THE LONG RUN

MERIDIAN ENERGY LIMITED
INTEGRATED REPORT : 2018

meridian

SUSTAINABILITY DEFINES WHO WE ARE. OUR ENDURING COMMITMENT TO SUSTAINABILITY LEADERSHIP IS FOCUSED ON AREAS WHERE WE BELIEVE WE CAN MAKE A MEANINGFUL DIFFERENCE. IT UNDERPINS OUR PURPOSE TO DELIVER CLEAN ENERGY FOR A FAIRER AND HEALTHIER WORLD.

Sustainability isn't a philosophy that sits alongside our business strategy; it's hard-wired into what we do and it drives our overall performance and success.

This integrated report is a review of our financial, economic, social and environmental performance for the financial year ending 30 June 2018 (FY18).

For FY18 the Meridian Group included the parent company Meridian Energy Limited and all its operational subsidiaries (note the Group structure in the financial statements). Flux Federation (the software division of Powershop New Zealand) was created in 2017 and began trading on 1 July 2017.

Throughout the report, non-financial data and commentary pertains to the Meridian Group as much as possible. References to ‘Meridian’ (the parent company), ‘Powershop New Zealand’, ‘Powershop Australia’ and ‘Flux’ are specific to when only parts of the Group are being discussed (‘Powershop Australia’ refers to our retailing operations in Australia; the generation activities in Australia are included in the Generation section). In both the commentary and data, Dam Safety Intelligence is included in the parent company and Flux-UK Limited employees are included in ‘Flux’, unless specifically mentioned.

We’ve taken great care to ensure that all data in this report is as accurate as possible, and our policy is to seek assurance of both our financial and non-financial information.

The financial information in this report has been prepared in accordance with appropriate standards, details of which can be found on page 87, and has been audited by Deloitte Limited on behalf of the Auditor-General (see the Independent Auditor’s Report on page 115).

The non-financial information in this report has been prepared in accordance with the Core requirements of the Global Reporting Initiative’s Sustainability Reporting Standards (the ‘GRI Standards’) and has been audited by Deloitte Limited (see the Independent Accountant’s Assurance Report on page 118).

Our Meridian Group Greenhouse Gas Inventory Report (available at https://www.meridianenergy.co.nz/assets/About-us/Sustainability/Meridian-Group-Greenhouse-Gas-Emissions-Inventory-Report-FY18.pdf) has been audited by Deloitte and a summary provided in this report (see pages 26 and 27).

IN THIS REPORT

OUR INTEGRATED REPORT

The purpose of this integrated report is to provide you with a wider context for our overall performance. We detail how we are creating financial and non-financial value in the short, medium and long terms.

COMMITTED TO EFFECTIVE GOVERNANCE

WELCOME TO THIS REPORT. As a business with a significant retail shareholder base, we regularly look for ways to be as accessible and open as possible. We engage with investors and the Crown through reports like this, our disclosures to the markets, and meetings and briefings with a range of groups.

We hope you're able to attend the 2018 annual shareholder meeting in person. The Board has a policy of rotating the location of the annual shareholder meeting between Auckland, Wellington and Christchurch, and our 2018 meeting will be held in Auckland. 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, we invite you to read this integrated report, which has been prepared using the International Integrated Reporting Council's Integrated Reporting Framework. It reflects the Board's view that the way in which Meridian takes care of its customers, people, local communities, iwi and the environment supports our ability to continue delivering shareholder returns. 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.

OUR BOARD STRUCTURE. Meridian recruits Board members with a range of skills and experience. Biographies of our Directors and the Executive Team are available on our website at meridianenergy.co.nz. All Directors are independent directors.

While the Company's Constitution does not require it, this Board has a collective view that Ngāi Tahu, who have 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).

During the year we also extended Megan Matthews' appointment as our Future Director until October 2018. The Future Directors initiative, developed by the Institute of Directors in New Zealand, supports the development of the next generation of directors by giving candidates exposure to public company boards for an agreed period.

OUR COMMITMENT TO EFFECTIVE GOVERNANCE. Boards have an important role in directing companies' activities. Strategy days and regular meetings allow the Board to share their thoughts, and challenge Management, on the direction they wish to take the business and how they're 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).

Meridian complies with all the recommendations of the NZX Corporate Governance Code and has also adopted the corporate governance principles of the New Zealand Financial Markets Authority and the Australian Securities Exchange (ASX). You can read about how we have fulfilled those recommendations and applied those principles in our FY18 Corporate Governance Statement, available at https://www.meridianenergy.co.nz/assets/Investors/Governance/Meridian-Energy-Corporate-Governance-Statement.pdf.

CHANGES IN OUR LEADERSHIP TEAM. Neal Barclay was appointed Chief Executive last year and the Board looks forward to drawing on his rich experience in all parts of the business. We welcome Julian Smith to Meridian as our Chief Customer Officer, responsible for both Meridian's and Powershop New Zealand's customer sales, service and operations. Mike Roan, who was Wholesale Markets Manager, is now General Manager, Wholesale and will continue to oversee our risk analysis, modelling and decision-making across all our wholesale market activities in New Zealand. He also manages the relationship with New Zealand's Aluminium smelter (NZAS) and supports our activities in Australia. Guy Waipara has moved from General Manager of Markets and Production to General Manager of Generation and Natural Resources, responsible for our generation asset management in New Zealand and Australia. Towards year end, Sandra Pickering left the Company for personal reasons. The Board, along with Neal, wish to thank Sandra for her significant contributions as General Manager, Information and Communication Technology and to wish her the very best for the future.

ASSESSING OUR CLIMATE CHANGE RISKS. 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 FY18 Corporate Governance Statement available at https://www.meridianenergy.co.nz/assets/Investors/Governance/Meridian-Energy-Corporate-Governance-Statement.pdf.

Included among the various risks and risk scenarios that the Board reviews are climate-change-related risks. This year, using the newly published guidelines prepared by the Task Force on Climate-Related Financial Disclosures (TCFD), Management have identified the specific climate change risks from our existing set of risks. Given Meridian's focus on climate action, taking the time to consolidate our view of these risks is appropriate.

Of the 20 specific climate change risks identified, 12 are considered well managed, six require ongoing monitoring, two are considered priorities and there are no urgent risks.

The risks identified for ongoing monitoring are:

- changes in inflows
- population changes
- unsuccessful investments in new technologies
- cost of transition to lower emissions technology
- change in regulation
- legal precedent.

The two risks identified as priorities are:

- **industry disruption** – the concern that New Zealand's two biggest industries, agriculture and international tourism, could be curtailed because of their higher than average greenhouse gas emissions
- **flooding** – climate change modelling indicates that there will be an increase in rainfall on the West Coast of New Zealand. In the extreme, a flood event could, theoretically cause significant damage to Meridian's generation assets and third-party damage to infrastructure, property (town), farmland and the environment.

We have mitigation plans in place for all these risks.

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

RESOURCES	BOARD OVERSIGHT
Financial and manufactured capital (our cash and assets)	Audit & Risk Committee
Technology	Full Board
Human capital	
· Our people and expertise	Remuneration & Human Resources Committee
· Health and safety	Safety & Sustainability Committee
Relationships and reputation	
· Our people	Remuneration & Human Resources Committee
· All other groups	Safety & Sustainability Committee and full Board
Natural resources	Safety & Sustainability Committee
Significant risks around resources	Audit & Risk Committee

The Board and Committees also oversee progress on our Sustainable Development Goals (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, financial accounting and reporting.

THE ROLE OF PEOPLE AND CULTURE. No strategic goals, policies or processes would be achievable if it weren't for Meridian's people, who are our most important resource. They work hard to create value for shareholders, so it's essential that they are aligned with the Company's strategy and are well supported and rewarded appropriately for their efforts. 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 56.

IF YOU WOULD LIKE FURTHER INFORMATION. We look forward to seeing you at the Annual Shareholder Meeting. In the meantime, if you are 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.

CHRIS MOLLER
Chair

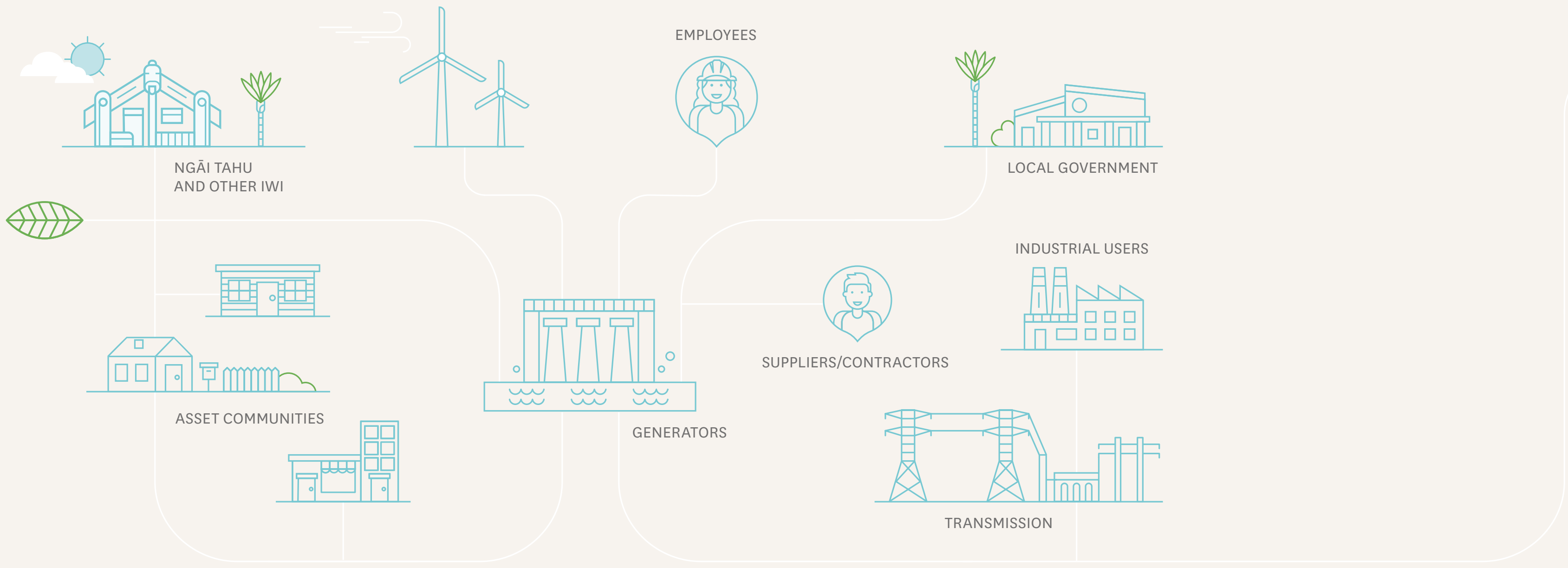
PETER WILSON
Deputy Chair

ABOUT MERIDIAN. The Meridian Energy Group is one of New Zealand's largest organisations, with $2,762 million in revenue in FY18, EBITDAF[1] this year of $666 million, net assets of $4,823 million and a total market capitalisation of $8 billion, making us the fourth-largest company on the New Zealand Stock Exchange (NZX).

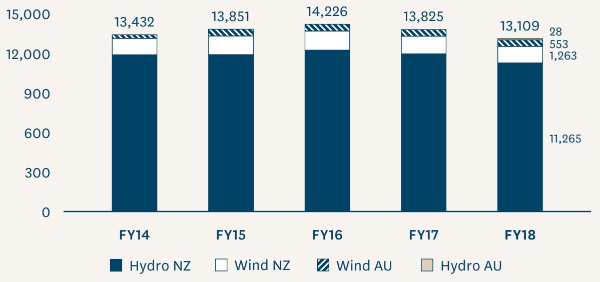
Meridian is listed on both the NZX and the ASX. We are majority owned by the New Zealand Government and precluded by legislation from having any other significant (more than 10%) shareholders. Our core business activities are the generation, trading and retailing of electricity, the sale of complementary products and services, and the development of electricity retailing software, in New Zealand and Australia.

More than 1,000 people are directly employed by or contracted to us, and third parties provide us with ICT, facilities management and meter-reading services.

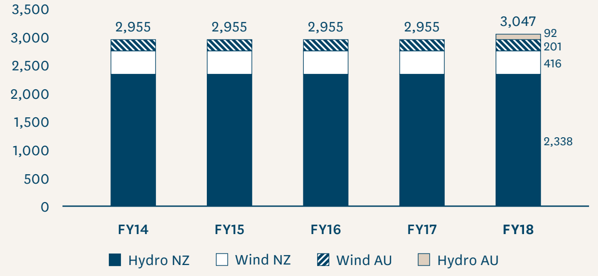
GENERATION[2]



GENERATION (GWh[3])



CAPACITY (MW[4])



MERIDIAN ENERGY NEW ZEALAND

29%
NZ'S GENERATION

5 WIND FARMS[5]

7 HYDRO POWER STATIONS

MERIDIAN ENERGY AUSTRALIA

<1%
NATIONAL ENERGY MARKET GENERATION

2 WIND FARMS

3 HYDRO POWER STATIONS

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[1] Earnings before interest, tax, depreciation, amortisation and changes in fair value of hedges and other significant items.

[2] Map of Meridian assets: meridianenergy.co.nz/asset-map.

[3] Gigawatt hours: measure of generating output (energy).

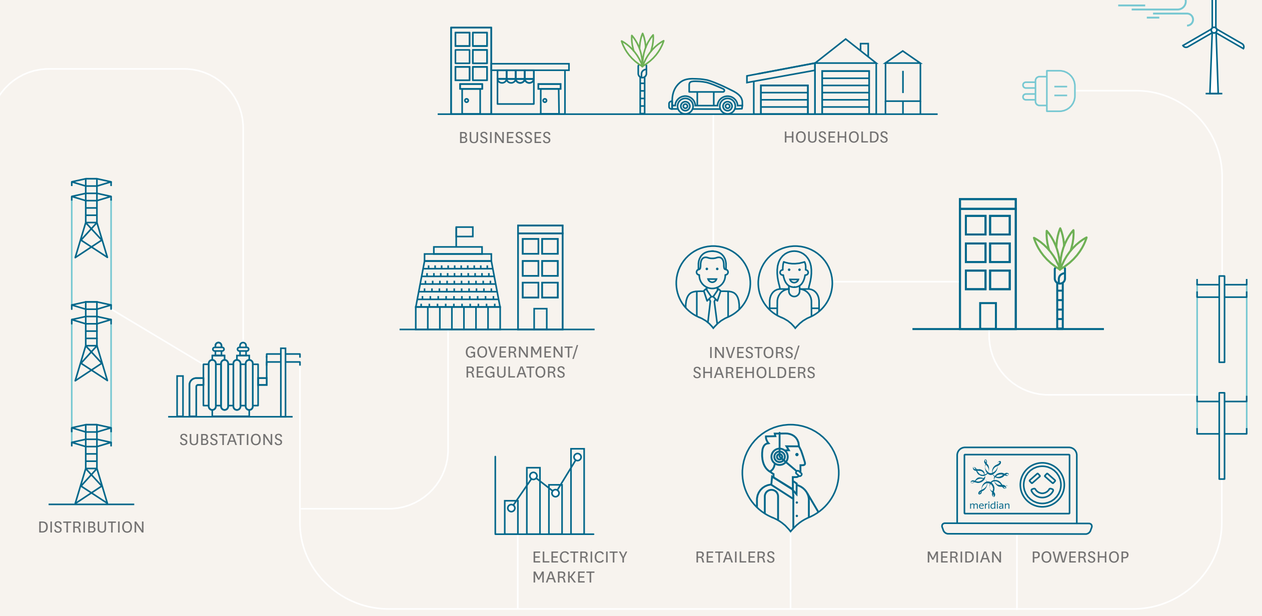
[4] Megawatts: measure of generating capacity (power).

[5] Excludes the Brooklyn wind turbine.

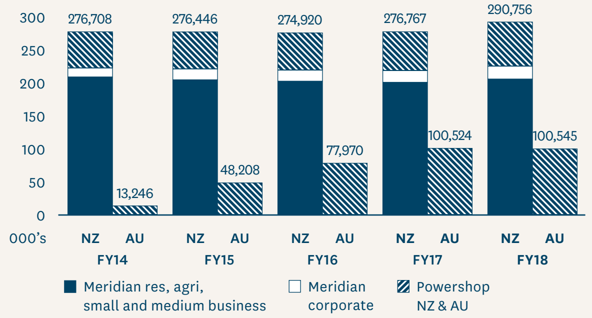
OUR SUPPLY CHAIN RISKS. In the generation part of our business, our supply chain is made up for the most part of the parts and components needed to build and maintain our generation assets. Our supply chain risk is limited to a small number of components supplied by local and global suppliers. The rest are supported by a mix of general engineering consumable and specialist parts suppliers, and service providers including ICT and facilities' management providers.

Our energy retailing brands in New Zealand and Australia have a very short supply chain 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 and include the physical facilities and ICT, sales and marketing, billing and governance functions.

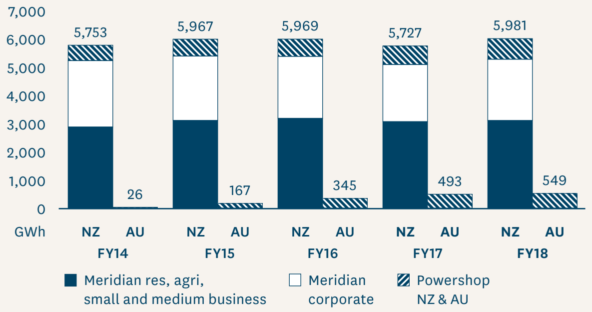
CUSTOMERS



CUSTOMER CONNECTIONS[6] (ICPs[7])



CUSTOMER SALES VOLUME



MERIDIAN & POWERSHOP NEW ZEALAND

19% NATIONAL RETAIL VOLUME[8]

14% OF NZ'S CUSTOMER CONNECTIONS

TIWAI POINT ALUMINIUM SMELTER

EQUIVALENT TO 40% OF MERIDIAN'S NEW ZEALAND GENERATION

12% OF NZ'S ELECTRICITY CONSUMPTION

POWERSHOP AUSTRALIA

<1%
NATIONAL ENERGY MARKET RETAIL VOLUME

FLUX-UK

25,000 POWER CUSTOMERS SERVICED BY FLUX

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[6] Excludes the Tiwai Point Aluminium Smelter; <10 of the above ICPs are connected to the transmission networks; around 4,000 customer connections have distributed generation metering.

[7] Installation control points (ICPs).

[8] Excluding Tiwai Point Aluminium Smelter.

Planning for changeable trading conditions is essential if we are to consistently deliver energy to our customers, and returns to our shareholders.

CONDITIONS VARY

Chair and Chief Executive view

CHRIS MOLLER CHAIR

NEAL BARCLAY CHIEF EXECUTIVE

> Clean energy for a fairer and healthier world embodies the core values and the behaviours that lie at the heart of Meridian's culture.

WE ARE EXCEPTIONALLY PROUD OF WHAT THE TEAM HAVE BEEN ABLE TO ACHIEVE DURING THE PAST FINANCIAL YEAR.

19.20
cents per share

Strong cash flows have allowed us to declare a 1.5% increase in dividend and maintain the capital management plan the Board put in place in 2015

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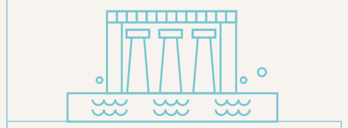
NONE OF OUR PEOPLE, OUR CONTRACTORS OR MEMBERS OF THE PUBLIC WERE SERIOUSLY INJURED AT ANY OF OUR SITES

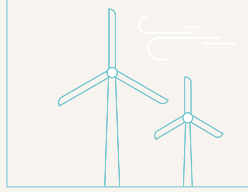


This year we completed one of our biggest ever schedules of hydro asset maintenance work

OUR POWERSHOP AND MERIDIAN BRANDS TOGETHER HAD THE STRONGEST GROWTH IN CUSTOMER CONNECTIONS IN THE NZ ELECTRICITY SECTOR

We genuinely consider ourselves caretakers of some of NZ's most iconic infrastructure assets, so our ongoing maintenance programme, which looks forward 20 years, is something on which we will always put a huge amount of focus

WE STRENGTHENED OUR RELATIONSHIP WITH NZAS BY SUPPORTING AN ADDITIONAL 50MW BASE-LOAD ENERGY SOLUTION THAT HAS ENABLED IT TO INCREASE PRODUCTION AT THE SMELTER



5%

INCREASED CUSTOMER CONNECTIONS BY 14,000 IN NZ. IT IS ALSO PLEASING TO SEE THE CUSTOMER CHURN RATE REDUCING

OUR DIVERSIFICATION STRATEGY TO DEVELOP A VERTICALLY INTEGRATED RETAILER AND GENERATOR IN AUSTRALIA IS STARTING TO SHOW GOOD RESULTS, AND OUR AUSTRALIAN BUSINESS CONTRIBUTED A SIGNIFICANT PORTION OF THE OVERALL GROWTH IN GROUP EBITDAF FOR THE YEAR

NET ZERO CARBON
across our Group Scope 1 and 2 emissions

1.4%

Increase in EBITDAF as improved inflows into our hydro catchments helped support stronger second half performance

We really amped up our efforts around wellness, diversity and inclusion

OUR PEOPLE. An engaged and committed workforce is really the key to being a successful business. Our engagement survey results tell us that our people genuinely want to make a difference. Accordingly, we've put a lot of work into agreeing, as a team, what we stand for, what we value and how we want to behave. From that work we've landed on one clear statement of purpose; 'Clean energy for a fairer and healthier world'. We believe this statement best reflects Meridian and what we stand for. It is a powerful statement that is consistent with the core values that have been the essence of Meridian's culture for many years – safety and wellbeing of our people, caring for our customers and doing everything sustainably. We have also articulated the behaviours that bind us and allow us to hold ourselves to account – Be Gutsy, Be a Good Human and Be in the Waka. Simply put it is 'how to be' in Meridian.

