stabilises again.

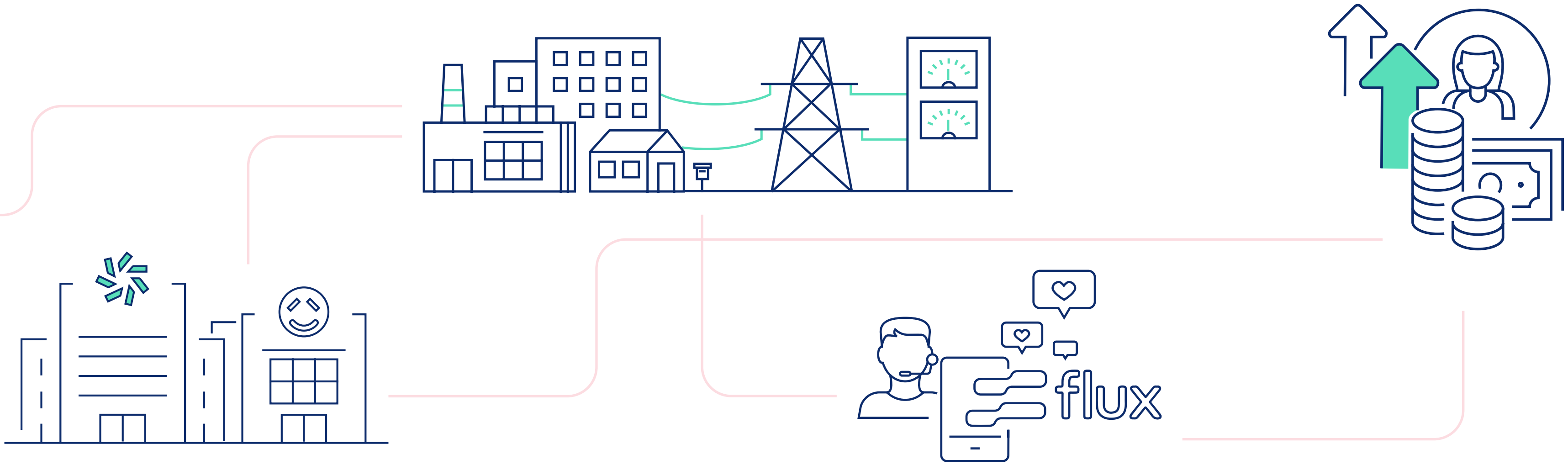
Supply-demand balance

There are a number of other factors that can affect the supply-demand balance. NZAS closing the Tīwai Point aluminium smelter, for example, will reduce reduce demand. Climate change also has the potential to increase or reduce supply, and to increase demand, because climate action regulations could increase electricity consumption through electric vehicles and electric boilers. Equally, the transition required to respond to climate change could lead to disruption of emissions-intensive industries, decreasing demand.

The electricity market

The ways in which we can sell our electricity and determine a price are controlled by the electricity market, and by our Government and regulators. As our main regulator in New Zealand, the Electricity Authority can also decide if our behaviour has been fair to our competitors and to our customers. We contribute to conversations on public policy to help ensure the markets we operate in are open, fair and efficient. We believe markets with these characteristics benefit consumers and enable our long-term success.

Great customer experience



Our customers

Our customers are businesses, households and other electricity companies. We have three retail brands: Meridian and Powershop in New Zealand, and Powershop in Australia. Because there are so many retailers, we need to differentiate ourselves from our competitors with strong brands and by marketing through traditional media and digital channels.

Meridian and Powershop Australia are attractive to customers because of our positioning as a leader in sustainability. This is demonstrated by our Group commitment to renewable electricity and climate action. Powershop New Zealand is attractive because it offers customers control over their energy usage and cost in a fun and engaging way.

Short supply chains

All our energy retailing brands have very short supply chains because the physical assets used to distribute electricity and meter its use are managed by national and local lines and metering companies. Our retail operations' requirements are similar to those of many corporate offices. They include physical facilities and ICT, sales and marketing, billing and governance functions.

Brands profitably

In order for us to operate our brands profitably in Australia and New Zealand we need to keep earning our customers' loyalty by providing excellent experiences through our frontline service teams. Those teams and our customers rely on platforms like Flux to ensure they can interact smoothly and effectively. Flux also markets its software platform and the Powershop brand under licence in the UK.

Responsible generation

Quality of our assets

Our ability to generate electricity safely and reliably is dependent on the quality of our assets and ICT systems, supported by highly skilled employees, suppliers and contractors. Our assets are maintained by Meridian staff (with some of our wind farms also maintained by third parties) who contract with a range of local and global suppliers to provide us with the parts and components needed to build and maintain our generation assets, as well as a mix of general engineering consumable and specialist parts suppliers, and service providers including ICT and facilities' management providers.

Renewable energy

Because there are environmental implications around how we use our assets to generate renewable energy, we are dependent on securing and maintaining resource consents. To do this we need to win and maintain the trust of stakeholders, ranging from Ngāi Tahu and other iwi to water users, local government and communities. We achieve this by making a long-term and deep commitment to the communities and areas in which we operate through engagement, employment and consultation on important issues such as water, biodiversity, environmental impact, local prosperity and long-term planning and environmental management. Without the buy-in of our people, stakeholder groups, communities and local government, we could not operate our assets the way we do, which would materially affect our profitability and reduce the amount of renewable electricity available for Aotearoa's power needs.

Retain the right staff

Our ability to attract and retain the right staff is central to our competitiveness in all our business activities, and is supported by a strong employer brand grounded in our purpose, values and behaviours, and how successful we are in creating a great place to work.

Publicly listed

Finally, as a publicly listed company we are dependent on our investors having continued faith in our performance.

Reliable returns

The wholesale market

The money we make from the electricity we generate on the wholesale market, plus the margin we receive from our business and residential customers, combined with our skill in managing trading conditions, determines how much revenue we make in a year. A portion of that is then reinvested into our business to support our ongoing programme of work. The value of our shares is what the market perceives our company to be worth at any given point in time.

Our shareholders

Our shareholders, including the Government (which holds a 51% share), earn money from their investments in us in two ways: from the dividend payments we make every year; and from the changes in our share price, which allow them to sell our shares when they are more valuable and potentially buy more shares when prices dip. No guarantee of our current or future share price is given or implied. We also have other investors in long-term funding arrangements with us.

All our investors decide to invest based on their own knowledge, the information we share with them, and their own understanding of the markets. And investors want us to be able to tell them a strong and compelling story around our management of all the components that make up how we create value – our financial reserves, physical assets, technology platforms, our people, the relationships we have with a variety of stakeholders, and natural resources (particularly water) – hence this integrated report.

Chair and CEO overview

Successfully navigating a range of challenges

Meridian's commitment to our purpose of Clean Energy for a Fairer and Healthier World continues to be the number one driver of all our business decisions, and being closely aligned with this purpose in FY20 was more important than ever.

FY20 was another successful year for our Company and we were particularly pleased with the continued growth in our customer businesses. Financially it was a solid year for Meridian with another record EBITDAF result, although net profit after tax was lower.

But there are significant challenges on the horizon, particularly the global impact of the COVID-19 pandemic and the closure of the Tīwai Point Aluminium Smelter. These changes will affect the way in which we operate our business and we are confident we have the team and the strategies to manage through these uncertain times.

Throughout the COVID-19 pandemic to date we have maintained full operational capability. For Meridian, as an essential service, this was vital, and we believe the electricity sector and Meridian performed very well during this time.

Supporting our customers

We're fortunate that the product we generate, and sell is needed by everyone and that the COVID-19 pandemic's impacts on demand and on our business to date have not been significant.

However, we know that the impacts on many other New Zealanders, businesses and the economy as a whole will be far more extensive and long lasting. We're committed to playing our part to ensure our economy recovers as quickly as possible and to help shape the opportunities that will deliver sustainable economic and environmental outcomes.

During FY20, we supported customers who have been impacted by COVID-19 by working with them to find payment solutions that suited them and by making sure their power wasn't unfairly disconnected. We also didn't charge any late-payment fees or credit-reminder fees to customers across our brands in New Zealand and Australia.

We also wanted to do something more to help families facing hardship, so we matched the $1 million donation made by generous Kiwis to our charity partner KidsCan. With that additional money KidsCan is able to help kiwi kids in hardship get a hand up, and the best chance at a good education, to help break the cycle of poverty. The ongoing impacts of COVID-19 pandemic have reinforced our view that sustainable businesses will be the most successful businesses over time.

Healthy customer growth

Our Powershop business in Australia once again achieved outstanding growth as customers continued to choose cleaner energy options. Customer numbers grew by 24% and there was a 24% increase in the volume of electricity sold whilst gas sales were up three-fold.

Powershop's success in Australia means we're looking at new generation options the business will need in the medium term. These include the 130-megawatt Rangoon wind farm development project that Meridian Australia has in northern New South Wales, which could power 58,000 homes a year.

Whilst supporting customers through the COVID-19 pandemic we were also able to continue to grow our retail market share.

In New Zealand across both our Meridian and Powershop brands, we grew customer numbers by 7% and the volume of energy sold by 18%. Even more pleasing, our overall customer satisfaction ratings and our customer retention rates improved and set the benchmark for the industry.

Rio Tinto to exit New Zealand

In October 2019 Rio Tinto announced that it was undertaking a strategic review of New Zealand's Aluminium Smelter at Tīwai Point in Southland.

On 9 July 2020, Rio Tinto announced the termination of its contract with Meridian and its intention to close the smelter by 31 August 2021. Rio Tinto's decision is hugely disappointing for the smelter workforce and the Southland community of which we're a part.

During the Rio Tinto strategic review, Meridian was able to put together a package of contractual amendments that would have delivered a significant reduction in the cost of delivered energy to the smelter, well in excess of $60 million per annum. We believe that this offer was fair and in the interests of Meridian shareholders and New Zealand. As part of that package we asked the smelter owners to commit to Aotearoa for a period of at least four years. They were unwilling to make that commitment and have instead chosen to close the smelter.

The loss of roughly 13% of electricity demand within a relatively short space of time will undoubtedly be disruptive for our industry and our company in the short term. However, the smelter closure also creates significant opportunities for Meridian. Our team is working hard to mitigate the short-term effects of the closure, maintain our balance sheet strength and build an even stronger business for the future.

Electricity Authority preliminary undesirable trading situation decision

In December 2019, an energy trading company (Haast Energy Trading) and a group of small retailers lodged a claim with the New Zealand Electricity Authority that Meridian and other South Island hydro electricity generators had caused an undesirable trading situation (UTS) in November and December 2019. On 30 June the Electricity Authority released its preliminary decision, determining that a UTS had occurred between 3 and 18 December 2019.

Management and the Board have looked closely at the Authority's preliminary decision and we do not believe our actions constituted a UTS. We believe the preliminary decision failed to adequately consider the enormity of the flood conditions that Meridian was managing during that time. We were also very concerned with the way the preliminary decision was incorrectly portrayed in the media as there was no cost to most consumers. Meridian's financial statements have been prepared on the basis that the Authority confirms its preliminary decision and resets prices during the trading periods concerned. The impact on the financial statements by making this adjustment was insignificant.

We have made our position clear in our submission to the Authority. We have also suggested amendments to the Electricity Industry Participation Code may be necessary to clarify the Authority's expectations of generators in similar situations. Meridian cares deeply about its customers and the environment. It was our priority to put safety and our environmental obligations first as this significant rainfall event unfolded.

Deferring investment at Harapaki

The Board made the tough decision in August to defer the build of our Harapaki wind farm.

While the business case for Harapaki is very sound, the market needs time to adjust to Rio Tinto's decision to exit New Zealand. We're still confident that we'll build Harapaki in the future.

Transmission Pricing Methodology

Just before the end of the financial year the Electricity Authority released its final decision on the Transmission Pricing Methodology guidelines.

We're pleased with the outcome and that a benefits-based approach to transmission pricing was adopted by the Authority. It will provide certainty, be fairer and enable a more efficient investment in and use of the transmission grid. This new approach will be positive for Meridian financially.

Climate action

We believe that in FY20 there was considerable progress made at the policy level to support Aotearoa in meeting its zero-carbon aspirations.

The Climate Change Response (Zero Carbon) Amendment Bill was passed, the Climate Change Commission was established, and we also now have a package of Emissions Trading Scheme (ETS) reforms that are the key policy tool driving emission reductions. In June a water reform package outlined changes to how freshwater is managed and steps to improve water quality within a generation. These changes protect the flexibility and output of existing large hydro to support further decarbonisation, aim to improve the health of our waterways and, importantly, better recognise the values and perspectives of tangata whenua.

Most of the energy New Zealand consumes still comes from burning fossil fuels – the fuels that power our cars and provide heat for industries, homes and public infrastructure. Combined, these energy sources account for 41% of New Zealand's greenhouse gas emissions. About half of that's from transport.

The opportunity to electrify these energy uses and to power our nation with renewable electricity is massive for our country and, once it's done, will go a long way to eliminating our non-agricultural emissions. Meridian remains totally committed to working with government, industries and our customers to support the future electrification and decarbonisation of the New Zealand economy.

Our employees are committed

Our survey in May 2020 saw employee engagement scores across Meridian, Powershop and our Australian companies lift to 85%, demonstrating that our people are proud to work for Meridian and committed to the company.

This is also reflected in the fact that nearly 60% of Meridian Group permanent New Zealand employees now own shares in the company. Together, employees in the MyShare scheme are now one of the 100 largest shareholders in Meridian, out of a total of 47,000 shareholders.

We introduced Learning Teams

The most important thing at Meridian is that our people go home safely at the end of each day – but in FY20 we had too many significant injuries for our liking.

We made changes to ensure that our health and safety culture continued to evolve and improve, and to ensure that our people were as physically and mentally protected as possible. Most notably we introduced Learning Teams as a replacement for the ICAM (Incident Cause Analysis Method) incident investigation process. Learning Teams is a self-managing process that allows those close to an incident to engage more openly in the review of what happened. As a result, we're already seeing a significant lift in the levels of transparency and learning that we glean from incidents.

Refreshing our executive

During the year there were four new appointments to Meridian's Executive Team.

Lisa Hannifin was appointed as Chief Customer Officer, Claire Shaw was appointed as General Manager Corporate Affairs and Sustainability, Jason Woolley was appointed as General Counsel and Company Secretary and Jason Stein, who was previously Meridian Energy's General Counsel and General Manager of the Office of the CEO, was appointed CEO of Meridian Energy and Powershop Australia. All these roles were filled internally after recruitment processes that included external candidates. These appointments show we have talented people in our organisation, that our people are encouraged to step up, and that the skills and leadership we're developing here test very well against the market.

Flux increases capability

We're increasing Flux's capability in New Zealand to better support the migration of Meridian customers to the platform.

However, this increase and the associated complexity with Meridian's customer base meant that the migration project, which commenced during 2018, was extended by nine months and it's now scheduled for completion during September 2021. The benefits of and business case for the project remain very positive.

The ongoing relationship between Flux and Powershop UK is now uncertain. Powershop UK is owned by npower who in turn are now part of E.ON Group.

In the U.K, E.ON and Kraken Technologies, part of Octopus Energy Group, entered a strategic agreement regarding E.ON's UK residential and small and medium-sized business (SME) energy retail businesses.

It is our understanding that E.ON intend to migrate their customer base (including the npower customer base) to the Kraken platform.At this stage we are unsure of npower's intentions in relation to the Powershop UK brand.

2020 financial results

Meridian Energy has reported a strong financial outcome for the FY20 year powered by record generation and strong retail sales growth on both sides of the Tasman.

Group EBITDAF increased by 2% to $854 million. Net profit after tax decreased 48%, reflecting higher depreciation on previously revalued assets and movements in forward prices and rates on financial instruments used to manage risk (non-cash, fair value movements). Underlying net profit after tax[1] (which removes these fair value movements) decreased by 5%.

The Board has declared a final ordinary dividend of 11.20 cents per share, 4% higher than the previous year. This brings the total ordinary dividends declared in FY20 to 16.90 cents per share, 3% higher than last year's, and represents a 75% payout of free cash flow.

1. Net profit after tax adjusted for the effects of changes in fair value of hedges and other non-cash items. A reconciliation is provided on page 30.

Underlying net profit after tax reconciliation ($M) Financial year ended 30 June	**FY20**	**FY19**
Net profit after tax	176	339
Underlying adjustments		
Hedging instruments		
Net change in fair value of electricity and other hedges	113	(58)
Net change in fair value of treasury instruments	48	63
Premiums paid on electricity options net of interest	(20)	(17)
Assets		
(Gain)/loss on sale of assets	–	(3)
Impairment of assets	58	5
Total adjustments before tax	199	(10)
Taxation		
Tax effect of above adjustments	(58)	4
Underlying net profit after tax	317	333

Meridian also declared an interim special dividend of 2.44 cents per share ($62.5 million) in February 2020 under the company's capital management programme. With Rio Tinto's announcement of its intention to close the Tīwai aluminium smelter, the Board has now ceased this programme.

The smelter decision also saw rating agency Standard & Poor's change Meridian's credit rating outlook from stable to negative.

Undaunted in our pursuit of our long-term goals

All in all FY20 was quite a year, but our commitment to 100% renewable energy and helping Aotearoa to achieve its zero-carbon goals remained our focus.

The electricity sector is a big part of the solution for New Zealand's greenhouse gas emissions. The industry can and will build the renewable generation and transmission assets required to power growth in the number of electric vehicles on our roads and the electrification of stationary energy uses, ending our country's current dependence on fossil fuels. Meridian will play its part in moving rapidly to that future.

We also need to preserve our backbone of hydro generation in Aotearoa, which can flex and fill the gaps between intermittent wind and solar generation. It's the key to renewable expansion.

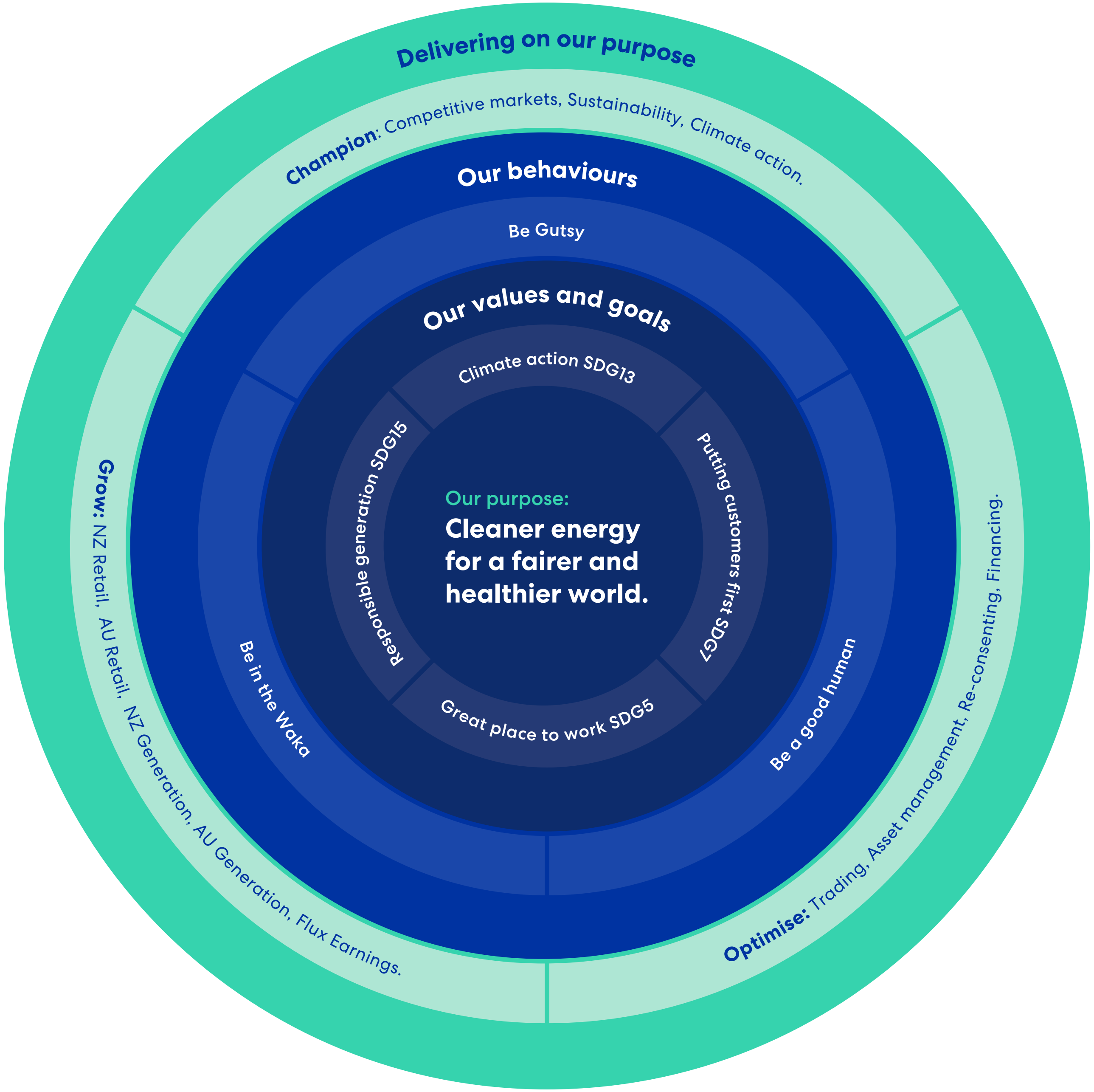
We need to do all this while keeping electricity affordable – both to ensure that we're playing our part to reduce energy hardship and to ensure the right priority is put on vital decarbonisation projects. We need to focus on projects that will help to transform our society and economy in the next decade as we reduce our reliance on fossil fuels and transition to clean energy to respond to the climate emergency facing us all.

We are most definitely on the right path. New Zealand's electricity market is globally recognised as world-leading and well-functioning. The International Energy Agency says New Zealand is a success story for the development of renewable energy without the aid of government subsidies and recent Ministry of Business, Innovation and Employment (MBIE) data shows the average New Zealand household electricity bill is at its lowest in real terms since 2009.

On behalf of the Board and the Executive Team, a sincere thank you to our shareholders, our customers, communities and partners, and the Meridian team for your continued support for and investment in cleaner energy for a fairer and healthier world.

What drives us

Our purpose of Clean Energy for a Fairer and Healthier World is at the centre of everything we do. To deliver on our purpose we have focused on areas in which we can make a meaningful difference, and that also align with our values and goals of climate action, putting our customers first, being a great place to work and our role as a responsible generator. We strive to achieve these goals by 'being gusty', 'being in the waka' and 'being a good human' to ensure that we are able to deliver positive outcomes for New Zealand and for our shareholders.



Championing change

We operate in two markets with quite different characteristics. The New Zealand market draws on largely renewable energy sources, while the Australian market continues to lean heavily on fossil fuels.

A leader in one market; a challenger in the other

While both countries are currently making important changes to the ways their markets operate, our ability to influence those changes differs between the two.

Important roles in each country

Given that our presence in New Zealand is very different from our presence in Australia, our approaches to achieving a fairer and healthier world in each market vary.

In Aotearoa we're the largest generator of renewable energy, generating around a third of all the country's energy from our hydro dams and wind farms. This position sees us advocating for changes that align with our purpose of clean energy for a fairer and healthier world. We're fortunate in New Zealand to have a market that functions well and delivers good outcomes for consumers.

In Australia our market share is much smaller and we're seen as a challenger brand. We provide conscientious consumers with the ability to offset the carbon emissions associated with their electricity and gas usage and innovative products that allow them to engage with their energy use, backed by 100% renewable generation and our participation in the Climate Active Carbon Neutral Standard (a scheme run by the Australian Government).

In New Zealand, the Climate Change Response (Zero Carbon) Amendment Act 2019 has enabled the establishment of an independent Climate Change Commission, emissions reduction targets for 2050, and rolling five-yearly budgets to track progress towards the targets. The Climate Change Response (Emissions Trading Reform) Amendment Act 2020 and related regulations help Aotearoa to achieve its emissions reduction target by setting a cap on the volume of units auctioned under the ETS.

In Australia, while there's still no bipartisan federal energy (and related carbon) policy, regulatory changes at state and federal levels are being implemented to improve retail customer outcomes.

Despite the prevalence of coal as a fuel in Australia, we remain confident that decarbonisation will continue and that we'll see a further development of renewable assets as thermal generators retire in the coming decade and beyond. With the emergence of large-scale batteries, such as the battery we're proposing for our existing Hume hydro power station in New South Wales, we expect a new era of firmed renewables to prevail in the medium to long term. The Australian market's wholesale energy prices have reduced in the past few years due to a range of external factors. However, over time we expect to see demand for firmed renewables grow as thermal generation plant continues to retire at the end of its design life.

We advocate for clean energy in both markets, as well as competitive pricing for our customers. In addition to our participation in regulatory processes, we are also members of a variety of organisations advocating on issues we care about. Details of these organisations can be found on page 123.

Three brands in two markets

Since 2013, we've operated three distinctive and well-established customer brands. Our Meridian brand appeals to customers looking for a renewable energy generator that's deeply connected to the environment and New Zealand. In Australia, our Powershop brand focuses on sustainability, taking a challenger position against the country's high reliance on coal. To support this position, Powershop was recognised as Australia's greenest power company by Finder in 2020 and by Greenpeace for the third year in a row. Powershop in New Zealand offers customers personal control with its 'shop' proposition and attracts them with its appealing marketing.

While our Australian business represents 10% of our Group annual revenue and is a relatively small player in that market overall, it continues to grow rapidly as more and more Australian consumers look for cleaner options. In FY20, Powershop Australia's white-label agreement with Kogan led to the launch of Kogan Energy, a mass-market offering that combines digital technology and low cost.

Our certified carbon-neutral retail gas product currently only available in Victoria had 38,000 customer connections as at 30 June 2020, up from 23,000 the previous year, with customers who were either electricity customers and added gas, or new customers who signed up for dual fuel. While we're committed to only renewable energy in New Zealand, the gas option is a clean alternative for our Australian customers who buy their power from a market that's dominated by coal generation.

Supporting fairness and efficiency

While decisions don't always go our way, we continue to advocate for changes to the market that deliver great outcomes for market participants, customers and the environment.

We're fortunate that, in both the New Zealand and Australian markets, regulators are committed to supporting open, fair and efficient markets. This matters because, while the conversations in the two markets are different, changes to public policy that lead to 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) have the potential to significantly impact our business. Such changes could adversely affect our sales, costs, relative competitive position, development initiatives or other aspects of our financial and operational performance, or force undesired changes to our business model. Whilst we remain aware of the risk, what we have seen on both sides of the Tasman over the last few years is net positives in terms of regulatory outcomes, particularly as they relate to climate action.

In FY20 Meridian was involved in public policy and electricity regulation decisions that didn't always go our way. But as a key player in the energy sector, we have a responsibility to advocate for a market environment and a wider regulatory environment that are conducive to achieving our commercial and sustainability goals and provide the best outcomes for consumers.

Rebalancing transmission costs

In October we responded to the Electricity Authority's 2019 Issues Paper: Transmission Pricing Review, saying that, in our view, there were complex problems with the current Transmission Pricing Methodology (TPM) and that the existing TPM guidelines needed to be rethought. We said that without urgent reform, New Zealand would face the prospect of ongoing inefficient grid use, significant inefficient investments and a development path that would cost consumers billions of dollars more than it should.

We strongly supported the proposed new TPM guidelines that would deliver significant benefits to New Zealand consumers. In June 2020, after more than 10 years of consultation and debate, the Electricity Authority issued new TPM guidelines that mean the HVDC (the inter-island link) will be treated in the same way as other AC transmission assets, and South Island generators will no longer be the only ones that pay for the HVDC (the inter-island link). The Electricity Authority estimates that Meridian's overall transmission bill will reduce by $27 million per annum when the new reform package is implemented in 2023.

Crucially, the Authority estimates that over time the new guidelines will deliver significant benefits to consumers (around $1.3 billion overall). The change will also support New Zealand's transition to a low-carbon economy by incentivising more efficient investment and the use of the grid.

Preliminary 'undesirable trading situation' finding

Meridian was very disappointed to be the subject of a UTS claim in FY20 and a related trading conduct complaint from a group of energy traders and independent retailers. The matter related to exceptional rainfall and inflow events in November and December 2019, and an allegation that Meridian and other South Island generators could have generated additional electricity using some of the water we were forced to 'spill' through our hydro gates and structures during those events.

On the final day of the financial year, the Electricity Authority released its preliminary decision, indicating that it believed Meridian Energy had been involved in a UTS between 3 December and 18 December 2019. The Authority's analysis suggested that just under 0.5% of the total amount of water that Meridian either generated or spilled past its structures during December had been avoidable. It concluded that this had resulted in South Island wholesale power prices being higher than they should have been during the period of the UTS.

We have a different view of the event. We'll now engage with the Authority as it works through its full process and makes its final decision later in 2020.

At the same time, an Electricity Authority advisory group proposed rule changes that would redefine trading conduct standards under the Electricity Industry Participation Code. Meridian supports the intent of the proposed changes, as the trading conduct standards are in our view currently opaque, lacking in clarity and in need of reform. We've asked the Authority to run its own consultation on any changes rather than rely on the work of an advisory group, and suggested that a full cost-benefit analysis be undertaken.

Highly competitive markets

New Zealand has one of the world's leading energy systems in terms of price, resilience and sustainability according to the World Energy Council, which also ranks our energy system as the 10th best in the world.

The electricity sector is the most competitive it's ever been. There are currently 39 retail brands in New Zealand and 33 retailers in Australia, and most are engaged in aggressive pricing campaigns and making new offers that are highly price competitive.

In Aotearoa, half a million house-holds change plans every year and a further 60,000 compare what they're paying with other offers but decide not to switch.

The nature of competition is also changing and barriers to competition are reducing, enabled by more new technologies, open and available data and more liquid hedge markets.

This is great for consumers and requires retailers like Meridian to constantly innovate to remain relevant for their customers and to become more efficient to remain price competitive.

Price will always be a big factor in the electricity sector, but sustainable retail success requires more than just a sharp price. Meridian focus is on delivering what customers tell us they value, in the most efficient ways possible. We look to gain, retain and add value for our customers through our brand, our offers and our customer experience. At the same time, we pursue reducing our costs through simpler systems, insightful customer data and a fast adaptation to technological and other opportunities.

Electricity Price Review final report released

In October 2019 the Government's Electricity Price Review panel released its final report and recommendations.

Meridian considers that the report and the commitment from the Government to implement various recommendations are balanced, and well-considered, and reflects the fact that, overall, the sector is performing well for New Zealanders. Meridian was particularly pleased with the recommendations to support people who struggle to pay their energy bills and the proposals to phase out the low-user tariff regulations and encourage all retailers to stop clawing back prompt payment discounts.

In October 2018, Meridian made the decision to replace prompt payment discounts with a fairer pricing structure. We believe this change has helped those customers who struggle to pay their bills on time as they no longer lose their discount as a result of late payment.

The Government has since written to all retailers asking them to remove prompt payment discounts. Meridian is pleased to be able to report that off the back of the Government's letter, Genesis Energy and Contact Energy have announced that they'll stop requiring prompt payment as a condition of their customer pricing offers.

Contributing to Australian regulatory changes

In Australia we interact with a range of regulators and agencies to advocate for a fair, transparent and equitable trading market. In FY20, for example, we worked with the Australian Energy Market Operator, the Australian Energy Regulator and the Australian Energy Market Commission on a range of proposed market operations and rule changes.

We also worked with the Australian Competition and Consumer Commission and the Essential Services Commission of Victoria on matters related to consumer data and protection.

Our lobbying efforts focused on price regulation, specifically the Victorian Default Offer and the Default Market Offer. We suggested that relevant regulators, in setting pricing for energy in both jurisdictions, consider recent changes to the costs that retailers were facing overall and as a specific result of the COVID-19 pandemic.

We also made a submission on the Australian Government's Technology Investment Roadmap, supporting the development of technologies to reduce the reliance on higher-emission alternatives, and highlighting the need for a technology-agnostic approach.

Leadership means speaking up when it counts

Being a 100% renewable energy company is great but it's not enough. We're taking action in our business, working with our customers, our suppliers and our people to help effect change. We also speak up strongly for the policies and regulations we think will make the biggest difference in meeting the climate challenge head-on in the next decade of change.

Timely consents support climate action

Resource and other consents govern our ability to contribute as fully as possible to renewable development that can displace thermal generation and decarbonise the New Zealand economy. The policy framework for consenting new renewable electricity generation projects in New Zealand requires improvement in our view.

Part of the problem is that while the current Resource Management Act 1991 explicitly requires a consideration of climate change factors, it doesn't in our opinion allow for fair and balanced conversations on resource consents for renewable electricity generation. We believe it's important that stakeholders have the time to engage appropriately on proposed changes and developments covered by the Act, but the lack of movement in accelerating the resource consent process remains a significant hurdle for us, even as the price of building new renewable generation continues to fall. It's heartening to see the Government indicating that it wishes to see the resource consent process take less time, and we look forward to seeing this progress.

100% renewable electricity has consequences

In February 2020, we made a submission to the Ministry of Business, Innovation and Employment on accelerating renewable energy and energy efficiency. In our submission we said that we were concerned that the goal of pursuing 100% renewable electricity generation could result in worse emission outcomes as it could drive up the cost of electricity, reducing the incentive to electrify transport and industrial process heat. We pointed out that modelling by the Ministry, the Interim Climate Change Committee, Meridian and others consistently showed that even under business-as-usual scenarios, renewable generation would increase to around 95% of market share by around 2035 without any need for regulatory change. We believe that the real prize for New Zealand is the electrification of sectors of the economy that are heavily reliant on fossil fuels (transport and industrial heat).

We continue to stand by this analysis and position, and advocate for the pursuit of radical emission reductions throughout the economy. This may mean leaving the last couple of percentage points of the electricity grid alone until the rest of the energy consumption in New Zealand has been decarbonised.

A high cost per tonne of carbon abated also rules out solar as an effective climate action response in the near term, although solar can provide resiliency of electricity supply in emergency situations (when paired with batteries), provide support for distribution networks, and increase energy independence for those who can afford solar systems.

Tackling the last 5%

In FY20 we looked to increase the overall renewable energy available to us in the event of dry conditions by unlocking access to additional storage at Lake Pūkaki, the country's largest hydro storage lake. Access to the extra storage at Lake Pūkaki could provide enough electricity to power the equivalent of around 50,000 homes.

We've had access to 545 gigawatt hours (GWh) of storage in Lake Pūkaki during dry conditions under existing resource consents for some time, but engineering and operational constraints have limited how much of this could actually be used. When we reviewed this arrangement in FY20, we re-evaluated those constraints and we now believe access to the remaining 367GWh is feasible. This additional storage has now been incorporated into Meridian's operations and we'll continue to refine it. In essence, the country's largest battery just got bigger.