This helps all of us to engage, at an emotional level, with our aspirations, but we also back up our cultural descriptors with a tangible delivery of initiatives to reinforce our culture.

We have a strong and positive culture around safety and we continue to drive for improvement. This year we've worked on further standardising how tasks are performed and we've continued to pursue a programme of work to embed process safety into the business as the next level of maturity in safety leadership.

Of course, the wellbeing of our people goes beyond managing their physical safety. We have also invested in a multifaceted wellness programme. This year, with Mike King, we introduced to our staff and families our *Healthy Minds* programme, which helps them to identify the signs of stress and depression in themselves or in others and the first steps in how to help manage them.

Meridian also recently became an accredited Rainbow Tick organisation. This accreditation signals that we are an inclusive company that welcomes and supports the Rainbow community.

And we voluntarily extended our parental leave programme top-up for Meridian and Powershop New Zealand employees from 12 weeks to 22 weeks as part of our drive to bring more women into the Company's senior leadership ranks.

Our people are highly committed, so much so that we have 50% of our permanent New Zealand employees as shareholders of the company through our *MyShare* scheme. And our recent employee engagement survey provided us with another pleasing result, as 78% of employees across the group identified themselves as highly engaged.

We're proud to have such engaged employees who are committed to creating a fairer and healthier world.

CARING FOR OUR CUSTOMERS. There is no silver bullet when it comes to successfully retailing electricity. Success comes when you focus on what your customers are telling you they value and are absolutely single-minded in delivering that to them in the most efficient or frictionless way possible. The speed of change and potential disruption from new technologies and competitive models is no different in our market from that in many others. Our ability to innovate and adapt to new customer demands will be key to our continued success.

Meridian's *Taking on Norway* electric vehicle (EV) advertising campaign was a bit quirky and achieved good brand awareness. The campaign was built around our new EV pricing plans, which provide super-sharp rates overnight for our customers. It is early days but we are finding that most customers on this plan are taking advantage of the cheap overnight rates and are saving money.

Powershop New Zealand took a number of innovative new offerings to market. Some examples are: *Get Shifty*, which is a time-of-use offering for residential customers, *Power for Good*, which allows customers to contribute to a selected charity, *Powershop Lite* which is designed for those customers who are looking for more traditional set-and-forget arrangements, and tenure rewards. Powershop also won the *2018 Consumer NZ People's Choice Award*, and in Australia Powershop was once again recognised as Australia's greenest power company by Greenpeace.

Providing value for our many different customers is important, and doing this in a way that makes sure that all customer groups are treated equitably has been a focus for Meridian. We continue to ensure that those who struggle to pay their bills from time to time are able to get the most out of their energy by making sure that they know what is available to them. Meridian's customer disconnection rates are among the lowest in our industry. We're currently looking at new ways to help our most vulnerable customers more as we believe in a New Zealand where everyone can live in a warm, dry home.

NZAS is Meridian's largest electricity customer, but when it approached us in 2017 about the possibility of purchasing a further 50MW of base-load power we didn't feel we could meet all of the new demand ourselves and still support our other customers, who are just as important to us. So we worked with the industry to put a compelling offer to NZAS. The transaction had a number of positive effects: a large user like NZAS could cause a period of disruption in the market if it left, and this new deal has demonstrated that NZAS is thinking expansively about the economic future of the facility; the spinoff positive effect on the Southland economy in terms of jobs and investment is significant;

OUR PURPOSE

Clean energy for a fairer and healthier world

OUR BEHAVIOURS

BE IN THE WAKA

BE A GOOD HUMAN

BE GUTSY

OUR VALUES

PUTTING CUSTOMERS FIRST

SUSTAINABILITY LEADERSHIP

GREAT PLACE TO WORK

OUR KEY SUSTAINABILITY GOALS

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

OUR STRATEGY

GROW OVERSEAS EARNINGS, THROUGH:
- expansion of challenger brand
- strengthening our VI position
- Flux client success

CHAMPIONING BENEFITS OF COMPETITIVE MARKETS THROUGH:
- competing vigorously
- leadership in sustainability in NZ & AU
- supporting wholesale liquidity

GROW NZ RETAIL, THROUGH:
- simpler systems
- reduced cost
- faster adaptation
- relentless focus on customer experience

SUPPORT RETAIL GROWTH & PROTECT OUR GENERATION LEGACY, THROUGH:
- demonstrating the contribution of hydro to the 100% renewable aspiration
- maintaining a best-in-class generation portfolio (safety, efficiency & cost)
- best-placed renewable energy pipeline

> *“Meridian’s position as a leader in sustainability has allowed us to attract and retain customers who have similar values and are deeply concerned about the environment. This year Meridian has again been named as one of New Zealand’s most sustainable brands in the Colmar Brunton* ***Better Futures*** *report.”*

and aluminium produced by NZAS is some of the greenest aluminium produced in the world, because its electricity supply is mostly renewable and electricity makes up roughly 37% of the cost to produce aluminium. Logically this additional production will displace production elsewhere in the world (most likely China) produced on the back of coal-fired electricity. All up, the NZAS deal was complex as it involved multiple parties and we are very pleased with the outcome.

At the beginning of the financial year we structurally separated the software development arm of Powershop to create a new organisation named Flux Federation. We did this so that Powershop could focus solely on delivering an outstanding and differentiated customer proposition to our customers in New Zealand, and to allow Flux room to grow and focus on delivering value to its portfolio of customers in New Zealand, Australia and the UK.

Flux has now been operating as a separate Meridian entity for more than 12 months and has demonstrated success in scaling its development capability to deliver significant new functionality for Meridian’s Powershop businesses in New Zealand and Australia and to Npower in the UK (which retails the Powershop brand under licence to Meridian). Meridian and Flux have commenced a project to transition Meridian customers to the Flux platform. Flux will enable Meridian to improve its customer experience significantly, allowing us to respond to customers’ needs and deliver products to market faster than our competition. And Meridian customers provide Flux with scale to drive growth and expansion opportunities.

Accordingly the journey for Flux is far from limited to our existing businesses. We are presently focused on supplementing the existing technical capability with account management and business development capabilities to drive an international sales and business growth strategy.

LEADERSHIP IN SUSTAINABILITY. At Meridian we’ve long held the view that companies that understand and manage their key risks across environmental and social issues, and can articulate the social purposes they fulfil, are more successful in the long term than companies that solely pursue financial growth at all costs. Our business plays an essential role within New Zealand society and we recognise that by creating value for others in sustainable ways, we create value for our organisation.

This year we’ve focused on areas where we believe we can shift the dial in terms of sustainability, and are channelling much of our effort in line with SDG13, Climate Action and SDG7, Affordable and Clean Energy.

TAKING ACTION ON CLIMATE CHANGE. Most of the electricity produced in New Zealand already comes from renewable sources, and there are many more renewable options available to be built. So Meridian and the electricity sector are very well placed to support reductions in our country’s carbon emissions and the Government’s target for New Zealand to be net zero carbon by 2050. More than 70% of energy consumed in New Zealand comes from burning fossil fuels, most of which are imported. The bulk of this energy is consumed in the transport and industrial heat sectors. A relatively small portion (<10%) is used to generate electricity. If the transport and industrial process heat sectors converted to electricity New Zealand could potentially reduce total (non-agricultural) carbon emissions by up to 28MT[9] of carbon dioxide equivalent (CO_2e) or 36%. We believe this is a prize absolutely worth chasing.

New Zealand’s hydro generation assets, which make up a large portion of total electricity generation (typically 55% in any year), provide a great deal of flexibility, which means the electricity system as a whole can integrate a lot more intermittent generation like wind and solar efficiently. Also, the cost of rooftop solar and grid-scale wind generation continues to fall, so we see new renewable generation being the most obvious and economic outcome to meet potential demand growth in New Zealand. Meridian has been committed to a renewable generation future for the past 15 years and we continue to focus on developing new cost-effective and well positioned renewable generation options.

Our commitment to renewable energy isn’t limited to New Zealand. This year we have purchased the Hume, Burrinjuck and Keepit hydro power stations in Australia, and we have entered a number of Power Purchase Agreements with renewable developers, that will allow their developments to be built. We have aspirations to grow our customer base in Australia significantly and believe that growth will be underpinned by new renewable generation. We see this growth as a differentiator from the other New Zealand electricity companies, and it gives us an opportunity to leverage our renewable energy expertise to help Australia reduce its reliance on fossil fuels.

We have also turned our attention inwards. Even though we don't burn any fuel to generate electricity, we still have a small carbon footprint from operating our business.

From now, we are net zero carbon across our Group for Scope 1 and 2 emissions, through purchasing and cancelling carbon credits (NZUs from forestry). We’re currently reviewing all the data that we have for our value chain and suppliers, looking for more ambitious ways to reduce our emissions. Realistically, we know that we cannot eliminate all use of carbon from our operations which is why we have committed to native forest planting this year where possible on our land. By 2025, we plan to be offsetting emissions from across the full value chain of our operations (including Scope 3 emissions) using carbon credits we have grown ourselves.

Part of being a leader in sustainability means providing advice and expertise to others to enable them to also reduce their impacts and help to combat climate change. We’re supporting a number of New Zealand businesses to achieve their long-term plans to convert their coal-fired boilers to electricity, and we believe the electricity industry can play an important role in converting other industrial users of fossil fuel technologies to renewables.

We believe New Zealand must lead the way in converting our light transport fleet to electric. Our *Taking on Norway* EV marketing campaign was developed to capture attention and get people thinking about EVs, but at the same time, why shouldn’t New Zealand aspire to lead the world in EV conversion? With New Zealand’s mostly renewable electricity system, it just makes so much sense environmentally and would create a source of competitive advantage for our country. We are putting our money where our mouth is and we successfully achieved our target of converting 50% of our passenger fleet to full electric. We have now set ourselves a more ambitious

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[9] MT = Million tonnes

target of converting 90% of our passenger fleet to electric in 2020. The business case to go electric works for Meridian and we suspect for many other businesses. So we have been actively working with Drive Electric and other partners to provide support for New Zealand businesses that are wanting to convert their car fleets to electric. As businesses change their procurement practices to buy electric, New Zealand will start to build a second-hand EV fleet that will make EVs more accessible for everyday Kiwis.

Certainly, our customers expect Meridian to take a stand and to lead by example when it comes to climate change action. Meridian's position as a leader in sustainability has allowed us to attract and retain customers who have similar values to ours and are deeply concerned about the environment. This year Meridian has again been named one of New Zealand's most sustainable brands in the Colmar Brunton *Better Futures* report. Meridian has been ranked as one of the top five most sustainable brands by Colmar Brunton for the past four years.

Underpinning all of this is our role as a responsible generator. We continue to act responsibly through the management of our assets, our relationships with local communities and regulators, and enhancing the environments in which we operate. We strive to make sure that the people, groups and communities working and living near our wind and hydro assets feel included and consulted, and trust our record as a respectful steward of the environments of which we are a part.

HYDROLOGY. Our New Zealand generation business is founded on our seven hydro stations in the Waiau and Waitaki catchments, so hydrology (how much it rains) in those catchments can have an impact on our year-to-year earnings. Dry conditions, like the ones we have experienced at times during this financial year, can create a commercial risk that the amount of electricity we can sell into the wholesale market is significantly less than the amount of electricity we need to buy from that market to meet customers' needs. In fact, the wholesale market in New Zealand is one of the most volatile commodity markets in the world due to the country's large amount of hydro generation and relatively low storage capacity. This can create high wholesale market prices during times when lake levels are low. Conversely, when the lakes are full, wholesale market prices can fall to low levels due to the surplus of water and hydro capacity.

We use our vertically integrated business model to manage this commercial risk and achieve as much price certainty as we can for our customers and reliable returns for our investors. In addition, we have agreements with stakeholders that provide us with flexibility in how we use lake water storage, and we transact a range of financial instruments with counterparties as forms of 'dry-year insurance', where we insure ourselves against high wholesale market prices that can occur when dry conditions emerge. Our single largest financial instrument is a hedge contract (known as a swaption) with Genesis Energy. We did rely on the swaption a number of times during July and August 2017 and again in December, January and February 2018 as dry conditions meant we had to conserve storage during those months.

Drought and floods are part of our business and we continue to learn and adapt our risk management practices to get better at managing difficult trading conditions. We think this is apparent in the relatively stable and strong cash flows that the business has produced for a number of years irrespective of the weather.

THE FINANCIAL RESULTS. The two periods of dry conditions during the first half of the financial year meant year-on-year earnings were down for that period. Improved inflows into our hydro catchments supported a stronger second-half performance and all up New Zealand energy margin for the year was 0.4% higher than in the previous financial year.

Our operations in Australia also delivered good growth and demonstrated the value of our strategy to diversify the Meridian business geographically by leveraging our core capabilities in asset management, energy markets risk management and energy retailing in that country. Australian energy margin growth of $12 million was a significant driver of the overall Group EBITDAF growth.

EBITDAF was 1.4% higher than in the previous financial year.

Resilient cash flows enabled dividend growth, with the company declaring a final dividend 3% higher than last year's. Total dividends paid during the 2018 financial year were 18.96 cents per share, 2% higher than in FY17. Combined with the 7% increase in share price during FY18, this amounted to a total shareholder return (TSR) of 14% in the year to 30 June 2018.

Meridian has also declared a final special dividend of 2.44 cents per share ($6.25 million) under the company's existing five-year capital management programme to return $625 million to shareholders. This brings the capital management special dividend declared in FY18 to 4.88 cents per share, with $437.5 million now distributed since the capital management programme commenced in August 2015. While the company's existing five-year capital management programme runs through to 2020, the Board is considering the medium-term outlook and future capital requirements of the business. Under current circumstances the Board considers it appropriate to signal now its intention to pursue a further two years of capital management beginning in August 2020, seeking to return a further $250 million to shareholders.

The Board will continue to consider its intention to extend the capital management programme in light of possible future impacts on the financial position of the company and alternative uses of capital.

NEAR-TERM OUTLOOK. We have finished the year in good shape from a hydro storage perspective. National storage was 108% of average at the end of June 2018 and Meridian's Waitaki storage was 113% of average. We are well positioned to see out the remaining winter months before the spring snow melts start to arrive in the lakes.

In March, the Government released terms of reference for a review of the price of electricity in New Zealand. Meridian believes that the New Zealand electricity market is largely delivering fair, efficient, reliable and sustainable outcomes for New Zealand consumers. However, we acknowledge that there are still opportunities for improvement to ensure that all New Zealanders can afford to heat their homes. In particular, we believe that distribution pricing reform should if possible be accelerated to ensure that economic price signals are in play to support appropriate investment in new technologies such as rooftop solar and EVs, and to avoid the risk that those who can least afford it end up paying more than their share of the cost of the transmission and distribution networks. Overall, we are supportive of the review and look forward to the outcome in due course. But we think that the Government (through the review) needs to take a considered approach when attempting to fix wider social and affordability issues to ensure that it doesn't negatively impact on competition or the investment needed to maintain security of supply and thereby delay the transition to a low emissions economy.

This year the Productivity Commission has also released its draft report on how New Zealand can transition to a low-emissions economy. The report suggests that New Zealand climate change policies to date have not been effective in reducing domestic emissions. For businesses, households, investors and consumers to manage the risks and embrace the opportunities to shift to a cleaner future, more work is required on where best to place efforts.

We agree with the Productivity Commission's warning that we need to be wary of changes in the electricity sector that have the unintended impact of driving price increases that slow down the electrification of transport and the transition of the thermal-powered industrial plant in this country, not to mention the issue of affordability of electricity to some sectors of our population.

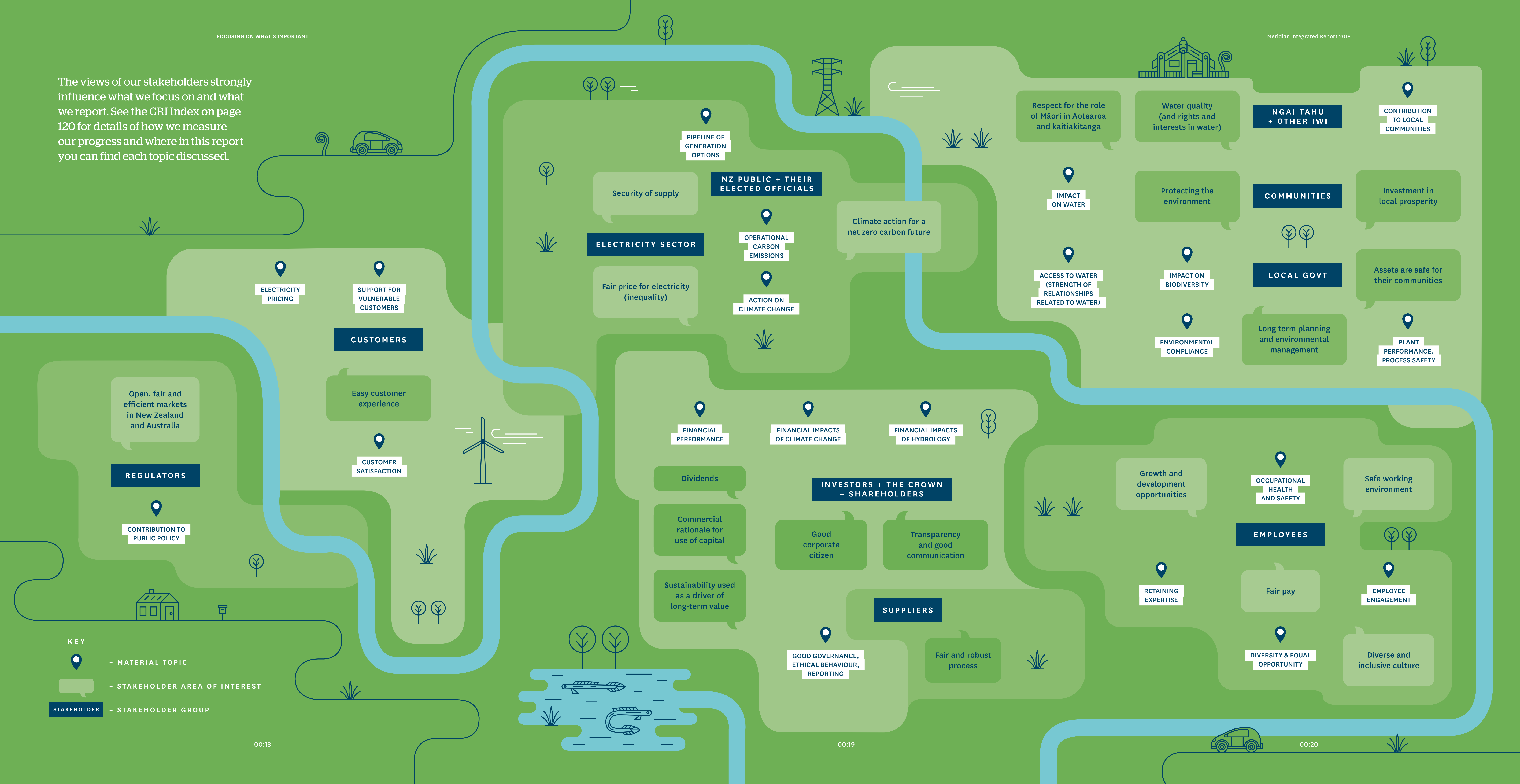
Separately and collectively, these initiatives indicate a commitment through Government policy and a range of working groups to increase the pace of change when it comes to New Zealand's climate change actions. We welcome this new tone of commitment from the Government and the ambitious targets that it looks set to implement. We look forward to our role in supporting and enabling other sectors to decarbonise and reduce their emissions through renewables.

We were disappointed to see the Electricity Authority further delay the transmission pricing review. Whilst it now seems likely that the review will be delayed into next year, we remain supportive of its purpose, logic and goals.