Emissions Trading Scheme strengthened

Perhaps not surprisingly given our commitment to a sustainable future, we view the current electricity market structure alongside a reformed New Zealand ETS as a key enabler of achieving the best long-term outcomes for New Zealand and the objective of reducing emissions at least cost.

We have been, and continue to be, a strong supporter of ETS reforms, including the Climate Change Response (Emissions Trading Reform) Amendment Bill. Well signalled limits on the availability of emission units and the resulting expectations of emission pricing will enable a market-led response that identifies the most efficient investments in emission reductions over time, across all technologies, and throughout the economy. Because of this, businesses and individuals will be able to invest with confidence, and competition and innovation will flourish as we reduce emissions over time.

Our view is that emission reductions should begin as soon as possible to put Aotearoa on track to meet our emission-reduction targets and ensure that mitigation steps are not left until it's possibly too late. For the ETS-based approach to be a success, the Government must be willing to accept the higher emission prices that will result from the sinking lid and resist the urge to intervene unless there's a strong case for doing so. Leaving climate change mitigation until later would also push the cost of emission reductions onto later generations.

In most sectors of the economy the ETS provides an appropriate price incentive to ensure New Zealanders favour low-emission alternatives. However, for the ETS to be an effective policy tool, we believe it must operate to limit emissions over time and send increasingly strong price signals as economy-wide emissions reduce. To date this hasn't been the case, as the ETS excludes some sectors and offers others fixed-price options that allow them to emit as much carbon as they want to at those prices. Our view is that the Government should generally be cautious in considering additional, sector-specific interventions. This is because there could be unintended consequences and a risk that emission reductions are not as efficient as they could be under an economy wide ETS.

Climate-related disclosure may become mandatory

We strongly support steps to encourage investment that will help the transition to a net-zero carbon economy. In July 2019 we were the first New Zealand-listed issuer to publish a climate risk disclosures report, prepared in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Since then, the Government has said it intends to move to a position where the effects of climate change become routinely considered in business and investment decisions in New Zealand.

A mandatory disclosure regime would be consistent with existing commitments made by large sections of the business community through the Climate Leaders Coalition to assess and disclose climate change risks. We believe that other large-scale entities shouldn't be excluded from the disclosure regime because they're privately owned. Disclosure by these large, privately owned firms would further enhance the resilience of the New Zealand economy.

Reducing our own carbon footprint

In FY20 our actions ranged from planting trees and electrifying our fleet to once again reporting on how climate change impacts our business.

Climate action remains the key focus of our sustainability efforts. As always, being a 100% renewable energy generator means that our emissions from generating electricity are zero, and our renewable generation is our most important contribution to climate action. But to make a meaningful difference we must also show leadership.

Understanding how climate change impacts us

In FY20 in our TCFD report (using the guidelines published by the TCFD), and in our submission to the CDP, we for the first time evaluated the potential financial impacts of climate change on our business – both the physical impacts and the impacts on electricity demand from climate action policy. It's important that we understand this information internally as we make plans for the future, and it's increasingly of value to investors as they seek to understand which companies have better long-term prospects than others in the context of climate change.

Overall, climate change isn't good for anyone's business. The pathway we're on globally at the moment, towards a 4-degrees-warmer world (or higher) will have devastating impacts on our societies, economies and natural resources. It's not hard to see how this will cause some significant problems for businesses, given that businesses can only thrive in societies and natural environments that are stable, resilient and sustainable.

Our analysis of how climate change affects us is undertaken out to 2050, as this is the horizon we use for making decisions on new investments. In that timeframe, the physical impacts of climate change are much the same, regardless of the temperature increase scenario chosen from the Intergovernmental Panel on Climate Change. For us as a generator from natural resources, these physical impacts are both positive and negative.

In the next 30 years we're likely to get more water in our hydro catchments, and that water may change in seasonality to better match demand (potentially lifting medium-term revenue by $12 million per year). Higher temperatures are likely to have a mild positive impact on electricity demand through increased air-conditioning requirements and increased irrigation, offset by reduced winter heating loads (with a potential positive impact of $5 million per year). However, higher temperatures will also increase the likelihood of extreme rainfall events, which may then increase the 'probable maximum flood' that we optimise our hydro operations to cope with. In response we may need to upgrade our dam structures and change our flood-management rules, which could have an annualised potential financial impact of $11 million from when the probable maximum flood increases.

So, without strong climate action policy, in Aotearoa and globally, there is a risk of our having no business in the very long term, but in the next 30 years the impacts are fairly neutral.

Strong climate action policy is also a mix of positive and negative for our business. Strong policy settings are likely to increase electricity demand from increased requirements for charging of electric vehicles and the transition of some industrial heat processes from coal to electricity.

Combined, this increase in medium- to long-term revenue could be $7 million per year. Policy that increases the percentage of renewable electricity on the grid may be positive for us in that we could build more renewable energy power stations; however, it's also likely that price volatility will increase, with a potential negative medium-term financial impact of up to $40 million per year. We could also see a sector of the economy negatively affected by climate policy in a way that reduces demand. For example, a significant reduction in the dairy industry could reduce our revenue by $12 million to $17 million per year.

For context, our revenue in FY20 was $3,405 million, so the potential impacts that we have so far estimated are not large in scale in the context of our business. But the true impact of climate change is hard to estimate, particularly if the world fails to move to a path to reduce emissions radically in the next two decades. For more details, see our TCFD report.

Green Finance Framework

Investors are increasingly looking to demonstrate a "green" investment portfolio as evidence of their commitment to sustainability, and many use frameworks, standards, rating agencies and others to find investments that meet their criteria.

Meridian rates highly in the MSCI, and is also listed on the Dow Jones Sustainability Asia Pacific Index and submits to the CDP. These are all tools that investors use to positively screen their investment portfolio.

In addition, In FY20 we have developed a Green Finance Programme which covers both existing and future issuances of debt instruments. This Programme recognises Meridian's commitment, leadership and investment in renewable energy and will be used to finance or refinance sustainable projects and assets such as new or existing renewable energy projects or assets.

The Programme enables Meridian to connect its company strategy and vision to its financing requirements and provides investors with an opportunity to invest in a range of accredited debt instruments. The proceeds of these have been allocated (notionally) to eligible Wind and Hydro assets that meet the Market Standards.

Half by 2030, and zero through offsets right now

Part of understanding how climate change impacts us, is understanding our own carbon footprint. We've restated our base year (FY19) operational emissions to include emissions from Transpower, New Zealand's transmission provider. This brings our base year operational footprint up to just over 47,000 tCO_2e (tonnes of CO2 equivalent).

Our goal is to cut this in half by 2030. In FY20 our major reduction initiative was to use our own Certified Renewable Energy product for our Scope 2 emissions. We also cut emissions from air travel and employee commuting significantly, given the travel restrictions that we all experienced, and we have an internal project underway to lock in those reductions for the long term. We also continue to make progress on the electrification of our fleet.

What we can't reduce we offset using Gold Standard Verified Emission Reductions, and we've chosen to use those carbon credits to support wind farm and solar projects in India. In the longer term, our Forever Forests programme will enable us to grow our own carbon offsets.

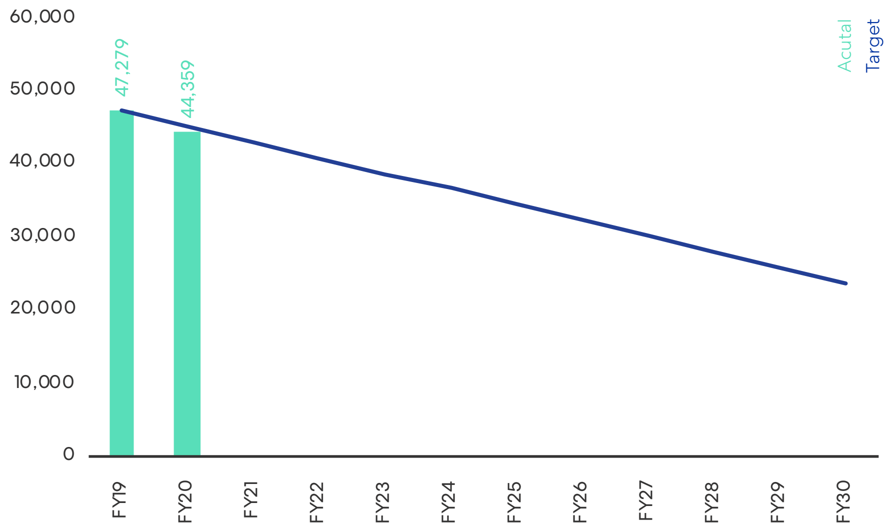
Meridian Group greenhouse gas emissions

tCO_2e	FY19	FY20
Scope 1	1,099	1,177
Scope 2	1,605	17
Scope 3 operational	44,574	43,165
Total Group operational emissions**	**47,278**	**44,359**
Scope 3 energy purchased and onsold*		
New Zealand electricity	0	0
Australian electricity and gas	611,822	813,054
Scope 3 one-time construction and upgrades	68	32
Total Group value chain emissions	**659,168**	**857,445**

* Group operational emissions are offset, using Gold Standard Voluntary Emissions Reductions (GS VERs) and credits purchased by Powershop Australia as part of NCOS, and taking into account credits cancelled by suppliers against their own emissions.

** Emissions from our electricity purchased and onsold are calculated using market-based methodologies. In New Zealand we use annual netting off methodology. In Australia we use the National Carbon Offset Standard (NCOS) administered by the Austrailan government.

Progress against our Half by 2030 goal (tCO_2e)



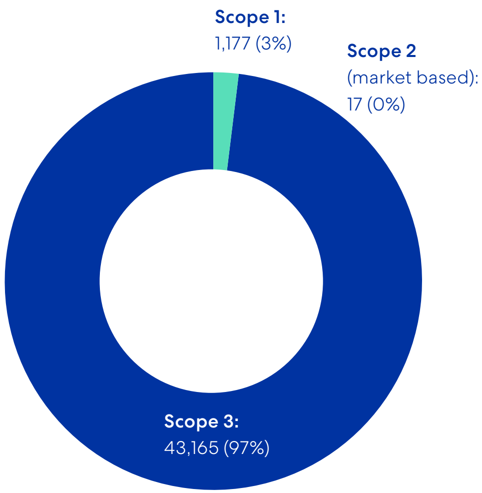
Working with our suppliers

The bulk of our carbon footprint is in our supply chain. This makes our work to engage our suppliers crucial if we're to achieve our reduction targets.

In the generation side of our business we have local and global suppliers provide us with the parts and components needed to build and maintain our generation assets, as well as a mix of general engineering consumable and specialist parts' suppliers, and service providers including ICT and facilities' management providers. More than 1,1 00 people are employed directly or contracted to us. The majority of our work is conducted by permanent employees, not contractors.

In our retail businesses we have very short supply chains because the physical assets used to distribute electricity and meter its use are managed by national and local lines and metering companies. Our retail operation requirements are similar to those of many corporate offices. They include physical facilities and ICT, sales and marketing, billing and governance functions.

Total operational greenhouse gas emissions by scope (tCO_2e)



Supplier Engagement Plan

Focus on high impact suppliers

Identify

- Criticality (risk/spend)
- Modern slavery risk assessment
- High GHG emissions
- Sustainability impacts specific to that category

Engage

- Relationship and contract managers
- Procurement specialists
- The Sustainability Team

Achieve

- Carbon data and assessment of modern slavery risk
- Suppliers moving from giving us data, to reducing their impacts
- Embedded use of our Supplier Code of Conduct.

In addition to our supplier engagement plan, we're investigating partnerships with other organisations to empower our suppliers that are small to medium in size to take climate action in ways that work for their businesses and get us on our way to a net zero carbon Aotearoa in 2050.

Deepen our sustainable procurement capability

Quiz

- Company-wide sustainable procurement quiz to set baseline

eLearning module

- To be completed prior to each workshop

Team-by-team workshops

- Focused on goods and services specific to each group

Quiz

- Repeat of company-wide quiz, to evaluate training effectiveness

Other strategies

- Hold workshops (one-to-many) for lower impact suppliers on carbon and sustainability
- Working groups for specific categories (for example sustainable **events**, sustainable **apparel**)
- Lowest risk suppliers we address at the process level (Supplier Code of Conduct)

Encouraging climate action by our people

In FY20, we started encouraging our people to take climate action, both at work and in their own lives, to help Meridian reach its goal of halving our emissions by 2030. The first piece of this programme 'Move', is one of the five pillars of our company's internal sustainability culture programme. The pillar supports our people to change the way we get around by encouraging low-carbon connections and innovation in how we move and work, locking in and improving on the changes that we all started during lockdown.

As part of this work and to help keep climate action at the front of our people's minds, we're also considering the Future Fit programme offered by Auckland City Council. This is a big piece of work that will require all of us, right across the business and in our communities, to work together to figure out how we can take significant climate action in our everyday lives. We all need to start making changes to ensure our children's future.

Working with our customers to take action

From Renewable Energy Certificates to solar and electric cars, there's a growing energy for change and a real sense of momentum in our work with customers.

Our customers are wanting to be proactive, show their support for renewable energy, take climate action in their own lives, and we've been working on ways we can do that together. Some of these actions increase electricity demand, some of them increase the amount of renewable energy on the gird, and all of them create closer, long-term relationships with our customers, creating value for them and for Meridian and Powershop in Australia.

Pouring our energy into great beer

Energy is a vital ingredient in beer, so we were thrilled when Wellington craft brewer Garage Project chose to partner with us in the production of a special brew.

The Turbine Pale Ale partnership is a collaboration between Meridian and Garage Project. Our collaboration marks the first time that a certified-renewable-energy product has been made available in Aotearoa. While Garage Project's brewery isn't directly plugged in to the nearby Brooklyn wind turbine, the electricity it uses is matched on an annual basis with 100% renewable energy generated from that asset.

It means it can go to market with a beautiful brew that has been sustainably produced and truly celebrates the benefits of being in Wellington, the windiest capital city in the world.


Meridian.
The Power to Make a Difference.
Plug in.
Charge on.
Meridian.

Certified love for renewables

The Australian electricity market has a formal green electricity product scheme. In addition to offering green power, Powershop Australia offers electricity and gas products that are certified carbon neutral according to the Climate Active Carbon Neutral Standard (a scheme run by the Australian Government). However, in New Zealand there's no regulatory framework to enable us to offer similar products to our customers.

Off the back of the successful Garage Project partnership, Meridian launched its Certified Renewable Energy product earlier this year – helping New Zealand businesses to market themselves as supporters of renewable energy and to certify their electricity use as renewable, supported by the New Zealand Energy Certificate System.

Certificates are issued by the New Zealand Energy Certificate System and enable Meridian business customers to match their consumption to an equivalent amount of our renewable energy generation. Meridian Certified Renewable Energy enables businesses to report their Scope 2 electricity emissions as zero using the market-based methodology of the Greenhouse Gas Protocol Scope 2 Standard.

Fisher & Paykel Healthcare, HelloFresh and Pernod Ricard Winemakers were among the first to adopt our Certified Renewable Energy product.

We need to electrify transport

From both ethical and operational points of view, we're motivated to support a greater electrification of our transport system. In FY20 we expressed strong support for the Government's proposal to introduce standards and discounts incentivising cleaner vehicles in New Zealand. Transport is New Zealand's second-largest source of greenhouse gas emissions, contributing nearly 20% of gross emissions. The electrification of the light-vehicle fleet is therefore one of Aotearoa's best opportunities for reducing emissions and combating climate change.

Having more electric cars on our roads will be much better for our environment, and of course it will also increase demand for electricity. The Electric Car Plan we've introduced is about securing our position as a leader in sustainability and the first choice for customers who have electric cars. In partnership with EECA (the Energy Efficiency and Conservation Authority) and a range of businesses, we've been rolling out electric car charging infrastructure around New Zealand, including in parts of the country where there was previously no public charging available.

As well as supporting our customers, we've been working hard on converting our own fleet of cars and utility vehicles. We are targeting 90% of our passenger vehicle fleet to be electric and we reached 76.5% as of 30 June 2020. We've also committed to 100% electric vehicles of all types by the end of calendar-year 2025 as a signatory to the EV100 commitment. This is putting pressure on us to sort out the utility and commercial vehicles we own; however, with new models now being released, 20% of our utility vehicles are now electric and we're confident we'll meet this ambitious goal.

Solar continues to be vital in Australia

Installing solar panels is an important climate- and bill-reduction action that we encourage Australian households to take. Through Powershop Australia we've introduced a range of initiatives to help reduce demand on the electricity grid and help customers save on their energy bills.

These initiatives include:

- 'Grid Impact', where Reposit customers are guaranteed GridCredits® – payments for letting Powershop activate their solar batteries at certain times;
- 'ChargeForce', which is offered to customers who opt in to Grid Impact. ChargeForce is a virtual power plant where Powershop uses the energy stored in a customer's battery to help support the electricity grid when it's under pressure, and pays the customer a credit for doing so;
- 'Curb Your Power', a demand response programme in which Victorian customers curb their power usage at certain peak demand times to help reduce demand on the grid; and
- 'Better Solar', a solar advisory service that helps customers to install solar systems at their properties.
- Powershop Australia's Your Community Energy has now raised over $560,000. The programme works where customers choose the Your Community Energy Powerpack when they pay their bills – this has a premium attached to it. Powershop then uses the premium to support positive environmental initiatives. Most recently, Powershop customers helped contribute over $100,000 to the Reef Restoration Foundation to build two coral nurseries that grow bleach resistant coral to restore the Great Barrier Reef.

In addition, Powershop Australia provides customers with data and insights so they can use their solar power efficiently.

Case study: The sun comes out at Lincoln

In New Zealand, Lincoln University has become the first New Zealand university to adopt commercial-scale solar energy as part of its plans to eliminate the use of coal by 2025. The University has partnered with us to install a 102-kilowatt-hour solar array, the largest to be installed at a New Zealand university.

Half the University's energy needs are currently met by an on-site coal boiler. The solar array will supply renewable energy directly to the University's network, which will displace some of its coal use. Meridian is planning additional arrays as part of Lincoln's $8 million investment in renewable energy. As part of our power purchase agreement, we're covering all the work and costs associated with installation, operation and maintenance.

Lincoln University is one of a growing number of organisations that are signing up for commercial solar power purchase agreements. The groundswell of interest in commercial solar shows companies are excited about the technology, and we're looking forward to it playing a much bigger role in our renewable generation mix.

Energy hardship intensifies during a pandemic

During the COVID-19 pandemic and in the months and years of impact ahead, we'll continue to put our energy and focus into supporting customers who experience financial hardship to keep the lights on and their houses warm.

While prices in New Zealand are pretty competitive and we have a competitive market, the cost is always too high if your house takes too much energy to heat and your income is low. Programmes like EnergyMate, which we help to fund through the Electricity Retailers' Association of New Zealand (ERANZ), and the Government's new $17 million fund for energy poverty, are essential to ensuring that the increased need for support for energy costs is met as the financial consequences of the pandemic unfold, exacerbating the already unacceptably high levels of energy hardship experienced in Aotearoa. Australia has been similarly hit and is arguably in even more need due to the bushfires earlier this year and its ongoing battle to contain the spread of the virus.

Offering active support to those hit hard by COVID-19

With the onset of lockdown there was a significant shift in the types of electricity demand, and indeed the timing of peak loads, as businesses closed and people increasingly worked from home. Customers looked to us for assistance, particularly financially, as the effects of not being able to work took hold.

In New Zealand we offer our customers short- and long-term personalised payment options, no late-payment fees, offered account reviews, provide energy advice, and we've chosen not to disconnect customers. We also put customers on LevelPay to help them smooth their payments over the year.

We also implemented a programme to give relief to smaller businesses struggling to meet their payments because of COVID-19. The programme extended across our Meridian and Powershop brands and was offered to SME customers that reached out for help. Customers were offered up to $2,500 in credit depending on their annual consumption. The programme ended on 30 June 2020, and in total we gave out $400,000 in credit to around 450 business customers.

Case study:
A major investment in KidsCan

We've supported KidsCan's amazing work in communities throughout New Zealand for the past seven years.

In May 2020 we donated an additional $1 million to match the amount raised by generous Kiwis through the charity's '19 for 19' COVID-19 appeal.

The additional support recognised the significant increase in the need for support among New Zealand communities through lockdown, and the expected impacts of COVID-19 on demand for KidsCan's services. At the time KidsCan was already seeing a near 30% increase in demand for food support, meaning it was trying to help feed an extra 10,000 children every day.

KidsCan provides the essentials to children affected by poverty so they can participate in learning. KidsCan is levelling the playing field, giving children whose families are struggling the same opportunities to learn as anyone else. We partner with the charity to provide thousands of Kiwi kids with basics such as food, raincoats, shoes and socks and basic hygiene and healthcare items.

In February 2020, KidsCan and Meridian launched a pilot programme to empower play by providing 20,000 sun hats to more than 200 Decile 1 partner schools and more than 50 early childhood education centres throughout Aotearoa.

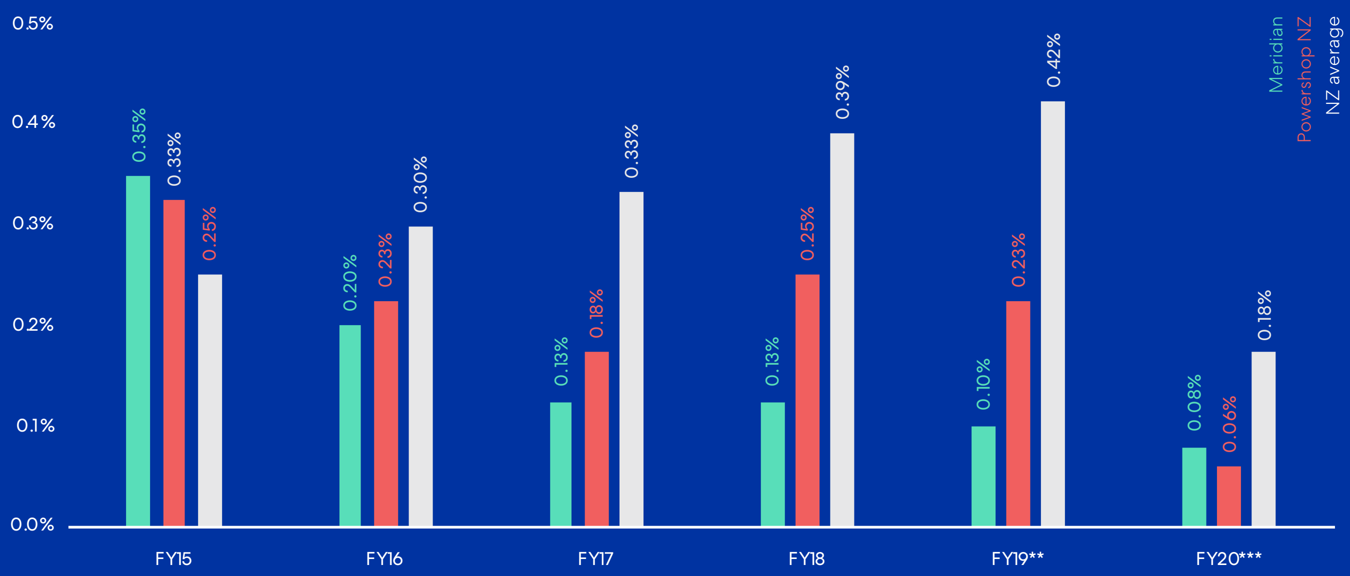
Supporting customers in Australia

In Australia, we were already supporting customers when the COVID-19 pandemic struck, following the measures we'd taken in response to the 'Black Summer' bushfires. Our support programme for those affected by the bushfires included placing all bills on hold until further notice, offering a range of account payment help options, offering a hardship plan for those needing to access relief and covering the fees associated with connecting energy with Powershop at new or temporary accommodation.

Powershop donated $25,000 to Red Cross and $25,000 to the WWF bushfire appeals to support communities and wildlife. On 10 January 2020 we launched the 'Power It Forward Powerpack', allowing Powershop customers wanting to support those affected by the bushfires to do so, simply by purchasing power. The Power It Forward Powerpack included a 6.6c/kWh premium, which was pooled and credited (excluding GST) to the electricity accounts of customers in bushfire-affected communities.

We set a target of $150,000, which we hoped to achieve by the end of March 2020. In just five weeks, 12,500 customers raised $192,000. Powershop initially kick-started this fund with $20,000, bringing the grand total to $212,000. The funds went directly towards the bills of Powershop customers in 265 affected postcodes.

New Zealand disconnections*



* Data from the Electricity Authority (emi.ea.govt.nz/Datasets/Retail/Disconnections)
** FY19 restated with four quarters of data
*** FY20 data only has 2 quarters of data from EA and therefore does not cover market behaviour during lockdown period

The ongoing challenge of energy hardship

Power bills in New Zealand are the cheapest they've been in 11 years, down $156 per year for the average household after inflation since 2015. Since 2011 in New Zealand there has been no real price increase for consumers arising from the competitive parts of the electricity supply chain (generation and retail).

However, job uncertainty and low-quality housing have increased concerns around affordability and staying warm in winter. As part of our commitment to affordable energy, we've responded by offering support to vulnerable customers in a range of ways. These are customers who've self-identified as financially vulnerable or struggle to pay their bills from time to time.

Our support includes a dedicated page on our website, regular communication, individualised support from specialist staff, tips to improve energy management and, where appropriate, introductions to budgeting advice services and government agencies such as Work and Income or the EnergyMate programme delivered through ERANZ.

We continue to focus on lowering our disconnection rates, and during lockdown adopted a policy of no disconnections.

Optimising our relationships

Optimising our relationships

As a business we engage with a wide range of stakeholders in New Zealand and Australia. Strong relationships not only help our business to grow and prosper – they also enable us to explore new ways to renew the future.

We want our people to feel they belong

In a year that tested our people, engagement held up very well. However, we're not making the progress we'd like on gender diversity.

It's a sign of our commitment to our team that, on the eve of lockdown, Neal Barclay told all staff that no-one would lose their job because of the COVID-19 pandemic. Neal's commitment recognised the impacts on people and the business of what was happening and the need to help people to get through. That commitment played out in how our teams took it upon themselves to support the business and customers.

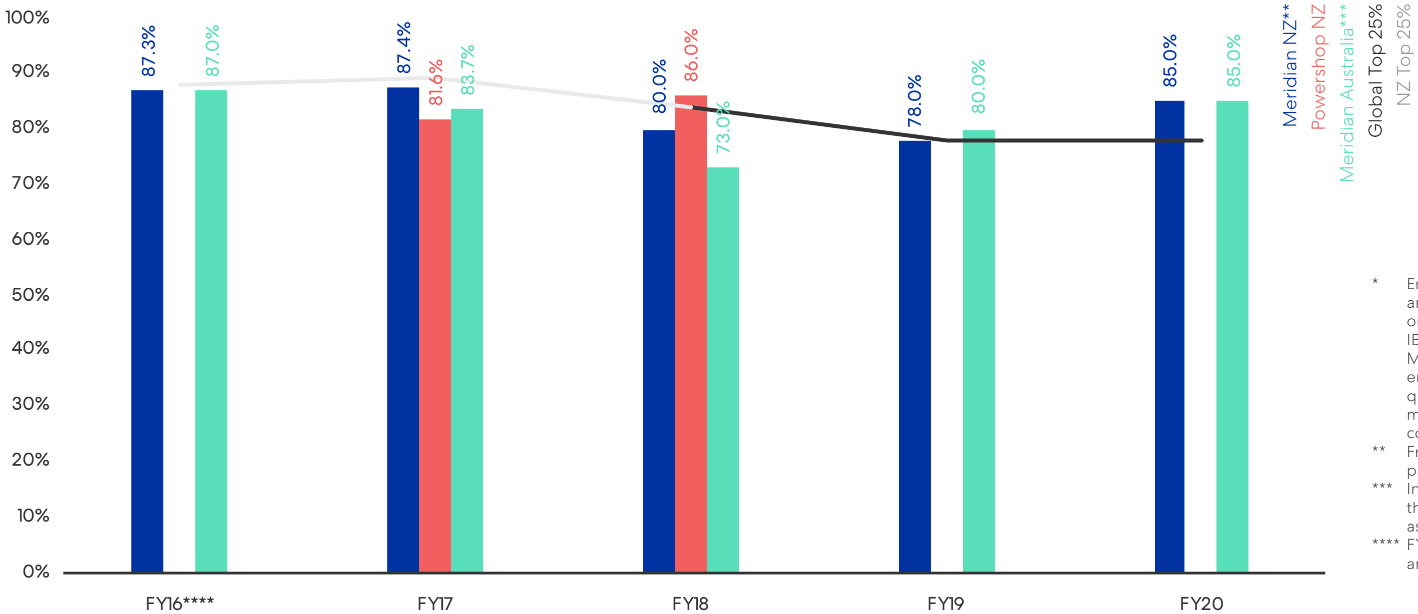
Strong engagement across the Group

Engagement scores across Meridian, Powershop and our Australian companies increased to 85%, which was a fantastic result and above the Global Top 25% of 78% and the New Zealand Top 25% of 77%.

Commitment to belonging and flexibility

In FY20 the Meridian parent company evolved our diversity and inclusion approach to introduce and promulgate the sense of 'belonging'. We want our people to feel they belong here, that they're empowered, included and accepted. To foster this, we established a Belonging steering group to advance and mature these ideas. Importantly the group is made up of people from across the business; they've developed a strategy and are leading work on five priorities (inclusion & respect, gender balance, workplace flexibility, improving accessibility and ethnic diversity). They're supported by our CEO Neal Barclay and our General Manager Generation & Natural Resources Guy Waipara. The success of this group will be measured through an uplift in our engagement survey with a particular focus on the "I feel comfortable when I bring my whole self to work" response.

Employee engagement*



* Engagement measures enthusiasm, commitment and the connection employees have with the organization. Up until 2017 Meridian used the IBMKenexa engagement survey. From 2018 Meridian has been using the Culture Amp engagement survey – which has slightly different questions. Flux is not included in FY20 as different methodology was used and the data is not comparable.

** From FY19 onwards Powershop NZ is reported as part of Meridian NZ.

*** Includes Meridian Australia, Powershop AU and the Powershop call centre in Masterton is reported as part of our Australian engagement numbers.

**** FY16 measured engagement for Meridian NZ and Powershop Australia only.

While we've been building greater flexibility into our working style across the whole business for some time, the COVID-19 pandemic has added new urgency to supporting our people to work in diverse environments and ensuring they had the support they needed to excel. So, for example, we incorporated new ways of learning into our professional development programmes to enable people to do this better from home.

Our Flexperiment project encouraged people to think about our values of being gutsy, good humans and in the waka, and asked them to examine a range of common flexible working scenarios to see which ones they might like to experiment with. We're hoping through this project to lock in some of the best aspects of being in lockdown – not needing to travel to work, having more connection to our families, reducing our carbon footprints – while continuing to build our culture and sense of human connection to each other and with our suppliers. We're also hopeful that this increased flexibility will mean we're able to retain expertise for longer.

Supporting inclusion and mental health comes in many forms

It's important to us to make sure we have the right skill mix, incorporating different viewpoints, backgrounds and languages into our culture, and ensuring that our make-up reflects a healthy gender balance, and the changing ethnic make-up of our countries and the markets in which we compete. In Aotearoa we continue to train our people in tikanga and the proper pronunciation of te reo, because protocols and language are highly important ways of connecting with our stakeholders and form key expressions of respect. We also encourage our people to explore the many other cultures that are part of our workforce.

Society's ideas around gender are evolving. Understanding and incorporating these ideas enables us to be an employer of choice. One way we're doing this is to respect the identities and pronouns of our staff, contractors and customers. Much of the information surrounding gender identity and expression is new to many people and we believe that treating people with respect and compassion, regardless of how they choose to identify, is core to Meridian's values.

We acknowledge that men in New Zealand suffer high rates of depression and suicide, and we're committed to combatting this through communication and community. We want everyone to feel that they can bring their whole selves to work in an environment that respects them and reach out if they need help. Our Healthy Minds programme is about to launch its second evolution.

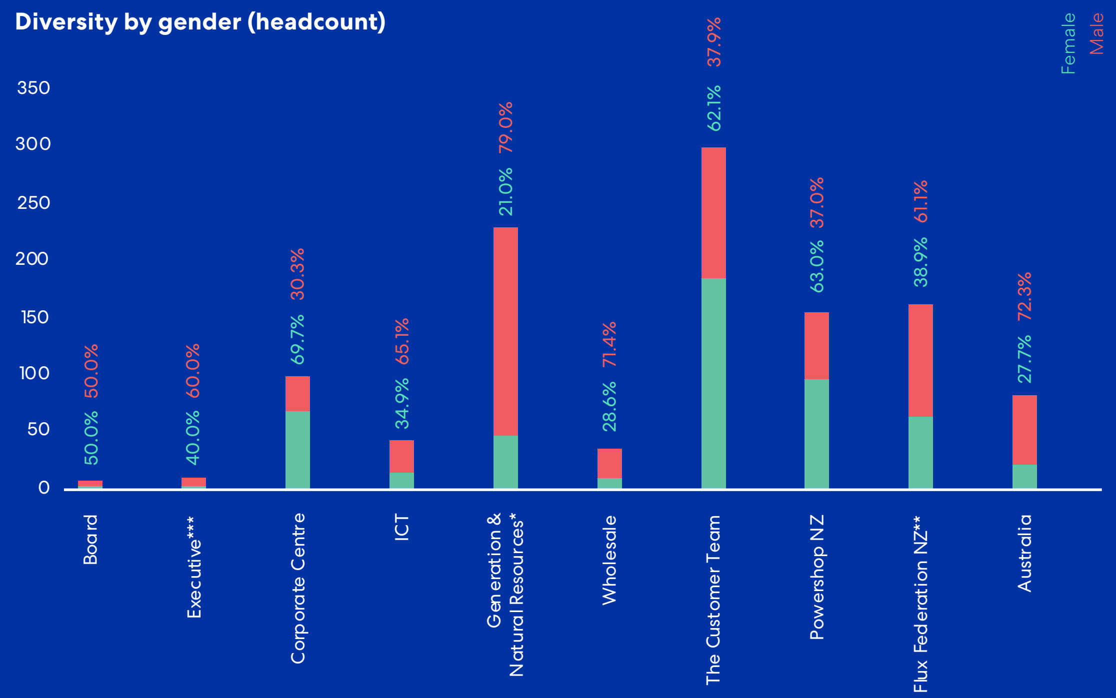
Talent comes in all different shapes and sizes and we believe in success because of, not in spite of, that diversity.

The Board believes that for this reporting period Meridian has made progress towards achieving its inclusiveness and diversity objectives as reported in this Integrated Report. Initiatives under its new Belonging Policy will guide further inclusivity.

Gender balance remains a work in progress

Women remain underrepresented in the engineering parts of our business, and in leadership and senior-level roles throughout the business. Currently 34.3% of our staff in people leadership and senior specialist positions below Executive Team level are women, against a target of 40% by year-end 2020.