Australia, unlike New Zealand, generates most of its electricity by burning fossil fuels, and it also does not have a flexible hydro generation backbone that can accommodate intermittent renewables easily. So as a country, Australia faces some difficult policy decisions when establishing some form of clean energy target. We are supportive of and engaged in the Federal and State Governments' political and regulatory attempts to improve the electricity market in Australia.

On behalf of the Board and the Executive Team, we would like to thank our shareholders for continuing to invest with us, our customers for their relationships and loyalty, our stakeholders for the interactions we have had with you throughout the year and of course our people for their energy and enthusiasm in helping Meridian to deliver a sustainable future through renewable energy.

The views of our stakeholders strongly influence what we focus on and what we report. See the GRI Index on page 120 for details of how we measure our progress and where in this report you can find each topic discussed.



REGULATORS

Open, fair and efficient markets in New Zealand and Australia

CONTRIBUTION TO PUBLIC POLICY

CUSTOMERS

ELECTRICITY PRICING

SUPPORT FOR VULNERABLE CUSTOMERS

Easy customer experience

CUSTOMER SATISFACTION

ELECTRICITY SECTOR

NZ PUBLIC + THEIR ELECTED OFFICIALS

PIPELINE OF GENERATION OPTIONS

Security of supply

Fair price for electricity (inequality)

OPERATIONAL CARBON EMISSIONS

ACTION ON CLIMATE CHANGE

Climate action for a net zero carbon future

NGAI TAHU + OTHER IWI

COMMUNITIES

LOCAL GOVT

Respect for the role of Māori in Aotearoa and kaitiakitanga

Water quality (and rights and interests in water)

CONTRIBUTION TO LOCAL COMMUNITIES

IMPACT ON WATER

Protecting the environment

Investment in local prosperity

ACCESS TO WATER (STRENGTH OF RELATIONSHIPS RELATED TO WATER)

IMPACT ON BIODIVERSITY

Assets are safe for their communities

ENVIRONMENTAL COMPLIANCE

Long term planning and environmental management

PLANT PERFORMANCE, PROCESS SAFETY

INVESTORS + THE CROWN + SHAREHOLDERS

FINANCIAL PERFORMANCE

FINANCIAL IMPACTS OF CLIMATE CHANGE

FINANCIAL IMPACTS OF HYDROLOGY

Dividends

Commercial rationale for use of capital

Sustainability used as a driver of long-term value

Good corporate citizen

Transparency and good communication

SUPPLIERS

GOOD GOVERNANCE, ETHICAL BEHAVIOUR, REPORTING

Fair and robust process

EMPLOYEES

Growth and development opportunities

OCCUPATIONAL HEALTH AND SAFETY

Safe working environment

RETAINING EXPERTISE

Fair pay

EMPLOYEE ENGAGEMENT

DIVERSITY & EQUAL OPPORTUNITY

Diverse and inclusive culture

KEY

- MATERIAL TOPIC
- STAKEHOLDER AREA OF INTEREST
STAKEHOLDER - STAKEHOLDER GROUP

FOCUSING ON WHAT'S IMPORTANT

Sustainable value creation requires that we recognise our reliance on a wide range of resources (known as 'capitals' in the Integrated Reporting Framework), including our financial reserves, physical assets, technology platforms, people, the relationships we have with a variety of stakeholders, and natural resources (particularly water).

Having plans in place for the effective management of our approach to each of these resources is vital to our success, and influences how we execute on our strategic objectives – generating value from our assets, growing retail value, ensuring an open and fair market, and growing our overseas operations.

In deciding what to focus on, and how to prioritise our efforts across the capitals, we regularly assess global and local trends, particularly through the lens of the United Nations' Sustainable Development Goals (SDGs), and the views of our stakeholders. We are strongly of the opinion that by making a positive difference in the world, and taking a collaborative approach with our stakeholders, is how we deliver value.

This approach and process have led us to focus on two SDGs in particular, SDG7 Affordable and Clean Energy and SDG13 Climate Action, as these are where as a renewable energy generator and retailer of electricity we can 'shift the dial' for New Zealand. We also prioritise being a responsible generator and creating a great place to work in recognition that we are dependent on natural resources, strong relationships with local communities and iwi, and great people in order to be a successful business.

In deciding what to report on publicly each year, our objective is to report openly and responsibly on how all our interdependencies relate and collectively contribute to the positive change we look to make in the world. We select topics for reporting that reflect the decisions we've made in terms of our sustainability priorities, and tailor them according to what has been important to our stakeholders specifically in the reporting year. This process also allows us to re-evaluate if our sustainability priorities require adjusting to take into account trends or changes in emphasis.

First we generate a broad list of topics from the GRI Standards, the SDGs, electricity-sector-specific issues, topics that have come up in the media, Meridian's risk register, Board discussions, and other sources. We also use regular interactions with our stakeholders to canvass them on their priorities.

Using internal workshops, we then evaluate this list of topics for relevance to our business, importance in terms of scale and significance of impact on our stakeholders and the natural environment, and impacts on our ability to create value (in other words their impacts on the resources upon which we rely). Topics are rated high, medium and low, with the first two categories prioritised for reporting.

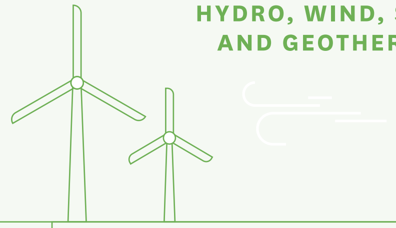
A variety of topics are considered relevant and are actively managed by the business, but are not considered significant enough to be included in our report (for example our office waste reduction initiatives).

WORKING WITH OTHERS

By maintaining our pace as a successful and sustainable business, we are creating value for others, which in turn creates value for our business. A focus on the broader systems we are part of is key.

82%

RENEWABLE ELECTRICITY IN NZ



HYDRO, WIND, SOLAR AND GEOTHERMAL

“Many of the ingredients for a zero carbon future are already in play.”

3,000-5,000GWh

CURRENT ENERGY SHORTFALL

NET ZERO CARBON ACROSS OUR OPERATIONS FROM 1 JULY 2018 (FOR SCOPE 1 AND 2 EMISSIONS)

150MW

DRY PERIOD INSURANCE

> *“We are keen to be involved in developing the pathway to a net zero carbon economy by 2050.”*

3

WIND FARM OPTIONS CONSENTED IN NZ

WE SEE NO REASON WHY NEW ZEALAND CAN’T MOVE THROUGH TO 90-95% RENEWABLE ELECTRICITY IN THE NEXT ONE TO TWO DECADES. MOVING BEYOND THIS THOUGH WILL BE MORE DIFFICULT.

Being a 100% renewable energy generator has put Meridian in a unique position. However, it’s important that we continue to build on this legacy, and move from being purely a renewable energy generator to thinking about how we can be part of the solution when it comes to the challenges that we’re facing in New Zealand, Australia and across the globe.

To help us respond to these challenges we’ve adopted the United Nations’ Sustainable Development Goals (SDGs). We’re focusing on two SDGs where we can have the biggest impact – Climate Action and Affordable and Clean Energy.

We’re privileged in New Zealand to be living in a country that generates on average 82-83% renewable electricity from a combination of hydro, wind, solar and geothermal. This high level of renewable electricity puts us ahead of most other countries and gives us a genuine renewable energy advantage.

Many of the key ingredients for a very low carbon electricity future are already in play: a mature wholesale market that enables new renewable technologies without government subsidies; a regulatory framework that encourages competition; significant retail choice; and good investment signals that should indicate when the time is right to introduce new generation. The New Zealand carbon price set through the Emissions Trading Scheme (ETS) contributes to the economics of different generation technologies, which sees geothermal and wind generation as the cheapest and best options for building additional capacity to help meet New Zealand’s eventual increase in demand. These options will also enable the replacement of older fossil-fuel power stations as they retire. Should NZAS leave this would likely result in the fossil-fuel power stations closing sooner.

Already we have seen new technology costs decrease, particularly wind technology, more renewable generation has been built and ageing thermal generation has been retired. Our renewables participation has climbed from 65% to almost 85% and there’s no reason why we cannot continue to work through to 90-95% participation in the next decade without too much upheaval.

As we reported last year, due to flat demand growth we’ve chosen to not build any new power stations in recent years, focusing instead on maximising the efficiency of our existing hydro and wind assets and maintaining them for the long-term. However, we continue to maintain our portfolio of generation options across New Zealand and we currently have Hurunui Wind in North Canterbury, Central Wind located between Waiōuru and Taihape, and Maungaharuru in Hawke’s Bay consented to build. We’re confident that we can increase our portfolio in New Zealand to meet demand when it increases, sometime after 2020. We are confident that even if we transitioned all New Zealand’s passenger fleet to EVs there is enough renewable electricity to meet this demand. We currently expect demand to increase modestly by between 0.5% and 1% on average per annum.

Moving beyond 95% renewable electricity will be more challenging. Hydro does a great job of handling variations in demand in the short term, but it is more problematic during extended dry periods when there is no rainfall to refill the lakes. This can result in an energy deficit of 3,000-5,000GWh in some years. Currently most of that is handled through using coal and gas energy.

The benefit of this stored thermal generation capacity is that it can be turned on and consumed at short notice; however, coal is the most carbon-intensive method of generating electricity, and directly contributes to climate change.

To allow coal to be removed from the electricity system there will need to be other forms of generation and other forms of ‘deep’ fuel storage developed. Certainly over the next 10-20 years we expect gas will still have a strong part to play as a key form of dry-year insurance.

We currently have a 150MW contract with Genesis Energy for dry-period insurance (swaption) that continues until 2023. We are evaluating our options for covering our commercial risk from dry periods forward of that date in a way that better supports New Zealand’s zero carbon aspirations.

Obviously, any investment in the medium to long term in non-fossil-fuel options for the New Zealand system would need to meet commercial requirements. At the same time, it is essential that there is sufficient security of supply, and that any increases in the prices of electricity are not a barrier to using our renewable electricity advantage to decarbonise the rest of the energy sector. We are keen to be involved in developing the pathway to a net zero carbon economy by 2050, and cooperation and coordination with others will be crucial to achieving this goal.

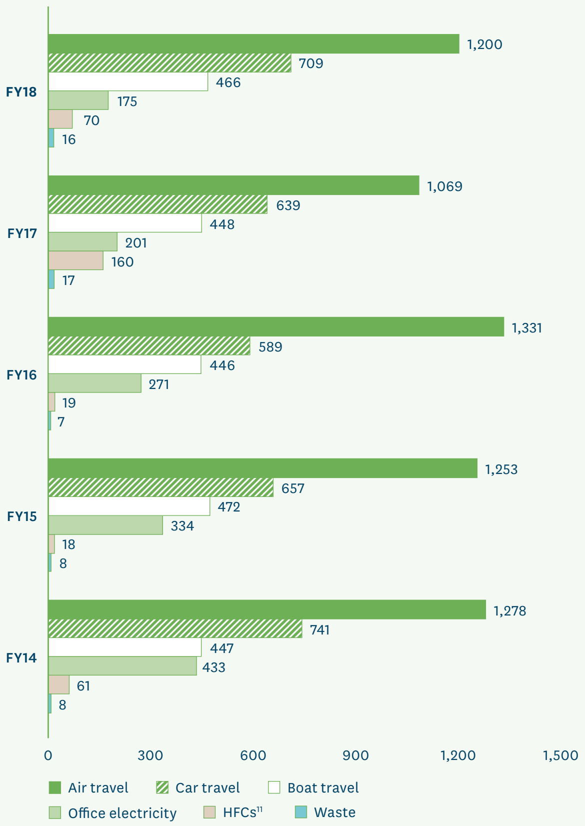
RENEWABLE ENERGY IN AUSTRALIA. The uptake of renewables is lower in Australia than it is in New Zealand, which creates opportunities for us. Powershop Australia continues to be the only electricity company certified 100% carbon neutral by the Australian Government for both our own activities and for all emissions associated with our customers' electricity and gas use. In addition, Greenpeace has ranked us the greenest power company in Australia for three consecutive years. We have a strong development pipeline, and are positioning ourselves as off-take Power Purchase Agreement (PPA) partners. We're also a member of the Clean Energy Council, which advocates for effective policy to accelerate the development of all clean energy technologies.

However, the challenges in Australia are more significant compared to those in New Zealand. Without having the flexibility of a high proportion of hydro, there is more of a challenge to integrate renewables like wind and solar. We're currently looking at how we can contribute to further supporting a greater uptake of renewables.

ZERO CARBON. As a business, our 100% renewable energy generation means we produce very few greenhouse gas emissions. If the electricity we produce were derived from modern gas-fired power stations, for example, and not from hydro and wind, it would produce over five million tonnes of carbon dioxide equivalent (tCO_2e). That's about the same as putting two million more cars on our roads. Instead, our emissions are limited to office-based activities, some minor emissions generated by maintaining generation assets, and the carbon cost of servicing our customers.

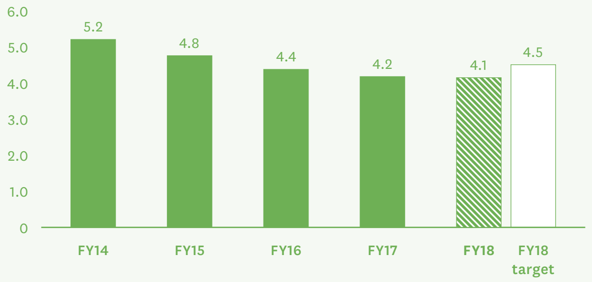
Even though our carbon footprint is relatively small, we want to go further. We've already removed most of the low-hanging fruit – we've reduced our travel, increased our video-conferencing, converted half our passenger vehicles to full EVs, and each of our main offices in Wellington, Christchurch and Twizel is a modern, energy-efficient building that meets the New Zealand Green Building Council's 5-star standard. So not surprisingly, we have achieved our five-year goal of a 10% per full-time employee reduction in our corporate emissions. This year we have started re-evaluating our carbon accounting boundary, and we expect to take a more aggressive approach to both accounting for and reducing the carbon in our value chain.

CORPORATE EMISSIONS (tCO_2e)[10]



17% REDUCTION IN OUR PARENT COMPANY CORPORATE EMISSIONS PER PERSON

CORPORATE EMISSIONS INTENSITY (tCO_2e/FTE)



Realistically, we know that we cannot eliminate all use of carbon from our operations, which is why we are taking a 'net zero' carbon approach, with a plan to reduce and then offset our carbon footprint. From 1 July 2018 onwards, we are now net zero carbon for our Group Scope 1 and 2 emissions through purchasing and cancelling carbon credits (NZUs from forestry). And going forward, we would like our offsets to come from native forestry projects on the Waitaki and Waiau rivers and we are planning to start planting this summer.

This is both practically and symbolically significant because it captures our commitment to sustainability leadership and it provides a powerful point of focus for us to continue to challenge our own actions and decisions. Importantly, it's a way of demonstrating to ourselves and to the wider business community that sustainability is not necessarily a 'cost' to doing business, but rather a smart way of working that has broad benefits. For example, investing in these new forests not only allows us to contribute meaningful climate action at a known cost, it also contributes positively to our relationships with local communities, improves climate resilience and water quality, reduces erosion and sedimentation risk, and enhances biodiversity.

IMPACTS OF CLIMATE CHANGE. We have only just started our work on specifically quantifying the financial implications for our business of climate change. This year our focus was on pulling together our view of the risks and opportunities.

The Board sets Meridian's overall appetite for risk and its approach to risk management. Included among the various risks and risk scenarios that the Board reviews are climate-change-related risks.

Of the 20 specific climate change risks identified, 12 are considered well managed, six require ongoing monitoring, two are considered priorities and there are no urgent risks.

For Meridian, climate change provides us with several opportunities that include the decarbonisation of transport and industrial heat, which will increase demand for electricity. As an energy retailer that already attracts environmentally conscious consumers, adopting a strong stance in combating climate change provides us with more opportunities to attract and retain these consumers. It is similar in Australia, with the potential to continue to grow our Powershop brand, which is Australia's greenest retailer. There are also growth opportunities associated with the increase in renewable generation required to meet future demand growth; Meridian is well placed to participate in this growth.

MERIDIAN GROUP GREENHOUSE GAS EMISSIONS (tCO_2e)

tCO_2e	FY12[12]	FY15	FY16	FY17	FY18
Direct emissions (Scope 1)	1,305	1,159	1,072	1,308	**1,628**
Energy indirect emissions (Scope 2)	3,665	1,730	2,171	1,953	**1,960**
Other indirect emissions (Scope 3)	10,658	3,010	2,836	2,448	**2,465**
Total emissions (Scope 1, 2 and 3)	**15,628**	**5,899**	**6,079**	**5,709**	**6,053**

EVS. We're encouraging uptake of EVs and we're helping residential and commercial customers to make the change and help reduce New Zealand's carbon footprint. We're actively supporting a shift to more EVs on our roads because they have such potential to help decarbonise New Zealand's transport sector, which currently accounts for around 17% of the country's emissions. Our *Taking on Norway* TV advertising campaign went live in April, and together with our $300 free charging for a year offer has significantly increased our Electric Car Plan customers, with more expected to come on board in the months ahead.

Clearly, one of our goals as a leader in sustainability is to be the first choice for customers who have EVs. A special pricing plan for customers who already own EVs encourages them to charge their cars overnight on tariffs lower than they would otherwise pay. One of the concerns we're trying to avert through this plan is that, as the number of EVs increases, people will be charging their EVs at standard peak times and this will put significant demand on current infrastructure. Encouraging them to change their habits now will help people make the adjustment to charging their vehicles when demand is lower and there is greater capacity across the lines networks.

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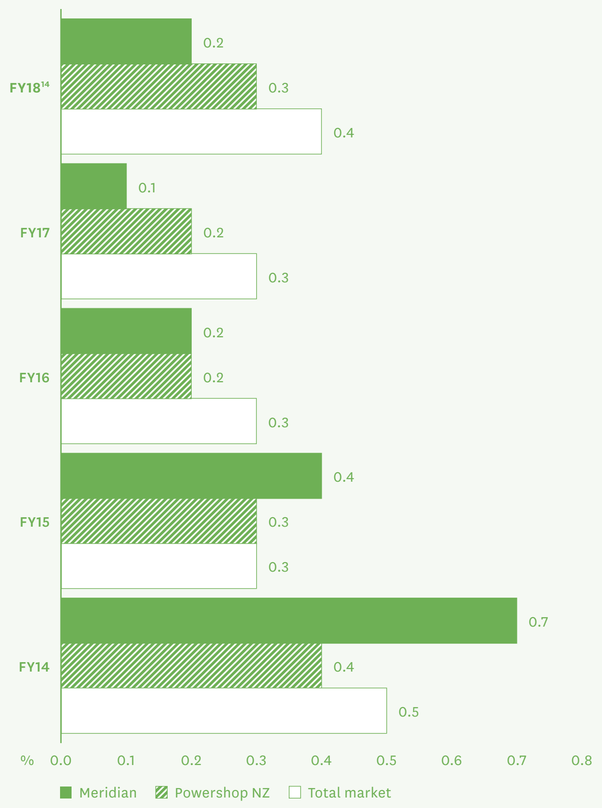
[10] Meridian parent company only.

[11] Hydrofluorocarbons (air-conditioning gases).

[12] FY12 is our base year. For our complete audited Meridian Group Greenhouse Gas Inventory Report, see https://www.meridianenergy.co.nz/about-us/sustainability/greenhouse-gas-emissions/.

NEW ZEALAND DISCONNECTIONS[13]



80% reduction over the last five years of Meridian customers being disconnected.

As we signalled last year, we're also committed to using more EVs in our own business, and our electric passenger car fleet is on target at 50%. We're currently introducing trial electric vans for some maintenance activities. We're also in discussions and negotiations with a range of commercial customers, including transport companies, property companies and other corporates, to encourage them to electrify their fleets. We expect to achieve a 90% electric passenger car fleet by the end of 2020.

SUPPORTING OUR VULNERABLE CUSTOMERS. Not everyone can afford an EV; some households struggle just to keep their homes warm and dry, particularly through winter. The market dynamics described earlier in this report have not only kept New Zealand electricity prices stable but also ensured that those prices remain lower than the OECD average. However, we recognise that energy costs are an important part of household spending, particularly in colder months, and that there will be times when some customers find it hard to pay their bills.

Research shows that people with low incomes are more likely than those with higher incomes to live in housing that is not energy efficient or well insulated because of what they can afford to buy or rent. As a result, they consume more power to stay warm. Compounding this issue is that people who live in homes that are not energy efficient are more likely to suffer from respiratory illness, which can further affect incomes and increase energy requirements from equipment and needing to stay warm.

As part of our commitment to affordable energy, we look to support vulnerable customers. These are customers that have self-identified as being financially vulnerable or those who struggle to pay their bill from time-to-time. We support them in a number of ways in order to meet our social and regulatory obligations, and to reduce the number of customer disconnections.