Diversity by gender (headcount)



* Includes Dam Safety Intelligence
** Includes Flux-UK staff
*** Includes AU CEO

Female representation	FY17	FY18	FY19	FY20
Female share of total workforce (%)		41.8%	45.3%	46.2%
Females on the Board		25.0%	28.6%	50.0%
Females in management positions (as % of total management workforce)		33.6%	37.2%	37.4%
Females in junior management positions, i.e. first level of management (as % of total junior management positions)		36.3%	40.8%	40.0%
Females in top management positions, i.e. maximum two levels away from the CEO or comparable positions (as a % of total top management positions)		30.7%	33.6%	34.8%
Females in management positions in revenue-generating functions (e.g. sales) as a % of all such managers (i.e. excluding support functions such as HR, IT, Legal, etc.)		29.4%	33.7%	34.0%
Percentage of women in senior roles at 30 June*	33.5%	32.8%	35.2%	34.3%

* Parent company only, women in people leadership and senior specialist roles, excluding the Executive Team. FY17 and FY18 figures has been restated to the correct values of 33.5% and 32.8% respectively.

Pay equity is also important to us. We're committed to achieving pay equity for all employees in similarly sized roles and with similar skills, experience and accountabilities. In FY20 the average level of gender pay equity was similar to that in FY19 (96.3 compared with 96.8). A small deterioration in pay equity at the higher-pay-band groupings is due to turnover and promotions at this level and the recent acquisition of key technical expertise for one of our subsidiaries.

The average salary for men across the organisation remains higher than the average salary for women, as there are still more men than women at senior levels. However, pleasingly in FY20 there was a good increase in the proportion of females at mid-senior levels.

Group % Ratio Female salary to Male salary

by Salary Band*	FY18	FY19**	FY20
K-L	93.0%	91.5%	89.9%
I-J	97.4%	98.1%	95.8%
G-H	99.1%	95.4%	96.1%
E-F	96.1%	99.2%	98.3%
C-D	103.9%	96.9%	97.9%
A-B	100.4%	99.7%	99.0%
Average of averages	98.3%	96.8%	96.3%

* K & L are our highest salary bands and A & B are our lowest
** FY19 data restated for Salary Band A-B and C-D

Percentage of women by salary band

by Salary Band*	FY18	FY19**	FY20
K-L	16.7%	18.5 %	24.1%
I-J	28.6%	27.0%	32.0%
G-H	31.2%	30.8%	32.9%
E-F	43.7%	43.2%	43.3%
C-D	54.7%	59.7%	55.4%
A-B	65.4%	61.6%	70.8%
Average of averages	40.1%	40.1%	43.1%

* K & L are our highest salary bands and A & B are our lowest
** FY19 data restated for Salary Band A-B and C-D

Bringing through the best people

The workforce of tomorrow will look very different from our current ranks. Our search for the best people we can attract takes many forms.

Bringing through the next generation of people

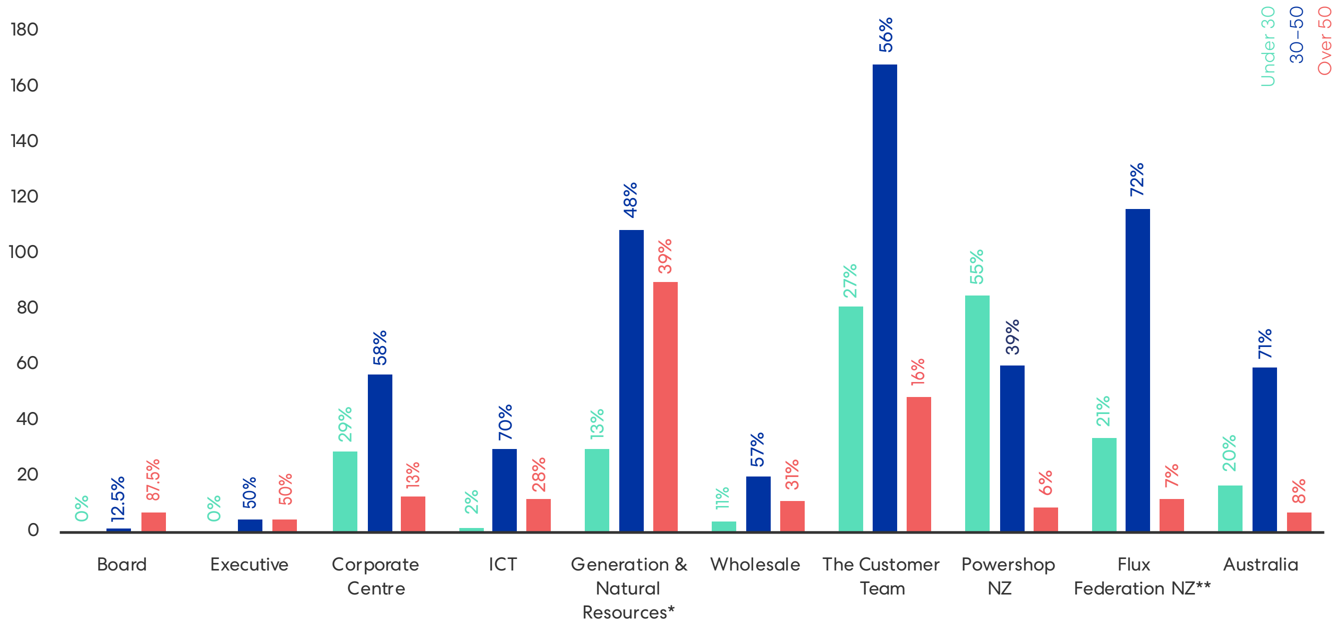
Traditionally, generation, with its 80% male workforce, has had the biggest gender gap. In FY20 all our graduates happened to be female – an encouraging sign that we're also on our way to a better gender balance.

Succession planning is a key aspect of maintaining the performance of our assets over the years. A significant percentage of our experienced staff may soon be considering retirement. To help ensure that their skills are passed on, we've actively encouraged young professionals to join our teams

Generation and Wholesale staff turning age 65

	FY17	FY18	FY19	FY20
In five years	10.2%	9.1%	10.9%	12.5%
In ten years	22.7%	20.3%	22.5%	23.9%

Diversity by age (headcount)



* Includes Dam Safety Intelligence
** Includes Flux-UK staff

and offer opportunities for people to complete their trade apprenticeships with us. Our goal is to ensure that, as people consider retirement, they're supported to transition out of work smoothly (for example, through part-time arrangements) and there are clear succession plans for their areas of expertise.

Our graduate and apprentice programmes have worked well in this regard, producing a core cohort who are now entering our business. More enquiries from younger people mean we're growing a critical mass of youth in hydro and lowering our median age in this important part of our business.

Future-proofing our workforce

As part of our bid to future-proof our workforce, Meridian Group signed up to the Aotearoa New Zealand Skills Pledge in FY20. This initiative encourages companies to invest in technology and reskilling people for future roles by doubling the amount of formal and informal training. As part of the Pledge we undertook to disclose publicly our investment in on-the-job training and re-skilling hours annually and to double the number of on-the-job training and reskilling hours we provide by 2025.

To help us find the people we'll need in the future, we also invested in new recruitment and learning solution technology that will enable us to proactively identify who could form part of our future workforce as well as better support our people's growth and development.

Our training focus changed in FY20 as well. One of the biggest lessons we learned when we reviewed our skills was that we need to build softer capabilities into the ways we work, such as those needed for dealing with situations of ambiguity and driving for results. These ways of working focus on capabilities beyond technical skills, and 70 leaders in our customer-facing teams received training on them.

Taking into account eLearning and facilitated learning, our people received an average of 52 hours of learning on the job in FY20. Our goal is to double that amount by 2025.

FY20 Learning hours per person from eLearning and courses

Hours	Leadership	Professional	Technical/ Functional	Total
Meridian LMS Courses (eLearning modules)	216 Modules 6,480 hours	672 Modules 20,160 hours	787 Modules	50,250 hours*
Meridian Development Courses	4,640 (n=232)	0	0	4,640**
External-run courses	1,677 (n=219)	0	0	1,677***
FY total learning hours				**56,567**
YTD Total (56,567 learning hours/ headcount n=1,1078**)**				**52 hours per person**

* Modules are completed in financial year 2020. Modules are averaged on 30 minutes per module from Learning Report.
** Internal Development Courses financial year 2020, 232 people across Initiate, Inspire, Keeping The Blue, Presentation Skills and Flux Mentor Programme etc.
*** External Development Courses, FY20.
**** Headcount excluding casuals, parental leave. Includes parent and subsidiaries.

If we were to double the number of OTJ (On the Job) learning hours this would equate to:
- 104 hours per person per year
- 2.6 weeks/13 days

Refining our approach to safety

Incidents in the past two years have prompted us to examine and evolve our approach to safety across our business.

Safety comes first in everything we do. We operate in technically challenging environments, with extremely large electrical and mechanical assets, and our people work in a variety of locations – at home, underground, inside large structures, on tall wind and hydro structures and close to large volumes of water. There is always a risk that an incident will lead to a fatality or serious injury for a staff member, a contractor, a customer or a member of the public, and we manage our risks as a priority to prevent this. We believe that everyone should expect to finish their work and go home in the same condition they started, and we've made some changes to continue evolving our health and safety culture and strengthen our defences.

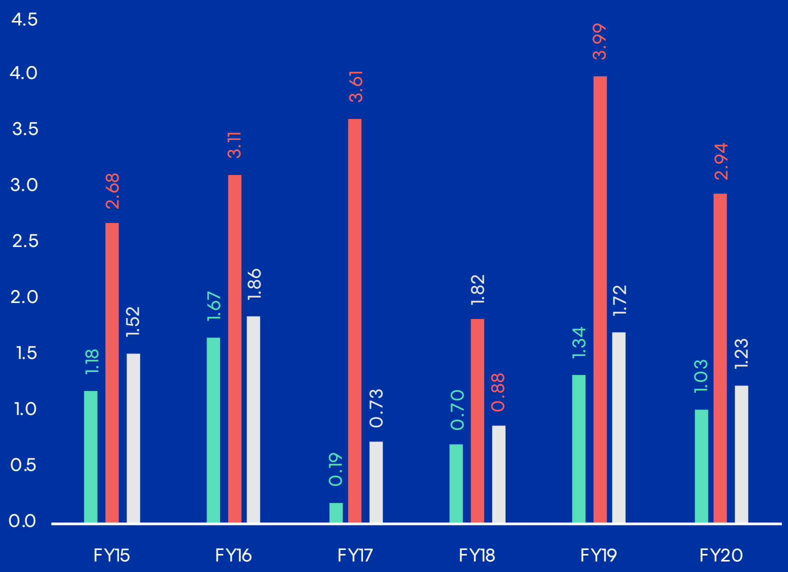
Three serious safety incidents

In FY20 our calculated total recordable injury frequency rate for employees and contractors per 200,000 hours worked (TRIFR) was 1.23 (compared with 1.72 in FY19), representing eight people hurt (two injuries involved contractors and six involved employees)[3]. The main types of injuries to our employees and contractors in FY20 were hand injuries, slips, trips and falls.

Although we saw an improvement in our TRIFR in FY20, three of the eight injuries were serious. In July 2019, one of our contractor partners fell approximately five metres into a turbine pit when a temporary barrier gave way, resulting in a fractured leg and 60 days off work. In November 2019 one of our employees who was working from home on night shift fell and sustained a facial injury that required surgery and 22 days off work. In April 2020 one of our employees cut his thumb while recommissioning a generator exchange at Te Āpiti wind farm, resulting in 10 days off work. We responded to these events with Learning Teams and subsequent actions to improve our defences.

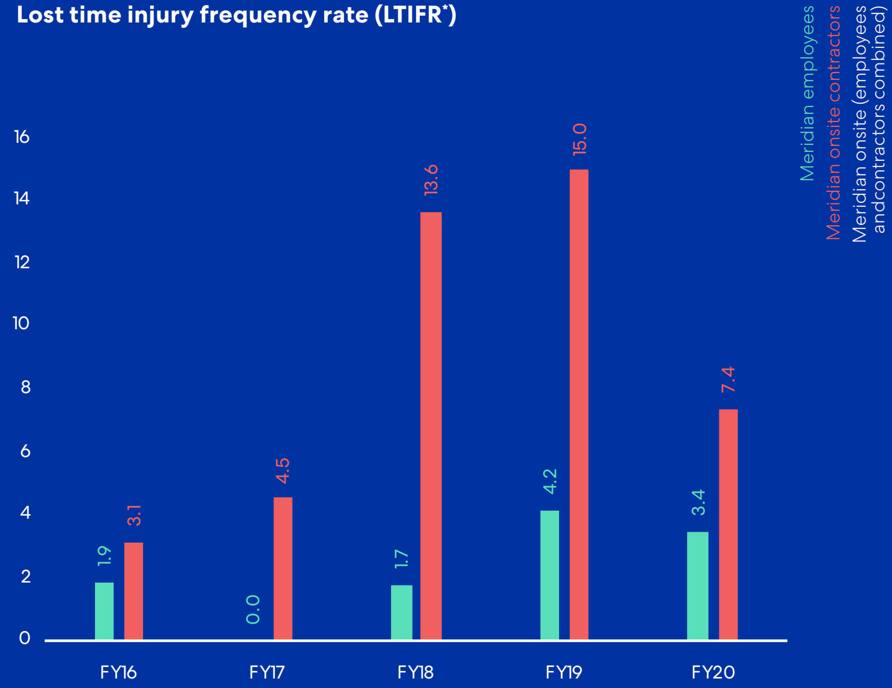
3 TRIFR looks at how many people are hurt when working for us, and includes contractors as well as our own staff in New Zealand. TRIFR is calculated by dividing the number of incidents that resulted in medical treatment, restricted work or time off work by the hours worked (1,162,135.33 by employees, 135,903 by contractors).

Total recordable injury frequency rate (TRIFR*)



* TRIFR is calculated per 200,000 hours and includes all lost time, medical treatment and restricted work injuries for Meridian NZ employees and contractors only. While we have incident numbers for Powershop New Zealand, Powershop Australia and offsite contractors, the TRIFR cannot be calculated as the number of hours worked for those periods has not been recorded.

Lost time injury frequency rate (LTIFR*)



* LTIFR is calculated per 1,000,000 hours and includes all lost time work injuries for Meridian NZ employees and contractors only. While we have incident numbers for Powershop New Zealand, Powershop Australia and offsite contractors, the LTIFR cannot be calculated as the number of hours worked for those periods has not been recorded.

Developing our safety culture

Our engagement survey asks our people to rate how they feel about our health and safety culture. The results in FY20 continued to be strong, with our people rating health, safety and wellbeing at 89% across the Group. The questions cover matters such as how people rate their workload, how well Management care for their wellbeing, and how committed they believe the organisation and its leaders are to the health and safety of its people.

In FY20, with the introduction of new challenges from COVID-19, we evolved our already strong approach to mental health and wellbeing, as well as our approach to physical health and safety, to address the specific needs of people working from home.

While we remain confident that our safety culture and processes are strong, we're not taking this for granted. So we've sought some specialist external advice, we've refreshed our strategy, and we're making some changes to evolve our health and safety culture while keeping the bits that continue to work well. We've also created a new role – Head of Health and Safety – to lead the health and safety team.

Site-specific health and safety committees represent all employees on our sites, including contractors. These committees meet monthly to identify hazards and review incidents that have occurred. The representatives on these committees receive regular training in risk identification and controls and are supported by dedicated safety specialists in each of our business units, who provide deep technical expertise and support. This approach to safety applies to our assets in both New Zealand and Australia.

We're also an active member of Stay Live, an electricity industry forum focusing on working together across the sector to improve safety. We have several Meridian people involved as chair of the forum and on multiple working groups.

We've introduced Learning Teams across our New Zealand businesses to replace more traditional investigations, with positive results. Learning Teams are an effective way of responding to events and improving our opportunities to gather better operational information and increase worker engagement.

Leading on safety

How leaders respond to safety is important and we're continuing to invest in our leadership capability through targeted leadership development and tools to help leaders make decisions and support their people when things go wrong. We're also simplifying our safety systems and reporting to make them more accessible and easier to understand for our people and contractor partners.

Being a business that deals with unique hazards like high-voltage electricity, large volumes of water and large machinery means we really need to know how well we're managing the critical risks that come with these. We counter these risks through our ongoing improvement and upgrade programmes. Our process safety programme has continued to deliver improvements and assurance that can successfully manage the prevention and control of incidents that have the potential to release hazardous materials or energy, ensure that our assets are well maintained, and ensure we have effective safety systems.

Getting the most out of our assets

Our assets are critical to our ability to generate electricity. As a company we're responsible for nearly 30% of Aotearoa's electricity generation.

Our Asset Management Policy coupled together with our annually reviewed rolling 20-year Asset Management Plan identifies and prioritises all maintenance and enhancement work on our generation assets. We embrace a total asset management approach which encapsulates our people, our processes and our plant. Our asset management framework is aligned with ISO55000 and we pride ourselves in having an agile and experienced capability to best balance risk, plant performance and financial performance in response to ever changing market demands.

Our expert engineering and maintenance teams provides on-the-ground expertise in reviewing our assets' current condition and escalating issues quickly. Their efforts in FY20 resulted in significant avoided costs. During the year Meridian invested $49 million in the ongoing maintenance and improvement of our generation assets across the Group.

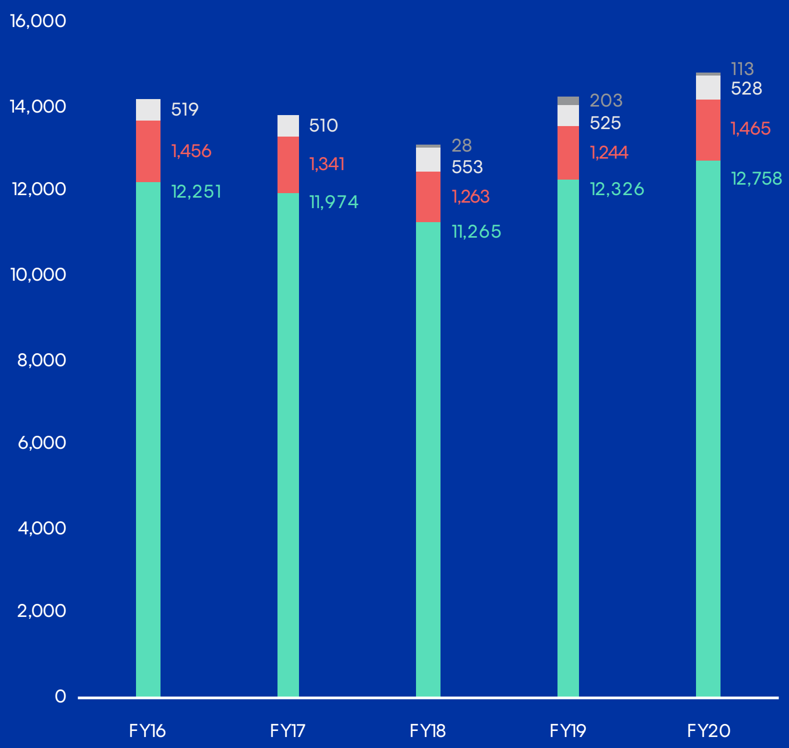
Meridian owns and operates the largest dams in New Zealand and accordingly we have a duty of care to both the public and our shareholders to ensure the operational safety and performance of our dams is best in class. Our Dam Safety Policy sets out our obligations and our Dam Safety Assurance Programme details how those obligations will be met and ensures compliance with international best practice.

In addition, our Dam Safety Intelligence subsidiary company worked with Catalyst IT to create a new version of our dam-monitoring software that will further ensure the long-term safety of our dams and the dams of its other clients. This project was successfully delivered within budget and on time.

Managing our asset risk through good maintenance

We rely on various pieces of equipment and technology at our power stations. If any critical equipment or technology, including, for example, generating plant, transformers, switchgear, control gates and canal civil structures, or control systems were to suffer failures (through issues such as asset condition or human error) requiring unplanned power station outages, replacement or repair, our generation production may be reduced. Our ability to generate electricity depends on the continued efficient operation of our power stations. And generation is an increasingly complex technical challenge.

Generation (GWh)



Capacity (MW)

At our hydro power stations, in addition to routine maintenance, we've been busy completing a number of upgrades and refurbishments to reduce this risk. Key achievements have included completing several projects including a second generating unit overhaul at Ōhau A, a long-running project to improve the reliability of power supplies at Manapōuri, refurbishing the first of three control gates at the outlet from Lake Pūkaki, and mechanical overhauls to address bearing issues on one unit at Benmore and alignment issues on a further unit at Manapōuri. These works have required extended unit outages and as a consequence availability for FY20 was down slightly. However, the hydro stations continued to provide the operational flexibility and reliability essential for meeting market demand and optimising river chain hydrology.

The risk of critical equipment or technology failure also applies to our wind farms, who generally use the same plant throughout one site. For the larger components, serial defects may therefore have an adverse effect on the reliability and operation of a particular wind farm if they are not covered by warranties or other remediation. In addition to a well-defined regular maintenance regime, we manage this risk by ongoing monitoring of critical components within the wind turbines so that we have the ability to predict asset failures before they occur and have consequential impacts on other components.

Te Āpiti wind farm has been an example of this risk. We've been able to steadily improve our wind portfolio by completing the major half-life refurbishment at Te Āpiti wind farm.

Meridian's wind portfolio is now operating at availability levels around 90%, compared to the low 80% just a few years ago. This means we're now able to generate more consistently and improve our overall capacity by around 50-60MW.

Our Australian hydro sites have had much lower availability, driven entirely by poor hydrological conditions in their catchments.

The risk of a catastrophic event such as a major earthquake, landslide, fire, flood, cyclone, explosion or act of terrorism could adversely affect any or all of our power stations and including our other operations. These events could also cause a failure of the transmission grid for which we are dependent upon to export our power. Such an event could affect major electricity consumers (including our own customers), which in turn could have an adverse effect on the markets in which Meridian operates.

We carry insurance cover for up to $1.1 billion 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.

Climate change presents a potential risk to our dam structures. Increased temperatures are likely to increase the severity of extreme rainfall events, and consequent flood events, in our catchments, which then poses a potential increased risk of physical damage to our dam and hydro structures.

Best practice dam safety management requires that all of Meridian's high potential impact category dams are required to be assessed, maintained, and managed to remain safe even under extreme flood and seismic loads. The effects of climate change are not expected to materialise in any increase in risk or cost in the near term but in the future it is possible that we will need to manage to a higher level of risk of extreme weather events in order to ensure the continued safety of our dams.

Mitigations to the future effects of climate change include the review of our flood rules, reducing the maximum control level in Lake Pukaki and in the Waiau catchment, we may need to make physical changes to our lake control structures.

Plant availability

%	FY15	FY16	FY17	FY18	FY19	FY20
Wind Australia	95.5	91.0	92.6	93.4	88.6	**89.0**
Wind New Zealand	92.8	88.9	85.4	83.9	83.3	**89.8**
Hydro New Zealand	88.4	93.4	91.3	90.4	91.6	**88.9**
Hydro Australia				85.8	80.1	**68.0**

Managing our way through COVID-19

Our generation teams have been amazing in their response throughout the COVID-19 pandemic. They've quite literally kept the lights on for hundreds of thousands of New Zealanders and Australians. During the Alert Level 4 lockdown in New Zealand and similar restrictions in Australia, teams focused on continuing the essential maintenance work required to keep our wind turbines spinning and hydro plant operating safely. Our major upgrade and refurbishment projects in New Zealand were deferred under Alert Level 4 but resumed once we reached Level 3. In Australia normal maintenance programs have been completed whilst adhering to all of the applicable travel restrictions.

Our technology systems need to stay secure

We're aware that the increase in our people working from home has increased the importance of information security and privacy. The Meridian Group has a clear information security policy that's designed to protect the business and our customers, investors and staff. We acknowledge that a failure to protect our information could have serious adverse impacts on the Meridian Group business, especially if we lose control of our assets.

For example, an event that compromises our critical information technology systems could interrupt or disable our critical systems or damage operating assets. We could incur costs to stop the attack, repair the systems, potentially repair damaged assets, and manage any subsequent business interruption. Our 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.

Consequently, we take information security extremely seriously and work hard to ensure we have robust and modern protection systems in place to avoid these potential outcomes. Across the Meridian Group we adopt a risk-based approach to identify threats, weaknesses and vulnerabilities, and look at the potential consequences. This enables each part of the business to make informed decisions about opportunities and to address risks that matter most. We then apply security measures to manage these risks to acceptable levels, with the objective of protecting confidentiality, integrity and the availability of property, systems, services, information and intellectual property, as well as safety.

Working with our partners for good

Access to water is vital for our business and for Aotearoa's aspiration of net zero carbon by 2050, but we recognise it's also held dear by a wide range of other parties.

These parties remain concerned about and fiercely protective of their rights around availability and their commitment to water quality. Wind energy too can be a challenging issue for communities, with locals holding and articulating clear opinions on the turbines we have in place. We acknowledge and respect that the resources we use are valued by many different stakeholders, and our relationships with the land and water sit alongside the relationships that other groups, including of course iwi and local communities, have with these areas. In FY20 we published our internal guidelines for engaging with stakeholders and we invite our stakeholders to give us feedback on our approach.

The regulatory risk to our business

Depending on how policy settings evolve over time, the Government, local authorities and other regulatory bodies may impose restrictions, conditions and additional costs on our ability to access or use hydro sources that we may or may not be able to pass on to our customers. Those could 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 could 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 Waiau catchment for Meridian.

Regulatory issues could also be exacerbated by climate change as weather becomes more variable and water more unpredictable for the needs of other users. This could reduce Meridian's access to water either through direct government policy change (e.g. imposition of environmental taxes or through forms of water charging) or from local Resource Management Act (RMA) processes going through to the Environment Court. For example, increasingly frequent east coast droughts (particularly in the Canterbury region), alongside global demographics, could drive substantially more demand for irrigation water. This could significantly impact Meridian's operating costs and/or erode our social license.

However, it is important to recognise that Aotearoa has the opportunity to decarbonise the economy through greater use of renewable electricity to supply increased demand to replace fossil fuels used in transport and industrial processes. Hydro generation is especially important as it is an existing form of renewable generation that can operate flexibly to support further renewable generation development and underpin the decarbonisation of other energy uses. It is crucial to the country's climate change response Meridian works actively with Central Government agencies, local councils and stakeholders to help them understand the importance of this issue and to ensure that it is factored in and appropriately recognised in their thinking and relevant policy, planning and regulatory documents.

Reconsenting the Waitaki chain

The water resource consents for the Waitaki chain of power stations will come up for reconsent in 2025. This major catchment represents 18% of New Zealand's power and requires respectful engagement with Ngāi Tahu and a range of other stakeholders. We've been working constructively alongside Genesis Energy, which also has consents in the chain.

Any changes to access to water would represent a significant financial risk for Meridian and for Aotearoa as it seeks to achieve its climate action goals. If we have less water to generate from, our ability to provide a steady return to our shareholders could be affected. Such a change would also reduce renewable hydroelectricity significantly and in turn compromise New Zealand's progress in reducing its emissions. Coming to a consensus and an arrangement that works for all parties is something that needs time, and our process for this is already well underway.

Part of wider conversations on water

The conversation on reconsenting is taking place at the same time as a range of other conversations on and regulatory processes involving water access, water purity and water rights. We're pleased that recently passed clean-water legislation specifically excludes the five largest hydro schemes and ensures the output and flexibility of these schemes should be protected in order to maintain renewable electricity generation, ensure security of supply and support the further decarbonisation of New Zealand's economy. Meridian is strongly committed to clean water, and our exemption in no way compromises the water quality in our catchments.

Meridian's Manapōuri and Waitaki schemes are two of the five schemes listed. The National Policy Statement on Fresh Water acknowledges the vital role that hydro schemes play now, and their increasingly important function as we move towards a carbon-neutral economy. This recognition is a huge positive for Meridian, its shareholders and its customers.

We remain committed to working in good faith with all those involved in seeing this large, complex and highly scrutinised process through to a satisfactory conclusion. The new approach seeks to prioritise healthy water ahead of human and commercial needs, and we expect that in the catchments where we operate (Manapōuri and Waitaki) the perspectives and values of Ngāi Tahu for freshwater will be given greater priority than they have in previous resource management processes. This should be good for Ngāi Tahu and good for the environment.

Protection is also being put in place to maintain wetlands, and new rules will control winter grazing and other intensive farming practices. The Government is making $700 million available to help with activities to protect water quality and reduce the cost of change for landowners. There is no doubt that the measures should arrest the decline of water quality in New Zealand. If the changes are well implemented by councils and landowners, improvements in water quality should be expected.

We value our relationships with iwi

We recognise the mana whenua of Ngāi Tahu, particularly in relation to our hydro schemes in the Ngāi Tahu takiwā and engage with them and other iwi in several ways. We recognise and respond to the kaupapa of ki uta ki tai (from the mountains to the sea) and work closely with local rūnanga (Arowhenua, Awarua, Hokonui, Moeraki, Ōraka Aparima, Waihao and Waihōpai) through Te Ao Marama and the Waitaki Governance Group as well as trusts to enhance mahinga kai and native fish in the Waitaki and Waiau catchments. We work with them of a range of topics including scheme operation, water management and Resource Management Act planning processes.

Offering support through Power Up

By building good relationships with and doing good by locals, we demonstrate that we want to be locally involved and supportive. It helps us build strong, mutual relationships with the local communities in which we operate. P art of building strong relationships is being open to feedback and working through grievances. We've a range of channels to ensure that our communities can voice their opinions and provide us with feedback on the work we're doing

For 13 years, our community fund Power Up has been supporting local projects in Te Āpiti, Mill Creek, Manapōuri, West Wind, White Hill, Te Uku and Waitaki. In that time we've been able to undertake a range of projects that are important to locals and have invested more than $8 million through 1,076 projects back into these local communities. The concept sprang from recognising that local employment helps small local communities to flourish and attracts people back to smaller towns.

In FY20, because of the impacts of COVID-19 on our communities, we put aside the usual application criteria and process and put a call out to see where support was most needed. $36,000 normally earmarked for educational, environmental and recreational activities was instead redirected to support community responses and needs. The money was used to assist the Raglan community and the Raglan Foodbank, to help families in Wellington's Mākara community with internet access, to cover food and personal protective equipment costs for staff at the Whalan Lodge rest home in the Waitaki Valley, to pay for vital ICT resources to connect with patients at the Twizel Medical Centre, and to deliver more than 100 bags of food for volunteers at the Otematata Volunteer Fire Brigade to distribute to members of the local community.

Valuing natural resources

Our social licence to operate relies on us demonstrating that we're a responsible guardian of the natural elements on which we depend. In FY20 we have published our internal guidelines on environmental management and biodiversity on our website and invite our stakeholders to give us feedback on our approach.

The impact of our hydro schemes

Hydro generation itself only has an impact on water quality when water is diverted; however, water quality can be further compromised by a range of other activities that affect areas such as the Waiau and Waitaki river systems. Our preference would be for the water in these catchments to be as clean as possible. While we help to mitigate changes in water quality by; for example, releasing more water into waterways; to dilute the effects of contaminants and slow down algal growth and weeds; these actions are not without their own consequences; affecting our profitability and reducing the renewable energy we can deliver to meet New Zealand's power needs.

The Manapōuri tailrace discharges freshwater to Deep Cove (which is part of Doubtful Sound), this commenced 50 years ago when the scheme was first commissioned. All of the fiords in Fiordland have a low salinity layer, it is a function of the shape of the landscape and the fact Fiordland is a very high rainfall area. The ecology of all of the fiords is unique due to the presence of the natural low salinity layer, it is one of the reasons that black coral grows at shallower depths in Fiordland than is common in other marine settings.

When the scheme was first commissioned there would have been a spatial displacement of marine species at the point of the discharge in the head of Deep Cove. Since then the marine ecology of Doubtful Sound has been stable and healthy. That is demonstrated by the fact that sites in Doubtful Sound as recently as the late 2000's were identified and protected as marine reserves due to their existing high marine values.

Many of the impacts we're dealing with were not considered when the hydro schemes were approved. Establishing large-scale hydro schemes is hard to imagine now. The biodiversity impacts of the schemes are addressed by our funding of Project River Recovery and the Waiau Fisheries and Wildlife Habitat Enhancement Trust (the Waiau Trust).

Project River Recovery is Aotearoa's longest-running conservation/ business partnership; it has been in place in the Waitaki catchment for nearly 20 years. Funded by Meridian, the Department of Conservation works to preserve and restore braided river habitats in the Waitaki catchment through weed control of the riverbed and pest eradication to protect black-fronted tern/tarapirohe colonies and help kakī or black stilt recover their populations. The partnership has created more than 100 hectares of new wetlands.

The Waiau Trust has been operating in the Waiau catchment in Southland for 23 years. Its goal is to enhance stream and wetland habitats for fisheries and wildlife. To date it has completed more than 220 habitat-enhancement projects and access projects, enhancing a total 3,356 hectares of habitat.

Riverways are natural highways for adult native eels (tuna) needing to migrate to the sea from freshwater to complete their life cycle and to spawn in the Tonga Trench. They also enable juvenile eels (elvers) to return up-river to mature. Our structures stand in the way of these natural movements, so every year we move a large number of elvers and adult eels at Manapōuri, and a smaller amount in the Waitaki catchment. Once released, they can migrate successfully to and from the sea.

In Manapōuri there's a large self-sustaining population of eels because it's a national park and there's no commercial catch pressure. In FY20 we moved around 45 kilograms of elvers and juvenile eels upstream and almost 4,000 adult migrants (equivalent to more than 6,000 kilograms) downstream. These results were the lowest to date due to flooding in November and December 2019 and lockdown restrictions due to the COVID-19 pandemic.

In the Waitaki catchment the population is much smaller. We caught and transferred just over 115 kilograms of elvers and juvenile eels upstream. Due to a much shorter season, only 34 adult migrant eels were moved downstream.

In Australia, Meridian Energy operates the hydro generators but we don't own the dam infrastructure and we don't control the flow of the water. The environmental impacts of these dam structures and the water use is the responsibility of WaterNSW.

Water consumption*

Mm^3	FY16	FY17	FY18	FY19	FY20
New Zealand					
Fresh surface water (lakes, rivers)	70,610	72,946	65,562	74,183	85,339
Water returned to the source of extraction with similar quality	56,481	61,499	53,823	61,832	72,994
Total net freshwater consumption**	14,130	11,447	11,739	12,351	12,345
Australia					
Fresh surface water (lakes, rivers)				3,696	2,574
Water returned to the source of extraction with similar quality				3,696	2,574

* Municipal water consumption not reported as minimal and not metered. While in New Zealand we have no exposure to water stressed areas, in Australia our power stations are operating in areas that can suffer from drought. Note that we only hold the right to generate electricity from water passing through the dams associated with our Australian hydro power stations, we do not hold the water rights themselves.

** Fresh water taken from Lake Manapōuri is released into Doubtful Sound, a marine environment, and is not altered in terms of water quality.