In the past five years, Meridian has reduced the number of customers being disconnected by over 80%. While our disconnection rate has increased compared to last year, it is still lower than the market average and we now very much see disconnection as a last resort. We employ a Hardship Consultant to provide individualised support to customers who enter our credit cycle, helping those customers in difficulty to manage their current and future bills. We do this through regular communication, discussions about improving energy management, help with heating and appliance use and, where appropriate, introductions to appropriate budgeting advice services. We also work with government support agencies such as Work and Income.

Finally, we strongly support distribution pricing reform because we believe network charges that are more reflective of actual costs would help ensure that those who struggle from time to time to pay their bills don't end up paying more than their fair share. We agree with the International Energy Agency, which said in its 2017 report that these charges may result in some customers paying more for their energy than others and that the charges have the potential to distort the market at consumers' expense. We are looking at ways to further support our customers and help to close the affordability gap for those struggling to achieve warm, dry homes.

As we pointed out in our submission to the proposed Electricity Price Review, the reasons for some customers struggling to pay their power bills are complex. They relate not just to electricity costs themselves but to factors such as income level, quality of housing and appliances, the customers' overall level of health, and the availability and cost of other household goods. We agree with the need to progress regulatory settings in the energy sector but believe that reforms must happen alongside broader social policies to ensure the best outcomes for all customers. We're doing what we can through such things as our sponsorship of the great work of KidsCan, but we can't do it alone.

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[13] Data from the Electricity Authority (emi.ea.govt.nz/Datasets/Retail/Disconnections).

[14] FY18 only includes three quarters of data.

LEADING THE PACK

Competing successfully in today's markets is about delivering customers' excellent service and experiences, and connecting on the things that matter to them.

We know from our research that people want and expect their electricity providers to be reliable and make it easy for them to get assistance when they need it. Customers want to deal with companies that are open and transparent and good corporate citizens. All of this adds to what our energy customers perceive as value for money – companies that resonate with their values and deliver a great customer experience.

We are committed to being a distinctly customer-focused company in everything we do. We see opportunities to grow the services that customers buy from us by personalising and improving those services in ways that they value and that generate increasing loyalty. Our commitment to different brands, to careful measurement and to working within the frameworks that our regulators set is part of defining Meridian and its brands as the sustainable suppliers of choice in Australia and New Zealand. This year we are pleased to report that we have made good progress on all those fronts.

DIFFERENT BRANDS, DIFFERENT DRIVERS. One of the benefits of having three well established customer brands in two geographies is that we can present consumers with options that appeal to different emotional and rational drivers.

Customers of our Meridian brand value being with a renewable energy generator, with 40% of them viewing Meridian as a leader in sustainability. They are reassured by the fact that we care deeply about the environment and the people of New Zealand. One in five of our Meridian customers, about twice the number of most of our competitors, are strongly committed to environmental action. Interestingly, the recent Colmar Brunton *Better Futures* report found that around half of all New Zealanders are choosing to not buy products that don't have sustainability credentials. These conscientious consumers are people who are actively thinking about tomorrow because they want to ensure that our planet and society are in good shape for future generations.

Our Powershop brand appeals to those looking for flexibility and control over their energy usage and cost, and who enjoy the funny and irreverent way that Powershop New Zealand engages customers. To build on this brand position and meet both the rational and emotional needs of New Zealanders, Powershop New Zealand has expanded its product mix this year with the launch of three innovative offerings.

- Time-of-use offering for residential customers called *Get Shifty*
- Allowed people to contribute to a selected charitable partner through *Power for Good*
- Expanded the reach of the brand by developing a standard *Lite* proposition more closely aligned to the traditional retailer model

In Australia, where we retail using only our Powershop Australia brand, sustainability is also important but for different reasons. Here, the country's high reliance on coal and gas generation means it faces significant challenges to decarbonise its electricity sector, which has enabled Powershop to take a unique position in the market being backed by a renewable energy generator.

Our Australian business currently represents less than 10% of our Group annual revenue, so there is headroom for expansion, particularly as Australian consumers increasingly look for renewable options. Incumbent retailers in Australia are under pressure to help transition the country to a low-carbon future and consumers' search for sustainably produced electricity aligns well with our Powershop Australia brand.

This year we've commenced offering a new gas product with a 100% carbon offset to our customers in Victoria. Gas used in the home is less carbon intensive than electricity generated from a system dominated by coal, so it is a good transition fuel to cleaner options, and most Victorian homes still depend on it so there is a sizeable market that Powershop cannot reach by retailing electricity only. Offering gas in Victoria will help us grow our business and drive us to invest in renewables as our customer base grows, such as our recent acquisition of the Hume, Burrinjuck and Keepit power stations in New South Wales.

3 BRANDS

2 MARKETS

A$444,000
FOR RENEWABLE ENERGY COMMUNITY PROJECTS IN AUSTRALIA

SUPPORTING OUR CUSTOMERS TO TAKE CLIMATE ACTION. In both New Zealand and Australia we support customers looking to adopt new technology. For many of those looking to install solar systems, for example, the change is not just about money, it's about being able to contribute to the continuing push for clean energy (which is particularly relevant in Australia with the majority of their grid electricity coming from coal and gas). An increasing number of our customers are interested in EVs as a way of combating climate change and reducing running costs (particularly in New Zealand, where the opportunity is to replace the use of petrol or diesel with electricity generated from 82% renewable energy sources).

Commercial solar users are also part of this change, and this year we've continued to work with users and networks in New Zealand where solar is a viable option to arrange installation of solar arrays at customers' facilities. Industrial consumers are also major users of energy. To help them cut their energy bills and the demands they place on the national system, we are working with a number of New Zealand businesses to convert their existing coal and gas boilers to electricity.

What's clear throughout these discussions is that sustainability has become a core driver for many, not just in managing their reputations but in helping them to achieve compelling efficiencies on site and through their supply chains. In much the same way as solar has moved increasingly into the mainstream in Australia, we're seeing a much broader and more enthusiastic acceptance of commercial solar within New Zealand businesses.

In Australia, Powershop has introduced a range of programmes to help customers support sustainable initiatives. *Grid Impact* offers customers with solar and batteries the opportunity to become part of a Virtual Power Plant. Working with our partner Reposit, we activate customers' battery systems when the cost of electricity spikes or when demand for electricity is high. They help the entire electricity system by taking pressure off the grid and we provide them with rewards that help them save on their power bills.

Curb Your Power is Powershop Australia's customer demand response programme, where our customers in Victoria can help reduce demand on the grid by curbing their power usage at certain peak demand times. We send customers text messages asking them to decrease their power use, and in return we pay them for taking action.

Your Community Energy is a way for our customers to support small-scale renewable energy in Australia. Customers pay a small premium on their power and the money raised goes into a pool that is distributed to community organisations so that they can transition to renewable sources of energy. So far we've raised A$444,000 towards the cost of energy transition for community groups.

Acknowledging this success, Powershop New Zealand has launched a similar *Power for Good* proposition aimed at enabling its customers to support charitable organisations through their power bills.

CUSTOMERS EXPECT MORE AND MORE. Providing our customers with an exceptional experience that enables them to engage with us easily and seamlessly on their terms and through the communication channels they prefer will continue to be a focus. Our customer brands attract people who want to do business with a sustainably-minded company but we know that improving our customer experiences is vital to differentiate ourselves from others in the market.

Our key project to improve our Meridian customer experience will be the transition of customers to the Flux Federation software platform over the next three years, and backing that up with market-leading customer experiences and engagement. Our Powershop brands in both Australia and New Zealand are already using this software, so we are confident based on their feedback that it will improve the experiences we offer to Meridian customers and help us lower our overall cost to serve.

For Flux, finding the talent capable of developing the software for the ambitious transformation programme planned for our customer brands is critical. Intellectual property will underpin our technology and customer service advantages in the years ahead, so is linked directly with our growth capability overall. More than 130 people already work in that business – employed locally and from overseas as required – and an intern programme plays an important role in transitioning people from introductory to permanent roles. We also have a Flux development team based in Melbourne, allowing us to tap in to another market for talent.

> *"Our customer brands attract people who want to do business with a sustainably-minded company, but we know that improving our customer experiences is vital to differentiate ourselves from others in the market."*

PUTTING CUSTOMERS FIRST STARTS WITH PUTTING OUR PEOPLE FIRST. People are critical to the delivery of competitive customer service and experience and we have continued to build our customer team capabilities, particularly in sales, to ensure we are actively growing and retaining our customer base. Our customers expect our staff to be knowledgeable in a wide range of areas. They expect them to know about the electricity market, energy efficiency and new technologies. To ensure that we can respond quickly and accurately to their questions, we train our call centre, sales and account management staff to answer a full range of enquiries.

Finding the right people to do this demanding work continues to be something of a struggle, particularly for outbound tele-sales, because demand for talented people is high and there are many options available. Staff retention is a key reason why we are currently looking at more flexible working options that will allow people to work from different locations and at hours that work better for them. Overall, engagement scores are good in our customer team.

One of the other initiatives on which we continue to deliver is giving people in our frontline roles an understanding of where and how they can progress to other areas in the business. Developing and promoting our people through internal opportunities is a powerful way to retain their skills and knowledge. In the past 12 months, approximately 10 people from our Meridian Energy Centre teams have progressed on to different positions within the Meridian customer team. We have also had a couple of our people move from New Zealand to work at Powershop Australia head office in Melbourne. The added advantage of this of course is that they already have a comprehensive understanding of our customers and products.

REACH. Reaching the right customers at the right time with the right messages requires strong data analytics and focused marketing. That data and the insights it offers help us to identify those customer segments that are most valuable to our business. Understanding their priorities and triggers enables us to reach out to them with marketing strategies that are relevant and attractive to them, which helps us to retain them.

To connect with our customers, we use integrated marketing campaigns to grow general brand awareness, and marketing and sales campaigns to reach prospective customers through a variety of channels and partnerships. Three-quarters of Meridian customers receive communications via email and around a third use our online portal. As a digital-only business, Powershop sends its customers communications through email and the Powershop mobile app.

AND EFFECTIVENESS. We use a number of ways to measure the effectiveness of our brands and our marketing. Our Meridian brand uses a residential customer commitment score to measure what proportion of our customers are deeply committed to our brand[15]. As of June 2018, the score for our Meridian brand was 39%, a substantial gain from the 30% recorded in November 2017. Customers have told us that their key motivations for staying with us are that we are a "proven provider" and "trustworthy" and they like our commitment to "being environmentally friendly". Our brand commitment score compares with an average of 32% for all New Zealand energy companies and 29% for the major retailers in June 2018. This suggests that our efforts to better meet the needs of customers are having a noticeable impact on how customers feel about Meridian.

Both Powershop New Zealand and Powershop Australia use the Net Promoter Score (NPS[16]) to assess their relationships with customers. This year the rolling 12-month average for Powershop New Zealand's NPS is 54.9, an increase from 47.8 last year, while Powershop Australia's also remains continuously above 50. When these scores are compared to the industry NPS average of +14 in New Zealand and -14 in Australia[17], it's clear that our Powershop brands continue to have highly satisfied and engaged customers.

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[15] Calculated from a brand tracking survey undertaken by Clarity Insight asking customers using a 0-10 scale "Imagine you don't have an electricity provider, and were deciding which one to use... how likely would you be to choose Meridian?". A 9-10 response classifies customers as Committed.

[16] 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).

[17] Perceptive Group Limited; New Zealand NPS Industry Benchmarks 2017 Report and asknicely.com for Australia.

In June, Meridian also started measuring NPS measure using a similar methodology.

Powershop New Zealand's success has been largely driven by two new customer-facing initiatives. First, addressing the prevailing industry sentiment that new customers are given better deals than existing customers, Powershop has launched tenure-based rewards which provide loyal customers with a tiered discount based on their tenure. This approach flips the traditional utility pricing model on its head. Second, Powershop doubled down on its single point of difference, 'the shop', and introduced a new advance-purchase behaviour to the residential market with *Future Packs*. These enable its customers to purchase energy up to six months in advance and in turn smooth the impacts of winter bills.

In Australia, Powershop has continued to introduce initiatives to manage market change, such as smart meters at no upfront cost for customers in New South Wales and Queensland (where smart meters aren't standard), and through improvement initiatives such as welcome calls to improve onboarding experiences for new customers.

CUSTOMER CHURN. Churn is a sign of a healthy and competitive market where prices are fair and switching is easy. However, we are always working on decreasing our own churn by increasing customer loyalty and encouraging our customers to stay with us.

Meridian's churn rate in the past 12 months has been 17.9%, which is the lowest churn rate amongst the major electricity retailers. While Powershop NZ churn is higher, Meridian and Powershop NZ combined churn is in line with the industry average of 21%[18].

Churn continues to be high in Australia but in most states this follows market trends.

A WELL RUN MARKET. In New Zealand, electricity prices are currently stable, reflecting flat demand and strong competition, particularly amongst retailers. In fact, as we reported last year, an analysis by the Ministry of Business, Innovation and Employment[19] showed that the real cost of electricity to the average residential customer fell for the first time in three decades. This shows that the electricity market set up here more than 20 years ago is working efficiently. There are around 50 retail brands serving around two million customer connections which continues to shape a market where customers have unprecedented choice, the overall market pressure on prices is downward and participants such as ourselves must work effectively to meet today's demands and enable tomorrow's capacity.

We believe that the New Zealand electricity market is open, efficient and fair. As we explained in our submission to the Electricity Price Review, we believe it helps to create positive outcomes for New Zealanders with competitive retailer pricing, plenty of choice and opportunities for innovation, a high standard of customer service and good security of supply. The Electricity Price Review that is currently underway will confirm or seek to improve this and we welcome this investigation into fair pricing.

Similarly, the market fundamentals work in Australia. Recent high wholesale prices have led to an acceleration in development of new renewable generation, which has in turn caused wholesale prices to moderate. However, Australia is battling a need to reduce its reliance on fossil fuels and introduce less carbon-intensive options to facilitate meeting its commitments to the Paris Agreement targets. The new National Energy Guarantee, which for the first time ties together energy decarbonisation, affordability and security into a single policy, has the potential to break a decade of policy instability.

As the owner of long-term assets, we value the stability and certainty of the current regulatory environment and support the work of our key regulatory body, the Electricity Authority. We do this through active participation in industry working groups and through submissions on the EA's programme of work that we believe will help improve the efficiency of current rules and frameworks and ensure better outcomes for consumers.

As a key member of the energy sector, we have a responsibility as a good corporate citizen to advocate for a market environment and a wider regulatory environment that is conducive to achieving our commercial and sustainability goals. In FY18, we have spent $230,000 on membership of groups that advocate on a range of issues that are important to us, and help us join forces with others to coordinate and amplify our views. For example, we advocate for value for our customers through our membership of the Electricity Retailers' Association of New Zealand (ERANZ, $167,763) and sustainable business and clean energy technologies though our membership of the Sustainable Business Council in New Zealand and the Clean Energy Council in Australia (total of $26,750) along with an additional $34,500 spent on memberships of Business NZ and Drive Electric.

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[18] Industry churn in New Zealand is calculated by the EA: https://www.emi.ea.govt.nz

[19] http://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/statistics/prices/electricity-prices.

COME RAIN

We look to work with what we do know and what we don't in a disciplined manner. In the case of our generation business, that's about ensuring our dams are resilient, our people are safe and our relationships are strong.

COME SHINE

Hydro generation is fundamental to the achievement of New Zealand's aspiration of net zero carbon by 2050. Hydro provides the majority of New Zealand's current renewable generation, and its flexibility to deal with daily and weekly variations in both demand and supply from other renewable technologies such as wind and solar is key to ensuring that more renewable energy can be connected to the New Zealand electricity system.

It is also true that water use in New Zealand (as in Australia and globally) is highly debated. There are multiple groups of people who have an interest in our waterways – from cultural, recreational, commercial and personal perspectives. Similarly, local communities can have strong opinions about wind energy, with understandably strong emotional attachments to the places in which they live. Navigating these interests, in a collaborative way that supports positive outcomes, is vital to ensuring that hydro and wind energy can continue to contribute to the country's climate action goals and targets.

Our commitment to renewable energy is also increasingly attractive and competitive in Australia, which is looking for initiatives that will help it to reach its own renewable energy targets. The purchase of three hydro power stations and the negotiation of several Power Purchase Agreements with renewable projects in Victoria and New South Wales will add over 600GWh to our Australian generation, taking Meridian's annual renewable generation in Australia to around 1,200GWh, about 8% of our overall Group generation volume. This in turn will support Meridian Australia's continued customer growth through the Powershop brand and drive further demand for large-scale renewable energy in Australia.

Making the most of our generation assets is about ensuring that our people are safe and well trained, that the assets are maintained properly and with due care, that we have water available to generate power and revenue, that natural habitats are protected and that communities close to us feel included and consulted in what we are undertaking in the places they hold dear. Considering all these elements in our day-to-day operations is what we mean when we talk about being a responsible generator.

WATER. Water is a deeply emotive issue for many New Zealanders. From access to quality drinking water to river quality, the right to use and access water has become a matter of sometimes heated public debate. Fresh water is of course central to our hydro activities and we are deeply conscious of the value and role of water and waterways for New Zealanders. As a proudly New Zealand company, we take our responsibilities very seriously – especially when, in summers like the one we have just had, inflows into our hydro storage lakes fall to very low levels. In the first half of this year, this affected both our ability to generate electricity and our profitability. Low inflows into the Waiau lakes saw storage levels drop, a pointed reminder of how variable water resources can affect our business and that having greater latitude around developing alternatives to fossil-fuel options as cover for dry periods is a sound strategy.

Water is a shared resource and is managed by way of an integrated regulatory and administrative framework that is principally achieved in New Zealand by the Resource Management Act 1991 (RMA). Overall the RMA seeks to ensure that any use of water satisfies the Act's over arching purpose of sustainable management. Meridian's ability to utilise water for hydroelectricity purposes is subject to the RMA and requires resource consents from local authorities. This entails a full assessment of environmental effects at the time of lodgement, evaluation against national and local policies and conditions of consent requiring any ongoing obligations as to avoiding, remedying and mitigating any adverse effects. Meridian holds all the necessary consents required for its activities and aims to ensure it meets sustainable thresholds. In the past year we have recorded five minor plant-related breaches of environmental compliance. None was deemed serious and there were no fines.

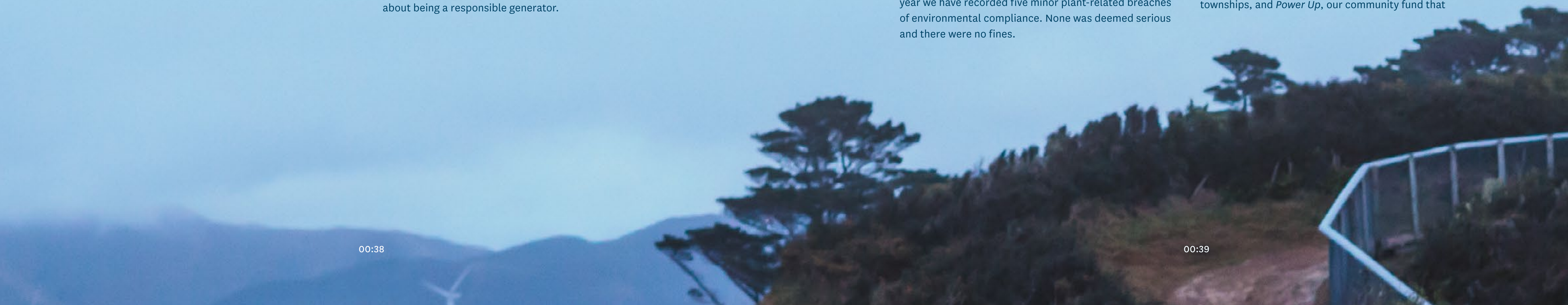
We work with a wide range of stakeholders in the catchments in which we operate, including with one of our competitors, Genesis Energy. In 2011 we sold the Tekapo A and B stations along with the canal that connects them to Lake Pūkaki to Genesis. As part of that arrangement, both parties are responsible for water management (in the form of high-flow and flood control), sharing pertinent information and forming coordinated and simplified positions around resource management issues, the management of hazards and the consents of assets. Genesis is also required to deliver a certain flow of water each month from Lake Tekapo to Lake Pūkaki.

OUR COMMUNITIES. We engage with our asset communities in a range of ways, from face-to-face meetings to having dedicated people working with the communities, our participation at community board meetings and general day-to-day collaboration.

We also work closely with local and regional councils, particularly during consenting and through the submissions process, by participating in working groups and committees and reporting on our compliance with resource consent conditions. And we have agreements with various groups connected with the waterways.

Our social licence to operate depends on building trust and good relationships with all of these groups.
We want people, groups and communities to feel included and consulted and that we have worked with them to make life around our wind and hydro operations better.