No serious environmental breaches

These projects form part of our collaboration with local authorities and other interested parties and were agreed to when our consents were originally granted. We continue to work closely not just with parties that use the waterways we share but also with local government bodies, particularly during consenting and through the submissions process, and we report regularly on our compliance with resource consent conditions. In the past year, we're pleased to report, there were no prosecutions. We recorded 13 breaches of environmental compliance. None were serious and no significant adverse effects arose from the breaches.

Supporting the kākāpō

In 2016 we became a National Partner of the Department of Conservation's Kākāpō Recovery Programme. That partnership has contributed to critical research to help the species recover and has had a real impact in raising awareness of the plight of these precious native parrots. It's not just our partners who benefit from these programmes; our staff too find them inspiring and many volunteer to help out in their spare time.

Planting 1.5 million trees

Last year we launched our Forever Forests planting programme to begin planting 1.5 million trees on 1,500 hectares of land around Aotearoa and to have these in the ground in the next five years.

In FY20 we started with land around our hydro stations, planting our first seedlings late in 2019 on land adjacent to the Manapōuri lake control structure. The trees are a mix of natives and exotics. In the long term, the natives will take over, leaving a lasting legacy for future generations. Once the trees have all been planted, they'll soak up the same amount of carbon as our entire Meridian Group emits, meaning we'll be carbon neutral without needing to buy carbon credits.

Strong inflows, disruptive outages

While inflows provided plenty of water in New Zealand, a planned transmission outage challenged us to manage our potential risks carefully.

At year end, a number of variables remained unresolved. We were still waiting to hear New Zealand Aluminium Smelters Limited's (NZAS's) decision on its Tīwai Point smelter. The COVID-19 pandemic has had, and may continue to have, effects on customer demand. There'll undoubtably be changes for businesses in New Zealand due to ongoing COVID-19 restrictions internationally and at the border. These uncertainties may affect our results in the coming year, but the year just gone was a good one.

Results in New Zealand

Energy margin measures the combined financial performance of our retail and wholesale businesses and is an indicator of the success of our vertically integrated model. As a generator and retailer, Meridian sells all of the electricity we make into the wholesale market and we purchase from the market the electricity that our retail customers use.

The average wholesale price for electricity in the year was down significantly on FY19 by $34 per MWh (28%). But a lift in generation volumes along with a significant lift in customer sales volumes and margins meant we improved Energy Margin by 1% over the prior year.

Our customer sales teams lifted our sales volumes across both the Meridian and Powershop brands by 18% and our market share in all of the customer segments that we service. We also improved retail margins significantly as a result of the increased scale of our retail businesses, the improved customer retention rates that we were able to achieve and the smart pricing we adopted in the business sectors.

The amount of electricity we generated was up 5% on the prior financial year due to reasonably healthy inflows into our hydro storage lakes. But overall spot generation revenues were down 24% on the prior year due to a significant year-on-year reduction in the wholesale prices for electricity.

But that doesn't tell the full story. The primary function of our Wholesale business is to not only generate the most energy we can from our generation assets but also to manage our wholesale price risk. Meridian's New Zealand hydro generation volumes (comprising approximately 90% of its New Zealand generation) so the availability of, and access to, water is critical.

The Waitaki and Manapōuri hydro systems are heavily influenced by seasonal hydrological conditions. Given the high variability in rainfall in and around our catchments and the relatively small amount of hydro storage we have, the amount of generation available can vary significantly and managing our storage lakes well is not only critical to our financial performance but also ensuring we play our part in avoiding energy shortages for New Zealand. Adverse hydrological conditions, resulting from dry periods or drought conditions in those catchments, may reduce water levels and significantly affect our generation capability.

As an electricity retailer Meridian must buy all of the electricity that our retail customers use from the wholesale market and wholesale prices can vary significantly. When we have low storage levels resulting from low inflows, we may be forced to spend more money on purchasing electricity from the wholesale market to meet our customer commitments than we are making from selling electricity we have generated into the wholesale market.

Our wholesale team manage these risks by conservative storage management and by engaging in the wholesale market to buy and sell financial hedge instruments to secure prices ahead of time and to manage the impacts of transmission outages that may limit our ability to generate.

Overall, the team did a great job in New Zealand by delivering a record amount of generation for the year and managing some significant transmission outages, most notably the HVDC outage during January to March.

Our Australian performance

The trading conditions in Australia throughout the year were challenging, so an EBITDAF result 3% higher than the prior year was pleasing. Wholesale electricity prices trended down as oil prices and then gas prices collapsed. In addition, generation volumes from our hydro assets were down year on year due to the deepening drought conditions. Our risk management processes were put to the test particularly during a number of high price events during the summer. As temperatures soared and bush fires raged and people consumed energy to stay cool, we were hard pressed to make headway.

While our Australian generation team had a challenging year, our retail business saw sustained growth and a significant increase in customer numbers. In the short term we'll continue to focus on growing our customer numbers and supplying them with what they want. Pleasingly, we saw growth in all sectors in FY20, and this has motivated us to ramp up our focus on the SME sector in the year ahead.

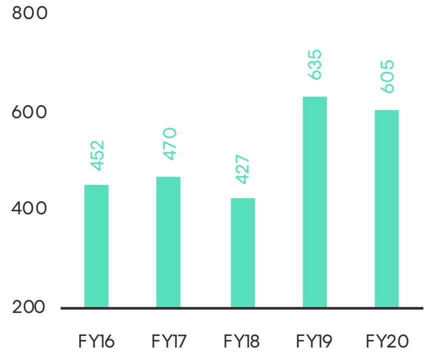
Longer term, the prospects are more optimistic. A large number of coal-fired plants are approaching the end of their 20- to 30-year lives and we're confident that will produce important opportunities for renewables.

The Australian energy margin was 3% higher compared to FY19. Powershop Australia grew its electricity customer base by 24% during the year, with a 24% increase in contracted electricity sales. Our retail gas offer in Victoria gained 15,000 gas customers by the end of the year, with sales of 1,491TJ.

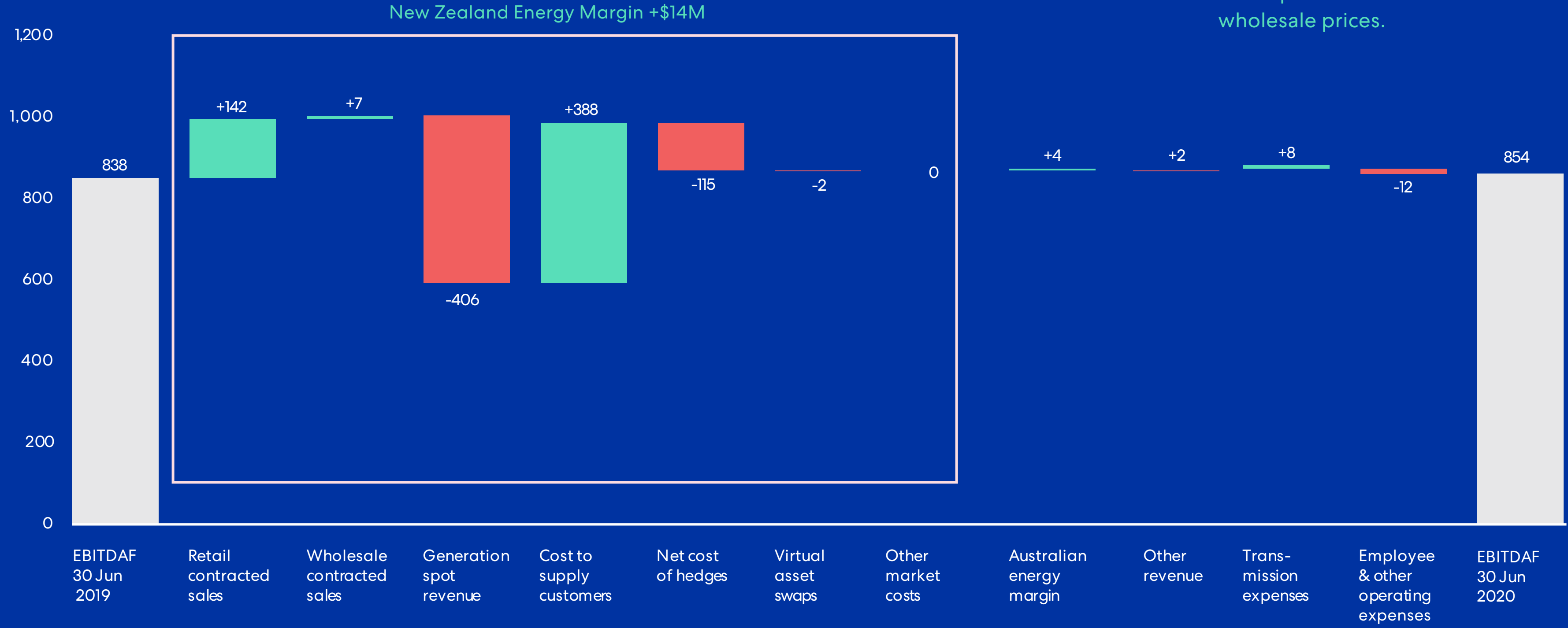
Group results

Overall, we recorded a record EBITDAF result for the year, up 2% on FY19. Operating cash flows were $605 million in FY20, $30 million (5%) lower than last year. Total capital expenditure was $64 million.

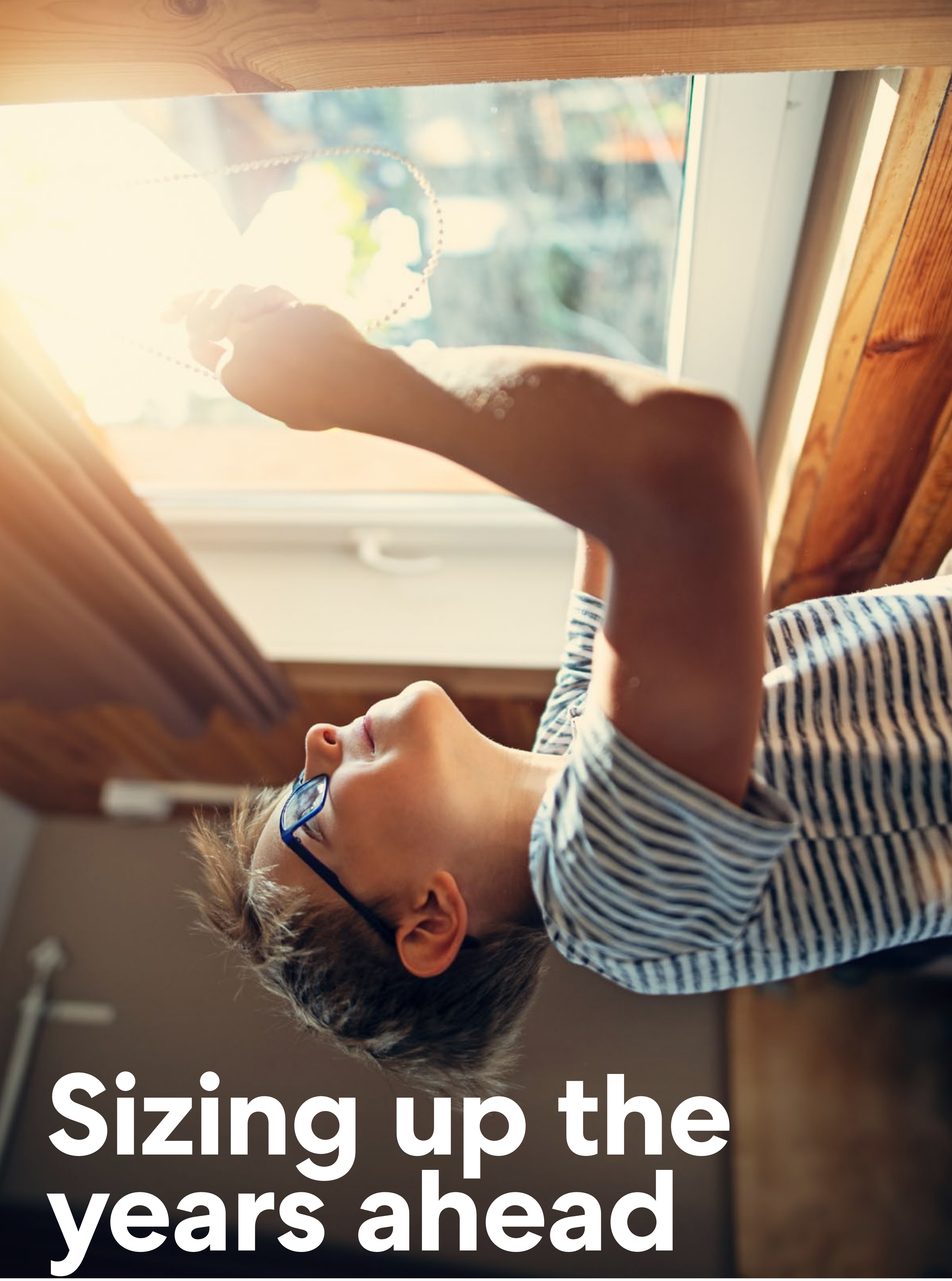
Operating cash flows ($m)



Movement in EBITDAF



Higher retails sales and record New Zealand generation helped offset the impacts of lower wholesale prices.



Sizing up the years ahead

Sizing up the years ahead

We're proud to announce another record year in terms of financial results. However, the NZAS decision may see developments in New Zealand put on hold even while they continue at pace in Australia. We'll continue to focus on growing our customer bases and guiding Flux to achieve its considerable potential.

Supply and demand needs time to find a new level

In the short to medium term we expect to see some instability in the New Zealand market as dynamics adjust to the departure of NZAS and the running down of thermal capacity. We'll continue to grow our connections with our customers.

In New Zealand, opportunities to grow our renewable generation portfolio rest on demand growth and the retirement of thermal power plants. With NZAS announcing the closure of the Tīwai Point aluminium smelter, there is in the short term an oversupply of renewable energy in the South Island that will struggle to move north. Demand for new renewable-energy power stations is likely to increase regardless of this situation, as we expect thermal plant closures to continue in the medium term.

Heading into temporary oversupply

The biggest variable the electricity sector in New Zealand faced for many years was when New Zealand's Aluminium Smelter at Tīwai Point would close. Just after the financial year ended, we were notified by Rio Tinto, the majority owner of the smelter, that it would terminate its contract with us with effect from 31 August 2021.

In October 2019 we were advised by NZAS's major shareholder, Rio Tinto, that it intended to conduct a strategic review of the smelter. The review would look at all options for the future of the smelter, including the option of closure.

Our electricity contract with NZAS included options for NZAS to terminate the agreement in full or to reduce consumption from 572MW to 400MW with 12 months' notice. NZAS advised us that volatile international prices for aluminium, relatively high energy and transmission costs and an upcoming refurbishment bill to keep one of the potlines operational had brought the future viability of NZAS into question.

In response we engaged in good faith, tabling a number of proposed changes to and concessions in our existing contract. We believed the changes were generous and pragmatic and would support the smelter's ongoing viability while still balancing the interests and expectations of our own shareholders.

Rio Tinto indicated that it would provide the market with an update on the strategic review by the end of the first quarter in 2020. That decision was delayed until July. During April, NZAS exercised its right to suspend the contract that supported its 50MW Potline 4 for up to six months, citing the COVID-19 pandemic as the reason.

Recently, the announcement of new Transmission Pricing Methodology guidelines would have meant further transmission cost savings of $10 million per annum for the smelter from 1 April 2023. NZAS would have also been able to apply for a prudent discount, potentially further reducing its annual transmission bill from Transpower. We hoped that this announcement would strengthen the case for the smelter to stay in operation, but the smelter owners made a different decision. Meridian had always prepared for an exit of the smelter as a real outcome.

NZAS consumes around 40% of Meridian's generation output in any year, depending on generation output and demand. Their exit from the market represents a significant reduction in demand and will 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). The size of any such reduction in Meridian's revenue and associated losses, and therefore the severity of the impact on Meridian, will depend on a number of variables, including 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.

Once NZAS leaves, more renewable energy will be available from our country's South Island hydro stations as long as the power can be sent north to where it's needed. This will help to displace fossil fuel power stations and will make a significant difference to the percentage of renewable electricity on the grid.

We've been working closely with Transpower, along with Contact Energy, on the Clutha Upper Waitaki Lines Project. In FY20 we contributed $5 million to fund early work on the transmission line to help expedite increasing transmission capacity. We welcome and commend Transpower's response and collaboration. Transpower has said that the completion date for this is May 2022.

The full implications for the New Zealand electricity sector anvd for Meridian's business are still being worked through. While the loss of such a large consumer of electricity will be disruptive in the near term, we're confident that the opportunities it affords to both our country and Meridian will ultimately offset any short-term negative impacts.

Demand – one step back but likely two forward

In the short term, the sector is likely to see a significant reduction in demand with the closure of the aluminium smelter at Tīwai Point. However, in the medium to long term, our overall view for the future is for significant positive growth.

This is not easy to forecast. A number of factors can impact demand, including activity levels in the industrial sector, competitor behaviour, regulatory changes, population growth, economic conditions, technological advances in the more efficient use and generation of electricity (including by customers, potentially as a consequence of regulatory subsidisation of competing technologies), weather and catastrophic events. All of these could in turn affect electricity prices.

As New Zealand commits to its climate-change goals and Government, businesses and individuals start to lean into our collective challenge, we expect to see increasingly faster electrification of both the transport and stationary energy sectors that rely on burning fossils fuels. These changes will go a long way to reducing New Zealand's energy-related greenhouse gas emissions and will grow the demand for new renewable electricity in New Zealand.

The physical impacts of climate change may also increase demand, due to higher demand for air conditioning in summer, and higher irrigation requirements in the agricultural sector, partially offset by lower demand for heating in winter.

Combined, these increases in demand offer Meridian the opportunity to grow our electricity generation and retail businesses.

It's not all good news though. Climate change could also lead to a negative impact on our demand, if climate action policies curtail a high electricity consuming industry, for example the dairy industry.

The business case for development

The ongoing impacts of the COVID-19 pandemic have created significant uncertainty for demand growth expectations in the next few years, with general recessionary effects and trade-exposed industries likely to limit growth. However, as local and global economies begin to recover, we expect underlying demand growth to eventually return but at fairly modest levels (around 0.5% per annum). Beyond this, as decarbonisation efforts begin to accelerate, we expect demand growth to increase further (to as much as 1% per annum). In the next decade this equates to growth of between 2,000 GWh and 4,000 GWh.

But modest demand growth doesn't necessarily mean that new power stations won't be needed. Despite the oversupply of renewable energy that the exit of the Tīwai smelter will create, we're expecting in the medium term that this energy will displace thermal power stations, and there'll be a need to replace energy from any power plant that's retired in the next 5–10 years.

Accordingly, in the past few years we've built up our internal capability to develop and execute new projects, from wind projects such as the ready-to-go Harapaki wind farm to large-scale solar and grid-scale battery systems. Wind will be an important part of that future, and we're buoyed by the fact that the costs to deliver new wind capacity have reduced significantly.

As part of our commitment to SDG13 Climate Action and SDG7 Affordable and Clean Energy, we continue to investigate how we can support a faster conversion of the Australian electricity system to renewable energy. Our strategy is to continue to develop our generation portfolio through acquisition and development and expand the pipeline of assets to eventually include wind, solar and battery developments. By continuing to invest in renewable energy we're looking to build a business in the Australian market that's attractive to consumers, is good for the country and the economy, and supports the ongoing growth and profitability of the Powershop brand.

Continuing to grow our customer bases

We continue to attract more people to our brands through the service and support we offer and the values our brands represent.

In competitive markets like Australia and New Zealand, where there's little organic growth to rely on, our ability to gain and retain customers is critical to the successful growth of our business. A significant amount of our success in FY20 can be credited to the growth we achieved in our retail market share, which bolstered our underlying performance in both countries. In FY21 our focus on growth will continue as we seek to rebalance our customer book by increasing the size of our retail and wholesale customer base in response to NZAS terminating its contract.

Healthy gains in New Zealand

In FY20 we saw healthy growth in all our key customer segments compared to the same period in the previous year: residential, agriculture, SMEs, corporate and industrial. Focusing on better execution helped our sales teams, particularly in the industrial and corporate markets. In residential, competitive pricing for Powershop products and a stable Meridian customer base saw the number of customers we serve grow, and good growth in the profitability of all our customer businesses.

Our New Zealand retail customer base continued to grow. Having passed the 300,000 customer connections threshold in New Zealand for the first time in FY19, we reached 324,000, up 7%, through very strong gains in both brands. This was helped by Meridian evolving the look and feel of our brand, which gave us even more appeal with our target market of conscious consumers. Overall our New Zealand retail sales volumes were 18% higher than in FY19.

Customer retention rates also improved, and this was a significant driver of the overall growth we experienced in our retail businesses during the year. The Meridian brand has the best retention rate in the market and there were also large improvements in Powershop's retention rate in FY20. This is important because high customer switching rates require more investment to just maintain a customer business let alone grow it. Overall, switching rates for both brands in New Zealand decreased from 20.1% to 17.0% this year.

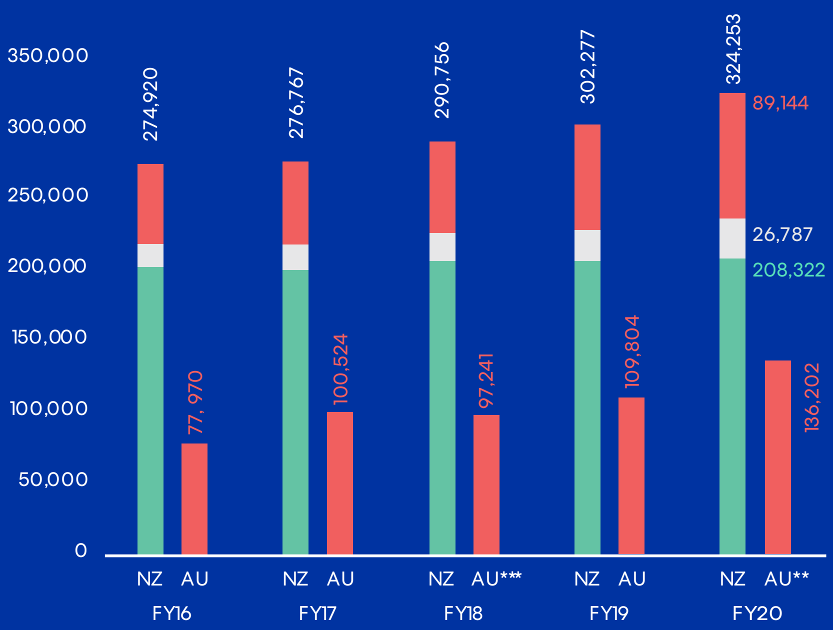
We note that information about switching rates is not available for the electricity industry in Australia. In this market we again experienced a significant increase in customer numbers, with strong growth in residential and also a lift in SME sales. Our electricity customer connections in Australia increased by 24% to 136,000 in FY20.

Switching rates*	FY17	FY18**	FY19**	FY20
Powershop New Zealand	33.9%	33.7%	30.3%	**25.0%**
Meridian	19.1%	17.6%	16.9%	**14.2%**
New Zealand combined	22.3%	21.2%	20.1%	**17.0%**
New Zealand industry average	20.4%	21.0%	20.6%	**18.9%**

* data from the Electricity Authority (emi.ea.govt.nz) and Meridian analysis. Switching rates are not published by the market operator in Australia.

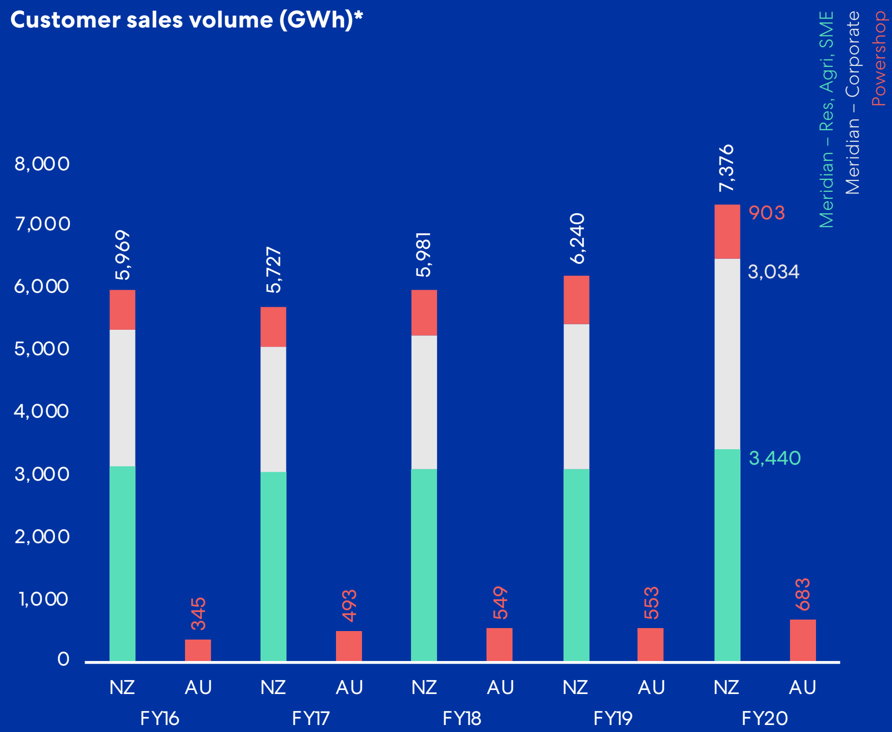
** data restated based on final figures from EA.

Customer connections* (ICPs)



* Excludes the Tiwai Point Aluminium smelter; <10 of the above ICPs are connected to the transmission network; around 4,500 customer connections have distributed generation metering
** Also 37,878 gas customer connections in Victoria, Australia with total of 1,491TJ in volume
*** Powershop AU FY18 figure restated to correct value of 97,241

Customer sales volume (GWh)*



* Electricity energy volumes only, and excludes the Tiwai Point Aluminium smelter

Connecting with our customers

Through our brands we look to connect and engage with defined customer segments and maximise our performance. In FY20, through our integrated marketing strategies and campaigns, we successfully grew awareness, consideration and business performance in our entire portfolio of brands. In addition to our campaign activity, we invested in partnerships that enhanced our respective brands, including our cornerstone partnerships with the Department of Conservation for the Kākāpō Recovery Programme, and KidsCan. Across our portfolio of brands we spent $21 million on marketing activities.

Customer satisfaction — Net Promoter Score (NPS)*	FY17	FY18	FY19	FY20
Powershop Australia**	45	53	53	57
Australian industry average***		(14)	(18)	N/A
Powershop New Zealand	48	55	61[i]	64
Meridian°			28	30
New Zealand industry average		14	18	N/A

* Calculated from a survey asking customers using a 0–10 scale "How likely is it that you would recommend Meridian/Powershop to a friend or colleague?" and then subtracting the percentage of detractors from the percentage of promoters. A positive value indicates that more customers are promoters versus detractors (and vice versa). All results are a 12 month moving average from July to June each financial year.
** FY17 data not a full year
*** Perceptive Group Limited: New Zealand & Australia NPS Industry Benchmarks. FY20 data currently unavailable.
i Powershop New Zealand figure for FY19 has been restated with the correct figure of 61.
° Meridian commenced reporting a 12 month moving average in FY20 to align with Powershop NZ and AU when sufficient historical data became available. Previous reports showed Meridian's June score for each financial year.

We also continued to pursue the digitisation of our customer experience, with the majority of Meridian customers now serviced extensively through digital channels. Powershop also saw strong continued performance in digital channels.

We continually assess our relationships with our customers through ongoing Net Promoter Score measurements and increasingly also customer satisfaction surveys. These globally respected measures of customer loyalty enable us to stay closely connected to how customers are responding to our messaging and service offering. If for any reason our customers feel we're not meeting their needs they're able to provide feedback and complaints through a variety of channels, including contacting us directly or by speaking with Utilities Disputes Limited – a free and independent dispute-resolution service.

With more and more being done online we know that privacy is an important issue for many of our customers. Meridian is committed to keeping our customer data secure and protecting customer privacy. Meridian has a comprehensive privacy policy and a robust policy framework that's regularly reviewed. The oversight of and compliance with our privacy obligations lies with our Privacy Officer, who reports directly to the Board on our compliance with the Privacy Act 1993 and the effectiveness of the Meridian Group's efforts. In FY20 Meridian received no formal complaints regarding breaches of customer privacy from regulatory bodies or third parties.

Customer migration to the Flux platform

Our customer experience is also increasingly digitally enabled. In FY19 we achieved more than 300,000 customer connections on our Flux platform globally, and in FY20 we passed the 500,000 mark. The platform was originally developed to support our Powershop brands, but in 2018 we launched a project to migrate the Meridian customer base onto the platform as part of a broader strategy to be able to sell the software as a service to any electricity retailer.

As we move Meridian customers onto the Flux Federation software platform, we're able to enhance our engagement with those customers in ways that our Powershop brands have enjoyed for several years. The objective of the Meridian migration project is to improve the quality of the customer experience for our Meridian customers and to reduce costs by rationalising legacy customer service platforms. By the end of FY20, we successfully migrated around 88,000 Meridian customers. At this point the Meridian platform migration programme is running nine months behind schedule and is due for completion in September 2021. The business case for the migration is still very positive, and we're confident it will deliver the cost-to-serve savings we're looking for.

Rewarding strong performance

As a business

Our people are key to our ability to deliver strong returns for our shareholders. We have structured our remuneration to attract and retain the best people we can and to remunerate them competitively for their contributions.

Our approach to remunerating our people

Attracting, retaining and motivating talented people, and rewarding them for delivering desired business performance and long-term shareholder value, is key to Meridian's success.

Our remuneration philosophy is guided by the principles that remuneration will:

- be clearly aligned with our company values, culture and strategy;
- support us to attract, retain and engage employees;
- be fair, equitable and flexible;
- appropriately reflect market conditions and the organisational context;
- recognise and reward high performance and;
- align with creating shareholder value.

The People and Remuneration Committee regularly review remuneration policy and practice and provide recommendations to the Board. The Board approves the executive balanced scorecard objectives, company financial performance targets and outcomes on an annual basis.

Fixed remuneration is bench-marked to market remuneration data and permanent employees may participate in a short-term incentive (STI) scheme at the discretion and invitation of the Board. As a minimum, Meridian pays the Living Wage for all permanent and fixed term employees. A range of benefits are provided, including employee insurance, enhanced parental leave provisions, the ability to purchase additional leave, and access to purchasing discounts. The Executive Team and Chief Executive also have the opportunity to participate in a long-term incentive (LTI) plan. Both the STI scheme and LTI plan are variable, performance-based incentives, awarded only if specific financial and non-financial performance hurdles are met, and at the discretion of the Board.

Fixed remuneration

Fixed remuneration includes base salary and matched KiwiSaver contributions of up to 4%. Salaries are reviewed annually.

Short-term incentive (STI)

The STI is an at-risk incentive, which may be offered for a specific year, by invitation from the Board. Potential STI payments reflect achievement of predetermined company profit levels and individual performance objectives aligned to business strategy and goals, and are wholly-discretionary. An STI may be paid subject to a behaviour gate and company financial performance hurdles, and at the discretion of the Board.

The STI opportunity within total remuneration reflects the complexity and level of the roles. In FY20 the Chief Executive had an STI opportunity of 50% of salary, and the Executive Team STI opportunity was 30%.

Long-term incentive (LTI)

An LTI plan is offered at the discretion of the Board to the New Zealand Executive Team, to align executives' and shareholders' interests, and optimise long-term shareholder returns.

The LTI opportunity is 40% of salary for the Chief Executive, and 30% of salary for the Executive Team. Vesting of the LTI is contingent on meeting both absolute and relative Total Shareholder Return (TSR) performance hurdles at the conclusion of a three-year period. Further details of the LTI plan are provided on page 103.

Employee share ownership

Employees are invited to join Meridian's employee share ownership plan, *MyShare*. Under *MyShare*, Meridian shares are purchased for participating employees, funded by monthly pay deductions of between $500 and $5,000 per annum. After three years, participants may be eligible for award shares subject to ongoing employment (Tenure Award Shares) and the company TSR outperforming a peer group of competitors (Performance Award Shares). In FY20, 54.5% of employees participated in *MyShare*, and this has increased to 58.46% for FY21.

Employee remuneration range

The number of employees and former employees of Meridian and its subsidiaries (not including directors) who during the year ended 30 June 2020 received cash remuneration and other benefits (including at-risk performance incentives, KiwiSaver contributions and redundancy compensation) exceeding $100,000 is outlined opposite:

Band	Total Group
100,000–109,999	75
110,000–119,999	64
120,000–129,999	73
130,000–139,999	64
140,000–149,999	36
150,000–159,999	33
160,000–169,999	21
170,000–179,999	21
180,000–189,999	17
190,000–199,999	16
200,000–209,999	9
210,000–219,999	7
220,000–229,999	5
230,000–239,999	6
240,000–249,999	3
250,000–259,999	3
260,000–269,999	2
270,000–279,999	1
280,000–289,999	4
290,000–299,999	1
300,000–309,999	4
310,000–319,999	1
320,000–329,999	1
330,000–339,999	1
340,000–349,999	5
350,000–359,999	2
360,000–369,999	1
370,000–379,999	1
390,000–399,999	3
410,000–419,999	2
420,000–429,999	3
460,000–469,999	1
510,000–519,999	1
540,000–549,999	1
560,000–569,999	1
790,000–799,999	1
830,000–839,999	1
1,290,000–1,299,999	1
1,790,000–1,799,999	1
	493

* This includes 29 employees who are no longer employed by Meridian Energy Limited and its subsidiaries

Chief Executive remuneration

Chief Executive remuneration for performance period ending 30 June 2020

Year	Base salary	Taxable benefits[4]	Fixed rem[5]	*MyShare*[6]	Pay for performance			Total rem
					STI[7]	LTI[8]	Subtotal	
FY20	$1,071,125	$42,845	$ 1,113,970	$2,500	$517,216	$406,155	$923,371	$2,039,841

The Chief Executive is entitled to receive a matching employer KiwiSaver contribution of 4% of gross taxable earnings. The company's KiwiSaver contributions for the Chief Executive, paid within the FY20 period, were $69,099.

Chief Executive remuneration for performance period ending 30 June 2019

Year	Base salary	Taxable benefits[4]	Fixed rem[5]	*MyShare*[6]	Pay for performance			Total rem
					STI[7]	LTI[8]	Subtotal	
FY19	$973,750	$38,950	$1,012,700	$2,500	$431,086	$248,909	$679,995	$1,695,195

Five-year remuneration summary

Year	Single figure rem	% STI against maximum	% vested LTIs against maximum	Span of LTI performance period[9]
FY20	$2,039,841	78.69%	100%	FY18–FY20
FY19	$1,695,195	90.91%	100%	FY17–FY19
FY18	$2,156,484	72.8%	75%	FY16–FY18
FY17	$2,379,768	79.29%	100%	FY15–FY17
FY16	$2,370,556	86.34%	100%	FY14–FY16

Neal Barclay was appointed as Chief Executive effective from 1 January 2018.

Chief Executive remuneration for FY18 therefore reflects the sum of Chief Executive remuneration for Neal Barclay and previous Chief Executive, Mark Binns.

Notes

- *MyShare* is the $2,500 award shares related to participation in the FY18 *MyShare* plan.
- The LTI figure is payment relating to the full vesting of the FY18 LTI scheme, when Neal Barclay was in a previous management role.

4. Taxable benefits are 4% company KiwiSaver contributions on salary.
5. Fixed remuneration is salary plus company KiwiSaver contributions.
6. MyShare is gross value of award shares received in the applicable period.
7. STI is the potential payment based on performance achieved for the applicable period and includes 4% company KiwiSaver contributions.
8. LTI is grossed up for PAYE, and in FY19 included 4% company KiwiSaver contributions. The LTI plan changed in FY20.
9. An LTI plan was introduced in FY14 and the first plan vested in FY16.

Breakdown of Chief Executive pay for performance (FY20)

Description		Performance measures	% achieved
STI	50% of base salary. Combination of company result, and a scorecard of financial and non-financial company measures.	60% weighting on company performance (company profit, which comprises Group EBITDAF minus capital charge).	**118.1%**
		40% weighting on performance against a Board-approved scorecard comprising financial and non-financial objectives, as shown in the table below.	**55%**
LTI	Conditional awards of shares under LTI scheme. 40% of base salary.	Absolute TSR over the relevant assessment period: • must be positive; and > 50th percentile/median TSR of the peer group[10].	Hurdle met
		Relative TSR—if positive and: • > 50th percentile TSR of peer group, at least 50% vests • ≥ 75th percentile TSR, 100% vests • between the 50th and 75th percentile TSRs of peer group, progressively vests on a straight-line basis.	**100%**

10. Peer Group comprises AGL Energy, Origin Energy Contact Energy, Mercury NZ, Trustpower, and Genesis Energy.

Pay for Performance Scorecard Measures for FY20

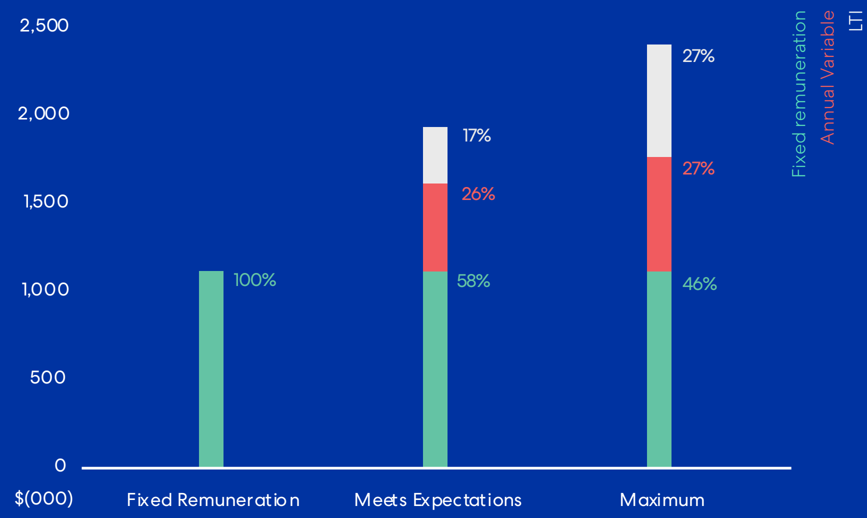
For FY20, the Board-approved scorecard comprising up to 40% of the Chief Executive's STI was measured as follows:

Performance area	Measures	Weighting
Employees	Trend in Engagement score and TRIFR	20%
Customer	NZ Retail Netback	20%
	Australian customer numbers	20%
Future Development	Renewable development options	20%
	Migration to single customer platform	20%

Five-year summary – Total Shareholder Return (TSR) performance (Meridian Energy vs peer group)

The TSR summary above illustrates the performance of Meridian's shares against a peer group of companies between 1 July 2015 and 30 June 2020. TSR performance outcomes are independently validated by external experts.

Chief Executive remuneration performance pay for FY20



The chart above depicts elements of the Chief Executive's remuneration design under various scenarios for the year ended 30 June 2020, as a proportion of Total Remuneration.

Other remuneration report components

Long-term incentive Plans (LTIs)

In August 2019, the Board approved a new LTI plan to replace Meridian's previous LTI plan. Set out below is a summary of the new LTI plan which was first offered in FY20 (for the period commencing on 1 July 2019 and ending 30 June 2022). A summary of the previous LTI Plan which was last offered in FY19 (for the period commencing on 1 July 2018 and ending on 30 June 2021) is included further below.

New LTI Plan

Under the new LTI plan, the company issues rights to acquire ordinary shares in the company (**Share Rights**) to eligible participants who accept the offer to participate in the LTI plan. Each Share Right entitles the holder to one ordinary share in the company and an additional number of shares equal to the value of gross cash dividends per share which would have been paid to a New Zealand tax resident who held a share for the duration of the vesting period, calculated using a 10-day volume weighted average price.

The number of Share Rights that vest is dependent on the following Vesting Conditions:

- Meridian's total shareholder return over a 3-year performance period (**Performance Period**) relative to Meridian's cost of equity and the total shareholder return over the Performance Period of a defined group of NZX Main Board and ASX listed peer companies (**Performance Hurdles**); and
- if the participant continues to be employed by Meridian during the vesting period (**Employment Condition**).

Performance hurdles

Share Rights are granted in two tranches:

- Absolute Return Share Rights; and
- Relative Return Share Rights.

For Absolute Return Share Rights to vest, the company's TSR must be greater than the absolute TSR benchmark which is set at the beginning of the vesting period with regard to the company's cost of equity (**Absolute TSR Benchmark**) on a compounding annual basis over the Performance Period. If the company's TSR is equal to or lower than the Absolute TSR Benchmark, no Absolute Share Rights will vest. If the company's TSR is greater than the Absolute TSR Benchmark, 100% of the Absolute Return Share Rights will vest.

The number of Relative Return Share Rights that vest is determined by the company's TSR over the Performance Period relative to the peer group. For any of the Relative Return Share Rights to vest, the company's TSR must be greater than or equal to the 50th percentile / median TSR of the peer group. 100% of the Share Rights will vest on meeting the 75th percentile TSR of the peer group, with vesting on a straight-line basis between these two points.

For each three-year plan, an independent external expert measures the TSR of Meridian and the peer group of companies along with the outcome on the progressive vesting scale. Share Rights will lapse if the Vesting Conditions are not satisfied (although this is subject to the Board's discretion in relation to the Employment Condition).

Previous (LTI)

The LTI was a share loan and cash bonus scheme, where executives purchase Meridian shares via an interest-free loan from the company, with the shares held on trust by the LTI plan trustee. Any shares awarded depend on whether the following performance hurdles are met over a three-year period:

- The company's absolute total shareholder return (TSR) must be positive; and
- The company's TSR compared to a benchmark peer group.

If the performance hurdles have been achieved, a progressive vesting scale is applied to determine how many shares vest:

- If the company's TSR over the three-year period exceeds the 50th percentile TSR of the benchmark peer group, at least 50% of an executive's shares will vest;
- 100% shares will vest on meeting the 75th percentile TSR of the peer group, with vesting on a straight-line basis between these two points; and
- No shares will vest if the company's TSR is less than the 50th percentile TSR of the peer group.

Over the three-year period, any dividends paid on the shares are applied to the executive's loan balance. Once the vesting level has been confirmed, a cash amount (after the deduction of tax, but before other applicable salary deductions) is used to repay the executive's outstanding loan balance.

For each three-year plan, an independent external expert measures TSR of Meridian and the peer group of companies along with the outcome on the progressive vesting scale. If TSR is not positive (i.e. in absolute terms is less than zero), or if TSR does not meet the peer group relative TSR hurdle of 50th percentile, the shares are forfeited to the trustee and the relevant executive receives no benefits under the LTI. Where the TSR is greater than the 50th percentile of the benchmark peer group, but below the 75th percentile, shares that have not vested will also be forfeited.

For the LTI plan that vested at the end of 2020, the level of vesting was 100% (2019: 100%). Therefore, the outstanding balance of the interest free loans at 30 June 2020 of $0.5 million has now been repaid (2019: $0.6 million). A total amount of 208,707 shares have been transferred to the eligible participants (2019: 223,623), and 154,388 shares forfeited (2019: 70,051).

Other information

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

Meridian has written agreements with the Chief Executive and executives setting out the terms of their employment.

Neal Barclay will be employed as Chief Executive until his employment is terminated in accordance with his employment agreement. Pursuant to the 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.

Approved director remuneration for FY20

Director remuneration is paid from the total director fee pool that was approved by shareholders at the Annual Meeting of 28 October 2016.

Shareholder approved annual director fee pool

	FY19	FY20
Board fees	$1,000,000	$1,000,000
Committee fees	$100,000	$100,000
Total pool	$1,100,000	$1,100,000

Individual Board-approved annual fee breakdown

Position held	FY19	FY20
Chair	$200,000	$200,000
Deputy Chair	$140,000	$140,000
Director	$110,000	$110,000
Audit & Risk Committee Chair	$22,500	$22,500
Audit & Risk Committee member	$10,000	$10,000
Safety & Sustainability Committee Chair	$15,000	$15,000
Safety & Sustainability Committee member	$9,200	$9,200
People & Remuneration Committee Chair	$15,000	$15,000
People & Remuneration Committee member	$9,100	$9,100

Director remuneration received in FY20

Name of Director	Board fees	Audit & Risk Committee	People & Remuneration Committee	Safety & Sustainability Committee	Total remuneration
Mark Verbiest[11] (Chair)	$173,342	–	$2,695	–	**$176,037**
Peter Wilson[12] (Deputy Chair)	$140,000	$10,000	–	$12,992	**$162,992**
Mark Cairns[13]	$110,000	$6,539	–	$5,192 (Chair)	**$121,731**
Jan Dawson[14]	$110,000	$12,065	$10,598 (Chair)	–	**$132,663**
Mary Devine[15]	$32,582	–	$4,443	–	**$37,025**
Anake Goodall	$110,000	–	–	$9,200	**$119,200**
Michelle Henderson[16]	$78,016	$3,489	–	6,525	**88,030**
Julia Hoare[17]	$83,995	$15,897 (Chair)	–	–	**$99,892**
Chris Moller[18]	$59,239	–	–	–	**59,239**
Nagaja Sanatkumar[19]	$55,000	–	$4,550	–	**$59,550**
Total	**$952,174**	**$47,990**	**$22,286**	**$33,909**	**$1,056,359**

Directors are reimbursed for all reasonable and properly documented expenses incurred in performing their duties as Meridian directors. No additional payments or benefits were received by directors in FY20.

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

11. Appointed Chair 17 October 2019. Does not receive additional fees for committee membership as Chair.
12. Ceased as Chair of the Safety and Sustainability Committee, effective 25 February 2020.
13. Appointed Chair of the Safety and Sustainability Committee and ceased from the Audit & Risk Committee, effective 25 February 2020.
14. Appointed Chair of the People & Remuneration Committee, effective 16 October 2019.
15. Ceased from the Board effective 17 October 2019.
16. Appointed to the Board and Safety and Sustainability Committee, effective 16 October 2019. Appointed to the Audit & Risk Committee, effective 25 February 2020.
17. Appointed to the Board effective 26 September 2019. Appointed to the Audit & Risk Committee, effective 16 October 2019.
18. Ceased from the Board effective 17 October 2019.
19. Appointed to the Board and People & Remuneration Committee, effective 1 January 2020.

Further disclosures

Further disclosures required by the NZX Listing Rules, the Companies Act 1993 and other legislation or rules.

Meridian Energy

The table opposite outlines the current directors of Meridian Energy Limited, as well as the changes among the people who held office as directors of Meridian Energy Limited:

Company name	Directors
Meridian Energy Limited	Anake Goodall, Chris Moller (ceased 17 October 2019), Jan Dawson, Julia Hoare (appointed 26 September 2019), Mark Cairns, Mark Verbiest, Mary Devine (ceased 17 October 2019), Michelle Henderson (appointed 16 October 2019), Nagaja Sanatkumar (appointed 1 January 2020), Peter Wilson.

The Board has determined that as at 30 June 2020, all Meridian directors are independent. The factors relevant to this determination are that no director:

- has, within the last three years, been employed in an executive role by Meridian or any of its subsidiaries;
- has held, within the last 12 months, a senior role in a provider of material professional services to Meridian or its subsidiaries;
- has had, within the last three years, a material business relationship with Meridian or its subsidiaries;
- is a substantial product holder of Meridian, or a senior manager of, or person otherwise associated with a substantial product holder of Meridian;
- has had, within the last three years, a material contractual relationship with Meridian or any of its subsidiaries;
- has close family ties with anyone in the categories listed above; and
- has been a director of Meridian for a length of time that may compromise independence.

Current Board and Executive team gender composition

In accordance with NZX Listing Rules, the gender make-up of Meridian's directors and officers as at 30 June 2020 is:

	As at 30 June 2020		As at 30 June 2019	
	Female	Male	Female	Male
Number of directors	4	4	2	5
Percentage of directors	50.0%	50.0%	28.6%	71.4%
Number of officers	4	6	2	7
Percentage of officers	40.0%	60.0%	22.2%	77.8%

Meridian subsidiaries

The following tables list the subsidiaries of Meridian Energy Limited during the accounting period, and any changes to those subsidiaries and among the people who held office as directors.

New Zealand subsidiaries

Company name	Directors	Further information
Dam Safety Intelligence Limited	Neal Barclay, Tania Palmer (appointed 10 December 2019)	Jason Stein (ceased 10 December 2019)
Flux Federation Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Energy Captive Insurance Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019)
Meridian Energy International Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019)
Meridian Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019)
Meridian LTI Trustee Limited	Anake Goodall, Jan Dawson (appointed 17 October 2019)	Mary Devine (ceased 17 October 2019)
Powershop New Zealand Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019)
Three River Holdings No. 1 Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019)
Three River Holdings No. 2 Limited	Neal Barclay, Michael Roan	Jason Stein (ceased 10 December 2019)

Australian subsidiaries

Company name	Directors	Further information
Meridian Australia Holdings Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Energy Australia Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Energy Markets Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Finco Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Wind Australia Holdings Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Wind Monaro Range Holdings Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Meridian Wind Monaro Range Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Mt Millar Wind Farm Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Mt Mercer Windfarm Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Powershop Australia Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
GSP Energy Pty Limited	Neal Barclay, Michael Roan, Tony Sherburn (appointed 13 September 2019), Jason Stein (appointed 19 February 2020)	Ed McManus (ceased 14 September 2019), Gillian Blythe (ceased 13 December 2019)
Rangoon Energy Park Pty Limited	Neal Barclay, Tony Sherburn, Mike Roan (all appointed 3 March 2020), Jason Stein (appointed 19 June 2020)	–
Wandsworth Wind Farm Pty Limited	Neal Barclay, Tony Sherburn, Mike Roan (all appointed 3 March 2020), Jason Stein (appointed 19 June 2020)	–

UK subsidiary

Company name	Directors	Further information
Flux-UK Limited	Tania Palmer (appointed 29 April 2020), Guy Waipara (appointed 29 April 2020)	Neal Barclay (ceased 30 April 2020), Jim Barret (ceased 30 April 2020)

Particulars of entries in the interests register made during the accounting period

Shareholders can review Meridian Energy Limited's full interests register on request.

In accordance with sections 140 and 211(e) of the Companies Act 1993, the table below lists the general disclosures of interest by directors of Meridian Energy Limited and its subsidiaries.

Name	Position	Disclosures
Anake Goodall	Director, Meridian Energy Limited and Meridian LTI Trustee Limited	Impax Environmental Markets—Shareholder Moreton Resources Limited (formerly Cougar Energy Limited)—Shareholder Seed The Change — He Kākano Hāpai—Chair
Chris Moller (ceased 17 October 2019)	Chair, Meridian Energy Limited	Contact Energy Limited—Shareholder Trustpower Limited—Bondholder Westpac New Zealand Limited—Director
Jan Dawson	Director, Meridian Energy Limited	AIG Insurance New Zealand Limited—Director Air New Zealand Limited—Director, Shareholder and Bondholder Mercury NZ Limited—Shareholder Westpac New Zealand Limited—Chair
Julia Hoare	Director, Meridian Energy Limited	The a2 Milk Company Limited—Deputy Chair and Shareholder** Auckland International Airport Limited—Director and Shareholder** AWF Madison Limited—Director** External Reporting Advisory Panel—member** Institute of Directors—Vice President** Mercury NZ Limited—Shareholder** Port of Tauranga Limited —Director** Sustainable Finance Forum—Leaders' Group member** Watercare Services Limited—Deputy Chair**
Nagaja Sanatkumar	Director, Meridian Energy Limited	Amazon.com, Inc.—Shareholder** Imagen8 Limited—Director** New Zealand Post Limited—Director** Nova Digital Consulting Limited—Director and Principal**
Mark Cairns	Director, Meridian Energy Limited	Coda GP Limited—Director Northport Limited—Director Port of Tauranga Limited—Employee Port of Tauranga Trustee Company Limited—Director Quality Marshalling Limited—Chair
Mark Verbiest	Director, Meridian Energy Limited	ANZ Bank New Zealand Limited—Director Freightways Limited—Chair and Shareholder Infratil Limited—Shareholder Mycare Limited—Chair * Mycare Limited—Shareholder New Zealand Treasury Advisory Board Southern Lakes Arts Festival Trust—Trustee Southern Alps Rescue Trust—Trustee UDC Finance Limited—Chair* Willis Bond Capital Partners Limited—Chair and Shareholder Willis Bond General Partner Limited—Chair

* Entries removed by notices given by directors during the year ended 30 June 2020.
** Entries added by notices given by directors during the year ended 30 June 2020.

Name	Position	Disclosures
Mary Devine (ceased 17 October 2019)	Director, Meridian Energy Limited and Meridian LTI Trustee Limited	Hallenstein Glasson Holdings Limited—Managing Director Foodstuffs (New Zealand) Limited—Director Foodstuffs South Island Limited—Director
Michelle Henderson	Director, Meridian Energy Limited	Southern Institute of Technology Engineering and Trades Advisory Committee—Member** Youthline Southland Charitable Trust (formerly Youthline Southland Inc)—Director**
Peter Wilson	Director, Meridian Energy Limited	Arvida Group—Chair Contact Energy Limited—Shareholder Genesis Energy Limited—Bondholder Genesis Energy Limited—Shareholder Infratil Limited—Shareholder Mercury NZ Limited—Bondholder Mercury NZ Limited—Shareholder

* Entries removed by notices given by directors during the year ended 30 June 2020.
** Entries added by notices given by directors during the year ended 30 June 2020.

During FY20, the following disclosure was made in accordance with section 148 of the Companies Act 1993:

Director	Nature of relevant interest	Date	Acquisition/ Disposal	Class	Number Acquired	Consideration received per share
Nagaja Sanatkumar						
	Beneficial interest	1) 3 September 2019 2) 6 September 2019	Acquisition	Shares	1) 982.8402 2) 2739.7987	1) $5.07 2) $5.465

Director Indemnity and Insurance

Pursuant to section 162 of the Companies Act 1993, as permitted by Meridian's Constitution, Deeds of Indemnity have been given to directors for potential liabilities and costs they might incur for actions or omissions in their capacity as directors. From 1 May 2020, Meridian's directors' and officers' liability insurance was renewed to cover risks normally covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

Donations

The Meridian Energy Group made donations totalling $1,108,340.68 during FY20. Meridian does not make donations to political parties. All donations must be approved by the Board.

Auditor

The Auditor-General has appointed Mike Hoshek of Deloitte Limited as auditor of the company. Meridian and its subsidiaries paid $0.8 million (2019: $0.8 million) to Deloitte Limited as audit fees in FY20.

The fees for other services undertaken by Deloitte Limited during FY20 totalled $0.1 million (2019: $0.1 million). These related to other assurance assignments for the Group in the areas of greenhouse gas inventory assurance, limited assurance of the sustainability content in this Report, review of the interim financial statements, audit of the securities registers, vesting of the executive long-term incentive plan, the solvency return of Meridian Captive Insurance Limited and supervised reporting.

Interests in Meridian Securities

In accordance with NZX Listing Rule 3.7.1(d), as at 30 June 2020 Meridian Energy Limited directors had the following relevant interests in Meridian Energy Limited Quoted Financial Products:

Director	Number of shares	Number of bonds
Mark Cairns	235,000	–
Jan Dawson	51,300	–
Anake Goodall	60,000	–
Michelle Henderson	–	–
Julia Hoare	–	–
Nagaja Sanatkumar	3,722.6389	–
Mark Verbiest	35,000	–
Peter Wilson	99,170	–

Senior managers' equity holdings

As at 30 June 2020, the following senior managers had relevant interests in Meridian Energy Limited shares:

Senior Manager	Number of shares
Neal Barclay	581,759
Chris Ewers	52,741
Lisa Hannifin	28,020
Mike Roan	266,786
Jason Stein	291,692
Guy Waipara	373,759

Twenty largest registered holders of Quoted Financial Products as at the balance date

The table opposite lists the Company's 20 largest registered shareholders as at 30 June 2020:

Names	Number of shares	% of issued shares
Her Majesty The Queen In Right Of New Zealand Acting by and Through Her Minister of Finance And Minister for SOEs	1,307,586,374	51.018
HSBC Nominees (New Zealand) Limited*	130,849,682	5.105
J.P. Morgan Chase Bank Na NZ Branch-Segregated Clients Acct*	111,391,798	4.346
HSBC Nominees (New Zealand) Limited A/C State Street*	109,815,781	4.285
Citibank Nominees (New Zealand) Limited*	85,487,309	3.335
Accident Compensation Corporation*	46,166,160	1.801
Custodial Services Limited	28,210,259	1.101
Custodial Services Limited	27,657,136	1.079
Forsyth Barr Custodians Limited	27,433,130	1.07
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited*	24,831,286	0.969
JBWere (NZ) Nominees Limited	23,719,809	0.925
BNP Paribas Nominees (NZ) Limited*	23,621,044	0.922
TEA Custodians Limited Client Property Trust Account*	21,033,135	0.821
BNP Paribas Nominees (NZ) Limited*	19,849,168	0.774
National Nominees Limited*	19,712,686	0.769
Custodial Services Limited	16,756,874	0.654
ANZ Wholesale Australasian Share Fund*	15,565,278	0.607
FNZ Custodians Limited	13,832,550	0.54
New Zealand Depository Nominee Limited	12,506,225	0.488
BNP Paribas Nominees (NZ) Limited*	11,075,195	0.432

*Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members.

The table below lists the Company's 20 largest registered holders of MEL030 retail fixed-rate bonds as at 30 June 2020:

Names	Number of bonds	% of issued shares
BNP Paribas Nominees (NZ) Limited*	22,187,000	14.79
BNP Paribas Nominees (NZ) Limited*	16,800,000	11.20
Citibank Nominees (New Zealand) Limited*	14,531,000	9.69
FNZ Custodians Limited	13,637,000	9.09
Forsyth Barr Custodians Limited	12,382,000	8.25
Investment Custodial Services Limited	5,613,000	3.74
TEA Custodians Limited Client Property Trust Account*	5,335,000	3.56
Mt Nominees Limited*	4,000,000	2.67
Ning Gao	3,331,000	2.22
Custodial Services Limited	3,142,000	2.09
ANZ Custodial Services New Zealand Limited*	2,657,000	1.77
Custodial Services Limited	2,652,000	1.77
Custodial Services Limited	2,512,000	1.67
J.P. Morgan Chase Bank Na NZ Branch-Segregated Clients Acct*	2,220,000	1.48
JBWere (NZ) Nominees Limited	2,045,000	1.36
Custodial Services Limited	1,861,000	1.24
FNZ Custodians Limited	1,423,000	0.95
University Of Otago Foundation Trust	1,400,000	0.93
Custodial Services Limited	1,133,000	0.76
FNZ Custodians Limited	1,107,000	0.74

*Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members.

The table below lists the Company's 20 largest registered holders of MEL040 retail fixed-rate bonds as at 30 June 2020:

Names	Number of bonds	% of issued shares
BNP Paribas Nominees (NZ) Limited*	19,718,000	13.15
Citibank Nominees (New Zealand) Limited*	16,430,000	10.95
BNP Paribas Nominees (NZ) Limited*	11,550,000	7.70
Custodial Services Limited	8,229,000	5.49
Custodial Services Limited	7,773,000	5.18
FNZ Custodians Limited	7,310,000	4.87
Investment Custodial Services Limited	5,784,000	3.86
HSBC Nominees (New Zealand) Limited*	5,060,000	3.37
Custodial Services Limited	4,647,000	3.10
Forsyth Barr Custodians Limited	4,218,000	2.81
Custodial Services Limited	3,823,000	2.55
TEA Custodians Limited Client Property Trust Account*	3,446,000	2.30
J.P. Morgan Chase Bank Na NZ Branch-Segregated Clients Acct*	3,000,000	2.00
NZPT Custodians (Grosvenor) Limited*	3,000,000	2.00
Custodial Services Limited	2,839,000	1.89
National Nominees Limited*	2,500,000	1.67
New Zealand Methodist Trust Association	2,357,000	1.57
Forsyth Barr Custodians Limited	1,810,000	1.21
TEA Custodians Nominees Limited	1,405,000	0.94
Woolf Fisher Trust Incorporated	1,300,000	0.87

*Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members.

The table below lists the Company's 20 largest registered holders of MEL050 retail fixed-rate bonds as at 30 June 2020:

Names	Number of bonds	% of issued shares
ANZ Custodial Services New Zealand Limited*	48,071,000	24.04
FNZ Custodians Limited	17,371,000	8.69
Forsyth Barr Custodians Limited	15,897,000	7.95
Investment Custodial Services Limited	12,957,000	6.48
HSBC Nominees (New Zealand) Limited A/C State Street*	11,900,000	5.95
BNP Paribas Nominees (NZ) Limited	9,397,000	4.70
Custodial Services Limited	8,018,000	4.01
Custodial Services Limited	4,471,000	2.24
Citibank Nominees (New Zealand) Limited*	4,400,000	2.20
Mint Nominees Limited*	4,138,000	2.07
Mt Nominees Limited*	4,000,000	2.00
Custodial Services Limited	3,823,000	1.91
HSBC Nominees (New Zealand) Limited*	3,700,000	1.85
Custodial Services Limited	3,613,000	1.81
JBWere (NZ) Nominees Limited	3,197,000	1.60
TEA Custodians Limited Client Property Trust Account*	2,690,000	1.35
NZPT Custodians (Grosvenor) Limited*	2,570,000	1.29
Custodial Services Limited	1,909,000	0.95
Risk Reinsurance Limited	1,600,000	0.80
Forsyth Barr Custodians Limited	1,392,000	0.70

*Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members.

Substantial security holder

The following information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. The substantial security holder in the Company and its relevant interests listed opposite. The total number of voting products in the class as at 30 June 2020 was 2,563,000,000.[21]

Name	Relevant interest in number of shares	% of shares held at the date of notice	Date of notice
Ordinary Shares			
Her Majesty the Queen in Right of New Zealand	1,353,786,550	52,820	6 July 2015

Distribution of shareholders and holdings as at 30 June 2020

The table opposite provides information on the distribution of shareholders and holdings of Meridian Energy Limited ordinary shares as at 30 June 2020.

Size of holding	Number of holders	%	Number of shares	Holding quantity %
1–1,000	8,460	18.01	6,958,239	0.27
1,001–5,000	22,309	47.50	64,603,038	2.52
5,001–10,000	8,843	18.83	69,469,580	2.71
10,001–50,000	6,603	14.06	134,542,297	5.25
50,001–100,000	471	1.00	33,233,113	1.30
100,001–500,000	205	0.44	40,183,663	1.57
500,001 and over	72	0.15	2,214,010,070	86.38
Total	**46,963**	**100.00**	**2,563,000,000**	**100.00**

20. As at 30 June 2020, the total number of ordinary shares was 2,563,000,000 which included 409,668 ordinary shares held by Meridian as treasury stock.

Distribution of bondholders and holdings as at 30 June 2020

The table opposite provides information on the distribution of MEL030 retail fixed-rate bonds as at 30 June 2020:

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001–5,000	72	9.34	360,000	0.24
5,001–10,000	182	23.61	1,732,000	1.15
10,001–50,000	405	52.53	11,239,000	7.49
50,001–100,000	45	5.84	3,798,000	2.53
100,001–500,000	42	5.45	8,713,000	5.81
500,001 and over	25	3.24	124,158,000	82.77
Total	**771**	**100.00**	**150,000,000**	**100.00**

The table opposite provides information on the distribution of MEL040 retail fixed-rate bonds as at 30 June 2020:

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001–5,000	37	5.10	185,000	0.12
5,001–10,000	110	15.17	1,021,000	0.68
10,001–50,000	442	60.97	11,990,000	7.99
50,001–100,000	74	10.21	5,605,000	3.74
100,001–500,000	35	4.83	8,664,000	5.78
500,001 and over	27	3.72	122,535,000	81.69
Total	**725**	**100.00**	**150,000,000**	**100.00**

The table opposite provides information on the distribution of MEL050 retail fixed-rate bonds as at 30 June 2020:

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001–5,000	28	4.15	137,000	0.07
5,001–10,000	97	14.37	910,000	0.46
10,001–50,000	397	58.81	11,159,000	5.58
50,001–100,000	88	13.04	6,890,000	3.45
100,001–500,000	35	5.19	8,109,000	4.05
500,001 and over	30	4.44	172,795,000	86.4
Total	**675**	**100.00**	**200,000,000**	**100.00**

Waivers from NZX

On 31 January 2020, NZX Regulation published a waiver decision in respect of Listing Rules 5.2.1 and 8.1.5 which documented a prior waiver decision dated 18 September 2013. A copy of this waiver decision and a summary of all waivers granted and published by the NZX or relied on by Meridian during the 12 months preceding 30 June 2020 is available on Meridian's website at: www.meridianenergy. co.nz/investors/governance/nzx-waivers/.

Non-standard designation

In New Zealand, Meridian Energy Limited has a 'non-standard' (NS) designation on the NZX Main Board. This is due to particular provisions of the company's constitution, including requirements that regulate the ownership and transfer of Meridian securities. The NS designation is also required as a condition of any NZX waivers and approvals.

Credit rating as at 30 June 2020

Meridian Energy Limited had a Standard & Poor's corporate credit rating of **BBB+/Stable/A-2** in FY20. On 10 July 2020, Standard & Poor's revised Meridian's credit rating outlook to BBB+/Negative.

Registration as a foreign company

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

ASX disclosures

Meridian holds a foreign exempt listing on the ASX. As a requirement of admission Meridian must make the following disclosures:

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

Shareholding restrictions

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

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

51% holding

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

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

10% limit

No person (other than the Crown) may have a 'relevant interest'[21] in more than 10% of the shares on issue (10% Limit).

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

Ascertaining whether a breach has occurred

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

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

Determining whether a breach has occurred

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

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

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

Effect of exceeding the 10% Limit

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

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

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

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

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

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

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

Crown directions

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

Trustee corporations and nominee companies

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

Share cancellation

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

NZX Corporate Governance Code

Meridian complied with the NZX Corporate Governance Code recommendations in all material respects during FY20 other than in respect of recommendation 3.6 as the Board has determined, given Meridian's status as a mixed-ownership model company, it is not appropriate nor necessary for Meridian to adopt a takeover protocol, although there are protocols to ensure compliance with the constitution. Meridian has a separate Corporate Governance Statement available on its website at https://www.meridianenergy.co.nz/investors/governance/. The Corporate Governance Statement outlines in detail Meridian's compliance with the NZX Corporate Governance Code and is current as at 26 August 2020.

	New Zealand**		Australia***		
Permanent employees	**Female**	**Male**	**Female**	**Male**	**Total**
Permanent full time*	428	514****	20	55	**1,017**
Permanent part time	26	–	1	1	**28**
Temp/Fixed term employees					
Temp/fixed term full time	30	15	1	4	**50**
Temp/fixed term part time	7	9	1	1	**18**
Total	**491**	**538**	**23**	**61**	**1,113**

* 3 of these employees are based in the UK (all male)
** 154 of these employees work for Powershop New Zealand
** 162 of these employees work for Flux Federation New Zealand
*** 2.38% of these staff are covered by collective bargaining agreements
**** Meridian AU CEO included in NZ as forms part of the Group Executive Team

Trade associations*	FY16	FY17	FY18	FY19	FY20
Total spent (NZD)	$162,365	$242,513	$246,463	$222,624	$299,129
Largest contributions					
Value to electricity customers (ERANZ, The Energy Charter)	$52,365	$167,763	$167,763	$122,077	$140,520
Sustainable business (SBC, SBN)	$21,000	$18,500	$22,450	$22,450	$22,649
Clean energy advocacy (Clean Energy Council, NZ Wind Energy Association, NZ Hydrogen Association, Drive Electric, Climate Leaders Coalition, Melbourne Energy Institute)	$7,000	$21,750	$24,250	$46,096	$40,130
Other Large Expenditures (Business NZ, Business Energy Council, Australian Energy Council)	$82,000	$34,500	$32,000	$32,000	$95,830

* FY19 Clean energy advocacy figure for FY19 has been restated to $46,096

Financials

This year was another successful year for our Company. We have continued to grow our customer businesses and navigate some significant challenges, particularly the impact of the COVID-19 pandemic and the termination of the contract with the Tīwai Point Aluminium Smelter. We are confident we have the team and the strategies to manage through these uncertain times.