Perhaps our most visible local contribution comes through employment and support, which helps small local communities to flourish and attract people to their townships, and *Power Up*, our community fund that



1,200GWh

PROJECTED GENERATION IN AUSTRALIA

WE HAVE BEEN WORKING WITH THE DEPARTMENT OF CONSERVATION TO PRESERVE AND RESTORE BRAIDED RIVER HABITATS IN THE WAITAKI CATCHMENT. AROUND 100 HECTARES OF NEW WETLANDS HAVE BEEN CREATED

specifically supports projects in areas where we have wind farms and hydro stations. Each year we contribute more than $500,000 through this fund which means that, in the 11 years that it has been running, we've contributed almost $7 million to around 935 community-led projects. In that time we've been able to restore waterways in Mākara near Wellington, improve the habitat for the Haast tokoeka kiwi (New Zealand's rarest kiwi) on Rona Island in Lake Manapōuri, develop an ambulance bay and helipad at Twizel Medical Centre and so much more.

THE MANA WHENUA OF NGĀI TAHU. Strong relationships are crucial and we recognise the mana whenua of Ngāi Tahu in relation to our hydro schemes in the Ngāi Tahu takiwā (territory), and engage with them and other iwi through relevant sub-groups and through regular meetings. We also hold specific meetings around our wind assets, usually in regard to consents.

Given Ngāi Tahu's intergenerational focus, we're committed to maintaining a long-term relationship with Te Rūnanga o Ngāi Tahu, recognising and responding to the kaupapa of Ki Uta Ki Tai (mountains to the sea) and working closely with local rūnanga (Arowhenua, Awarua, Hokonui, Moeraki, Ōraka Aparima, Waihao and Waihōpai) as our partners in the Waitaki and Waiau catchments. This year we have worked with different groups to repurpose the Lake Pūkaki Visitor Centre as part of our commitment to proactively enhancing Ngāi Tahu values within the catchment and further cementing the Ngāi Tahu-Meridian relationship. We'd like to take this opportunity to pay tribute to Mandy Holme, who played a vital role in working with us in the Waitaki catchment, and who, sadly, passed away this year.

TAKING THE ENVIRONMENT SERIOUSLY. One thing all our stakeholders agree on is the importance for us as a renewable energy generator to demonstrate good environmental management of biodiversity and water quality as it relates to our assets. This is also deeply important to our staff, and underpins our operations and role as a responsible generator.

We're working closely with other water users, communities, Ngāi Tahu and local authorities that have an interest in water on which we rely on for about 90% of our electricity generation. We appreciate that strong relationships are crucial to maintaining our access to water, and are an essential part of being a good corporate citizen and neighbour in our hydro and wind generation communities.

We do everything we can to manage the impacts of hydro generation on the environment. Water that has been compromised in terms of its quality does enter our system, which boosts the chances of algal growth and weeds that then need to be filtered out before the water can pass through our turbines. Hydro generation also affects the landscape by creating lakes and canals, and it also affects the timing and volume of river flows through diverting water. This has resulted in sections of the Tekapo and Pūkaki Rivers no longer having continuous flows; instead these rivers have intermittent flows that have converted the habitats from aquatic to terrestrial. We also note for the Waitaki hydro chain that our water takes match the discharges and therefore there is no 'consumption' of water, and overall any adverse effects around water quality, as an example, are largely benign. Our only 'consumption' of water is from the Manapōuri catchment as this water is returned to a different part of the environment (taken from a fresh water lake and returned to a marine environment [Doubtful Sound]). Our infrastructure can also affect the ability of native fish to move through the catchments. These changes in turn affect a range of stakeholders.

WATER FLOWING THROUGH OUR HYDRO SYSTEMS[20,21]

	FY14	FY15	FY16	FY17	FY18
Fresh surface water (lakes, rivers) passing through our assets	75,983	73,883	70,610	72,946	65,562
Water returned to the source of extraction at similar quality	64,055	62,518	56,481	61,499	53,823
Total net fresh water consumption[22]	11,928	11,365	14,129	11,447	11,739

As a significant user of water, we have managed these impacts for some time. Two biodiversity impacts in particular – our impacts on eels (tuna) and braided river habitats – are mostly managed through projects funded by Meridian. These projects were designed in collaboration with local authorities and other interested parties when our consents were originally granted, to preserve environmental biodiversity in areas affected by our hydro generation operations. They include initiatives such as eel 'trap and transfer', Project River Recovery and support for the Waiau Fisheries and Wildlife Habitat Enhancement Trust.

At both the Waitaki dam (the lowest hydro structure in the Waitaki scheme) and the Manapōuri Lake Control Structure (the lowest hydro structure in the Manapōuri scheme) we operate elver (juvenile eel) trap and transfer programmes. Since our eel mitigation programme began in the Waiau catchment in 2012, we have moved thousands of eels and elvers every year. We estimate there are 6,500 mature eels in the waters behind Manapōuri and a much smaller number in the Waitaki catchment. We have also moved one tonne of juvenile eels at Manapōuri this year. Once below the Manapōuri Lake Control Structure, the eels have open access downstream and can migrate successfully to the sea for spawning. For the moment, we judge success on the number of eels we are able to catch and successfully transfer because, in reality, given the lifecycles of the eels themselves (a 70 year lifecycle, with breeding at 50 years), it will be many decades before we know whether we have succeeded in helping them achieve a sustainable population.

GENERATION AND WHOLESALE STAFF APPROACHING RETIREMENT AGE

FY17	FY18
10.2% IN FIVE YEARS	9.1% IN FIVE YEARS
22.7% IN TEN YEARS	20.3% IN TEN YEARS

The major environmental mitigation in the Waitaki catchment is Project River Recovery. It has been in place for 27 years and has been funded by Meridian and our predecessor organisation (ECNZ) since 1991. We have been working with the Department of Conservation to preserve and restore braided river habitats in the Waitaki catchment. Around 100 hectares of new wetlands have been created. That programme focuses on the health of these habitats and our work there includes weed control over 33,000 hectares of riverbed and pest eradication to protect black-fronted tern/tarapirohe colonies. The project also focuses on helping kakī or black stilt to recover.

At the national level, we are also involved in the development of environmental policy for water through our involvement in the Land and Water Forum and for biodiversity through the Biodiversity Collaborative Group.

FINDING AND KEEPING THE RIGHT PEOPLE. Team mix is important. As control of our generation assets has become increasingly automated, the skills required to manage, maintain and upgrade them are changing. To make the most of the efficiency and accuracy gains that technology makes possible, we now require a much broader set of expertise to run our hydro and wind assets.

Our staff in the generation part of our business are predominantly older, pākehā males. We are focused on retaining good staff but also recruiting young talent to replace our senior staff as they retire. To support young women to get into technical careers, we're partnering with programmes such as the Connexis *Girls in Hi-Vis*.

This year, new team members took over from three of our senior staff in Twizel and Manapōuri who retired. At the same time, our internship and graduate programme continues to attract new people to the industry, and we have been able to convert graduates who joined us through that programme become permanent members of our teams.

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[20] Municipal water consumption not reported as minimal and not metered.

[21] No exposure to water stressed areas.

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

COMMITTED TO SAFETY LEADERSHIP. Energy infrastructure has the potential to be highly hazardous unless handled with care and respect.

Our employees and contractors are required to report any hazards or incidents through Meridian's electronic safety management system Safety Manager, a dedicated 0800 number, or through one of our organisations elected Safety and Health representative or site managers. In the countries in which we operate, people who raise health and safety concerns are legally protected, but we take an even stronger view than that which ensures that all observations of risk are valuable opportunities for us to learn. It is key that we are all in the waka together ensuring we all go home safe at the end of the day. Our comprehensive approach to safety and health enables us to do this as well as meeting what's expected of us under law.

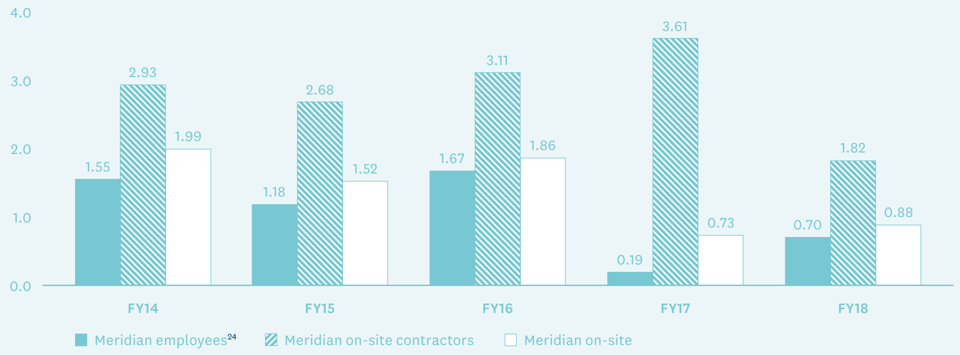
Our formal health and safety structure includes site-specific health and safety committees representing everyone on our sites, including contractors, and these committees meet monthly to identify hazards and review incidents that have occurred. The representatives on these committees receive regular training in risk identification and controls, and are supported by dedicated Safety Specialists in each of our business units, who assist with regular reviews of the hazards presented by our operations.

We continue to invest in training programmes to raise health and safety awareness and encourage consistent behaviour and attitudes towards safety at work. This year we have introduced virtual reality as a powerful and innovative way to train our people to work in high-risk areas, in addition to our comprehensive programme that includes industry and site inductions, first aid courses, specific training on the incident reporting system, confined spaces, working at height, asbestos awareness, hazardous goods, rigging and cranes, driver education specific to off-road and winter conditions, as well as more general culture and safety behaviour training. Random drug and alcohol testing was also launched company-wide this year.

In FY18, we're pleased to report, there have been no significant harm injuries at our generation sites or across our Group operations and a further reduction in our workplace injury statistics. These primarily consisted of superficial injuries and sprains, none of which were related to our eight critical risks, which have been identified through our Fatal Risk Framework as posing a risk of high-consequence injuries and have controls in place following analysis using the Bow Tie approach. We continued to tighten our processes this year, launching a range of work control procedures to standardise how tasks are approached. Through the Electrical Industry Health and Safety Group, StayLive, we've contributed to a new website that provides industry participants with an opportunity to share collective learnings. Meridian is currently the Chair of StayLive.

INTELLIGENT DAM MANAGEMENT. On any given day, we manage about 50% of New Zealand's total hydro storage. Our Waitaki hydro scheme includes six power stations from Lake Pūkaki to Lake Waitaki in the Mackenzie Basin. They are the three Ōhau stations, Benmore, Aviemore and Waitaki. Our Manapōuri power station is the country's biggest and its catchment area of Lakes Te Ānau and Manapōuri receives some of New Zealand's highest rainfall. In Australia we also have the Hume, Burrinjuck and Keepit hydro power stations. Together, these assets not only represent the majority of our market value, they also come with significant responsibilities, including of course our obligation to protect people, property and the environment around and downstream from these structures.

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR[23])



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23 TRIFR is calculated per 200,000 hours and includes all lost time, medical treatment and restricted work injuries. 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.

24 Includes Meridian Australia generation staff.

WE MANAGE

50%

OF NZ'S TOTAL HYDRO STORAGE

Lakes Te Ānau and Manapōuri receive some of New Zealand's highest rainfall

> *"Our hydro assets were top-quartile performers for cost vs results achieved."*

New Zealand energy companies and dam operators take dam safety and asset management very seriously. Through the New Zealand Society on Large Dams, we operate within guidelines that represent the very best in national and international practice. At the same time, Meridian works with Dam Safety Intelligence, a subsidiary group of engineers, scientists and geologists focused on the safe management of dams and other water infrastructure. It operates as an independent company and undertakes a range of work for a variety of dam owners, from regular inspections and monitoring to investigations and management of safety issues, to ensure dams are performing as expected and maintained for operation into the future.

We would describe our approach as mature. Part of the reason for this is that we are continually looking for ways to improve performance and safety. This year, for example, we have worked with people across the hydro business to review the rules on dealing with flood conditions.

As we reported last year, we conducted an independent benchmarking exercise of our New Zealand hydro portfolio assets for the period July 2015 to June 2016 that compared our assets to an international database of hydro generators of a similar size and age. In the last report, our hydro assets were top-quartile performers for cost vs results achieved and our Benmore, Manapōuri and Ōhau B and C power stations were recognised as leaders within their peer groups. Since that report was released, we have changed benchmarking provider from GKS (Generation Knowledge Services) to a member-run group, EUCG, which will give us access to more continuous results and analysis. A new report is due in 2018 based on benchmarking in the past five years for our hydro assets. The GKS report covered both hydro and wind.

A RESILIENT ASSET MIX. Asset performance has our constant attention. A rolling 20-year asset management plan for our hydro assets guides how we maintain, repair and future-proof our dam infrastructure and operations. The plan incorporates considerations around seismic impacts and analyses of the impacts that major flood – or drought – events, particularly those brought on by climate change, are likely to have on our business. This year we have undertaken a review of potential seismic impacts in our assets in the Manapōuri and Waitaki catchments, taking into account new information that has become available in the past 10 years. The analysis reconfirmed our understanding of the expected impacts of a seismic event and provided us with continuing confidence that our dams will perform safely should an extreme event occur.

Our wind assets are managed through our own expertise and ongoing contracts with wind turbine suppliers. This year we have carried out extensive turbine maintenance at our oldest wind farm, Te Āpiti in Manawatū, and at West Wind, near Wellington, to keep those assets working well. We have also progressed design work at the Maungahururu wind farm development option in Hawke's Bay. Meanwhile, at Te Uku wind farm near Raglan, we've continued with work to refit and upgrade the turbine blades, aimed at getting a 2% increase in annual production. That project will take three or four years to complete.

A proposed new road at the Te Āpiti site will affect coverage and access there. At this stage we're likely to remove one or two turbines because of this NZ Transport Agency proposal. There will also be large civil works to up to eight turbines that would otherwise be cut off by the new road. That work includes underpasses, an off-highway turn-off to get trucks to the site and joining up of existing cables. All of this would proceed under the RMA and Public Works Act 1981 and Meridian will be participating in designation lodged by the Transport Agency as a result.

STRENGTH OF OUR ASSET MAINTENANCE

%	FY14	FY15	FY16	FY17	FY18
Wind AU[25]	89.3	95.5	91.0	92.6	**93.4**
Wind NZ	95.1	92.8	88.9	85.4	**83.9**
Hydro	90.7	88.4	93.4	91.3	**90.4**

25 FY14 data is just for Mt Millar only.

AT A HUMAN LEVEL

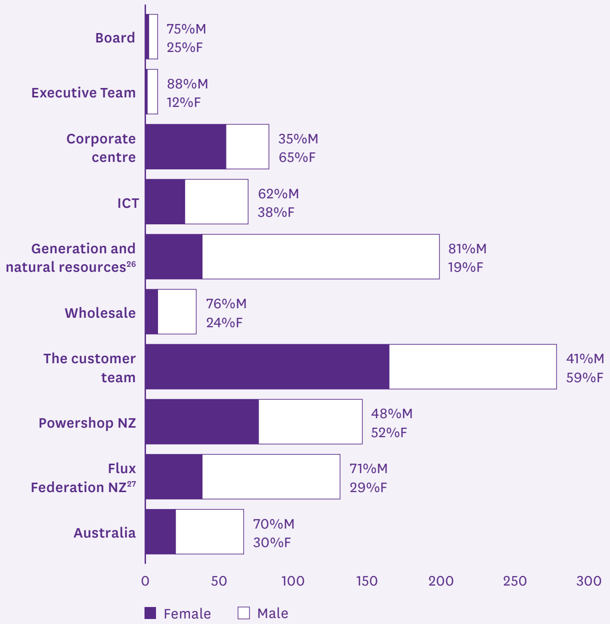
Our ambitions for this business make the work challenging. Having the right people is important.

> *“We offer our people leading employment terms and conditions and great workplace experiences, and care for their wellbeing and safety, which help to build engagement and reciprocal loyalty.”*

We’re very clear about the people we need to deliver clean energy for a fairer and healthier world. Tomorrow’s energy environment will need top thinkers with broad experience capable of using their smarts and skills to make an impact. Delivering the quality business performance that our customers and stakeholders expect will mean our teams are made up of people who believe in what we are doing and are willing and able to go the extra mile. They will be well equipped, highly skilled and empowered to strengthen our core capabilities. And constructive behaviours will help us drive sustained high performance.

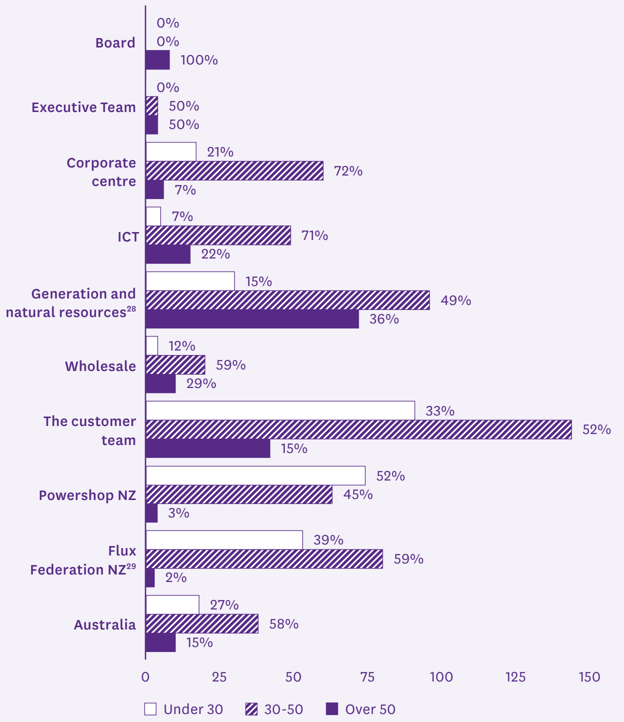
HOW TO BE – BEHAVIOURS THAT UNITE US. Our bedrock values of safety and wellbeing of our people, caring for our customers and doing everything sustainably remain unchanged. But to deliver clean energy for a fairer and healthier world we need to be united in our work. We recognise that competitive companies behave in powerful ways, together, and we have core values and behaviours – ‘Be Gutsy, Be a Good Human and Be in the Waka’ – that we believe underpin our collective ability to deliver on our purpose and strategic must-wins. At Meridian, it’s how to be.

DIVERSITY BY GENDER (HEADCOUNT) FOR THE GROUP



OVERALL 42% FEMALE

DIVERSITY BY AGE (HEADCOUNT)



LEVERAGING OUR REPUTATION. By positioning ourselves as a business that is taking tangible and meaningful actions on the things to which we are committed, we increase our chances of attracting people to our ranks who will help us to succeed, lift our business capabilities and make us more competitive overall because those ideas resonate with them. Climate action was rated the fourth most important goal of the 17 SDGs to achieve by Kiwis in the most recent Colmar Brunton *Better Futures* report. 73% of people surveyed said it was important for them to work for a company that was socially and environmentally responsible. Meridian continues to rank among the top five companies that are top of mind for New Zealanders as sustainable brands, and prompted awareness of Meridian as a sustainable brand continues to improve. For these reasons, we see sustainability leadership as an important factor in helping us to attract great people to work with us and achieve our goals. The things we do internally mean a lot to our staff. Becoming net zero carbon, electrifying our vehicle fleet, occupying five-star standard buildings are all ways in which we demonstrate our purpose through our actions.

[26] Includes Dam Safety Intelligence.

[27] Includes Flux-UK staff.

[28] Includes Dam Safety Intelligence.

[29] Includes Flux-UK staff.

> *"Meridian recently became an accredited Rainbow Tick organisation. It is important that all of our employees are able to be themselves at work and this accreditation signals that we are an inclusive company that welcomes and supports the Rainbow community."*

OUR PARTNERSHIPS. Our partnerships with KidsCan and the Kākāpō Recovery Programme are also an important part of this, proving that we are a trustworthy company, that we do more than just talk about our SDGs and sustainability and that we have the strong environmental and social responsibility credentials that stakeholders (including our staff) would expect of a sustainability leader.

We've been the Principal Partner of KidsCan since 2013. In that time, our staff, customers and shareholders have contributed more than $1.4 million to help support the work KidsCan does in communities throughout New Zealand. This year we have committed to a further three years of support. Through the partnership, our people have provided 2,000 fleece-lined beanies to school children in colder regions, helped with painting jobs and gardening at partner schools, donated second-hand furniture, and raised extra money through cake-baking competitions and morning teas. Today, KidsCan is helping to feed more than 29,000 hungry kids at more than 730 schools around the country every week, providing shoes, socks and jackets to children who would otherwise arrive at school wet and cold, and offering a variety of health and hygiene items.

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.

We're also helping to power future champions by sponsoring South Island Rowing and our subsidiaries have their own ways of expressing their values. Powershop New Zealand supports the Neonatal Trust and Flux Federation this year sponsored a boxing match that related to the mental health of tech employees. We encourage our people to be part of our communities and we widen the impacts that we all have as a company, and those actions then inspire others to step forward and volunteer for the greater good. In our Australian operations this year we have introduced Volunteer Days that enable our people to help a charity of their choice on a work day. We have also introduced Friday Learnings, where experts on all sorts of topics provide our people with new perspectives. As part of our sponsorship of the North Melbourne Australia Rules Football Club we have also offered AFL footballers opportunities to do internships with us.

For many of our people, working with Meridian connects them with the community and a significant number volunteer their time outside working hours to support not just the causes and organisations we support but other organisations that do amazing work in communities throughout New Zealand. One of our teams is supporting the Kākāpo Recovery Programme on Whenua Hou/Codfish Island by building and maintaining a micro dam so that they have access to their own power. Others are members of the fire service in Twizel, St John, the surf live savers at Raglan… we look to support these activities as much as we can because we absolutely believe that a spirit of involvement is critical to being a meaningful corporate citizen.

CELEBRATING DIVERSITY AND INCLUSION. To the greatest extent possible, we want our people to reflect the markets in which we compete. We continue to look for ways to enhance our diversity mix, as having employees with different viewpoints, backgrounds and languages adds to our understanding of what it takes to deliver clean energy for a fairer and healthier world.

Meridian recently became an accredited Rainbow Tick organisation. It is important that all of our employees are able to be themselves, and this accreditation signals that we are an inclusive company that welcomes and supports the Rainbow community.

1,012

NUMBER OF PEOPLE WORKING ACROSS THE GROUP

50%

OF PERMANENT NZ EMPLOYEES SIGNING UP TO OUR EMPLOYEE SHARE SCHEME, MYSHARE, THIS YEAR

Celebrating different cultures remains an important focus for us and we encourage our people to grow their cultural awareness and join events such as Diwali, Chinese New Year, Te Wiki o te Reo Māori and Matariki, that increasingly represent what we celebrate as a nation. A key priority for us is to continue to train our people in tikanga and proper pronunciation of Te Reo, because protocol and language are key expressions of respect. To help with this we have developed an app – 'Te Kete' – accessible to all employees and their whānau on their phones.

By encouraging our people to be welcoming and open, we also increase receptivity for new ideas. Diversity in thinking broadens our problem-solving capabilities and enables an innovative and highly productive culture. In addition to encouraging people to bring their diverse perspectives and skills to cross-functional teams, we're encouraging them to use design thinking to solve problems. That appetite for innovation will be vitally important as we begin the transfer to a new technology platform.

REBALANCING PAY AND LEADERSHIP. We're committed to the principle of pay equity for male and female employees in similarly sized roles, with similar skills, experience and accountabilities. We undertake gender analysis every year to identify and address gaps based on gender and have done so for the past five years in the parent company. This gender pay analysis has now been extended to include all subsidiary companies. We are pleased with the progress we're making to ensure that men and women in comparable jobs get paid equitably, and this year, on average, there was only a 1% disparity at parent level, and 1.7% at Group level. (See table below). Our work in this area was recognised through our selection as a Silver Finalist in the YWCA Equal Pay Awards and being admitted to the Equal Pay Best Practice Compact.

	GROUP[30]	
SALARY BAND[31]	GROUP % RATIO FEMALE SALARY TO MALE SALARY	GROUP % FEMALE
A-B	100.4%	65.4%
C-D	103.9%	54.7%
E-F	96.1%	43.7%
G-H	99.1%	31.2%
I-J	97.4%	28.6%
K-L	93.0%	16.7%
Average of average:	**98.30%**	**41.8%**

It's encouraging to see our graduate and apprenticeship programmes attracting a healthy mix of male and female candidates, because women are currently under-represented in technical roles. It's something we're keen to correct through encouraging more women to choose technical careers, and we support the Connexis *Girls in Hi-Vis* programme, and have a partnership with TupuToa to offer internships to young Māori and Pasifika tertiary students from a variety of professional disciplines. Our view is that more diversified teams, by age, ethnicity and gender, increase the skills and energy of our workforce and make for better and more productive working environments. At the same time, we know that the relatively remote locations of our generation assets combined with low staff turnover of around 4% in this part of the business mean we need to be patient and look for gains in the longer term.

While we have strong female representation across the business as a whole (42%), women are under-represented in leadership and senior-level roles and the reorganisation of our senior team has inadvertently added to that. In

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[30] We reported parent only last year.

[31] K & L are our highest salary bands and A & B are our lowest.

WE HAVE A TARGET OF 40% FOR WOMEN IN PEOPLE LEADERSHIP AND SENIOR SPECIALIST POSITIONS BY 30 JUNE 2020

22 WEEKS WILL BE OUR NEW PARENTAL LEAVE TOP-UP PROVISION

WE WERE A SILVER FINALIST AT THE YWCA EQUAL PAY AWARDS

2016 we set a target for increasing the number of women in people leadership and senior specialist positions in Meridian New Zealand to 40% by 30 June 2020. While progress has been made since setting this objective, in the past financial year the number of women in people leadership and senior specialist roles has slipped slightly, from 33.5% to 32.8%. We continue to provide gender-balanced recruitment panels, training that supports managers to recognise unconscious bias, targeted development opportunities, succession plans, pay equity, and market-leading employment provisions in an effort to achieve greater female representation.

This year we have continued to build flexibility into our working style. It's already a hallmark of our culture, but we know that if we want to attract the best people in the market we need to provide them with a working environment and work conditions that reflect their wider life needs. A significant percentage of our people currently work flexibly, and we also offer the opportunity to Meridian and Powershop NZ employees to buy up to 12 days' leave for the year, recognising that work is just one aspect of life and taking one or more well earned breaks during the year is important to recharge the batteries. While a few people do struggle to use their annual leave each year, for many people, the legislated four weeks' leave is just not enough to manage family, leisure, volunteer, sporting and other needs, and 'bought leave', along with three additional 'Company days' leave, provides our employees with more options to balance busy lives.

Recently we've voluntarily increased our already market-leading parental leave top-up provision from 12 weeks to 22 weeks for Meridian and Powershop NZ employees. This aligns with the new period of government-paid parental leave that came into effect in July 2018. We also offer two weeks' paid leave to secondary carers and ensure that annual leave accrued during parental leave is paid at the full rate. Alongside our parental leave programme, employee insurance, our employee share ownership plan, professional development, annual performance reviews for all staff and on-the-job training reflect our belief that when people feel valued and looked after, they will join, stay and flourish, and that this combination of skills and engagement will drive greater productivity and competitiveness. This is reflected not only in strong employee engagement scores, but also in the high level of take-up in our employee share scheme – *MyShare* – with 50% of our permanent New Zealand employees signing up this year. Having so many of our people taking advantage of *MyShare*, owning a piece of the Company and saving for their future is a fantastic result of which we are very proud.

KEEPING PHYSICAL AND MENTAL HEALTH TOP OF MIND. Safety is a core value of our business and a fundamental part of our culture. Ensuring that our people feel their wellbeing is also supported and valued goes hand in hand with building a safe working environment, and in that regard mental wellbeing is as important as the significant emphasis we place on physical and plant safety in our working environments. Participation in events such as Pink Shirt Day is a simple and visible way of showing that behaviours like bullying are unacceptable work practices that we are determined to address, and the vast majority of our employees (86%) feel confident that they would be supported if they raised concerns about bullying or harassment.

Our *Healthy Minds* initiative is another way we are looking to support our employees and their families to understand mental health issues and break down the barriers when people do need to ask for help. New Zealand statistics on suicide are shocking, and acknowledging and addressing the need for strong and resilient mental health are very important to us. *Healthy Minds* has helped our people to understand that different factors of our working lives affect different people in different ways, and that recognising signs of stress and depression and acting on them is a positive thing to do. This comprehensive programme is encouraging people across our business to step forward with complete confidentiality and get the support they need for themselves or their loved ones, and we are tremendously encouraged by that. This initiative has the active support of our Executive Team and will be rolled out to remaining areas of the business in the next year. It has been very well received, and has contributed to a meaningful increase in the number of employees who believe Meridian cares about their wellbeing (93%, up from 90% last year). We're also building programmes for our Australian business, and our Flux and Powershop teams.

> *"A critical part of achieving a strong culture is ensuring that our people see Meridian as a meaningful place to build their careers."*

ACTIVE ENGAGEMENT. A critical part of achieving a strong culture is ensuring that our people feel listened to and included, and that they see Meridian as a meaningful place to work that provides them with opportunities to build their careers. Hearing from our people and asking them to have their say on what works well in Meridian and what we can do better are important, so we take our employee engagement surveys seriously.

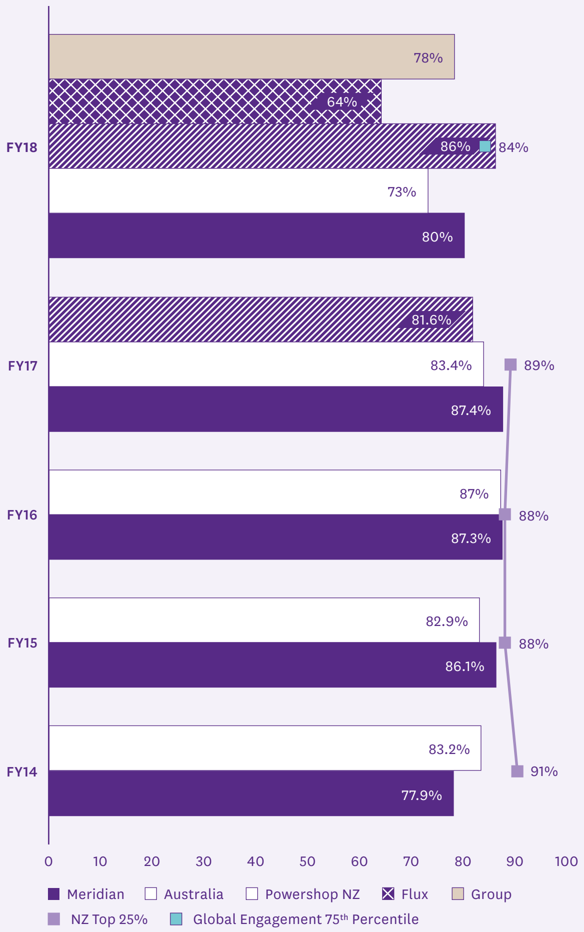
Participation in the engagement surveys this year was the strongest ever – with an outstanding response rate of 96% for Meridian New Zealand and 95% for the Group as a whole. Our engagement tool changed this year, and while results are not directly comparable to last year, we are very pleased with our overall engagement score of 80% for Meridian New Zealand, and 78% for the Group. These results are close to the Global Top 10% benchmark of 84%, and we will strive to close that gap even further.

At Meridian New Zealand, our results relating to the things that are most important to us – our core values of safety and wellbeing of our people, caring for our customers and sustainability – were extremely high, with 97% agreeing that the organisation is committed to the health and safety of its people, 84% that we value diversity of thought across the organisation, 93% indicating that our commitment to social responsibility and sustainability is genuine, and 83% agreeing that we deliver on the promises we make to our customers.

These high-level results were reflected across the Group. Meridian Australia had an impressive improvement in scores relating to leadership, with +13 compared to a global high-performing norm. Powershop New Zealand's focus on ensuring that employees had access to the learning and development needed to do their jobs well resulted in a score of 83%, up from 76% last year. And in Flux Federation, which has just turned one year old, the stand-out results were inclusion (97%) and wellbeing (94%).

Our low levels of absenteeism and staff churn, coupled with these high levels of engagement, point to us having put effort into the right areas. However, we remain committed to lifting our engagement results by building our understanding and reflecting on what is going to make the most difference for our people.

EMPLOYEE ENGAGEMENT[32]



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[32] Measured by 'level of agreement' – the percentage of staff who 'agree' or 'strongly agree' with the six questions that collectively determine our Engagement Index (previously calculated as a weighted mean, FY14 to FY16 values have been restated using the new methodology).

FROM LEFT TO RIGHT
STEPHEN REINDLER DIRECTOR
MEG MATTHEWS FUTURE DIRECTOR
MARK CAIRNS DIRECTOR
MARK VERBIEST DIRECTOR
CHRIS MOLLER CHAIR
JAN DAWSON DIRECTOR
MARY DEVINE DIRECTOR
PETER WILSON DEPUTY CHAIR
ANAKE GOODALL DIRECTOR

> *“As a business with a significant retail shareholder base, we regularly look for ways to be as accessible and open as possible. We engage with investors and the Crown through reports like this, our disclosures to the markets, and meetings and briefings with a range of groups.”*
>
> **CHRIS MOLLER** CHAIR

KEEPING US ON COURSE

FROM LEFT TO RIGHT
MIKE ROAN GENERAL MANAGER, WHOLESALE
JASON STEIN GENERAL COUNSEL AND COMPANY SECRETARY
NEAL BARCLAY CHIEF EXECUTIVE
ED MCMANUS CHIEF EXECUTIVE, MERIDIAN ENERGY AUSTRALIA PTY LTD AND POWERSHOP AUSTRALIA PTY LTD
JACQUI CLELAND GENERAL MANAGER, HUMAN RESOURCES
PAUL CHAMBERS CHIEF FINANCIAL OFFICER
GUY WAIPARA GENERAL MANAGER, GENERATION AND NATURAL RESOURCES
JULIAN SMITH CHIEF CUSTOMER OFFICER

GREAT TEAMS HAVE CONFIDENT LEADERS

> *"I am highly confident that the evolution of our management team will support Meridian to continue to deliver value for its customers, its communities and its shareholders."*

NEAL BARCLAY CHIEF EXECUTIVE

REMUNERATION REPORT

OUR APPROACH TO REMUNERATING OUR PEOPLE

Attracting, retaining and motivating talented people across the business, 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
- align with creating shareholder value.

The Remuneration and Human Resources Committee regularly reviews remuneration policy and practice, with the Board approving executive individual performance objectives and company financial performance targets and outcomes on an annual basis.

Fixed remuneration is benchmarked to market and permanent employees may participate in a short-term incentive (STI) scheme at the discretion and invitation of the Board. A range of cash and non-cash benefits is offered (for example employee insurance, enhanced parental leave provisions, the ability to purchase additional leave, and access to purchasing discounts). The Executive Team and CE 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 and are only awarded if specific financial and non-financial performance hurdles are met, and at the discretion of the Board.

FIXED REMUNERATION. Fixed remuneration consists of base salary and matched KiwiSaver contributions up to a maximum of 4%. Salaries are reviewed annually against external market data.

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 the 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. Sales employees are rewarded based on their achievement of sales targets.

For Executive Team roles, the percentage value of the STIs as part of their total remuneration reflects the complexity and level of the roles and is set at 30% of their base salaries. For the CE, the percentage value is 40%.

LONG-TERM INCENTIVE (LTI). An LTI plan is offered, at the discretion of the Board, to the New Zealand Executive Team to incentivise and reward key executives, align executives' and shareholders' interests, and optimise long-term shareholder returns.

The percentage value of the LTI is 30% of base salary for executive management, and 40% of base salary for the CE. Vesting of the LTI is contingent on the individual meeting both absolute and relative TSR performance hurdles at the conclusion of a three-year period. Further details of the LTI plan are provided on page 112.

EMPLOYEE SHARE OWNERSHIP. Employees can also choose to join Meridian's employee share ownership plan, *MyShare*. Under *MyShare*, employees may purchase Meridian shares via 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 those of a peer group of competitors (Performance Award Shares). In FY18, 49% of employees participated in *MyShare*, and this has increased to 50% in FY19.

EMPLOYEE REMUNERATION RANGE. The number of employees and former employees of Meridian and its subsidiaries (not including directors) who during FY18 received cash remuneration and other benefits (including at-risk performance incentives, KiwiSaver contributions and redundancy compensation) exceeding $100,000 is outlined opposite:

REMUNERATION BAND	NUMBER OF EMPLOYEES
$100,000-109,999	54
$110,000-119,999	58
$120,000-129,999	61
$130,000-139,999	40
$140,000-149,999	33
$150,000-159,999	32
$160,000-169,999	15
$170,000-179,999	16
$180,000-189,999	11
$190,000-199,999	7
$200,000- 209,999	7
$210,000-219,999	9
$220,000-229,999	8
$230,000-239,999	7
$240,000-249,999	3
$250,000-259,999	1
$260,000-269,999	4
$270,000-279,999	4
$280,000-289,999	1
$290,000-299,999	2
$310,000-319,999	3
$320,000-329,999	4
$330,000-339,999	2
$370,000-379,999	1
$400,000-409,999	1
$510,000-519,999	1
$590,000-599,999	1
$600,000-609,999	1
$620,000-629,999	1
$630,000-639,999	1
$700,000-709,000	1
$750,000-759,999	1
$770,000-779,999	1
$990,000-999,999	1
$1,160,000-1,169,999	1
$1,190,000-1,199,999	1
	395[33]

CHIEF EXECUTIVE REMUNERATION. During FY18 Meridian's previous CE, Mr Mark Binns, who resigned on 31 December 2017, was succeeded by Mr Neal Barclay from 1 January 2018. The remuneration for both Mr Binns and Mr Barclay consists of fixed remuneration, an STI and an LTI, plus access to the benefits available to employees. The STI and LTI are at-risk incentives, as any payment depends on predetermined performance hurdles being met, and are offered and awarded at the Board's discretion. CE remuneration is reviewed by the Board annually, based on company and individual performance, external market data and independent remuneration advice.

The performance hurdles for the STI, which are set by the Board at the start of each financial year, are company financial performance (weighted at 60%) and individual non-financial performance targets (weighted at 40%). In FY18 non-financial performance measures for both Mr Binns and Mr Barclay reflected business priorities and included objectives relating to health and safety, employee engagement, customer sales and service, the effective management of key generation, regulatory and industry matters, Meridian's Australian business performance and sustainability. Each objective had clearly defined targets and levels of achievement set by the Board at the beginning of the performance period.

The LTI is contingent on meeting absolute and relative TSR performance hurdles at the end of a three-year vesting period. It is designed to ensure CE remuneration is aligned with financial outcomes for shareholders in the longer term.

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[33] This includes 31 employees who are no longer employed by Meridian Energy Limited and its subsidiaries.

CHIEF EXECUTIVE REMUNERATION FOR PERFORMANCE PERIOD ENDING 30 JUNE 2018

					PAY FOR PERFORMANCE			
YEAR	BASE SALARY	TAXABLE BENEFITS[34]	FIXED REMUNERATION[35]	MYSHARE	STI[36]	LTI[37]	SUBTOTAL	TOTAL REMUNERATION
FY18 Neal Barclay (Actual remuneration for period 1 Jan -30 Jun 2018)	$475,000	$19,000	$494,000	$2,500	$167,920	$244,023	$411,943	$908,443
FY18 Mark Binns (Actual remuneration for period 1 July -31 Dec 2017)	$645,545	$25,822	$671,367	$1,774	$216,999	$357,901	$574,900	$1,248,041

Notes:

In relation to Mr Barclay:

- Fixed remuneration is for the 6 month period from 1 January 2018 to 30 June 2018 (full year base salary is $950,000);
- *MyShare* represents $2,500 award shares relating to participation in the FY16 *MyShare* plan;
- The STI figure relates to performance by Mr Barclay for the 6 months from 1 January to 30 June 2018 as CE. Mr Barclay also received an amount of $70,576 for the 6 months from 1 July 2017 to 31 December 2017 which related to the period he was General Manager Retail.
- The LTI figure is the payment of amounts relating to the full vesting of the FY16 LTI scheme when Mr Barclay was in a previous management role.

In relation to Mr Binns:

- All remuneration figures (including Pay for Performance) reflect a 6 month period only to 31 December 2017.
- *MyShare* represents $1,774 award payment relating to participation in the FY16, FY17 and FY18 *MyShare* plans.
- The LTI figure is a 50% payment of amounts relating to the full vesting of the FY16 LTI scheme.

CHIEF EXECUTIVE REMUNERATION FOR PERFORMANCE PERIOD ENDING 30 JUNE 2017

YEAR	BASE SALARY	TAXABLE BENEFITS	FIXED REMUNERATION	MYSHARE	PAY FOR PERFORMANCE			TOTAL REMUNERATION
FY17 Mark Binns	$1,175,912	$47,036	$1,222,948	$2,500	$457,676	$696,644	$1,154,320	$2,379,768

FIVE-YEAR REMUNERATION SUMMARY

YEAR	SINGLE FIGURE REM	% STI AGAINST MAXIMUM[38]	% VESTED LTIS AGAINST MAXIMUM[39]	SPAN OF LTI PERFORMANCE PERIOD
FY18 Neal Barclay	$908,443	72.00%	100%	FY16-FY18
FY18 Mark Binns	$1,248,041	73.71%	50%	FY16-FY18
FY17	$2,379,768	79.29%	100%	FY15-FY17
FY16	$2,370,556	86.34%	100%	FY14-FY16
FY15	$1,909,121	82.93%	n/a	
FY14	$1,912,734	87.61%	n/a	
FY13	$1,753,960	89.72%	n/a	

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[34] Taxable benefits include 4% company KiwiSaver contributions on base salary.