Group financial statements

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Income Statement

For the year ended 30 June 2020

	Note	2020 $M	2019 $M
Operating revenue	A2	**3,405**	3,491
Operating expenses	A3	**(2,551)**	(2,653)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**854**	838
Depreciation and amortisation	A3	**(312)**	(276)
Impairment of assets	A3	**(58)**	(5)
Gain on sale of assets	A3	**–**	3
Net change in fair value of energy hedges	D1	**(113)**	58
Operating profit		**371**	618
Finance costs	A3	**(85)**	(84)
Interest income	A2	**1**	1
Net change in fair value of treasury instruments	D1	**(48)**	(63)
Net profit before tax		**239**	472
Tax expense	A4	**(63)**	(133)
Net profit after tax attributed to the shareholders of the parent company		**176**	**339**

Earnings per share (EPS) attributed to ordinary equity holders of the parent		Cents	Cents
Basic and diluted earnings per share	C3	**6 .9**	**13.2**

Comprehensive Income Statement

For the year ended 30 June 2020

	Note	2020 $M	2019 $M
Net profit after tax		**176**	339
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Asset revaluation	B1	**(22)**	1,139
Deferred tax on the above item	A4	**7**	(320)
		(15)	819
Items that may be reclassified to profit or loss:			
Net (loss)/gain on cash flow hedges		**2**	(5)
Exchange differences arising from translation of foreign operations		**11**	(21)
Income tax on the above items	A4	**(1)**	1
		12	(25)
Other comprehensive income for the year, net of tax		**(3)**	794
Total comprehensive income for the year, net of tax attributed to shareholders of the parent company		**173**	**1,133**

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

Balance Sheet

As at 30 June 2020

	Note	2020 $M	2019 $M
Current assets			
Cash and cash equivalents	C5	**176**	78
Trade receivables	C6	**323**	292
Customer contract assets		**24**	20
Financial instruments	D1	**100**	118
Other assets		**42**	34
Total current assets		**665**	542
Non-current assets			
Property, plant and equipment	B1	**8,594**	8,825
Intangible assets	B2	**65**	59
Deferred tax	A4	**34**	40
Financial instruments	D1	**265**	191
Total non-current assets		**8,958**	9,115
Total assets		**9,623**	9,657

	Note	2020 $M	2019 $M
Current liabilities			
Payables and accruals		**364**	303
Employee entitlements		**24**	17
Customer contract liabilities		**23**	16
Current portion of term borrowings	C7	**88**	167
Current portion of lease liabilities	C8	**7**	1
Financial instruments	D1	**63**	36
Current tax payable		**79**	80
Total current liabilities		**648**	620
Non-current liabilities			
Term borrowings	C7	**1,600**	1,303
Deferred tax	A4	**1,850**	1,968
Provisions		**17**	9
Lease liabilities	C8	**97**	31
Financial instruments	D1	**279**	209
Term payables		**49**	60
Total non-current liabilities		**3,892**	3,580
Total liabilities		**4,540**	4,200
Shareholders' equity			
Share capital	C2	**1,598**	1,599
Reserves		**3,485**	3,858
Total shareholders' equity		**5,083**	5,457
Total liabilities and shareholder's equity		**9,623**	9,657

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 25 August 2020

Mark Verbiest,
Chair, 25 August 2020

Julia Hoare,
Chair, Audit and Risk Committee, 25 August 2020

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

Statement of Changes in Equity

For the year ended 30 June 2020

$M	Note	Share capital	Share option reserve	Revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
Balance at 1 July 2018		**1,598**	**1**	**4,249**	**(16)**	**1**	**(1,010)**	**4,823**
Net profit for the 2019 financial year		–	–	–	–	–	339	**339**
Other comprehensive income								
Asset revaluation	B1	–	–	1,139	–	–	–	**1,139**
Net loss on cash flow hedges		–	–	–	–	(5)	–	**(5)**
Exchange differences from translation of foreign operations		–	–	–	(21)	–	–	**(21)**
Income tax relating to other comprehensive income	A4	–	–	(320)	–	1	–	**(319)**
Total other comprehensive income, net of tax		–	–	**819**	**(21)**	**(4)**	**–**	**794**
Total comprehensive income for the year, net of tax		–	–	**819**	**(21)**	**(4)**	**339**	**1,133**
Share-based transactions	C2,F1	1	–	–	–	–	–	**1**
Dividends paid	C4	–	–	–	–	–	(500)	**(500)**
Balance at 30 June 2019 and 1 July 2019		**1,599**	**1**	**5,068**	**(37)**	**(3)**	**(1,171)**	**5,457**
Net profit for the 2020 financial year		–	–	–	–	–	176	**176**
Other comprehensive income								
Asset revaluation	B1	–	–	(22)	–	–	–	**(22)**
Net loss on cash flow hedges		–	–	–	–	2	–	**2**
Exchange differences from translation of foreign operations		–	–	–	11	–	–	**11**
Income tax relating to other comprehensive income	A4	–	–	7	-	(1)	–	**6**
Total other comprehensive income, net of tax		**–**	**–**	**(15)**	**11**	**1**	**–**	**(3)**
Total comprehensive income for the year, net of tax		**–**	**–**	**(15)**	**11**	**1**	**176**	**173**
Share-based transactions	C2,F1	(1)	–	–	–	–	–	**(1)**
Dividends paid	C4	–	–	–	–	–	(546)	**(546)**
Balance at 30 June 2020		**1,598**	**1**	**5,053**	**(26)**	**(2)**	**(1,541)**	**5,083**

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

Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 $M	2019 $M
Operating activities			
Receipts from customers		**3,375**	3,463
Interest received		**1**	1
Payments to suppliers and employees		**(2,519)**	(2,628)
Interest paid		**(79)**	(77)
Income tax paid		**(173)**	(124)
Operating cash flows	C5	**605**	635
Investing activities			
Purchase of property, plant and equipment		**(43)**	(45)
Purchase of intangible assets		**(20)**	(24)
Purchase of subsidiary	E1	**(2)**	–
Investing cash flows		**(65)**	(69)
Financing activities			
Term borrowings drawn	C7	**172**	439
Term borrowings repaid	C7	**(60)**	(484)
Lease liabilities repaid	C7	**(7)**	(1)
Dividends paid	C4	**(546)**	(500)
Shares purchased for long-term incentive	C2	**(2)**	–
Financing cash flows		**(443)**	(546)
Net increase/(decrease) in cash and cash equivalents		**97**	20
Cash and cash equivalents at beginning of year		**78**	60
Effect of exchange rate changes on net cash		**1**	(2)
Cash and cash equivalents at end of year	C5	**176**	78

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

About this report

In this section

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

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

Meridian Energy Limited is a for-profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. Meridian's core business activities are the generation, trading and retailing of electricity and the sale of complementary products and services. The registered office of Meridian is Level 2, 55 Lady Elizabeth Lane, Wellington.

Meridian Energy Limited is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). As a mixed ownership company, majority owned by Her Majesty the Queen in Right of New Zealand, it is bound by the requirements of the Public Finance Act 1989.

These financial statements have been prepared:

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

Key judgements and estimates

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

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

Note	
Significant Matters in the Financial Year – NZAS Exit	
A2	Income
B1	Property, plant + equipment
D1	Financial risk management

Basis of consolidation

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

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

In preparing the Group financial statements, all material intra-group transactions, balances, income and expenses have been eliminated. Subsidiaries are consolidated from the date on which control is obtained to the date on which control is lost.

Foreign currency

Transactions denominated in foreign currencies are converted at the exchange rates at the date of the transactions. Foreign currency monetary assets and liabilities are translated at the rate prevailing at balance date, 30 June 2020.

The assets and liabilities of international subsidiaries are translated to NZD at the closing rate at balance date. The revenue and expenses of these subsidiaries are translated at rates approximating the exchange rates at the dates of the transactions.

When the financial statements of subsidiaries are translated into NZD, exchange differences can arise. These are recorded in the foreign currency translation reserve (within equity). If an international subsidiary is disposed of, these cumulative translation differences are recognised in the income statement in the period in which that occurs.

The principal functional currency of international subsidiaries is Australian dollars; the closing rate at 30 June 2020 was 0.9349 (30 June 2019: 0.9571).

A full list of international subsidiaries and their functional currencies are provided in Note E1 Subsidiaries.

Significant matters in the financial year

In this section

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

NZAS Exit

On 9 July 2020, the New Zealand Aluminium Smelter (NZAS) announced it plans to wind-down its operation at Tīwai Point. On the same day, NZAS terminated its 572MW electricity supply agreement with Meridian, giving a 14-month notice period through to 31 August 2021. This followed NZAS concluding a strategic review of their operation, which was announced to the market on 23 October 2019.

For Meridian's financial reporting purposes and in keeping with NZ IFRS, the NZAS exit announcement is treated as a post balance date non-adjusting event. This is because the decision by NZAS to exit Tīwai is not a condition which existed as at 30 June 2020. As at 30 June 2020, Meridian had no prior knowledge or communication of the NZAS exit decision.

As such, no adjustment has been made to the Group financial statements, or accompanying notes to the accounts, to reflect any impact that the NZAS exit may have on Meridian.

Based on currently available information and management judgment, we estimate that the NZAS exit would potentially impact Meridian's primary financial statements within the below ranges. Note that a significant amount of uncertainty surrounds the impact that the NZAS exit will have on Meridian and the electricity sector going forward. Therefore, it is possible that actual outcomes will differ to the range estimates noted below.

	Range of Impact – increase (decrease) $M
Balance Sheet	
Property, plant & equipment (generation structures)	(690)–(1,340)
Financial instruments (energy hedge liabilities)	(60)–(90)
Deferred tax liability	(175)–(350)
Equity (retained earnings)	45–65
Equity (asset revaluation reserve)	(500)–(965)
Income Statement	
Net change in fair value of energy and other hedges	60–90
Tax expense	15–25
Statement of Changes in Equity	
Retained earnings (current year profit)	45–65
Asset revaluation reserve	(500)–(965)

Significant matters continued

The items and impact estimates are described below

Property, Plant & Equipment – Generation Structures

The NZAS exit will significantly impact the electricity market in New Zealand, decreasing demand in the South Island and due to transmission constraints may lead to a reduction in generation volumes and wholesale prices. For the purposes of this assessment we have assumed retail margins remain unchanged in the long term.

Our assessment of the NZAS exit in August 2021 on the value of the generation structures indicates a reduction in fair values of between $690 million to $1,340 million. This reduction would be recognised against the revaluation reserve in equity.

For more information on the 30 June 2020 values refer to Note B1 Property, Plant and Equipment.

Financial Instruments – Energy Hedge Liabilities

Meridian has energy hedges that relate to the NZAS supply contract, a number of which contain termination conditions.

Where we believe termination of a hedge is probable (or has occurred post balance date), we have included such hedges in our impact estimate. Where uncertainty remains around the future of a hedge (whether directly impacted by the NZAS exit decision or not), these are not included in our impact estimates, and we continue to hold these at their fair value as assessed at 30 June 2020.

Following the NZAS announcement, ASX electricity futures prices in New Zealand decreased significantly. The fall in ASX prices impacts on the fair values of certain electricity hedges. To take this change in market prices into account, we have recalculated the fair values of the impacted derivatives using ASX prices from 31 July 2020. ASX prices have been taken at this date to allow time for the market to adjust to the announcement.

As a result of the above, we estimate a decrease to the value of financial instrument liabilities in the range of $60 million – $90 million. The other side of this impacts on the Income Statement, within net changes in the fair value of energy and other hedges.

For more information on financial instruments refer to Section D Finanical Instruments used to manage risks.

Deferred Tax Liability

The estimates in relation to generation structures and energy hedge liabilities have a flow-on impact on our deferred tax liability balance.

We estimate that our deferred tax liability would reduce by $175 million to $350 million.

Equity

Any changes impacting the income statement flow through to impact retained earnings (less any tax impact, if applicable). We estimate the net impact to retained earnings to be an increase in the range of $45 million–$65 million.

Changes relating to generation structures and associated deferred tax liability balances impact on the asset revaluation reserve. We estimate the net impact to the asset revaluation reserve to be a decrease in the range of $500 million – $965 million. This is the direct impact of the above asset devaluation range, reduced by the tax effect impact at 28%.

Other Impacts

We note that following the NZAS exit decision on 9 July 2020, Meridian announced the following to the market on 10 July 2020:

- no change to current ordinary dividend policy (being 75–90% of free cash flow);
- an immediate end to the special dividends that have been paid under the capital management program, the last/final special dividend being that which occurred in April 2020;
- the swaption renewal process was abandoned, with the current swaption with Genesis Energy[22] likely to be terminated (however the swaption has not been terminated in the calculation of our impact estimate); and
- there would be a number of actions taken in early FY21 to ensure good energy storage flexibility, rebalance our wholesale positions and to accelerate retail volume growth.

22. Meridian has a swaption contract with Genesis Energy which, if not terminated earlier, will end on 31 December 2022. The agreement allows, but does not require, Meridian to enter into 50MW of daily and/or weekly fixed price derivative cover year round, with an additional weekly 50MW block available from 1 April to 31 October in each year of the contract.

Staged exit negotiations

Meridian is currently in negotiation with NZAS to determine if the terms for a staged exit, longer than 14 months, can be agreed. As these discussions are ongoing, Meridian cannot estimate the impact that any agreement may have on the Group.

Hydro inflows

New Zealand hydro storage started the financial year in a strong position, with most lake levels well above average nationally.

Meridian inflows over the year were above average, with the year overall being wet. Most of this excess arrived in November – December and as a result, significant hydro spill was seen throughout large parts of summer. A three month HVDC outage in the first quarter of 2020 dominated much mid-to-late summer activity. Autumn was impacted by COVID-19, with national demand for power in April 15% lower than normal with the lockdown closing most businesses across New Zealand. Demand in May and June largely returned to more typical levels although there is some weakness apparent.

Market prices have been high throughout most of the year, except during the wet summer quarter when South Island prices dropped significantly. Meridian's generation across the financial year has been robust, which combined with high market prices, has resulted in strong energy margins.

Adoption of NZ IFRS 16: Leases

On 1 July 2019 Meridian adopted NZ IFRS 16 Leases ("NZ IFRS 16").

NZ IFRS 16 was adopted using the modified retrospective approach and therefore no adjustment or restatement of comparative figures has been made.

The adoption of NZ IFRS 16 results in those leases previously classified as operating leases being recorded on the balance sheet. All other arrangements will be considered under NZ IFRS 16 when the contract is amended or renewed.

As a result of applying NZ IFRS 16, the Group recognised $75 million of new right-of-use (ROU) lease assets, which form part of the Property Plant & Equipment category on the balance sheet. ROU assets are depreciated over the expected lease term. The expected lease term may include the taking-up of optional lease extensions, if the Group is reasonably certain of exercising such options.

New liabilities of $75 million were also recognised. These are classified as Lease Liabilities on the balance sheet and split into current and non-current portions. Expected lease payments are discounted back to present value using incremental borrowing costs. Discount rates are set on a lease-by-lease basis, with key inputs being the expected term of the lease and the currency of the lease (the country in which it is domiciled).

In the income statement, application of NZ IFRS 16 in FY20 has decreased Group operating expenses by $6 million, increased finance costs by $2 million and increased depreciation expense by $4 million (relative to FY19). These changes meant a net increase of $6 million in EBITDAF and a net nil impact on net profit before tax.

Short term leases and leases related to low-value items are accounted for as expenses in the Income Statement, as allowed under NZ IFRS 16. These amounts are immaterial.

Further information in relation to the adoption of NZ IFRS 16: Leases are included in the following sections in the notes to the accounts

Section A: Financial performance

Section B: Assets used to generate and sell electricity

Section C: Managing funding

Significant matters continued

COVID-19

As an essential service provider, Meridian continued operations during the 2020 COVID-19 response in both New Zealand and Australia. Group revenues have not been adversely impacted by the resultant shut-downs and other social and economic disruption. Certain group costs have fallen as a result of the government restrictions, although these are immaterial to the overall results of the group e.g. travel costs.

However, Meridian has increased its provision for doubtful debts this financial year, in light of the continuing uncertainty around the economy and employment. In the short to medium term Meridian expects a higher level of debt write-offs, as the impacts of business closures and job loss impact on our customers. Meridian expects that this will taper off as economies return to a more normal level. Refer to Note C6 Trade receivables for further details on this.

Meridian also considered the impact of COVID-19 as part of our key assumptions when valuing our property, plant and equipment and financial instruments. However there was no impact when taking this into consideration. Refer to Note B1 Property, plant and equipment and D1 Financial risk management for further detail.

Subsequent to balance date and up to the date of the approval of the financial statements, Meridian has reviewed the recent restrictions implemented by the Government in Australia and New Zealand that has impact to the Group's operations. Meridian has considered the impact of this change and it is not expected to have a material impact to the financial statements.

Generation structures and plant revaluation

At 30 June 2020 a valuation of Meridian's generation structures and plant assets has been undertaken, to determine the fair value of the assets as at this date. Meridian uses an independent valuer to determine a valuation range on which the Board's ultimate valuation decision is based. The valuation range is set using an income approach based primarily on capitalisation of earnings with additional consideration of discounted cashflows (DCFs).

The valuation has resulted in a net decrease of $78 million from 30 June 2019.

For more information refer to Note B1 Property, plant and equipment.

Non-GAAP measures

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

EBITDAF

Earnings before interest, tax, depreciation, amortisation, change in fair value of hedges, impairments and gains or losses on sale of assets.

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

Energy margin

Energy margin provides a measure of financial performance that, unlike total revenue, accounts for the variability of the wholesale energy markets and the broadly offsetting impact of wholesale prices on the cost of Meridian's energy purchases and revenue from generation. Meridian uses the measure of energy margin within Meridian's segmental financial performance in Note A1 Segment performance.

Net debt

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

A

Financial performance

In this section

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

a. accounting policies, judgements and estimates that are relevant for understanding items recognised in the income statement; and

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

A1 Segment performance

The Chief Executive (the chief operating decision-maker) monitors the operating performance of each segment for the purpose of making decisions on resource allocation and strategic direction.

The Chief Executive considers the business according to the nature of the products and services and the location of operations, as set out below:

New Zealand wholesale

- Generation of electricity and its sale into the New Zealand wholesale electricity market.
- Purchase of electricity from the wholesale electricity market and its sale to the NZ Retail segment and to large industrial customers, including New Zealand Aluminium Smelter (NZAS) representing the equivalent of 38% (30 June 2019: 39%) of Meridian's New Zealand generation production.
- Development of renewable electricity generation opportunities in New Zealand.

New Zealand retail

- Retailing of electricity and complementary products through two brands (Meridian and Powershop) in New Zealand.

  Electricity sold to residential, business and industrial customers on fixed price variable volume contracts is purchased from the Wholesale segment at an average annual fixed price of \$81 per megawatt hour (MWh) and electricity sold to business and industrial customers on spot (variable price) agreements is purchased from the Wholesale segment at prevailing wholesale spot market prices.

  Agency margin from spot sales is included within "Contracted sales, net of distribution costs".

  The transfer price is set in a similar manner to transactions with third parties.
- Powershop New Zealand provide front line customer and back office services for Powershop Australia. Revenue of \$3 million has been recorded in 'other revenue' and is eliminated on Group consolidation.

Australia

- Generation of electricity from Meridian's two wind farms and three hydro power stations, and acquired under power purchase agreements, for sale into the Australian wholesale electricity market.
- Retailing of electricity and gas, mainly through the Powershop brand in Australia.
- Development of renewable electricity generation options in Australia.

Other and unallocated

- Other operations, that are not considered reportable segments, include licensing of the Flux developed electricity and gas retailing platform.
- Activities and centrally based costs that are not directly allocated to other segments.

The financial performance of the operating segments is assessed using energy margin and EBITDAF (a definition of these measures is included within significant matters in the financial year) before unallocated central corporate expenses. Balance sheet items are not reported to the Chief Executive at an operating segment level.

A

A1 Segment performance continued

	NZ Wholesale		NZ Retail		Australia		Other and Unallocated		Inter-segment		Total	
	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M
Contracted sales, net of distribution costs	531	524	796	654	182	152	–	–	–	–	1,509	1,330
Cost to supply customers	(1,558)	(1,985)	(625)	(502)	(139)	(150)	–	–	697	613	(1,625)	(2,024)
Net cost of hedging	11	126	–	–	(9)	4	–	–	–	–	2	130
Generation spot revenue	1,266	1,672	–	–	89	113	–	–	–	–	1,355	1,785
Inter-segment electricity sales	697	613	–	–	–	–	–	–	(697)	(613)	–	–
Virtual asset swap margins	9	11	–	–	–	–	–	–	–	–	9	11
Other market revenue/(costs)	(6)	(7)	1	2	(1)	(1)	–	–	–	–	(6)	(6)
Energy margin	**950**	**954**	**172**	**154**	**122**	**118**	**–**	**–**	**–**	**–**	**1,244**	**1,226**
Other revenue	3	2	13	12	3	2	32	29	(24)	(20)	27	25
Dividend revenue	–	–	–	–	–	–	27	41	(27)	(41)	–	–
Energy transmission expense	(116)	(125)	–	–	(7)	(6)	–	–	–	–	(123)	(131)
Gross margin	**837**	**831**	**185**	**166**	**118**	**114**	**59**	**70**	**(51)**	**(61)**	**1,148**	**1,120**
Employee expenses	(32)	(28)	(32)	(31)	(13)	(13)	(38)	(30)	–	–	(115)	(102)
Electricity metering expenses	–	–	(36)	(33)	–	–	–	–	–	–	(36)	(33)
Other operating expenses	(61)	(63)	(34)	(35)	(39)	(37)	(22)	(22)	13	10	(143)	(147)
EBITDAF	**744**	**740**	**83**	**67**	**66**	**64**	**(1)**	**18**	**(38)**	**(51)**	**854**	**838**
Depreciation and amortisation	–	–	–	–	–	–	–	–	–	–	(312)	(276)
Impairment of assets	–	–	–	–	–	–	–	–	–	–	(58)	(5)
Gain/(Loss) on sale of assets	–	–	–	–	–	–	–	–	–	–	–	3
Net change in fair value of electricity and other hedges	–	–	–	–	–	–	–	–	–	–	(113)	58
Operating profit	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**371**	**618**
Finance costs	–	–	–	–	–	–	–	–	–	–	(85)	(84)
Interest income	–	–	–	–	–	–	–	–	–	–	1	1
Net change in fair value of treasury instruments	–	–	–	–	–	–	–	–	–	–	(48)	(63)
Net profit before tax	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**239**	**472**
Tax expense	–	–	–	–	–	–	–	–	–	–	(63)	(133)
Net profit after tax	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**176**	**339**
Reconciliation of energy margin												
Electricity sales revenue, net of hedging	2,271	2,492	1,453	1,297	351	290	–	–	(697)	(613)	3,378	3,466
Electricity expenses, net of hedging	(1,320)	(1,538)	(714)	(630)	(142)	(107)	–	–	697	613	(1,479)	(1,662)
Electricity distribution expenses	(1)	–	(567)	(513)	(87)	(65)	–	–	–	–	(655)	(578)
Energy margin	**950**	**954**	**172**	**154**	**122**	**118**	**–**	**–**	**–**	**–**	**1,244**	**1,226**

A2 Income

Operating revenue	2020 $M	2019 $M
Energy sales to customers	**1,994**	1,773
Generation revenue, net of hedging	**1,384**	1,693
Energy related services revenue	**10**	8
Other revenue	**17**	17
	3,405	**3,491**

Total revenue by geographic area	2020 $M	2019 $M
New Zealand	**3,039**	3,187
Australia	**353**	292
United Kingdom	**13**	12
	3,405	**3,491**

	2020 $M	2019 $M
Interest income	**1**	1

Operating revenue

Energy sales to customers

Revenue received or receivable from residential, business and industrial customers. This revenue is influenced by customer contract sales prices and their demand for energy.

Generation revenue, net of hedging

Revenue received from:

- electricity generated and sold into the wholesale markets; and
- net settlement of energy hedges sold on futures markets, and to generators, retailers and industrial customers.

This revenue is influenced by the quantity of generation and the wholesale spot price and is recognised at the time of generation or hedge settlement.

Key judgements and estimates – Revenue

Electricity consumption

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

Revenue is recognised at the time of supply and customer consumption. Elements of the sale price such as discounts and credits given to customers and any incremental costs incurred obtaining or retaining a customer contract are deferred to customer contract assets on the balance sheet on a portfolio basis and released to the income statement over the contract tenure.

Supply contract with NZAS

The agreement with NZAS has been recognised in these financial statements in a manner consistent with fixed price supply agreements with other industrial customers. Revenue is recognised as electricity sales revenue in the income statement and the estimated future cash flows are included in the fair value of generation structures and plant assets on the balance sheet.

Discounts and payment terms

Where a discount is offered revenue is initally recognised net of estimated discount based on accumulated experience used to estimate the amount of discounts taken by customers.

There are no significant differences between the payment terms and this policy.

A

A3 Expenses

Operating expenses	2020 $M	2019 $M
Energy expenses, net of hedging	**1,479**	1,662
Energy distribution expenses	**655**	578
Energy transmission expenses	**123**	131
Employee expenses	**115**	102
Energy metering expense	**36**	33
Other expenses	**143**	147
	2,551	**2,653**

Depreciation and amortisation	Note	2020 $M	2019 $M
Depreciation	B1	**288**	250
Amortisation of intangibles	B2	**24**	26
		312	**276**

Finance costs	Note	2020 $M	2019 $M
Interest on borrowings		**77**	78
Interest on electricity option premium		**2**	2
Interest on finance lease payable	C8	**6**	4
		85	**84**

Impairment and gain on sale of assets	Note	2020 $M	2019 $M
Impairment of property, plant and equipment	B1	**58**	5
(Gain) on sale on disposal of assets		**–**	(3)

Operating expenses

Energy expenses, net of hedging

The cost of:

- energy purchased from wholesale markets to supply customers;
- net settlement of buy-side energy hedges; and
- related charges and services.

Energy expenses are influenced by quantity and timing of customer consumption and wholesale spot prices.

Energy distribution expenses

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

Energy transmission expenses

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

Employee expenses

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

Contributions to defined contribution plans (largely KiwiSaver) were $5 million in 2020 (30 June 2019: $5 million).

Energy metering expenses

The cost of electricity meters, meter reading and data gathering of retail customer electricity consumption in New Zealand. Metering expenses in Australia are bundled with electricity distribution costs.

Impairment of non-financial assets

Meridian reviews the recoverable amount of its tangible and intangible assets at each balance date. They are grouped into cash-generating units with separately identifiable cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell, and present value of future cash flows expected to be generated by the assets (also known as value in use). If the carrying value of an asset exceeds the recoverable amount, an impairment expense is recognised in the income statement. For assets that are revalued refer to Note B1 Property, plant and equipment for specific treatment.

$57 million of the impairment in 2020 (2019: $5 million) is a result of the revaluation of our Australian generation structures and plant. Refer to Note B1 Property, plant and equipment for further detail.

A

A4 Taxation

Tax expense	2020 $M	2019 $M
Current income tax expense	169	161
Adjustments to tax of prior years	(1)	–
Total current tax expense	**168**	**161**
Deferred tax	(106)	(28)
Other	1	–
Total tax	**63**	**133**
Reconciliation to profit before tax		
Profit before tax	**239**	**472**
Income tax at applicable rates	65	133
Income tax (over)/under provided in prior year	(1)	–
Other	(1)	–
Tax expense	**63**	**133**

Current tax expense

Tax expense components are current income tax and deferred tax.

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

A

A4 Taxation continued

Deferred tax assets and liabilities	2020 $M	2019 $M
Balance at beginning of year	**1,928**	1,637
Temporary differences in income statement:		
Depreciation/amortisation	**(69)**	(38)
Term payables	**5**	9
Financial instruments	**(45)**	(1)
Australia tax losses utilised	**7**	6
Customer contract assets	**1**	–
Deferred income	**–**	(2)
Other – payables & receivables	**(5)**	(2)
	(106)	**(28)**
Temporary differences in other comprehensive income:		
Revaluation reserve movements	**(7)**	320
Other	**1**	(1)
Balance at end of year	**1,816**	**1,928**
Made up of:		
Property, Plant and Equipment	**1,935**	2,009
Term payables	**(22)**	(27)
Financial instruments	**(64)**	(19)
Customer contract assets	**7**	6
Other – payables & receivables	**(6)**	(1)
Deferred tax liability	**1,850**	1,968
Carried forward unused tax losses	**(32)**	(38)
Deferred income	**(2)**	(2)
Other	**–**	–
Deferred tax asset	**(34)**	**(40)**
Total deferred tax	**1,816**	**1,928**

Deferred tax assets and liabilities

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

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

The majority of Meridian's deferred tax balance is made up of temporary differences on the revaluation of property, plant and equipment. This balance will only reverse if the fair value of these assets declines back to their original historical cost.

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

Unused tax losses

The deferred tax asset relates to unused tax losses from our Australian operations and will be utilised against future taxable income from retail and generation activities in that country.

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

Offsetting deferred tax balances

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

B

Assets used to generate and sell electricity

In this section

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

a. property, plant and equipment; and

b. intangible assets.

B1 Property, plant and equipment

Generation structures and plant revaluations:	Generation structures and plant at fair value	Land and buildings at cost	Other plant and equipment at cost	Right of Use Lease Assets	Work in progress at cost	Total
Cost or fair value	8,013	20	171	–	71	**8,275**
Less accumulated depreciation	(237)	(5)	(91)	–	(1)	**(334)**
Net book value at 30 June 2018	**7,776**	**15**	**80**	**–**	**70**	**7,941**
Additions	–	–	–	–	39	**39**
Transfers – work in progress	8	–	6	–	(14)	**–**
Derecognition of Mt Mercer finance lease assets	–	–	(11)	–	–	**(11)**
Disposals	–	–	–	–	–	**–**
Foreign currency exchange rate movements[23]	(26)	–	(2)	–	–	**(28)**
Generation structures and plant revaluations:						
Increase taken to revaluation reserve	1,139	–	–	–	–	**1,139**
Decrease taken to income statement	(5)	–	–	–	–	**(5)**
Depreciation expense	(238)	–	(10)	–	(2)	**(250)**
Net book value at 30 June 2019	**8,654**	**15**	**63**	**–**	**93**	**8,825**
Cost or fair value	8,655	20	160	–	96	**8,931**
Less accumulated depreciation[24]	(1)	(5)	(97)	–	(3)	**(106)**
Net book value at 30 June 2019	**8,654**	**15**	**63**	**–**	**93**	**8,825**
Additions	–	–	–	–	38	**38**
Transfers – work in progress	24	–	5	–	(29)	**–**
Lease assets transferred on implementation of NZ IFRS 16	–	–	(27)	27	–	**–**
Lease assets recognised on implementation of NZ IFRS 16	–	–	–	75	–	**75**
Adjustment of Right of Use lease assets	–	–	–	1	–	**1**
Decommisioning Asset - Make good provision	6	–	–	–	–	**6**
Foreign currency exchange rate movements[23]	14	–	1	–	–	**15**
Generation structures and plant revaluation:						
Decrease taken to revaluation reserve	(21)	–	–	–	–	**(21)**
Decrease taken to income statement	(57)	–	–	–	–	**(57)**
Depreciation expense	(275)	–	(7)	(7)	1	**(288)**
Net book value at 30 June 2020	**8,345**	**15**	**35**	**96**	**103**	**8,594**
Cost or fair value	8,593	20	130	111	105	**8,959**
Less accumulated depreciation[24]	(248)	(5)	(95)	(15)	(2)	**(365)**
Net book value at 30 June 2020	**8,345**	**15**	**35**	**96**	**103**	**8,594**

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

B

B1 Property, plant and equipment continued

At 30 June 2020, had the generation structures and plant been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately $2.3 billion (30 June 2019: $2.5 billion).

With the implementation of NZ IFRS 16, a new asset category has been created called "Right of Use Lease Assets". This captures the value to the Group of the assets we contract to use via lease arrangements. The new assets recognised in this financial year relate to office leases in New Zealand and Australia, and to land access arrangements in Australia.

As we used the modified retrospective method to transition to NZ IFRS 16, we have not restated prior period numbers. The $27 million of assets transferred in the current financial year relates to finance lease assets previously recognised under NZ IAS 17. These balances relate to grid connection assets at Mill Creek and Mt Mercer, and were previously included in the "Other Plant & Equipment" category. New assets of $75 million recognised during the current financial year relate to arrangements which were previously classified as operating leases under NZ IAS 17.

A number of Meridian's lease arrangements contain options to extend. Where we are reasonably certain of taking up those options, they are included in the lease value. If there is any uncertainty around whether an extension will be taken, it is excluded from the asset value.

Right of Use Assets are depreciated over the term of their underlying lease arrangement.

Recognition and measurement

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

Fair value and revaluation of generation structures and plant

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

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

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

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

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

Revaluation of generation structures and plant

Meridian engaged an independent valuer to assess its generation structures and plant assets at 30 June 2020. At this date an independent valuer assessed values using capitalisation of earnings and DCFs when determining a valuation range.

At 30 June 2020, the revaluation resulted in a net decrease of $78 million (2019: net increase of $657 million) in the carrying value of our generation structures and plant assets. The impact of the revaluation was recognised as a decrease of $21 million (2019: increase of $1,139 million) in the revaluation reserve and $57 million impairment (2019: impairment of $5 million) of Australian generation assets recognised in the income statement.

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

Key judgements and estimates – Generation structures and plant valuation techniques and key inputs

The Meridian Board uses its judgement to decide on the appropriateness of key valuation techniques and inputs for fair value measurement. Judgement is also used in determining the estimated remaining useful lives of assets. As the valuation of generation structures and plant does not fully use observable market data, it continues to be classified as level 3 under Meridian's fair value hierarchy defined in Note D1 Financial risk management.

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

In determining the maintainable earnings, observable wholesale electricity prices extracted from the ASX have been used.

The impact of COVID-19 has been considered as part of the key assumptions when preparing this year's valuation. There was no impact on the valuation when taking this into consideration.

It is assumed in this valuation that the contract with NZAS runs to full term, under existing contractual arrangements.

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

Key input to measure fair value	Description	Range of unobservable inputs	Sensitivity	Impact on valuation
Future NZ wholesale electricity prices	The price received for NZ generation	$74MWh to $105MWh by 2035 (in real terms)	+ $3MWh - $3MWh	$501M ($501M)
New Zealand generation volume	Annual generation production	13,400GWh p.a. to 15,590GWh p.a.	+ 250GWh - 250GWh	$286M ($286M)
Australian generation volume	Annual generation production	890GWh p.a. to 820GWh p.a.	+5% -5%	A$35M (A$35M)
Operating expenditure (excluding electricity related expenditure - refer note A3)	Meridian's cost of operations	$300M p.a.	+ $10M - $10M	($162M) $162M
EBITDAF earnings multiple	Valuation multiple (including control premium of 20%) derived from earnings and valuations of comparable companies	12.2 x EBITDAF	+0.5x -0.5x	$416M ($416M)

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

B

B1 Property, plant and equipment continued

Depreciation

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

Useful lives

Meridian uses its judgement in determining the remaining useful lives and residual value of assets, which are:

- generation structures and plant – up to 80 years;
- buildings – up to 67 years;
- other plant and equipment – up to 20 years; and
- right of use lease assets – up to 27 years.

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

Disposals or retirement

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

B2 Intangible assets

$M	Goodwill	Software	Total
Cost or fair value	–	150	150
Less accumulated amortisation	–	(90)	(90)
Net book value at 30 June 2018	–	60	60
Additions	–	25	25
Amortisation expenses	–	(26)	(26)
Net book value at 30 June 2019	–	59	59
Cost or fair value	–	173	173
Less accumulated amortisation	–	(114)	(114)
Net book value at 30 June 2019	–	59	59
Additions	5	25	30
Amortisation expenses	–	(24)	(24)
Net book value at 30 June 2020	5	60	65
Cost or fair value	5	198	203
Less accumulated amortisation	–	(138)	(138)
Net book value at 30 June 2020	5	60	65

Software

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

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

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

Useful lives

Meridian uses its judgement in determining the remaining useful lives and residual value of intangible assets, which are:

- electricity and gas retail platform – up to 5 years;
- generation control – up to 10 years; and
- other software – up to 3 years.