[35] Fixed remuneration includes base salary plus KiwiSaver contributions.

[36] STI relates to potential payment based on performance achieved for the applicable period and includes 4% company KiwiSaver contributions.

[37] LTI is grossed up for PAYE and includes 4% company KiwiSaver contributions.

[38] The STI percentage figure for Neal Barclay and Mark Binns in FY18 each reflect the percentage for the relevant 6 month period each were CE. These are not full year percentage amounts.

[39] The LTI plan was introduced in FY14 and the first plan vested in FY16. Prior to that no LTI was offered. Mark Binns' figure in FY18 of 50% reflects the 6 months as CE in FY18.

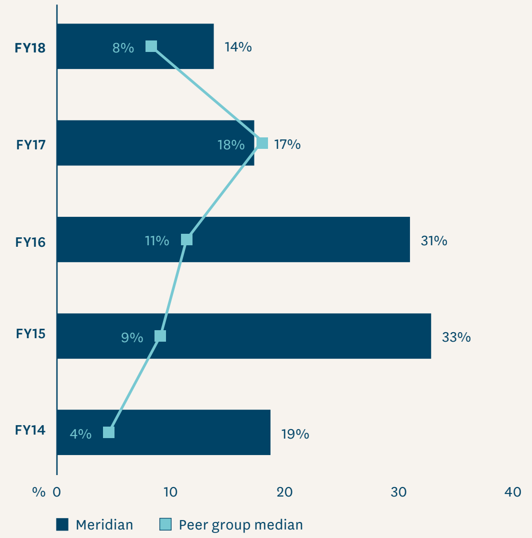
BREAKDOWN OF CHIEF EXECUTIVE PAY FOR PERFORMANCE (FY18)

DESCRIPTION		PERFORMANCE MEASURES	% ACHIEVED
STI	Set at 40% of base salary. Combination of company and individual performance objectives (both financial and non-financial)	60% weighting company performance (company profit, which comprises Group EBITDAF minus capital charge). The company must achieve at least 50% of the profit gate target before any STI is payable.	**88.3%**
		40% weighting individual performance against Board-determined financial and non-financial objectives. A further performance hurdle applies in that the company must achieve at least 85% of the profit gate target before the individual performance component of the STI is payable.	**80% Neal Barclay** **85% Mark Binns** (Mr Binns' STI payment prorated for 6 months' service)
LTI	Conditional awards of shares under LTI plan. Set at 40% of base salary	Absolute TSR over the relevant assessment period: must be positive; and > 50th percentile/median TSR of the peer group[40].	**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%**

FIVE-YEAR SUMMARY – TOTAL SHAREHOLDER RETURN PERFORMANCE (MERIDIAN ENERGY VS PEER GROUP[40]). The TSR summary opposite illustrates the performance of Meridian's shares against a peer group of companies between 30 June 2014 and 30 June 2018. TSR performance outcomes are independently validated by external experts.

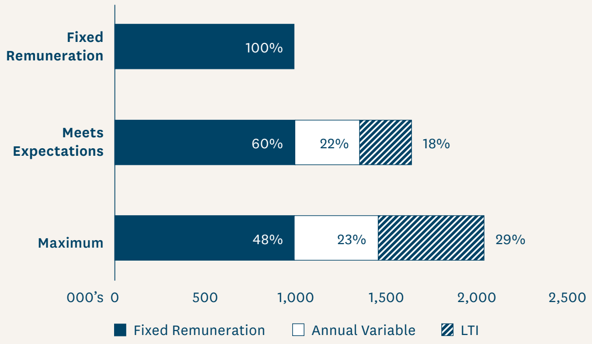
KIWISAVER. As a member of KiwiSaver, the CE is entitled to receive a matching employer contribution of 4% of gross taxable earnings (including both the STI and the LTI). In FY18 the company's KiwiSaver contributions were $34,843 for Neal Barclay and $47,933 for Mark Binns.

ANNUAL TOTAL SHAREHOLDER RETURN



CHIEF EXECUTIVE REMUNERATION PERFORMANCE PAY FOR FY18. The scenario chart opposite depicts the CE remuneration design proportions for the current CE, Neal Barclay, for the year ended 30 June 2018, as a proportion of total remuneration. All figures have been extrapolated out to reflect the full financial year.

Fixed remuneration reflects the base salary plus KiwiSaver contributions. As a percentage of fixed remuneration, for performance that 'meets expectations', the STI component would pay out at 36% of fixed remuneration and the LTI component at 30% of fixed remuneration. At 'maximum', for performance that exceeds expectations, the STI component would pay out at 47% of fixed remuneration, and the LTI component at 60%.



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[40] Peer group comprises AGL Energy, Contact Energy, Mercury NZ, Trustpower, and Genesis Energy.

APPROVED DIRECTOR REMUNERATION FOR FY18. Director remuneration is paid from the total director fee pool that was approved by shareholders at the Annual Shareholder Meeting of 28 October 2016. At that time shareholders gave their approval to the total annual director fee pool increasing over two years.

SHAREHOLDER APPROVED ANNUAL DIRECTOR FEE POOL

	FY17	FY18
Board fees	$909,500	$1,000,000
Committee fees	$85,000	$100,000
Total pool	**$994,500**	**$1,100,000**

INDIVIDUAL BOARD-APPROVED ANNUAL FEE BREAKDOWN

POSITION HELD	FY17	FY18
Chair	$182,500	$200,000
Deputy Chair	$127,000	$140,000
Director	$100,000	$110,000
Audit & Risk Committee Chair	$18,200	$22,500
Audit & Risk Committee member	$9,100	$10,000
Safety & Sustainability Committee Chair	$15,000	$15,000
Safety & Sustainability Committee member	$6,200	$9,200
Remuneration & Human Resources Committee Chair	$15,000	$15,000
Remuneration & Human Resources Committee member	$6,200	$9,100

DIRECTOR REMUNERATION RECEIVED IN FY18

NAME OF DIRECTOR	BOARD FEES	AUDIT & RISK COMMITTEE	REMUNERATION & HUMAN RESOURCES COMMITTEE	SAFETY & SUSTAINABILITY COMMITTEE	TOTAL REMUNERATION
Chris Moller[41] (Chair)	$200,000	-	-	-	$200,000
Peter Wilson (Deputy Chair)	$140,000	$10,000	-	$9,200	$159,200
Mark Cairns	$110,000	$10,000	-	-	$120,000
Jan Dawson	$110,000	$22,500 (Chair)	-	-	$132,500
Mary Devine	$110,000	-	$15,000 (Chair)	-	$125,000
Anake Goodall	$110,000	-		$9,200	$119,200
Stephen Reindler	$110,000	-	-	$15,000 (Chair)	$125,000
Mark Verbiest	$110,000	-	$9,100	-	$119,100
Total	**$1,000,000**	**$42,500**	**$24,100**	**$33,400**	**$1,100,000**

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 FY18.

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[41] Chris Moller does not receive additional fees for committee membership.

Remuneration paid to non-executive directors in their capacity as directors of subsidiaries of Meridian during the year ended 30 June 2018 was:

NAME OF DIRECTOR	SUBSIDIARY	FEES
John Journee (independent)	Flux Federation Limited	$50,000
Nicola Kennedy (independent)	Flux Federation Limited	$45,000

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

MERIDIAN GROUP WORKFORCE

	NEW ZEALAND[42]		AUSTRALIA[43]		
	FEMALE	MALE	FEMALE	MALE	TOTAL
Permanent employees					
Permanent full time[44]	363	513	19	45	**940**
Permanent part time	16	1	1	1	**19**
Temp/Fixed term employees					
Temp/fixed term full time	10	19	–	–	**29**
Temp/fixed term part time	14	9	–	1	**24**
Total	**403**	**542**	**20**	**47**	**1,012**

GENDER REPRESENTATION ACROSS THE MERIDIAN GROUP	FY18
Female share of total workforce (%)	41.8%
Females in management positions (as % of total management workforce)	33.6%
Females in junior management positions, i.e. first level of management (as % of total junior management positions)	36.3%
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%
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%

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[42] 141 of these employees work for Powershop New Zealand. 131 of these employees work for Flux Federation New Zealand.

[43] 16.42% of these staff are covered by collective bargaining agreements.

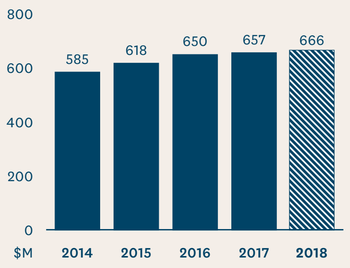
[44] 5 of these employees are based in the UK (1 woman and 4 men).

GROUP PERFORMANCE SUMMARY

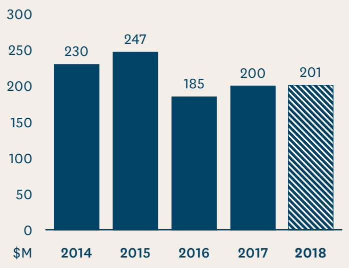
VALUE FOR OUR SHAREHOLDERS

FIVE-YEAR PERFORMANCE[45]
Financial year ended 30 June

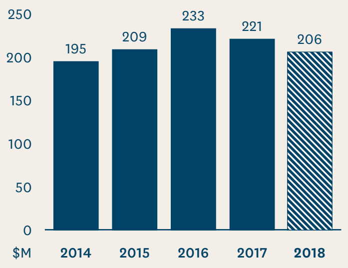
EBITDAF



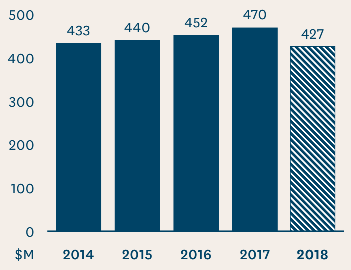
NET PROFIT AFTER TAX (NPAT)



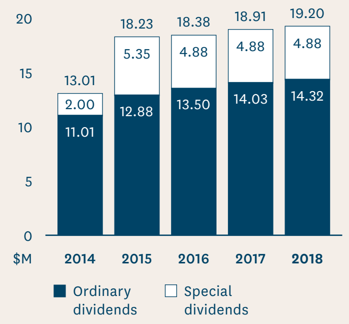
UNDERLYING NPAT



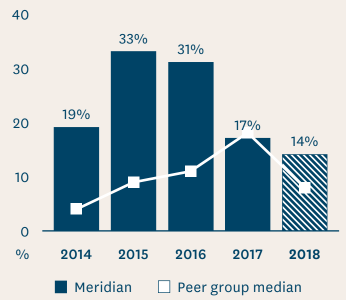
CASH FLOW FROM OPERATING ACTIVITIES



DIVIDENDS DECLARED



TOTAL SHAREHOLDER RETURN (TSR)



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[45] Financial years ended 30 June 2014-2016 as reported. 2017-2018 include effects from the adoption of NZ IFRS 15 Revenue from Contracts with Customers.

FINANCIAL SNAPSHOT

DIVIDEND DECLARED
19.20cps

OPERATING CASH FLOW
$427m

UNDERLYING NPAT
$206m

NPAT
$201m

EBITDAF
$666M

NZ ENERGY MARGIN
$944m

AUS ENERGY MARGIN
$86m

TRANSMISSION COSTS
$127m

OPERATING COSTS
$259m

OVERVIEW

From a half-year position where EBITDAF was 7% lower than last year, Meridian saw improved second-half inflows, which helped to support a full-year EBITDAF result 1.4% above last year. Our operations in Australia continued to deliver growth, with EBITDAF 22% higher than last year.

This represents the highest level of Group EBITDAF Meridian has delivered and is the sixth successive year of EBITDAF growth. Resilient cash flows have enabled dividend growth, with the company declaring a final dividend 3% higher than last year's.

Meridian has also declared a final special dividend of 2.44 cents per share ($62.5 million) under the company's five-year capital management programme to return $625 million to shareholders.

This brings the capital management special dividend declared in FY18[46] to 4.88 cents per share, with $437.5 million now distributed since the capital management programme commenced in August 2015.

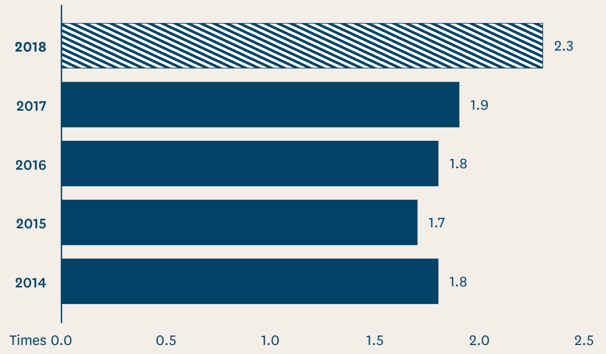
Total dividends declared for FY18 were 19.20 cents per share, 1.5% higher than FY17[47], and total dividends have grown every year since Meridian's listing in 2013.

Total dividends paid during the year were 18.96 cents per share, which combined with the 7% increase share price during FY18 amounted to a TSR of 14% in the year to 30 June 2018.

DIVIDENDS DECLARED CENTS PER SHARE	ORDINARY DIVIDENDS	CAPITAL MANAGEMENT SPECIAL DIVIDENDS	OTHER SPECIAL DIVIDENDS	TOTAL
Financial year ended 30 June				
2018	14.32	4.88		**19.20**
2017	14.03	4.88		**18.91**
2016	13.50	4.88		**18.38**
2015	12.88	2.44	2.91	**18.23**
2014	11.01		2.00	**13.01**

Meridian's balance sheet remains in a strong position, with the company credit metrics below the bounds used by rating agency Standard & Poor's.

NET DEBT/EBITDAF
Financial year ended 30 June



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46 Financial year ended 30 June 2018.

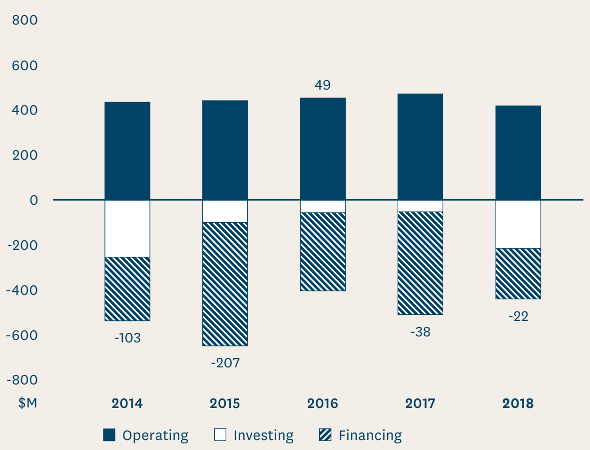
47 Financial year ended 30 June 2017.

CASH FLOWS

Operating cash flows were $427 million in FY18, $43 million (9%) lower than last year, mainly due to the timing of cash earnings recognised in cash flows.

Total capital expenditure in FY18 was $235 million and included the acquisition of GSP Energy (the Hume, Burrinjuck and Keepit power stations). $47 million of total capital expenditure will stay in business capital expenditure.

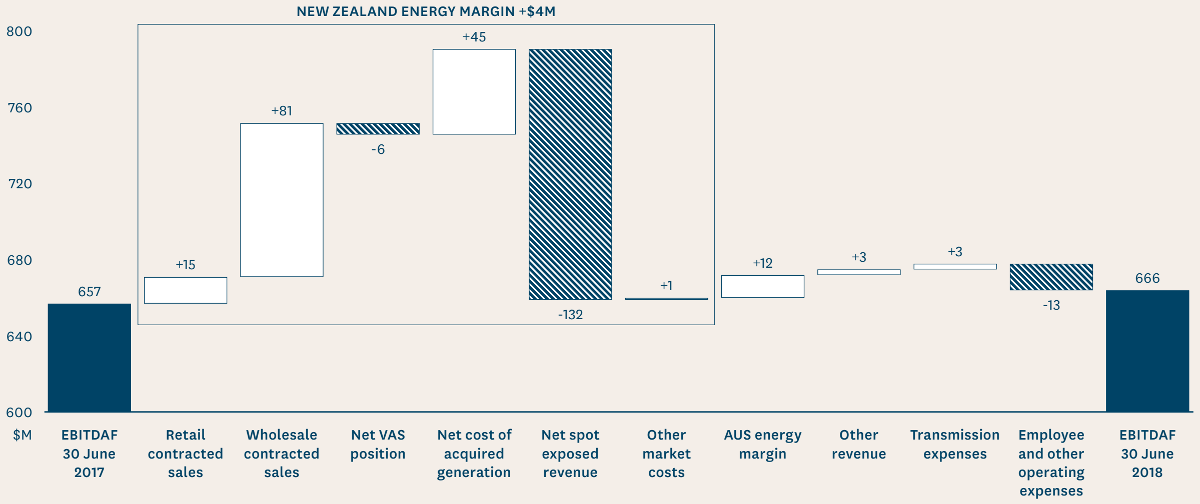
GROUP CASH FLOWS



EARNINGS

EBITDAF was $666 million in FY18, $9 million (1.4%) higher than last year.

MOVEMENT IN EBITDAF



NEW ZEALAND ENERGY MARGIN

Energy margin is a measure of the combined financial performance of Meridian's retail and wholesale businesses.

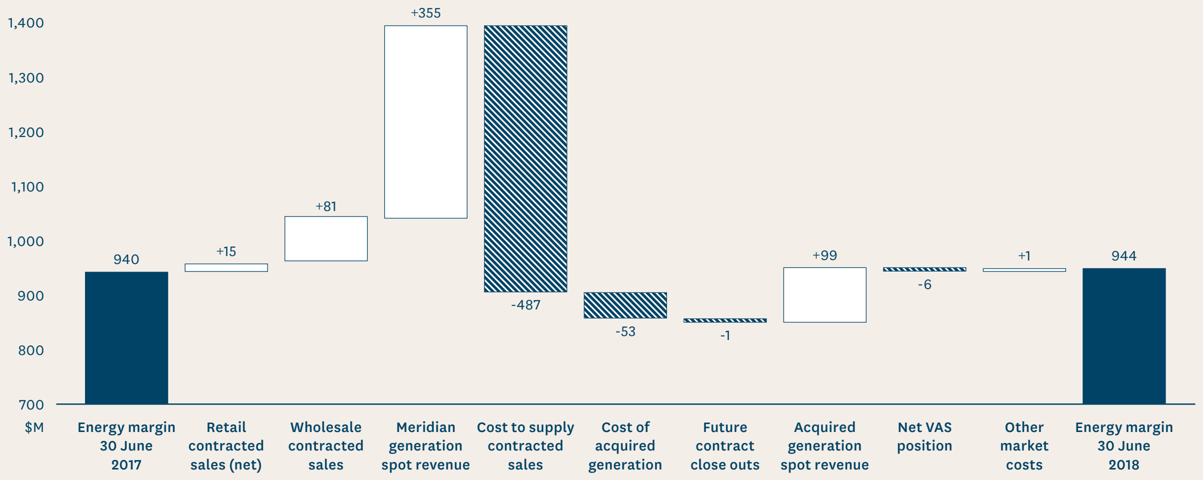
		2018 $M	2017 $M
Retail contracted sales revenue	Revenue received from sales to retail customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers)	629	614
Wholesale contracted sales revenue	Sales to large industrial customers and fixed price revenue from derivatives sold	435	354
Spot exposed revenue	Revenue from the volume of electricity that Meridian generates that is in excess of the volume required to cover contracted customer sales	(155)	(23)
Net cost of acquired generation	The cost of derivatives acquired to supplement generation and manage spot price risks, net of spot revenue received for generation acquired from those derivatives	41	(4)
Net VAS revenue	The net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mercury New Zealand	(2)	4
Other	Other associated market revenue and costs, including EA levies and ancillary generation revenue such as frequency keeping	(4)	(5)
Total		**944**	**940**

New Zealand energy margin was $944 million in FY18, $4 million (0.4%) higher than last year, with retail contracted sales revenue $15 million (2%) higher. With a 5% increase in Meridian's New Zealand customer numbers during FY18, retail sales volumes were also 4% higher. This reflected a 3% increase in residential, small and medium business and agri sales volumes and a 7% increase in corporate sales volumes.

The overall average residential, small and medium business and agri sales price decreased 1%, while the average corporate sales price decreased 3%.

Wholesale contracted sales revenue was $81 million (23%) higher in FY18 than last year. Wholesale derivative sales volumes were 43% higher at higher average prices than last year. Sales volumes to the NZAS were consistent at a higher average price than last year.