These are reviewed, and, if appropriate, adjusted at each balance date.

Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of the identifiable assets and liabilities at the date of acquisition. Goodwill is assessed as having an indefinite useful life and is not amortised. Instead, it is subject to impairment testing at each reporting date or whenever there are indications of impairment. Goodwill has been allocated to the following entities:

$M	2020	2019
Rangoon Energy Park Pty Ltd	4	–
Wandsworth Wind Farm Pty Ltd	1	–
	5	–

The goodwill recognised during the current financial year relates to the acquisition in March 2020 of two wind farm development sites in Australia. As these are development sites, the impairment test is based on comparing the carrying value to the expected recoverable value of each site. Key inputs into the expected recoverable amount include the potential generation capacity of each site, and a market value multiple per unit of generation capacity ($/MW). Potential capacity is revisited as the development of each wind farm site progresses. The market value multiple is reassessed by analysing other similar purchase transaction, where available.

C Managing funding

In this section

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

a. equity and dividends;

b. net debt;

c. receivables and payables; and

d. leases and commitments.

C1 Capital management

Capital risk management objectives

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

Capital is defined as the combination of shareholders' equity, reserves and borrowings (both drawn debt and lease liabilities) less gross cash and cash equivalents.

Meridian manages its capital through various means, including:

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

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

Meridian is in full compliance with debt facility financial covenants.

	Note	2020 $M	2019 $M
Share capital	C2	**1,598**	1,599
Retained earnings		**(1,541)**	(1,171)
Other reserves		**5,026**	5,029
		5,083	**5,457**
Drawn borrowings	C7	**1,491**	1,376
Lease liabilities	C8	**104**	32
Less: cash and cash equivalents	C5	**(176)**	(78)
		1,419	**1,330**
Net capital		**6,502**	**6,787**

	Note	2020 $M	2019 $M
Net debt to EBITDAF			
Drawn borrowings	C7	**1,491**	1,376
Lease liabilities	C8	**104**	32
Operating lease commitments	C9	**–**	91
Less: cash and cash equivalents	C5	**(176)**	(78)
Add back: restricted cash	C5	**67**	27
Add back: cash buffer[25]		**27**	13
Net debt (A)		**1,513**	**1,461**
EBITDAF (B)		**854**	**838**
Net debt to EBITDAF (times) (A/B)		**1.8**	**1.7**

	Note	2020 $M	2019 $M
EBITDAF Interest cover			
EBITDAF (B)		**854**	838
Interest on borrowings	A3	**77**	78
Interest on lease liabilities	A3	**6**	4
Interest (C)		**83**	82
EBITDAF interest cover (times) (B/C)		**10.3**	10.2
Standard & Poor's rating		**BBB+**	**BBB+**

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

C2 Share Capital

Share capital	Shares	2020 $M	Shares	2019 $M
Shares issued	2,563,000,000	1,600	2,563,000,000	1,600
Treasury shares held	(1,212,448)	(2)	(681,881)	(1)
Share capital	**2,561,787,552**	**1,598**	**2,562,318,119**	**1,599**

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

The movement in Treasury shares relates to the purchase of shares by participants and held on trust as part of a long-term equity settled incentive plan for New Zealand-based senior executives (refer to Note F1 Share-based payments) and to hedging of the new LTI scheme.

C3 Earnings per share

Basic and diluted earnings per share (EPS)	2020	2019
Profit after tax attributable to shareholders of the parent company ($M)	176	339
Weighted average number of shares used in the calculation of EPS	2,563,000,000	2,563,000,000
Basic and diluted EPS (cents per share)	6.9	13.2

C4 Dividends

Dividends declared and paid	2020 $M	2019 $M
Interim ordinary and special dividend 2020: 8.14cps (cents per share) (2019: 8.14cps)	**209**	208
Final ordinary and special dividend 2019: 13.16cps (2018: 11.38cps)	**337**	292
Total dividends paid	**546**	**500**
Dividends declared and not recognised as a liability		
Final ordinary dividend 2020: 11.20cps (2019: 10.72cps)	**287**	275
Special dividend 2020: nil (2019: 2.44cps)	**–**	63
Imputation credit balance		
Imputation credits available for future use	**94**	64

Dividend policy

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

Imputation credit balance

Imputation credits allow Meridian to pass on to its shareholders the benefit of the New Zealand income tax it has paid by attaching imputation credits to the dividends it pays, reducing the shareholders' net tax obligations.

The imputation credits available for future use reflect the balance available on 25 August 2020, therefore recognising any tax payments between balance date and 25 August 2020.

Subsequent event – dividend declared

On 25 August 2020 the Board declared a partially imputed final ordinary dividend of 11.20 cents per share.

C

C5 Cash and cash equivalents

Cash and cash equivalents	2020 $M	2019 $M
Current account	154	78
Money market account	22	–
Cash and cash equivalents	**176**	**78**

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

Restricted cash

Meridian trades electricity hedges on the ASX using JP Morgan as a broker. As a result, a proportion of the funds it holds on deposit is pledged as margin which varies depending on market movements and contracts held.

At 30 June 2020, this collateral was $67 million (30 June 2019: $27 million).

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

Reconciliation of net profit after tax to cash flows from operating activities	2020 $M	2019 $M
Net profit after tax	**176**	**339**
Adjustments for operating activities' non-cash items:		
Depreciation and amortisation	312	276
Movement in deferred tax	(106)	(28)
Net change in fair value of financial instruments	161	5
Electricity option premiums	(22)	(19)
Share-based payments	1	1
	346	**235**
Items classified as investing activities:		
Impairment of assets	58	5
(Gain)/Loss on sale of assets	–	(3)
	58	**2**
Changes in working capital items:		
(Increase) in accounts receivable	(31)	(31)
(Increase) in customer contract assets	(3)	(1)
(Increase) in other assets	(8)	(2)
Increase in payables and accruals/employee entitlements	68	37
Increase in customer contract liabilities	7	2
(Decrease)/increase in current tax payable	(1)	37
Working capital items in investing activities	(21)	5
Working capital items in financing activities and other non-cash items	14	12
	25	59
Cash flow from operating activities	**605**	635

C

C6 Trade receivables

Trade receivables	2020 $M	2019 $M
Accrued receivables	**262**	223
Current billed	**57**	57
Past due 1 to 30 days	**10**	11
Past due 31 to 60 days	**3**	2
Past due 61 to 90 days	**1**	2
Past due greater than 90 days	**6**	2
Less: credit loss allowance	**(16)**	(5)
Total trade receivables	**323**	**292**
Accounts receivable past due but not impaired	**10**	12
Movement in provision for credit loss allowance		
Opening provision	**(5)**	(5)
Provision created in the year	**(14)**	(4)
Provision used in the year	**3**	4
Closing provision for credit loss allowance	**(16)**	**(5)**

Trade receivables, measurement and recognition

Trade receivables are measured on initial recognition at fair value, and are subsequently carried at amortised cost. The overdue amounts are largely related to electricity sales to retail customers in New Zealand and Australia.

Trade receivables written off during the year were $3 million (30 June 2019: $4 million).

Receivables are written off at the point where Meridian believe there is no reasonable expectation of recovery, which is typically a combination of an overdue amount, no communication or response from the debtor, and no payments received. Receivables written off are handed to collection agencies for enforcement.

Credit losses

The allowance for credit losses are an estimate of the Group's expected credit losses over the lifetime of the current amounts receivable. Or rather, it is the difference between the face value of trade receivables and the future cash flows we expect to receive. Additions to the provision are recognised in the income statement.

We estimate collective future cash flows by considering customer credit history, historical recovery performance and trends, through which we build default matrices that apply a probability of default given the ageing of debtors. Forward-looking employment statistics are also monitored for both New Zealand and Australia, with a large rise in forecast unemployment acting as a trigger for us to reconsider the probability rates in our matrices.

As noted in the Significant Matters section, Meridian has increased its provision for credit losses in the current year in response to COVID-19.

C

C7 Borrowings

$M	Currency borrowed in	2020 Drawn facility amount	2020 Transaction costs paid	2020 Fair value adjustment	2020 Carrying amount	2019 Drawn facility amount	2019 Transaction costs paid	2019 Fair value adjustment	2019 Carrying amount
Current borrowings									
Unsecured borrowings	NZD	89	(1)	–	88	168	(1)	–	167
Total current borrowings		**89**	**(1)**	**–**	**88**	**168**	**(1)**	**–**	**167**
Non-current borrowings									
Unsecured borrowings	NZD	800	(2)	–	798	610	(2)	–	608
Unsecured borrowings	USD	602	(1)	201	802	598	(1)	98	695
Total non-current borrowings		**1,402**	**(3)**	**201**	**1,600**	**1,208**	**(3)**	**98**	**1,303**
Total borrowings		**1,491**	**(4)**	**201**	**1,688**	**1,376**	**(4)**	**98**	**1,470**

Borrowings, measurement and recognition

Borrowings are recognised initially at the fair value of the drawn facility amount (net of transaction costs paid) and are subsequently held at amortised cost using the effective interest method. Any borrowings which have been designated as hedged items (USD borrowings) are carried at amortised cost plus a fair value adjustment under hedge accounting requirements – refer to Note D1 Hedge accounting section for further detail on this. Any borrowings denominated in foreign currencies are retranslated to the functional currency at each reporting date. Any retranslation effect is included in the "Fair value adjustment" column in the table, along with any amounts relating to fair value hedge adjustments.

Meridian uses cross-currency interest rate swap (CCIRS) hedge contracts to manage its exposure to interest rates and borrowings sourced in currencies different to that of the borrowing entity's reporting currency. More information on Meridian's risk management and hedge accounting practices can be found in Section D Financial instruments used to manage risk.

Fair value of items held at amortised cost	2020 $M Carrying value	2020 $M Fair value	2019 $M Carrying value	2019 $M Fair value
Retail bonds	500	558	500	542
Floating Rate Notes	50	51	100	101
Unsecured term loan (EKF facility)	60	64	70	75

Within term borrowings there are longer dated instruments which are not in hedge accounting relationships. The carrying values and estimated fair values of these instruments are noted in the table above.

Fair value is calculated using a discounted cash flow calculation and the resultant values would be classified as Level 2 within the fair value hierarchy. The Retail Bonds are listed instruments; however, a lack of liquidity on the NZX precludes them from being classified as Level 1 (a definition of hierarchy levels is included in Note D1 Financial instruments used to manage risk).

Carrying value approximates fair value for all other instruments within term borrowings.

C7 Borrowings continued

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.
$75 million in new lease liabilities were recognised following implementation of NZ IFRS 16 and are noted in the column "Lease liabilities recognised".

	2020										
$M	Balance at 30 June 2019	Term borrowings drawn	Term borrowings repaid	Valuation adjustments	Foreign Exchange	Transaction costs paid & accrued	Lease liabilities recognised	Lease liabilities paid	Lease Derecognition	Unwind of discounting	Balance at 30 June 2020
Unsecured borrowings – NZD	775	172	(60)	–	–	(1)	–	–	–	–	886
Unsecured borrowings – USD	695	–	–	80	27		–	–	–	–	802
Lease Liabilities	32	–	–	(1)	(1)	–	75	(7)	–	6	104
Total	**1,502**	**172**	**(60)**	**79**	**26**	**(1)**	**75**	**(7)**	**–**	**6**	**1,792**

	2019										
$M	Balance at 1 July 2018	Term borrowings drawn	Term borrowings repaid	Valuation adjustments	Foreign Exchange	Transaction costs paid & accrued	Lease liabilities recognised	Lease liabilities paid	Lease Derecognition	Unwind of discounting	Balance at 30 June 2019
Unsecured borrowings – NZD	986	–	(212)	–	–	1	–	–	–	–	775
Unsecured borrowings – USD	487	439	(272)	37	5	(1)	–	–	–	–	695
Lease Liabilities	48	–	–	–	(3)	–	–	(1)	(16)	4	32
Total	**1,521**	**439**	**(484)**	**37**	**2**	**–**	**–**	**(1)**	**(16)**	**4**	**1,502**

		2020			2019		
Sources of funding – $M	Currency borrowed in	Facility amount	Drawn facility amount	Undrawn facility amount	Facility amount	Drawn facility amount	Undrawn facility amount
Bank facilities							
New Zealand bank funding[26]	NZD	600	200	400	600	28	572
EKF funding[27]	NZD	60	60	–	70	70	–
Total bank facilities		**660**	**260**	**400**	**670**	**98**	**572**
Other sources of borrowing							
Retail bonds[28]	NZD	500	500	–	500	500	–
Floating rate notes[26]	NZD	50	50	–	100	100	–
Fixed rate bonds[29]	USD	602	602	–	598	598	–
Commercial paper[30]	NZD	79	79	–	80	80	–
Total other sources of borrowing		**1,231**	**1,231**	**–**	**1,278**	**1,278**	**–**
Total sources of funding		**1,891**	**1,491**	**400**	**1,948**	**1,376**	**572**

26. Funding bears interest at the relevant market floating rate plus a margin.
27. EKF facility is an unsecured amortising term loan, provided by the official export credit agency of Denmark, for the construction of Te Uku wind farm.
28. Retail Bonds are senior unsecured retail bonds bearing interest rates of 4.53%, 4.88% and 4.21%.
29. USD fixed rate bonds are unsecured fixed rate bonds issued in the United States Private Placement Market.
30. NZD commercial paper comprises senior unsecured short-term debt obligations paying a fixed rate of return over a set period of time.

C

C8 Lease Liabilities

Lease liabilities analysis	2020 $M	2019 $M
Minimum lease payments		
Not later than 1 year	10	5
Later than 1 year and not later than 3 years	20	9
Later than 3 years and not later than 5 years	19	9
Later than 5 years	109	56
Gross future lease payables	158	79
Less future finance costs	(54)	(47)
Present value of lease liabilities	104	32
Analysed as:		
Not later than 1 year	7	1
Later than 1 year and not later than 3 years	14	2
Later than 3 years and not later than 5 years	13	2
Later than 5 years	70	27
Present value of lease liabilities	104	32
Comprising:		
Current	7	1
Non-current	97	31
	104	32

Lease liabilities, measurement and recognition

Meridian recognises the present value of expected lease payments under lease arrangements as lease liabilities payable. Subsequent repayments are split between principal and interest expense. The interest reflects a constant periodic charge over the expected term of the lease.

A number of our lease arrangements contain options to extend. Where we are reasonably certain of taking up those options, they are included in the lease liability. If there is any uncertainty around whether a lease extension will be taken up, it is excluded from the liability value.

Lease liabilities are classified as financial liabilities at amortised cost.

As at the date of initial application of NZ IFRS 16, the weighted average discount rate applied in the calculation of lease liabilities was 3.11%.

Lease details

Meridian's leases relate to office spaces, transmission connection assets at Mill Creek and Mt Mercer, and land access arrangements at our Australian generation sites.

The increase in lease liabilities in the current financial year is due to the implementation of NZ IFRS 16, which saw forward commitments under operating leases brought on to balance sheet. Prior year figures relate only to leases which were recognised on balance sheet in the prior reporting period, those being finance leases recognised under NZ IAS 17.

Meridian reported interest expense on lease liabilities of $6 million (30 June 2019: $4 million) in the income statement.

Refer to Note B1 Property, plant and equipment for details of the related right of use lease assets.

C9 Commitments

Non-cancellable operating lease commitments are as follows:	Group 2020 $M	Group 2019 $M
Less than 1 year	–	6
Later than 1 year and not later than 3 years	–	12
Later than 3 years and not later than 5 years	–	11
More than 5 years	–	62
Total operating lease commitments	**–**	**91**

Operating leases, measurement and recognition

In the previous financial year, we recognised forward commitments under NZ IAS 17 operating leases in this table. However, with the implementation of NZ IFRS 16 in the current financial year, these lease commitments have been brought on to balance sheet and are now recognised as part of lease liabilities. Refer to Note C8 Lease liabilities for further details.

The values disclosed in this table in the prior financial year represented the undiscounted lease payments that Meridian has committed to. The increase in lease liabilities this year is less than the $91 million in lease commitments noted, because:

- lease liabilites recognised on balance sheet are discounted to present value; and
- 12 months of lease payments have been made since 30 June 2019.

Capital expenditure commitments	Group 2020 $M	Group 2019 $M
Property, plant and equipment	8	8
Total capital expenditure commitments	**8**	**8**

Guarantees

Various entities within the Group provide guarantees to external counterparties, with these mostly relating to security for energy market clearing and lines companies. The maximum liability under these guarantees is $75 million (30 June 2019: $35 million).

In addition to the above Meridian Energy Limited has provided parent guarantees for various construction and grid connection obligations of Mt Mercer Windfarm Pty Limited. The maximum liability under these guarantees is $30 million (30 June 2019: $32 million).

D

Financial instruments used to manage risk

In this section

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

a. outlining Meridian's approach to financial risk management; and

b. analysing financial (hedging) instruments used to manage risk.

D1 Financial risk management

Meridian's activities expose it to a variety of financial risks. Its financial risk management framework focuses on the unpredictability of financial markets and wholesale enegy markets. The Board approves policies including Group Treasury, Energy Hedging and Credit Policies which set appropriate principles and risk tolerance levels to guide management in carrying out financial risk management activities to minimise potential adverse effects on the financial performance and economic value of the Group. The key risks managed are discussed further below.

In order to help balance certain risk exposures, Meridian uses a variety of financial instruments (hedges). Hedges are categorised as either "Treasury" or "Energy" related, based on their underlying nature. A small number of Treasury hedges are designated in hedge accounting relationships (refer to Hedge accounting section for further detail). Meridian does not enter into speculative trades.

Financial instrument recognition

Meridian designates or classifies financial hedging instruments as:

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

Meridian accounts for derivative and certain designated financial instruments as fair value through the income statement.

Hedges are initially recognised at fair value on the dates the contracts are agreed, and are subsequently remeasured on a periodic basis. Remeasurement is recognised in the income statement.

Realised flows on hedges are recognised in the income statement within EBITDAF, in the same line as the underlying business/transactions being hedged.

Fair value (or unrealised) changes are recognised in "Net change in the fair value of energy hedges" or "Net change in fair value of treasury hedges", depending on the underlying business nature of the hedge.

Calculation of fair value for financial instruments

Meridian uses quoted prices and/or a discounted cash flows approach in order to calculate fair values for financial instruments. Fair value measurements are grouped within a three-level fair value hierarchy based on the observability of inputs to the valuation process:

- **Level 1 Inputs:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at reporting date;
- **Level 2 Inputs:** either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs other than quoted prices included in Level 1;
- **Level 3 Inputs:** inputs that are not based on observable market data (i.e. unobservable inputs).

Meridian has a number of energy hedges that require management estimation and judgement in order to generate a fair value at each reporting date. These estimates can have a significant risk of material adjustment in future periods. This is discussed in more detail later in this section.

D1 Financial risk management continued

Credit risk

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

For retail customers, credit checks are carried out before new customers are accepted. The credit team oversees the collection of receivables and works with customers to minimise the chances of bad debts occurring. Management monitors the size and nature of retail customer exposures on a regular basis and acts to mitigate the risk if deemed to exceed acceptable levels.

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

For wholesale customers, individual credit limits are set based on internal or external credit ratings in accordance with limits set by the Board. Where customers are not independently credit rated, an assessment of credit quality is made, taking into account financial position, past experience and other relevant factors. If appropriate, letters of credit/guarantees are obtained from counterparties to reduce credit risk to acceptable levels. These assessments and the utilisation of credit limits and security provided by wholesale customers are reviewed and monitored by the Chief Financial Officer.

The carrying amounts of financial assets recognised on the balance sheet best represent Meridian's maximum likely exposure to credit risk at the date of this report. Refer to Note C6 Trade receivables for a description of how we provide for any credit losses. Meridian does not have any significant credit risk concentrations.

Liquidity risk

Meridian is exposed to the dynamic nature of the energy markets and weather patterns, which can affect liquidity.

Meridian ensures flexibility in funding by maintaining committed surplus credit lines available of at least $200 million (refer to Note C7 Borrowings for details of undrawn facilities). This helps ensure Meridian has sufficient headroom under both normal and abnormal hydrological conditions.

Meridian manages its term debt requirements on a portfolio basis. To reduce concentration risk on any one lender or funding type, Meridian uses a range of different funding sources and currencies. Meridian also monitors contractual maturities and ensures these are well spaced (or laddered) so that refinancing risks are manageable.

In addition to borrowings, Meridian has entered into a number of letters of credit and guarantee arrangements which provide credit support of $75 million for Meridian's general operations (30 June 2019: $67 million). Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

D

D1 Financial risk management continued

Liquidity Risk – Contractual maturities

The following tables are an analysis of the contractual undiscounted cash flows (settlements expected under the contracts) relating to financial liabilities and a reconciliation from total undiscounted cash flows to carrying amounts. Meridian expects to meet its future obligations from operating cash flows and debt financing.

2020 $M	Due within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total undiscounted cash flows	Impact of other non-cash items	Impact of interest/FX discounting	2020 carrying value
Borrowings	144	174	778	753	**1,849**	(4)	(157)	**1,688**
Lease liabilities	10	20	19	109	**158**	–	(54)	**104**
Payables, accruals, provisions and option premiums	410	42	9	24	**485**	–	(8)	**477**
Treasury hedges	43	42	92	75	**252**	–	(14)	**238**
Energy hedges	27	21	31	29	**108**	(1)	(3)	**104**
	634	**299**	**929**	**990**	**2,852**	**(5)**	**(236)**	**2,611**

2019 $M	Due within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total undiscounted cash flows	Impact of other non-cash items	Impact of interest/FX discounting	2019 carrying value
Borrowings	223	62	572	953	**1,810**	(4)	(336)	**1,470**
Lease liabilities	5	9	9	56	**79**	–	(47)	**32**
Payables, accruals, provisions and option premiums	336	35	30	25	**426**	–	(21)	**405**
Treasury hedges	29	32	77	64	**202**	–	(18)	**184**
Energy hedges	9	4	26	29	**68**	(1)	(6)	**61**
	602	**142**	**714**	**1,127**	**2,585**	**(5)**	**(428)**	**2,152**

Market risk

Meridian is involved in both the energy and financial markets and as such is exposed to rises and falls in those markets and the subsequent income statement volatility this can cause. The main sub-types of market risk that we are exposed to are discussed below.

Commodity price risk

Meridian trades in the wholesale energy markets and so is exposed to volatility in forward energy prices.

Being both a generator and a retailer of energy means that Meridian has a natural hedge for most of the exposure to future energy prices.

Meridian also uses derivatives to help manage its net energy position, some of which are traded in quoted markets, and some of which are traded directly with other energy market participants. Energy hedges are not placed in hedge accounting relationships.

Foreign exchange risk

Meridian is exposed to foreign exchange risk arising from sales and procurement of goods and services denominated in foreign currencies and also from term debt raised in foreign currencies.

For exposures resulting from Meridian's general operations, foreign exchange spot or forward contracts are used to fix the value in reporting currency terms. Material items may be placed in hedge accounting relationships and can be either fair value hedges or cash flow hedges, depending on the nature of the transaction/underlying exposure.

For term debt raised in US Dollars, cross currency interest rate swaps (CCIRS) are used to convert the proceeds back to functional currency. These derivatives minimise foreign exchange risk on both the notional and the coupon flows over the life of the debt. CCIRS are placed in both fair value and cash flow hedge accounting relationships.

Interest Rate risk

Meridian is exposed to interest rate risk arising from its funding portfolio, which is a mix of fixed and floating rate debt.

Meridian issues debt on both a fixed and a floating basis and is thus exposed to changes in interest rates over time.

A portfolio of interest rate swaps (IRS) is then used to manage the net exposure to interest rate risk, in line with a Board approved hedging policy and profile. Please also refer to the Foreign Exchange section for derivatives used for term debt raised in foreign currencies.

Meridian swaps a significant portion of its borrowings to floating rates at loan inception, and hedges the resulting interest rate exposure over a tenure based profile of fixed IRS. This is achieved using a combination of CCIRS and IRS hedges. Where Meridian borrows in foreign currency it uses CCIRSs to swap all foreign currency denominated interest and principal repayments to the reporting currency. This results in floating rate borrowings in the entity's reporting currency. Meridian uses IRS hedges to fix floating interest rates in line with the Board approved hedging policy and profile.

Meridian groups its financial instrument into two categories - Treasury hedges and Energy hedges.

	Fair value on the balance sheet			
	2020		2019	
$M	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Treasury hedges	223	(238)	114	(184)
Energy hedges	142	(104)	195	(61)
	365	**(342)**	**309**	**(245)**
of which				
Current	100	(63)	118	(36)
Non Current	265	(279)	191	(209)
	365	**(342)**	**309**	**(245)**

Further disclosure and analysis of these two categories are noted on the following pages.

D1 Financial risk management continued

Treasury hedges

Hedges in the Treasury category generally relate to management of the interest rate risks and foreign exchange risks that arise from Meridian's funding activities and from general Group operations.

The instruments used are CCIRS, IRS and forward exchange contracts (FX).

		Fair value on the balance sheet				Fair value movements in the income statement		Outstanding aggregate notional principals[35]	
		2020 $M		2019 $M		2020 $M	2019 $M	2020 $M	2019 $M
Treasury hedges	Level	Assets	Liabilities	Assets	Liabilities				
CCIRS									
– Interest Rate Risk[31]		118	–	40	–	(2)	(1)		
– Basis and Margin Risk[32]		(4)	–	(6)	–	–	–		
– Foreign Exchange Risk[33]		80	–	58	–	–	–		
	2	194	–	92	–	(2)	(1)	602	598
IRS[34]	2	29	(238)	22	(184)	(46)	(62)	1,427	1,492
FX[34]	2	–	–	–	–	–	–	16	14
Treasury hedges		**223**	**(238)**	**114**	**(184)**	**(48)**	**(63)**		

Meridian uses CCIRS to hedge risks involved with long term debt issued in USD. In the above table the CCIRS are separated into component parts as follows:

In the above table, fair value movements in the income statement are shown net of any related hedge accounting adjustments and retranslation of foreign currency borrowings.

Refer to the Hedge Accounting section of Note D1 Financial risk management for further detail on the fair value and cash flow hedge relationships that the CCIRS are designated in.

31. Interest rate risk: this is the movement in value of the CCIRS due to changes in benchmark interest rates. The other side of this movement is recorded in the income statement in the "Net change in fair value of treasury instruments", together with changes in the fair value hedge adjustments on the designated USD borrowings.
32. Basis and margin risk: this is the movement in the value of the CCIRS due to changes in basis (excluding foreign exchange) and credit margin. The other side of this movement is recorded in the income statement in the "Net change in fair value of treasury instruments", together with cash flow hedge accounting adjustments that transfer effective hedge portions to the Cash Flow Hedge Reserve within Equity.
33. Foreign Exchange Risk: this is the movement in value of the CCIRS due to changes in spot foreign exchange rates. The impact of retranslation is recorded in the income statement in "Net change in fair value of treasury instruments" and is offset by equal and opposite retranslation effects on the related borrowings.
34. Changes in fair value of the IRS and FX portfolios are recognised in the income statement within "Net change in fair value of treasury instruments".
35. These cover multiple legs including offsetting legs and maturities out to 2034.

Treasury hedges – sensitivity analysis

The table below summarises the impact of changes in significant inputs (assuming all other variables are held constant) on the valuation of Treasury Hedges and therefore on Meridian's after tax profit and equity.

Note that changes in the fair value of the CCIRS are fully offset by opposite impacts from hedge accounting entries and the FX retranslation of the USD debt. Therefore the CCIRS P&L sensitivity is nil and is not shown in the below table. Due to the small size of the FX portfolio, changes in spot exchange rates result in very little change to fair values and therefore these are not shown in the table.

		Impact on after tax profit & equity	
	Sensitivity	2020 $M	2019 $M
Interest rates			
New Zealand benchmark bill rate	-100 basis points (bps)	**(40)**	(39)
	+100 bps	**44**	42
Australian benchmark bill rate	-100 bps	**(4)**	(4)
	+100 bps	**4**	4

D

D1 Financial risk management continued

Energy hedges

Hedges in this category relate to Meridian's management of risk arising from the generation, purchase and sale of energy.

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

Meridian's hedging strategy focuses on its net exposure by estimating both expected generation and energy purchases required to support contracted sales. Execution of this strategy is guided by Board approved parameters. Changes in the fair value of energy hedges are recognised in the income statement within "Net change in fair value of energy hedges". Hedge accounting is not applied to Energy Hedges.

		Fair value on the balance sheet				Fair value movements in the income statement		Outstanding aggregate notional volumes[36]	
		2020 $M		2019 $M		2020 $M	2019 $M	2020	2019
Energy hedges	Level	Assets	Liabilities	Assets	Liabilities				
Market traded electricity hedges	1	57	(16)	52	(3)	(23)	21	16,982 GWh	14,210 GWh
Market traded gas hedges	1	–	(2)	–	–	(2)	–	549 TJ	403 TJ
Other electricity hedges	3	27	(65)	51	(58)	(34)	35	21,086 GWh	24,589 GWh
Other gas hedges	2	–	(10)	–	–	(10)	–	280 TJ	0 TJ
Electricity options	3	50	–	70	–	(20)	(17)	2,855 GWh	3,990 GWh
LGCs									
LGC – Holdings created from wind farm generation	1	6	–	6	–	1	2	0.1 million	0.1 million
LGC – Hedges	2	2	(11)	16	–	(25)	17	2.1 million	1.0 million
		8	(11)	22	–	(24)	19		
Energy related hedges		**142**	**(104)**	**195**	**(61)**	**(113)**	**58**		

36. These cover multiple legs including offsetting legs and maturities out to 2030

The "Market traded electicity hedges" and "Market traded gas hedges" categories contain instruments that are traded on various exchange-based markets.

The "Other electricity hedges" and "Other gas hedges" categories contain over-the-counter derivatives, where counterparties include customers, other energy market participants and financial institutions. These hedges are generally longer-term, larger volume contracts that manage specific risks that can not be managed through exchange-based markets.

Meridian trades electricity options with other generators. These are used to support the management of inflow and storage variability in the catchments where it generates electricity.

The LGC category has two sub-components. The first represents the Renewable Energy Certificates (RECs) that Meridian's Australian wind farms earn in the form of Large Scale Generation Certificates (LGCs). Additionally, Powershop Australia is required to purchase and surrender RECs. The second represents the derivatives used to firm prices received for LGCs generated and consequently reduce the profit volatility of each wind farm. At the time of generation, LGCs are recognised as income in energy margin at the prevailing spot price. LGC holdings and hedges are all recognised as financial instruments on the balance sheet at their fair value.

D1 Financial risk management continued

Energy hedges – sensitivity analysis

The table below summarises the impact of changes in significant inputs (assuming all other variables are held constant) on the valuation of Energy Hedges and therefore on Meridian's after tax profit and equity.

	Sensitivity	Impact on after tax profit & equity 2020 $M	2019 $M
Energy hedges			
Energy prices	-10%	**(53)**	(57)
	+10%	**55**	57
Discount rates	-100 bps	**(2)**	(1)
	+100 bps	**2**	1
Call volumes	-10%	**(3)**	(5)
	+10%	**3**	5
LGC prices	-10%	**2**	1
	+10%	**(2)**	(1)

Movements in recalibration differences arising from energy hedges	2020 $M	2019 $M
Opening difference	**(3)**	5
Initial differences on new hedges	**-**	(7)
Volumes expired and amortised	**1**	(1)
Recalibration for future price estimates and time	**1**	-
Closing difference	**(1)**	**(3)**

Initial recognition difference

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

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

Settlements of energy hedges

The following provides a summary of the settlements through EBITDAF for Energy Hedges:

	2020							2019						
	Market-traded electricity hedges	Market-traded gas hedges	Other electricity hedges	Other gas hedges	Electricity Options	LGC related	Total	Market-traded electricity hedges	Market-traded gas hedges	Other electricity hedges	Other gas hedges	Electricity Options	LGC related	Total
Operating revenue	**24**	**–**	**(14)**	**–**	**–**	**38**	**48**	(27)	–	(65)	–	–	29	(63)
Operating expenses	**(50)**	**–**	**69**	**–**	**4**	**(15)**	**8**	(6)	–	182	–	18	(12)	182
Total settlements in EBITDAF	**(26)**	**–**	**55**	**–**	**4**	**23**	**56**	**(33)**	**–**	**117**	**–**	**18**	**17**	**119**

D

Fair value technique and key inputs

In estimating the fair value of an asset or liability, Meridian uses market-observable data to the extent that it is available. The Audit and Risk Committee of Meridian determines the overall appropriateness of key valuation techniques and inputs for fair value measurement. The Chief Financial Officer explains fair value movements in his report to the Board.

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

- forward price curves referenced to the ASX for electricity, published market data on gas/oil prices, published market interest rates and published forward foreign exchange rates;
- Meridian's best estimate of electricity volumes called over the life of electricity options;
- discount rates based on market wholesale interest rate curves, adjusted for counterparty credit risk;
- calibration factor applied to forward price curves as a consequence of initial recognition differences;
- NZAS continues to operate; and
- contracts run their full term (see significant matters section for further details on this.)

The impact of COVID-19 has been considered as part of the assumptions when determining the fair value of our financial instruments. There was no impact on fair value when taking this into consideration.

The table below describes any additional key inputs and techniques used in the valuation of level 2 and 3 energy hedges.

Financial asset or liability	Description of input	Range of significant unobservable inputs	Relationship of input to fair value
Other electricity hedges, valued using DCFs	**Price,** where quoted prices are not available or not relevant (i.e. for long-dated contracts), Meridian's best estimate of long-term forward wholesale electricity price is used. This is based on a fundamental analysis of expected demand and the cost of new supply and any other relevant wholesale market factors.	\$47/MWh to \$77/MWh (in real terms), excludes observable ASX prices.	An increase in the forward wholesale electricity price increases the fair value of buy hedges and decreases the fair value of sell hedges. A decrease in the forward wholesale electricity price has the opposite effect.
LGC Forward Contracts & Options valued using DCFs / Black Scholes	**Price**, based on a forward LGC price curve from a third party broker, and benchmarked against market spot prices. **Other factors**, include: · Calibration factor applied to forward price curves as a consequence of initial recognition differences.	A\$21 to A\$39	An increase in the forward LGC price decreases the fair value of sell hedges and increases the fair value of buy hedges. A decrease in the forward LGC prices has the opposite effect.

D1 Financial risk management continued

Level 3 financial instrument analysis

The following provides a summary of the movements through EBITDAF and movements in the fair value of level three financial instruments:

	2020			2019		
Reconciliation of level 3 fair value movements $M	**Other Electricity Hedges**	**Electricity Options**	**Total**	**Other Electricity Hedges**	**Electricity Options**	**Total**
Energy and other hedges settled in EBITDAF:						
Operating revenue	(14)	–	**(14)**	(65)	–	(65)
Operating expenses	69	**4**	**73**	182	18	200
Total settlements in EBITDAF	**55**	**4**	**59**	**117**	**18**	**135**
Net change in fair value of electricity and other hedges:						
Remeasurement	21	(16)	**5**	152	1	153
Hedges settled	(55)	(4)	**(59)**	(117)	(18)	(135)
Total realised and unrealised losses on energy hedges	**(34)**	**(20)**	**(54)**	**35**	**(17)**	**18**
Balance at the beginning of the period	(4)	70	**66**	(39)	87	48
Fair value movements	(34)	(20)	**(54)**	35	(17)	18
Balance at the end of the year	**(38)**	**50**	**12**	**(4)**	**70**	**66**

Fair value movements of level 3 energy hedges in 2020 which are held at balance date total $52 million (30 June 2019: $18 million).

D

D1 Financial risk management continued

Hedge accounting

Meridian makes limited use of hedge accounting, doing so only for USD borrowings and the CCIRS financial instruments that are used to economically hedge these exposures. Please refer to the start of the Risk Management section for a description of the key risks Meridian manages.

Meridian only designates hedge accounting relationships where the underlying exposure and the hedge are eligible for hedge accounting and are an economic match, where credit risk is not expected to dominate the fair value of the hedge, and where we expect the hedge relationship to remain effective over its life.

The USD borrowings (hedged items) and the CCIRS (hedging instruments) present Meridian with risks which we account for in the following ways:

Interest rate risk

The USD borrowings are fixed rate liabilities and thus present interest rate risk, should benchmark interest rates change. This risk is neutralised by receiving the same fixed rate on the USD leg of the matching CCIRS. Meridian designates the interest rate risk on USD borrowings in fair value hedge accounting relationships.

This means that:

- the carrying value of the USD borrowings are adjusted for changes in the fair value of the hedged risk - noted as "hedge accounting adjustments" in Note C7 Borrowings; and
- the CCIRS are revalued to the income statement for this same risk.

As long as the hedge accounting relationships remain effective, the revaluations of both the hedged item and hedging instrument should net to a minimal amount in the income statement. This residual difference is referred to as hedge ineffectiveness.

Note that the accumulated life to date hedge accounting adjustments on the USD borrowing total $114 million (2019: $34 million).

Basis and margin risk

The combination of USD borrowings and CCIRS economically results in Meridian having floating rate NZD borrowings. This presents a risk of variability in future cash flows. As such, Meridian designates basis risk (excluding FX) and margin risk into cash flow hedge relationships.

This means that:

- the CCIRS are revalued to the income statement for basis risk and margin risk; and
- the effective portions of the hedge are moved from the income statement to the Cash Flow Hedge Reserve within Equity.

As noted earlier, there may be small differences between the above entries which result in hedge ineffectiveness in the income statement.

Please refer to:

- Note C7 Borrowings for the carrying value of the hedged items (USD borrowings);
- Note D1 Treasury hedges for further information on the hedging instruments (CCIRS), including notionals and changes in fair value during the period; and
- the Statement of Changes in Equity for the balance of the Cash Flow Hedge Reserve and movements during the period.

Note that on the balance sheet, USD borrowings are included within Term Borrowings and CCIRS are included within Financial Instruments.

Hedge ineffectiveness

The below table summarises hedge ineffectiveness. This is included within "Net change in fair value of Treasury Hedges" in the income statement.

Impact on income statement

	2020 $M	2019 $M
Hedge Ineffectiveness	**(2)**	(1)

Ineffectiveness is primarily caused by credit counterparty risk on CCIRS. This risk is part of the CCIRS fair value but is not included in the hedge accounting entries.

Hedge ineffectiveness will net to zero over the life of the hedge relationships.

D1 Financial risk management continued

Future cash flows

The below table estimates the contractual undiscounted future cash flows that we expect on both the USD borrowings and the hedging CCIRS. Amounts noted include coupons and repayment/exchange of notionals on maturity.

	2020 $M				2019 $M			
Currency as indicated below	Due within 1 year	Due within 1–2 years	Due within 2–5 years	Due after 5 years	Due within 1 year	Due within 1–2 years	Due within 2–5 years	Due after 5 years
USD Borrowings (shown in USD)	**(17)**	**(56)**	**(47)**	**(469)**	(17)	(17)	(87)	(486)
CCIRS								
– USD leg (coupons and maturity flow – shown in USD)	**17**	**56**	**47**	**469**	17	17	87	486
– Functional currency leg (coupons and maturity flow – shown in NZD)	**(11)**	**(57)**	**(34)**	**(627)**	(19)	(19)	(96)	(671)

Functional currency coupons are set quarterly based on NZ and AU benchmark rates. They are shown in this table based on market forward interest rates and translated to NZD equivalent using spot AUD/NZD exchange rates at reporting date.

Financial instruments which are offset

In certain circumstances Meridian offsets the fair value of financial instruments where it has legal agreements in place that permit netting of positions and net settlement.

	2020 $M			2019 $M		
	Gross Value	Value Offset	Carrying Value	Gross Value	Value Offset	Carrying Value
Financial instrument assets						
– Energy hedges	205	(63)	**142**	253	(58)	195
– Treasury hedges	223	–	**223**	114	–	114
Total financial instrument assets	428	(63)	**365**	367	(58)	309
Financial instrument liabilities						
– Energy hedges	(167)	63	**(104)**	(119)	58	(61)
– Treasury hedges	(238)	–	**(238)**	(184)	–	(184)
Total financial instrument liabilities	(405)	63	**(342)**	(303)	58	(245)
Net financial instruments	**23**	**–**	**23**	**64**	**–**	**64**

E

Group structure

In this section

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

E1 Subsidiaries

The consolidated financial statements include the financial statements of Meridian Energy Limited and the subsidiaries listed below.

They all have share capital consisting solely of ordinary shares that the Group holds directly, and the proportion of ownership interests held equals the Group's voting rights.

Meridian Energy Limited provides support to its subsidiaries where necessary in order to ensure they meet their obligations as they fall due.

On 3 March 2020, Meridian Energy Australia Pty Ltd completed the acquisition of 100% shareholdings in two new subsidiaries, Rangoon Energy Park Pty Ltd and Wandsworth Wind Farm Pty Ltd. Both entities are involved in the development of future wind farm generation options.

Name of entity	Principal activity	Functional Currency	Interest held by the group 2020	2019
Meridian Energy Limited[37]				
Powershop New Zealand Limited	Electricity retailing	New Zealand dollar	100%	100%
Flux Federation Limited	Software development	New Zealand dollar	100%	100%
Flux-UK Limited	Licence holder	British pounds	100%	100%
Three River Holdings No. 1 Limited[37]	Holding company	New Zealand dollar	100%	100%
Three River Holdings No. 2 Limited[37]	Holding company	New Zealand dollar	100%	100%
Meridian Energy Australia Pty Limited[37]	Management services	Australian dollar	100%	100%
GSP Energy Pty Limited	Electricity generation	Australian dollar	100%	100%
Meridian Finco Pty Limited[37]	Financing	Australian dollar	100%	100%
Rangoon Energy Park Pty Limited	Wind farm development	Australian dollar	100%	–
Wandsworth Wind Farm Pty Limited	Wind farm development	Australian dollar	100%	–
Meridian Energy Markets Pty Limited[37]	Non-trading entity	Australian dollar	100%	100%
Meridian Wind Monaro Range Holdings Pty Limited[37]	Holding company	Australian dollar	100%	100%
Meridian Wind Monaro Range Pty Limited[37]	Holding company	Australian dollar	100%	100%
Mt Millar Wind Farm Pty Limited[37]	Electricity generation	Australian dollar	100%	100%
Meridian Australia Holdings Pty Limited[37]	Holding company	Australian dollar	100%	100%
Meridian Wind Australia Holdings Pty Limited[37]	Holding company	Australian dollar	100%	100%
Mt Mercer Windfarm Pty Limited[37]	Electricity generation	Australian dollar	100%	100%
Powershop Australia Pty Limited	Electricity retailing	Australian dollar	100%	100%
Dam Safety Intelligence Limited	Professional services	New Zealand dollar	100%	100%
Meridian LTI Trustee Limited	Trustee	New Zealand dollar	100%	100%
Meridian Energy Captive Insurance Limited	Insurance	New Zealand dollar	100%	100%
Meridian Limited	Non-trading entity	New Zealand dollar	100%	100%
Meridian Energy International Limited	Non-trading entity	New Zealand dollar	100%	100%

37. Members of guaranteeing group.

F

Other

In this section

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

F1 Share-based payments

Long term incentive (LTI)

In August 2019, the Board approved a new LTI plan to replace Meridian's previous LTI plan. Set out below is a summary of the previous LTI Plan which was last offered in FY19 (for the period commencing on 1 July 2018 and ending on 30 June 2021). Also set out below is a summary of the new LTI plan which was first offered in FY20 (for the period commencing on 1 July 2019 and ending 30 June 2022).

Previous LTI Plan

The previous LTI is a share loan and cash bonus scheme, where executives purchase Meridian shares via an interest-free loan from the company, with the shares held on trust by the LTI plan trustee. Any shares awarded depend on whether the following performance hurdles are met over a three-year period:

- the company's absolute total shareholder return (TSR) must be positive; and
- the company's TSR compared to a benchmark peer group.

If the performance hurdles have been achieved, a progressive vesting scale is applied to determine how many shares vest:

- if the company's TSR over the three-year period exceeds the 50th percentile TSR of the benchmark peer group, at least 50% of an executive's shares will vest;
- 100% shares will vest on meeting the 75th percentile TSR of the peer group, with vesting on a straight-line basis between these two points; and
- no shares will vest if the company's TSR is less than the 50th percentile TSR of the peer group.

Once the vesting level has been confirmed, a cash amount (after the deduction of tax), but before other applicable salary deductions, is used to repay the executive's outstanding loan balance.

For each three-year plan, an independent external expert measures TSR of Meridian and the peer group of companies along with the outcome on the progressive vesting scale. If TSR is not positive (i.e. in absolute terms is less than zero), or if TSR does not meet the peer group relative TSR hurdle of 50th percentile, all of the shares are forfeited to the trustee and the relevant executive receives no benefits under the LTI. Where the TSR is greater than the 50th percentile of the benchmark peer group, but below the 75th percentile, shares are allocated on a percentage basis and any that have not vested will also be forfeited.

For the LTI plan that vested at the end of 2020, the level of vesting was 100% (2019: 100%). Therefore, the outstanding balance of the interest free loans at 30 June 2020 of $0.5 million has now been repaid (2019: $0.6 million). A total amount of 208,707 shares have been transferred to the eligible participants (2019: 223,623), and 154,388 shares forfeited (2019: 70,051).

F

F1 Share-based payments continued

New LTI Plan

Under the new LTI plan, the company issues rights to acquire ordinary shares in the company (Share Rights) to eligible participants who accept the offer to participate in the LTI plan. Each Share Right entitles the holder to one ordinary share in the company and an additional number of shares equal to the value of gross cash dividends per share which would have been paid to a New Zealand tax resident who held a share for the duration of the vesting period, calculated using a 10-day volume weighted average price.

The number of Share Rights that vest is dependent on:

- Meridian's total shareholder return over a 3-year performance period (Performance Period) relative to Meridian's cost of equity;
- Meridian's total shareholder return over the Performance Period relative to a defined group of NZX Main Board and ASX listed peer companies (Performance Hurdles); and
- if the participant continues to be employed by Meridian during the vesting period (Employment Condition).

Performance Hurdles

Share Rights are granted in two tranches:

- Absolute Return Share (ABS) Rights; and
- Relative Return Share (REL) Rights.

For ABS Rights to vest, the company's TSR must be greater than the absolute TSR benchmark which is set at the beginning of the vesting period with regard to the company's cost of equity (Absolute TSR Benchmark) on a compounding annual basis over the Performance Period. If the company's TSR is equal to or lower than the Absolute TSR Benchmark, no ABS Rights will vest. If the company's TSR is greater than the Absolute TSR Benchmark, 100% of the ABS Rights will vest.

The number of REL Rights that vest is determined by the company's TSR over the Performance Period relative to the peer group. For any of the REL Rights to vest, the company's TSR must be greater than or equal to the 50th percentile / median TSR of the peer group. 100% of the REL Rights will vest on meeting the 75th percentile TSR of the peer group, with vesting on a straight-line basis between these two points.

For each three-year plan, an independent external expert measures the TSR of Meridian and the peer group of companies along with the outcome on the progressive vesting scale. Share Rights will lapse if the Vesting Conditions are not satisfied (although this is subject to the Board's discretion in relation to the Employment Condition).

In the current financial year, 409,668 share rights were issued to eligible staff, 204,834 being ABS Rights and 204,834 being REL Rights.

F1 Share-based payments continued

Movement in zero-priced share options

Grant date	Vesting date	LTI Scheme & Type	Weighted average fair value of option	Number of options Balance at start of the year	Granted during the year	Vested during the year	Forfeited during the year	Balance at the end of the year
2020								
7/10/2019 & 28/2/20	30/06/22	New – ABS	**$3.54**	**–**	**204,834**	**–**	**–**	**204,834**
7/10/2019 & 28/2/20	30/06/22	New – REL	**$3.36**	**–**	**204,834**	**–**	**–**	**204,834**
22/08/2018	30/06/21	Previous	**$1.78**	**334,897**	**–**	**–**	**(96,173)**	**238,724**
07/09/2017	30/06/20	Previous	**$1.61**	**266,922**	**–**	**(208,707)**	**(58,215)**	**–**
Total				**601,819**	**409,668**	**(208,707)**	**(154,388)**	**648,392**
2019								
22/08/2018	30/06/2021	Previous	$1.78	–	334,897	–	–	334,897
07/09/2017	30/06/2020	Previous	$1.61	302,533	–	–	(35,611)	266,922
04/08/2016	30/06/2019	Previous	$1.63	258,063	–	(223,623)	(34,440)	–
Total				**560,596**	**334,897**	**(223,623)**	**(70,051)**	**601,819**

F2 Related parties

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

Directors of the Group may be directors or officers of other companies or organisations with which members of the Group may transact.

Compensation of key management personnel

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

	Group 2020 $M	2019 $M
Directors' Fees	**1**	**1**
Chief executive officer, senior management team and subsidiary chief executives		
Salaries and short-term benefits	**8**	7
Long-term benefits	**1**	1
	9	**8**

F

F3 Auditors remuneration

	Group	
Auditors remuneration to Deloitte Limited for:	2020 $M	2019 $M
Audit and review of New Zealand-based companies' financial statements	**0.6**	0.6
Audit of overseas-based companies' financial statements	**0.2**	0.2
Total audit fees	**0.8**	0.8
Other assurance fees	**0.1**	0.1
Total auditor remuneration	**0.9**	**0.9**

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

The audit fee includes Office of the Auditor-General overhead contribution of $33,300 (30 June 2019: $30,500).

Other services undertaken by Deloitte Limited during the year included other assurance activities including greenhouse gas inventory assurance, limited assurance of the sustainability content in the integrated report, review of the interim financial statements, audit of the securities registers, vesting of the executive long-term incentive plan, the solvency return of Meridian Energy Captive Insurance Limited and supervisor reporting.

F4 Contingent assets and liabilities

There were no contingent assets or liabilities at 30 June 2020 (2019: $3 million–$4 million).

F5 Subsequent events

There are no subsequent events other than dividends declared on 25 August 2020 (refer to note C4 Dividends for further details).

F6 Changes in financial reporting standards

In the current year, Meridian has adopted all mandatory new and amended standards - namely NZ IFRS 16. The application of these new and amended standards has impacted on the amounts recognised or disclosed in the financial statements as set out in the significant matters in the financial year.

Meridian is not aware of any standards issued but not yet effective that would materially affect the amounts recognised or disclosed in the financial statements.

Deloitte.

Independent auditor's report

To the shareholders of Meridian Energy Limited for the year ended 30 June 2020

The Auditor-General is the auditor of Meridian Energy Limited and its subsidiaries (the Group). The Auditor-General has appointed me, Mike Hoshek, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 127 to 172, that comprise the consolidated balance sheet as at 30 June 2020, the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for our opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Other than the audit, our firm carries out other assurance assignments for the Group in the areas of greenhouse gas inventory assurance, limited assurance of the sustainability content in the integrated report, review of the interim financial statements, audit of the securities registers, vesting of the executive long-term incentive plan, the solvency return of Meridian Captive Insurance Limited and supervisor reporting, which are compatible with those independence requirements.

We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition, principals and employees of our firm deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our independence as auditor of the Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the consolidated financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group consolidated financial statements as a whole to be $15.1 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Valuation of Generation Structures and Plant As explained in note B1 in the Group financial statements, generation structures and plant are carried at fair value less any subsequent accumulated depreciation and impairment losses at balance sheet date. The net book value of generation structures and plant as reflected in note B1 is **$8,345** million (2019: $8,654 million). The Group obtains an independent valuation every year to ensure that the carrying value does not differ significantly from the fair value at balance date. As a result of this independent valuation, generation structures and plant have been revalued this year as at 30 June 2020. The revaluation resulted in a decrease in value by $78 million. The impact of the revaluation is recognised as a decrease of $21 million in the revaluation reserve and $57 million impairment in the income statement (2019: increase of $1,139 million in the revaluation reserve and $5 million impairment in the income statement was recorded). The valuation methodology determines an enterprise value range by considering an income based valuation approach. This is with reference to a) capitalisation multiples as well as the Group's historical and forecasted future maintainable earnings before interest, tax, depreciation, amortisation, changes in fair value of financial instruments, impairments, gains or losses on sale of assets and joint venture equity accounted earnings ('EBITDAF'), and b) a discounted cash flow valuation. The inputs do not fully use observable market data and require significant judgement and estimates to be made by the valuer. As outlined in note B1 the valuer has considered the impact of COVID 19 on the valuation. In addition, the Significant matters section on page 133 confirms the Group's assessment that the NZAS announcement to wind-down its operation at Tīwai Point has been treated as a non-adjustng post balance date event. The Group has estimated the potential impacts of this closure to the carrying value of the generation structures and plant as between $690 and $1,340 million. Our focus was on the judgments and assumptions impacted by the change in market conditions. We include valuation of generation structures as a key audit matter because of the inherent technical and judgemental complexity associated with determining the fair value. Specifically, the determination of the forecasted future maintainable earnings and earnings multiple, and the forecast cash flows and discount rates.	Our audit procedures focused on: · The reasonableness of the earnings multiple used and the adjustments for non observable information considered relevant; · The reasonableness of the forecasted future maintainable earnings; · The reasonableness of the allocations of the enterprise value to business units/assets; and · The impact of COVID 19 on the estimates used within the valuation; · Whether we concurred with the Board's assessment that the NZAS exit was a non-adjusting post balance date event. Our procedures included: · Evaluating the Group's processes for the independent valuation of the generation structures and plant; · Reviewing the valuation methodology and the reasonableness of the significant underlying assumptions; · Assessing the competence, objectivity and integrity of the independent registered valuer. We assessed their professional qualifications and experience. We also obtained representation from them regarding their independence and the scope of their work; · Meeting with the valuer to understand the valuation process adopted to identify and challenge the critical judgement areas in the valuation; · Utilising our in-house valuation specialists to assess the appropriateness of the valuation methodology and the reasonableness of the valuation range determined by the independent valuer, including WACC rates, reasonableness of future maintainable earnings and reasonableness of earnings multiples applied; · Evaluating the adequacy of the Group's disclosures in respect of the valuation of generation structures and plant; · Considering the definitions and criteria within NZ IAS 10: Events After the Reporting Period to determine whether the NZAS exit was a non-adjusting post balance date event; · Evaluating the adequacy of the disclosure of the NZAS exit, including the estimated effects on the generation structures and plant carrying value; and · Obtaining the Group's revised generation structures and assets valuation to ensure the updated forward electricity prices and revised future generation volumes used by Management were within acceptable ranges and in line with the market conditions post balance date.
Valuation of Level 3 Electricity Derivatives As explained in note D1, the Group's activities expose it to commodity price, foreign exchange and interest rate risks which are managed using derivative financial instruments. As outlined in the note, the Board have considered the impact of COVID 19 on the various valuations. These instruments are carried at their fair value as at 30 June 2020. At 30 June 2020, level 3 electricity derivative assets totalled $77 million (2019: $121 million) and level 3 electricity derivative liabilities were $65 million (2019: $58 million). In addition, the Significant matters section on page 133 confirms the Group's assessment that the NZAS announcement to wind-down its operation at Tīwai Point has been treated as a non-adjustng post balance date event. The Group has estimated the potential impacts of this closure to the carrying value of the energy hedge liabilities as between $60 and $90 million. We include valuation of level 3 electricity derivatives as a key audit matter for the following reasons: · The price used in the valuation of electricity hedges is based on the Group's best estimate of the long-term forward wholesale electricity price, which involves significant judgement and estimates regarding discount factors, expected demand, cost of new supply, and other relevant market factors; and · The complexity and judgement involved in the valuation techniques and the judgement involved in evaluating the long-term expected call volumes and discount factor used to determine the fair value of electricity options and swaps.	Our audit procedures focused on: · The appropriateness of the valuation techniques ; · The reasonableness of the wholesale electricity price path; · The reasonableness of the underlying assumptions and inputs in the valuation models; · The impact of COVID 19 on the estimates used within the valuation; and · Whether we concurred with the Boards assessment that the NZAS exit was a non-adjusting post balance date event. Our procedures included: · In conjunction with our internal experts, evaluating the appropriateness of the methodology applied in the valuation models for these electricity hedges, options and swaps and ensuring that the methodology has been consistently applied with the prior year where appropriate; · Challenging the key assumptions applied, including the long-term forward wholesale electricity price, long-term expected call volumes, day one adjustments and discount rates; · Agreeing underlying data to contract terms, specifically the contract term, price and volumes; · Evaluating the adequacy of the Group's disclosures in respect of the valuation of level 3 electricity derivatives; · Considering the definitions and criteria within NZ IAS 10: Events After the Reporting Period to determine whether the NZAS exit was a non-adjusting post balance date event; · Evaluating the adequacy of the disclosure of the NZAS exit, including the estimated effects on the energy hedge liabilities; and · Obtaining the Group's revised energy hedge liability models to ensure that the updated forward electricity prices based on ASX prices from 31 July 2020 and revised assumptions used by Management were within acceptable ranges and in line with the market conditions post balance date.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 125, and 179 to 182, but does not include the consolidated financial statements, and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and in doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of shareholders taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

M. Hoshek

Mike Hoshek, Partner
for Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand
25 August 2020

Deloitte.

Independent accountant's assurance report

To the directors of Meridian Energy Limited

Report on sustainability content within the 2020 Integrated Report

Meridian Energy Limited's Integrated Report for the year ended 30 June 2020 (the 'Integrated Report') includes sustainability content on pages 3–94, 123 and 179–183 ('Sustainability Content') prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (the 'GRI Standards'): Core option.

The subject of our limited assurance engagement is the information included on pages 3–94, 123 and 179–183 of the integrated report, prepared in accordance with Reporting Principles of the GRI Standard 101 for defining report content and report quality; and the disclosures listed in the GRI index on pages 179–182 prepared in accordance with the GRI standards as referenced in the GRI index on pages 179–182. Our report does not cover forward looking statements or online supplements.

Conclusion

This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Based on the evidence obtained from the procedures we have performed, nothing has come to our attention that causes us to believe that:

- The Sustainability Content on pages 3–94, 123 and 179–183 of the Integrated report for the year ended 30 June 2020, has not been prepared, in all material respects, in accordance with the Reporting Principles of GRI Standard 101 for Defining the Report Content: materiality, stakeholder inclusiveness, sustainability context and completeness and for Defining Report Quality: balance, comparability, accuracy, timeliness, clarity and reliability; and
- The disclosures listed on the GRI index on pages 179–182 have not been prepared, in all material respects, in accordance with the GRI Standards referenced in the GRI index on pages 179–182.

Basis for Conclusion

Our engagement has been conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other than *Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000 (Revised)') issued by the New Zealand Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Board of Directors' Responsibility

The Board of Directors is responsible for:

- ensuring that the Sustainability Content is prepared in accordance with the GRI Standards: Core option and specifically those GRI Standards set out in the GRI Index;
- determining Meridian Energy Limited's objectives in respect of sustainability reporting;
- selecting the material topics; and
- establishing and maintaining appropriate performance management and internal control systems in order to derive the Sustainability Content.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Other than this engagement and our role as auditor of the statutory financial statements on behalf of the Auditor-General, our firm carries out other assignments for the Meridian Energy Group in the areas of greenhouse gas inventory assurance, review of the interim financial statements, audit of the securities registers, vesting of the executive long-term incentive plan, the solvency return of Meridian Captive Insurance Limited and supervisory reporting, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with the Meridian Energy Group on arm's length terms within the ordinary course of trading activities of the Meridian Energy Group. These services have not impaired our independence for the purposes of this engagement. Other than these engagements and arm's length transactions, we have no relationship with, or interests in, the Meridian Energy Group.

The firm applies Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued by the New Zealand Auditing and Assurance Standards Board, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Accountant's Responsibility

Our responsibility is to conduct a limited assurance engagement in order to express an opinion whether, based on the procedures performed, anything has come to our attention that causes us to believe that the Sustainability Content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option.

We did not evaluate the security and controls over the electronic publication of the Integrated Report.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with the GRI Standards is likely to arise.

Our procedures included:

- Obtaining an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- A review of the materiality process followed to determine the material topics chosen for inclusion in the Sustainability Content;
- Analytical review and other test checks of the information presented;
- Checking whether the appropriate indicators have been reported in accordance with the GRI Standards: Core option; and
- Evaluating whether the information presented is consistent with our overall knowledge and experience of sustainability reporting processes at Meridian Energy Limited.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether Meridian Energy Limited's Sustainability Content has been prepared, in all material respects, in accordance with the GRI Standards: Core option.

Use of Report

Our assurance report is made solely to the directors of Meridian Energy Limited in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the directors those matters we have been engaged to state in this assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors of Meridian Energy Limited for our work, for this assurance report, or for the conclusions we have reached.

Deloitte Limited

Chartered Accountants
25 August 2020
Auckland, New Zealand

GRI Standards Content Index

This report has been prepared in accordance with the GRI Standards: Core option. The specific GRI Standards reported against are in italics below.

GRI 101: Foundation 2016

General disclosures		Pg #	Comment
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of organisation	Front cover	
102-2	Activities, brands, products, and services	10–11, 21	
102-3	Location of headquarters	183	
102-4	Location of operations	10–11	
102-5	Ownership and legal form	9	
102-6	Markets served	10–11	
102-7	Scale of the organisation	10–11, 15, 73, 93	
102-8	Information on employees and other workers	15, 123	
102-9	Supply chain	21, 48	
102-10	Significant changes	16	
102-11	Precautionary principle or approach		Relevant legislation takes a precautionaryprinciple-based approach
102-12	External initiatives		Climate Leaders Coalition
102-13	Memberships of associations	123	
EU1*	Installed capacity	73	
EU2*	Net energy output	73	
EU3*	Number of customer accounts	93	
EU4*	Transmission and distribution lines	n/a	Length insignificant
EU5*	Allocation of CO2e emissions allowances	n/a	No emissions allowances received

General disclosures		Pg #	Comment
Strategy			
102-14	Statement from senior decision-maker	3–4, 24–31	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	18, 31, 98	Also see our **Code of Conduct**
Governance			
102-18	Governance structure	15–18	
Stakeholder Engagements			
102-40	List of stakeholder groups	12–13	
102-41	Collective bargaining agreements	123	
102-42	Identifying and selecting stakeholders	5-6	Also see our **Stakeholder Engagement Guidelines**
102-43	Approach to stakeholder engagement		Discussed throughout the report where relevant
102-44	Key topics and concerns raised	12–13	
Reporting practice			
102-45	Entities included in the consolidated financial statements	16, 132, 168	
102-46	Defining report content and topic Boundaries	5, 10–11, 16	
102-47	List of material topics	12–13	
102-48	Restatements of information		Discussed throughout the report where relevant
102-49	Changes in reporting	6	
102-50	Reporting period	15	
102-51	Date of most recent report		23 August 2019
102-52	Reporting cycle	15	Annual
102-53	Contact point for questions regarding the report	18	
102-54	Claims of reporting in accordance with the GRI Standards	16	
102-55	GRI content index	179–182	
102-56	External assurance	16	

*Disclosures starting with "EU" are from the Electric Utilities G4 Sector Disclosure.

Material topics and associated disclosures		Pg #	Comment
Economic			
Financial performance**			
*GRI 103: Management Approach 2016**		83–85	
Non-GRI**	Various financial measures	83–85	
Financial impacts of hydrology**			
GRI 103: Management Approach 2016		46, 84	
Non-GRI**	Financial implications of variability in hydrology	46, 84	
Financial impacts of climate change			
GRI 103: Management Approach 2016		45–46	
GRI 201: Economic Performance 2016			See also **Taskforce for Climate-related Financial Disclosures (TCFD) Report**
201-2	Financial implications and other risks and opportunities due to climate change	45–46	
Pipeline of generation options**			
GRI 103: Management Approach 2016		88–90	
EU10***	Planned capacity against demand**	88–90	
Environmental			
Action on climate change**			
GRI 103: Management Approach 2016		3, 28, 43–57	
Non-GRI**	Proportion of Meridian Group generation from renewable resources	45	
Non-GRI**	Support for customers' climate actions	51–55	
Non-GRI**	Funds raised for community energy projects in Australia	54	
Non-GRI**	Support for our people's climate actions	50	
Non-GRI**	Operational emissions reduction target	47	

Material topics and associated disclosures		Pg #	Comment
Operational carbon emissions			
GRI 103: Management Approach 2016		46–49	
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	47–48	See also **Meridian GHG Inventory Report FY20**
305-2	Energy indirect (Scope 2) GHG emissions	47–48	
305-3	Other indirect (Scope 3) GHG emissions	47–48	
Impact on water			
GRI 103: Management Approach 2016		80–81	
GRI 303: Water and Effluents 2018			
303-1	Interactions with water as a shared resource	77–81	
303-2	Management of water discharge-related impacts	77–81	
303-3	Water withdrawal	81	
303-4	Water discharge	81	
303-5	Water consumption	81	
Impact on biodiversity			
GRI 103: Management Approach 2016		80–82	
GRI 304: Biodiversity 2016			
304-2	Significant impacts of activities, products, and services on biodiversity	80–82	
Environmental compliance			
GRI 103: Management Approach 2016		81	
GRI 307: Environmental Compliance 2016			
307-1	Non-compliance with environmental laws and regulations	81	

* Each Disclosure of Management Approach (DMA) includes "103-1 Explanation of the material topic and its Boundaries", "103-2 The management approach and its components", and "103-3 Evaluation of the management approach", in accordance with GRI 103: Management Approach 2016

** Non-GRI - some material topics and disclosures listed above are additional or alternatives to those covered in the GRI Standards.
*** Disclosures starting with "EU" are from the Electric Utilities G4 Sector Disclosure.

Material topics and associated disclosures		Pg #	Comment
Social			
Employee engagement**			
*GRI 103: Management Approach 2016**		28, 62, 63	
Non-GRI**	Employee engagement surveys	63	
Occupational health and safety			
GRI 103: Management Approach 2016		69–71	
GRI 403: Occupational Health and Safety 2018			
403-1	Occupational health and safety management system	69–71	
403-2	Hazard identification, risk assessment, and incident investigation	29, 69–71	
403-3	Occupational health services	69–71	
403-4	Worker participation, consultation, and communication on occupational health and safety	69–71	
403-5	Worker training on occupational health and safety	69–71	
403-6	Promotion of worker health	64, 69–71	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	69–71	
403-8	Workers covered by an occupational health and safety management system	69–71	The OHS System is not internally nor externally audited, however Meridian adheres to OSHA standards and guidelines, as well as adhering to NZS 7901:2014 Electricity and Gas Industries – Safety management systems for public safety.
403-9	Work-related injuries	69, 70	
Non-GRI**	Total recordable injury frequency rate (TRIFR)	70	

Material topics and associated disclosures		Pg #	Comment
Diversity and equal opportunity			
GRI 103: Management Approach 2016		64-67	
GRI 405: Diversity and Equal Opportunity 2016			
405-1	Diversity of governance bodies and employees	65, 67	
405-2	Ratio of basic salary and remuneration of women to men	66	
Non-GRI**	Women in people leadership and senior specialist positions	65	
Retaining expertise**			
GRI 103: Management Approach 2016		67–68	
EU15***	Tenure by age	67	
Access to water**			
GRI 103: Management Approach 2016		76–79	
Non-GRI**	Strength of relationships with stakeholders interested in water	76–79	Includes central government, local government, Ngāi Tahu and other iwi, local community groups and the general public
Contribution to local communities			
GRI 103: Management Approach 2016		79	
GRI 413: Local Communities 2016			
413-1	Operations with local community engagement, impact assessments, and development programs	26, 57, 58, 79, 94	13 out of our 17 power stations have local community engagement programmes (Mt Millar and our Australian power stations don't) – 95% by MW capacity
Non-GRI**	Contribution to local communities in New Zealand	79	
Non-GRI**	Number of community fund grants in New Zealand	79	

* Each Disclosure of Management Approach (DMA) includes "103-1 Explanation of the material topic and its Boundaries", "103-2 The management approach and its components", and "103-3 Evaluation of the management approach", in accordance with GRI 103: Management Approach 2016

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Material topics and associated disclosures		Pg #	Comment
Contribution to public policy			
*GRI 103: Management Approach 2016**		37–44	
GRI 415: Public Policy 2016			
415-1	Political contributions	113	Meridian does not donate to any political parties (as specified in our Code of Conduct)
Non-GRI**	Expenditure on "lobbying" organisations such as trade associations	123	
Non-GRI**	Key regulatory issues	37–44	
Customer satisfaction**			
GRI 103: Management Approach 2016		93–94	
Non-GRI**	Level of customer satisfaction	93–94	
Non-GRI**	Customer retention rates	92	
Electricity pricing**			
GRI 103: Management Approach 2016		23, 33–36, 40	
Non-GRI**	Price of electricity in AU and NZ compared to other OECD countries	40	

Material topics and associated disclosures		Pg #	Comment
Support for vulnerable customers			
GRI 103: Management Approach 2016		40, 56–59	
EU27***	Disconnections	59	
Plant performance**			
GRI 103: Management Approach 2016		72–74	
EU30***	Plant availability factor	74	
Process safety**			
GRI 103: Management Approach 2016		71–74	
Non-GRI**	Actions to improve process safety	71–74	
Dam safety**			
GRI 103: Management Approach 2016		74	
Non-GRI**	Actions to improve dam safety	74	
Information security**			
GRI 103: Management Approach 2016		75	
Non-GRI**	Actions to improve information security	75	

* Each Disclosure of Management Approach (DMA) includes "103-1 Explanation of the material topic and its Boundaries", "103-2 The management approach and its components", and "103-3 Evaluation of the management approach", in accordance with GRI 103: Management Approach 2016

** Non-GRI - some material topics and disclosures listed above are additional or alternatives to those covered in the GRI Standards.
*** Disclosures starting with "EU" are from the Electric Utilities G4 Sector Disclosure.

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