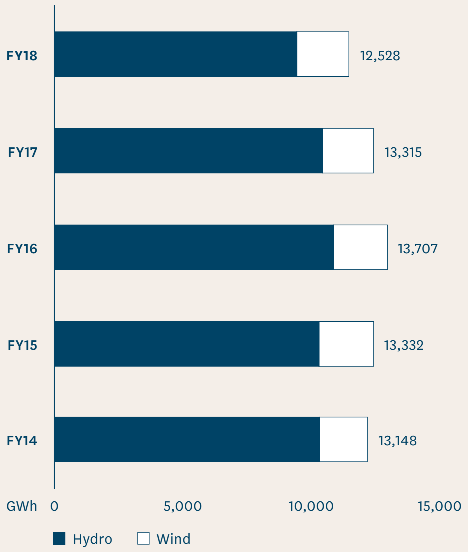
NEW ZEALAND ENERGY MARGIN



The net cost of acquired generation was $45 million lower in FY18 from a lower average net price, partly offset by higher acquired generation volumes (42%) compared to last year.

Spot exposed revenue was $132 million lower in FY18. While inflows were near average for the year, the timing of those inflows with dry periods in the first half of the year meant generation volumes were 6% lower than the same period last year. Average generation prices were 62% lower than the same period last year. While overall generation revenue was 52% higher than last year, the higher wholesale market prices in FY18 meant Meridian paid higher average prices to supply contracted sales, 57% higher than last year. Purchase volumes were 8% higher than last year and the higher overall cost to supply contracted sales in FY18 (69% higher than the same period last year) more than offset higher generation revenue.

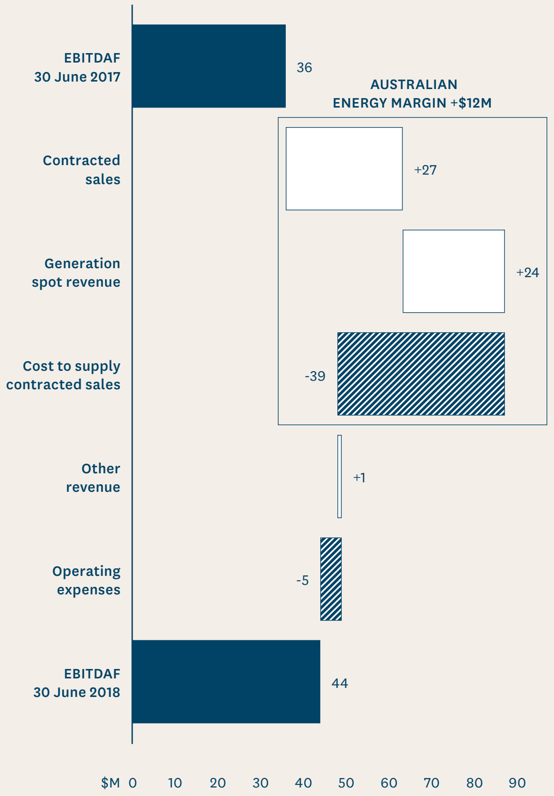
NEW ZEALAND GENERATION



AUSTRALIAN ENERGY MARGIN. Australian energy margin was $12 million (16%) higher than last year. Powershop Australia's retail sales volumes (549GWh in total) were 56GWh (11%) higher than last year despite largely flat customer numbers. To support future customer growth in Australia, significant focus has gone into new generation options with the acquisition of three hydro stations and several Power Purchase Agreements.

With the inclusion of some seasonal generation from those hydro stations and higher wind generation, total generation in Australia was 14% higher than last year.

MOVEMENT IN AUSTRALIA EBITDAF



TRANSMISSION AND OPERATING COSTS. Transmission costs were $127 million in FY18, $3 million lower than last year, from lower Transpower charges on the New Zealand inter-island electricity transmission link.

Employee and other operating costs were $259 million in FY18, $13 million (5%) higher than last year, reflecting ongoing growth investment supporting expansion of the Powershop Australia, UK and Flux businesses and continued customer acquisition pressure from the highly competitive New Zealand market.

In addition Meridian has been undertaking refurbishment work at the Ōhau hydro stations and Te Āpiti wind farm and transformer replacements at the Manapōuri power station.

NET PROFIT AFTER TAX. NPAT was $201 million in FY18, $1 million (0.5%) higher than the same period last year.

Depreciation and amortisation was $268 million in FY18, $4 million (2%) higher than last year, reflecting a $199 million net revaluation increase in generation and plant asset values from June 2017.

Meridian recognised $2 million of impairments related to the Central Wind wind farm consent as the company is not pursuing development under the exiting consent. This compares with $10 million of impairments recognised in FY17, largely related to the decisions not to pursue the Poutō and Hurunui wind farm developments.

Meridian recognised a $7 million gain on the sale in FY18, compared to a $4 million loss in FY17. Both years' disposals related to the sale of surplus land holdings.

Fair value movements in electricity hedges reduced net profit before tax by $23 million in FY18, compared to a $76 million reduction last year, reflecting changes in forward electricity prices.

Fair value movements in treasury instruments decreased net profit before tax by $3 million in FY18, compared to a $55 million increase last year.

These fair value movements relate to non-cash changes in the carrying value of derivative instruments and are influenced by changes in forward prices and rates on these derivative instruments.

Forward interest rate curves increased during FY18, affecting the fair value of treasury instruments.

Net financing costs were $4 million (5%) higher than the same period last year. Meridian has maintained its BBB+ (stable outlook) credit rating from Standard & Poor's.

Tax expense was $95 million in FY18, $14 million (17%) higher than last year, and included stamp duty paid on the acquisition of GSP Energy Limited.

After removing the impact of fair value movements and other one-off or infrequently occurring events, Meridian's underlying NPAT (reconciliation on page 70) was $206 million in FY18. This was $15 million (7%) lower than last year, largely reflecting higher income tax expense, depreciation and amortisation.

SUMMARY GROUP INCOME STATEMENT

Financial year ended 30 June[48]

	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
New Zealand energy margin	**944**	940	941	900	891
Australia energy margin	**86**	74	68	54	33
Other revenue	**22**	19	17	25	27
Energy transmission expense	**(127)**	(130)	(128)	(123)	(129)
Employee and other operating expenses	**(259)**	(246)	(248)	(238)	(237)
EBITDAF	**666**	657	650	618	585
Depreciation and amortisation	**(268)**	(264)	(236)	(239)	(220)
Impairment of assets	**(2)**	(10)	4	(38)	-
Gain/(loss) on sale of assets	**7**	(4)	(1)	19	7
Net change in fair value of electricity and other hedges	**(23)**	(76)	(15)	(1)	(9)
Net finance costs	**(81)**	(77)	(78)	(78)	(73)
Net change in fair value of treasury instruments	**(3)**	55	(68)	(32)	27
Net profit before tax	**296**	281	256	249	317
Tax expense	**(95)**	(81)	(71)	(2)	(87)
Net profit after tax	**201**	**200**	**185**	**247**	**230**

UNDERLYING NPAT RECONCILIATION

Financial year ended 30 June

	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Net profit after tax	**201**	**200**	**185**	**247**	**230**
Underlying adjustments					
Hedging instruments					
Net change in fair value of electricity and other hedges	**23**	76	15	1	9
Net change in fair value of treasury instruments	**3**	(55)	68	32	(27)
Premiums paid on electricity options net of interest	**(13)**	(12)	(12)	(15)	(20)
Assets					
Gain/(loss) on sale of assets	**(7)**	4	1	(19)	(7)
Impairment of assets	**2**	10	(4)	38	-
Total adjustments before tax	**8**	23	68	37	(45)
Taxation					
Tax effect of above adjustments	**(3)**	(2)	(20)	(13)	10
Release of capital gains tax provision	**-**	-	-	(28)	-
Tax depreciation on powerhouse structures	**-**	-	-	(34)	-
Underlying net profit after tax	**206**	**221**	**233**	**209**	**195**

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[48] Financial years ended 30 June 2014-2016 as reported. 2017-2018 include effects from the adoption of NZIFRS15 Revenue from contracts with customers.

FURTHER DISCLOSURES

REQUIRED BY NZX LISTING RULES, THE COMPANIES ACT 1993 AND OTHER LEGISLATION, RULES OR DISCLOSURE REGIMES

MERIDIAN ENERGY. The table below outlines changes among the people who held office as directors of Meridian Energy Limited.

COMPANY NAME	DIRECTORS
Meridian Energy Limited	Mark Cairns, Jan Dawson, Mary Devine, Anake Goodall, Chris Moller, Steve Reindler, Peter Wilson, Mark Verbiest

CURRENT BOARD AND EXECUTIVE TEAM GENDER COMPOSITION. In accordance with NZX's listing rule requirements, the gender make-up of Meridian's directors and officers as at 30 June 2018 is:

	AS AT 30 JUNE 2018		AS AT 30 JUNE 2017	
	FEMALE	MALE	FEMALE	MALE
Number of directors	**2**	**6**	2	6
Percentage of directors	**25%**	**75%**	25%	75%
Number of officers	**1**	**7**	2	6
Percentage of officers	**12.5%**	**87.5%**	25%	75%

For Meridian's full Corporate Governance Statement, please refer to our website: meridianenergy.co.nz/investors/governance/policies.

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. Alternate directors are indicated with an (A).

New Zealand subsidiaries

COMPANY NAME	DIRECTORS
Dam Safety Intelligence Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Jason Stein
Flux Federation Limited	Mark Binns (ceased 1 July 2017), John Journee (appointed 1 July 2017, ceased 17 May 2018), Paul Chambers, Nicola Kennedy (appointed 1 July 2017), Catherine Reynolds (Gould) (appointed 31 May 2018), Jason Stein (appointed 31 May 2018), Gillian Blythe (A)
Meridian Energy Captive Insurance	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Jason Stein (A)
Meridian Energy International Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Jason Stein (A)
Meridian Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Jason Stein (A)
Meridian LTI Trustee Limited	Mary Devine, Anake Goodall
Powershop New Zealand Limited	John Journee (ceased 1 July 2017), Nicola Kennedy (ceased 1 July 2017), Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Gillian Blythe (A) (ceased 17 July 2017)
Three River Holdings No. 1 Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Jason Stein (A), Kelvin Mason (A)
Three River Holdings No. 2 Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Jason Stein (A), Kelvin Mason (A)

Australian subsidiaries

COMPANY NAME	DIRECTORS	FURTHER INFORMATION
Meridian Australia Holdings Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Meridian Energy Australia Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Meridian Energy Markets Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Meridian Finco Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Meridian Wind Australia Holdings Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Meridian Wind Monaro Range Holdings Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Meridian Wind Monaro Range Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Mt Millar Wind Farm Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Mt Mercer Wind Farm Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
Powershop Australia Pty Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ed McManus	
GSP Energy Pty Limited	Neal Barclay, Paul Chambers, Ed McManus (appointed 29 March 2018 upon ownership commencing)	Purchased 29 March 2018

UK subsidiary

COMPANY NAME	DIRECTORS	FURTHER INFORMATION
Flux-UK Limited	Mark Binns (ceased 7 December 2017), Neal Barclay (appointed 7 December 2017), Paul Chambers, Ari Sargent, Jim Barrett	Name change from Powershop UK Limited 4 June 2018

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	
Mark Cairns	Director, Meridian Energy Limited	Coda GP Limited – Director Quality Marshalling Limited – Chair Port of Tauranga – Employee	Port of Tauranga Trustee Company Limited – Director Northport Limited – Director
Jan Dawson	Director, Meridian Energy Limited	AIG – Director Air New Zealand – Director and Shareholder Beca Group – Director	Mighty River Power – Shareholder Westpac New Zealand – Director (Chair from March 2015)
Mary Devine	Director, Meridian Energy Limited and Meridian LTI Trustee Limited	Briscoe Group – Director Christchurch City Holdings Limited – Director Foodstuffs South Island Limited – Director	Foodstuffs (New Zealand) Limited – Director IAG (NZ) Holdings Limited – Director IAG New Zealand Limited – Director Top Retail Limited – Director (cessation)
Anake Goodall	Director, Meridian Energy Limited and Meridian LTI Trustee Limited	Ākina Foundation (formerly Hikurangi Foundation) – Chair and Trustee (cessation) Contact Energy – Shareholder (cessation)	Impax Environmental Markets – Shareholder Moreton Resources Limited (formerly Cougar Energy Limited) – Shareholder
Chris Moller	Chair, Meridian Energy Limited	Contact Energy Limited – Shareholder NZ Transport Agency – appointed Board Member on 25 March 2010 and Chair from 1 April 2010 (cessation) SKYCITY Investments Australia Limited – Director (cessation)	SKYCITY Entertainment Group Limited – Chair (cessation) Trustpower Limited – Bondholder Westpac New Zealand Limited – Director
Steve Reindler	Director, Meridian Energy Limited	Contact Energy Limited – Shareholder Yachting New Zealand – Director Steel and Tube Limited – Director Z Energy Limited – Director WorkSafe New Zealand – Director	Waste Disposal Services – Chair Naylor Love Enterprises – Director (cessation) Infratil – Shareholder Vector Limited – Shareholder NZ Oil and Gas – Shareholder
Peter Wilson	Director, Meridian Energy Limited	Arvida Group – Chair Contact Energy Limited – Shareholder Farmlands Trading Society Limited – Director Genesis Energy Capital – Bondholder	Genesis – Shareholder Mighty River Power – Bondholder Mighty River Power – Shareholder PF Olsen – Director (cessation)
Mark Verbiest	Director, Meridian Energy Limited	ANZ Bank New Zealand Limited – Director Aspiring Foundation Trust – Trustee (cessation) Bear Fund NZ Limited – Director Freightways Limited – Director and Shareholder Infratil Limited – Shareholder Mycare Limited – Chair and Shareholder New Zealand Treasury Advisory Board and Commercial Operations Advisory Board – Member	NZ Council of Women – Advisory panel member Simpson Grierson – Consultant (cessation) Southern Lakes Arts Festival Trust – Trustee Southern Alps Rescue Trust – Trustee Spark New Zealand – Chair (cessation) Spark New Zealand – Shareholder Willis Bond Capital Partners Limited – Chairman and Shareholder Willis Bond General Partner Limited

As at 30 June 2018 one director of Meridian Energy Limited had disclosed, in accordance with section 148 of the Companies Act 1993, the disposal of relevant interests in Meridian Energy Limited securities during the financial year.

NATURE OF RELEVANT INTEREST	DATE	ACQUISITION/ DISPOSAL	CLASS	#ACQUIRED OR (DISPOSED)	CONSIDERATION PAID OR RECEIVED PER SHARE
Anake Goodall					
Beneficial interest	23 February 2018	Disposal	Shares	(2,500)	$2.86

DIRECTOR INDEMNITY. 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 2018, 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 no donations during FY18. Meridian does not make donations to political parties. All donations must be approved by the Board.

AUDITOR. The Auditor-General has appointed Trevor Deed of Deloitte Limited as auditor of the company. Mr Deed has been the auditor of the company since FY16. Meridian and its subsidiaries paid $0.7 million (2017: $0.6 million) to Deloitte as audit fees in FY18.

The fees for other services undertaken by Deloitte during FY18 totalled $0.1 million (2017: $0.1 million). These related to other assurance activities including reviews of carbon emissions, sustainability information, securities registers, vesting of the executive LTI plan, solvency return of Meridian Energy Captive Insurance Limited and trustee reporting.

DIRECTORS' EQUITY HOLDINGS. In accordance with NZX Listing Rule 10.4.5(a), as at 30 June 2018 Meridian Energy Limited directors had the following relevant interests in Meridian Energy Limited equity securities:

DIRECTOR	NUMBER OF SHARES
Mark Cairns	200,000
Jan Dawson	51,300
Mary Devine	51,510
Anake Goodall	60,000
Chris Moller	92,880
Stephen Reindler	51,300
Peter Wilson	99,170
Mark Verbiest	35,000

SENIOR MANAGERS' EQUITY HOLDINGS. As at 30 June 2018 the following Meridian Energy Limited senior managers had relevant interests in Meridian Energy Limited equity:

SENIOR MANAGER	NUMBER OF SHARES
Neal Barclay	322,673
Paul Chambers	389,333
Guy Waipara	285,075
Mike Roan	232,950

TWENTY LARGEST REGISTERED QUOTED EQUITY SECURITY HOLDERS AS AT THE BALANCE DATE. The table below lists the company's 20 largest registered shareholders as at 30 June 2018:

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[49]	135,133,560	5.272
HSBC NOMINEES (New Zealand) LIMITED A/C STATE STREET[49]	101,560,966	3.963
CITIBANK NOMINEES (New Zealand) LIMITED[49]	83,363,762	3.253
JPMORGAN CHASE BANK NA NZ BRANCH-SEGREGATED CLIENTS ACCOUNT[49]	58,240,357	2.272
ACCIDENT COMPENSATION CORPORATION[49]	42,495,446	1.658
HSBC NOMINEES A/C NZ SUPERANNUATION FUND NOMINEES LIMITED[49]	33,725,269	1.316
FORSYTH BARR CUSTODIANS LIMITED	32,808,490	1.28
TEA CUSTODIANS LIMITED CLIENT PROPERTY TRUST ACCOUNT[49]	31,030,556	1.211
CUSTODIAL SERVICES LIMITED	30,884,797	1.205
NATIONAL NOMINEES New Zealand LIMITED[49]	26,017,463	1.015
JBWERE (NZ) NOMINEES LIMITED	24,246,092	0.946
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	23,084,015	0.901
FNZ CUSTODIANS LIMITED	21,551,314	0.841
CUSTODIAL SERVICES LIMITED	20,241,007	0.79
BNP PARIBAS NOMINEES (NZ) LIMITED[49]	19,772,645	0.771
CUSTODIAL SERVICES LIMITED	16,363,078	0.638
ANZ WHOLESALE AUSTRALASIAN SHARE FUND[49]	16,272,342	0.635
BNP PARIBAS NOMINEES (NZ) LIMITED[49]	13,391,891	0.523
CUSTODIAL SERVICES LIMITED	9,976,428	0.389

SUBSTANTIAL SECURITY HOLDER. In accordance with the Financial Markets Conduct Act 2013, as at 30 June 2018 the total number of Meridian Energy Limited voting securities was 2,563,000,000. The shareholder with the greatest number of voting securities is listed below:

NAME	RELEVANT INTEREST IN NUMBER OF SHARES	% OF SHARES HELD AT THE DATE OF NOTICE	DATE OF NOTICE
Shares			
Her Majesty the Queen in Right of New Zealand	1,307,586,374	51.018	21 May 2016

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[49] Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members. As at 30 June 2018, 602,987,328 Meridian ordinary shares (or 23.53% of the ordinary shares on issue) were held through NZCSD.

DISTRIBUTION OF SECURITY HOLDERS AND HOLDINGS AS AT 30 JUNE 2018. The table below sets out the distribution of security holders and holdings of Meridian Energy Limited ordinary shares as at 30 June 2018.

SIZE OF HOLDING	NUMBER OF HOLDERS	%	NUMBER OF SHARES	HOLDING QUANTITY %
1–1,000	7,262	15.32	6,652,165	0.26
1,001–5,000	22,738	47.98	67,003,271	2.61
5,001–10,000	9,373	19.78	74,207,424	2.90
10,001–50,000	7,216	15.23	147,727,110	5.76
50,001–100,000	517	1.09	37,183,978	1.45
100,001–500,000	210	0.44	40,391,658	1.58
500,001 and over	76	0.16	2,189,834,394	85.44
Total	**47,392**	**100**	**2,563,000,000**	**100**

BONDHOLDER STATISTICS AS AT 30 JUNE 2018. The table below provides information on the distribution of MEL030 retail fixed-rate bonds as at 30 June 2018:

SIZE OF HOLDING	NUMBER OF BONDHOLDERS	% OF BONDHOLDERS	NUMBER OF BONDS	% OF BONDS
1,001–5,000	82	9.90	410,000	0.27
5,001–10,000	191	23.07	1,819,000	1.21
10,001–50,000	433	52.30	11,917,000	7.95
50,001–100,000	50	6.04	4,173,000	2.78
100,001–500,000	44	5.31	9,617,000	6.41
500,001 and over	28	3.38	122,064,000	81.38
Total	**828**	**100**	**150,000,000**	**100**

The table below provides information on the distribution of MEL040 retail fixed-rate bonds as at 30 June 2018:

SIZE OF HOLDING	NUMBER OF BONDHOLDERS	% OF BONDHOLDERS	NUMBER OF BONDS	% OF BONDS
1,001–5,000	36	4.95	180,000	0.12
5,001–10,000	113	15.52	1,057,000	0.70
10,001–50,000	444	60.99	12,119,000	8.08
50,001–100,000	69	9.48	5,387,000	3.59
100,001–500,000	40	5.49	9,823,000	6.55
500,001 and over	26	3.57	121,434,000	80.96
Total	**728**	**100**	**150,000,000**	**100**

The table below provides information on the distribution of MEL050 retail fixed-rate bonds as at 30 June 2018:

SIZE OF HOLDING	NUMBER OF BONDHOLDERS	% OF BONDHOLDERS	NUMBER OF BONDS	% OF BONDS
1,001–5,000	28	4.88	140,000	0.07
5,001–10,000	97	16.90	916,000	0.46
10,001–50,000	319	55.57	8,847,000	4.42
50,001–100,000	70	12.19	5,577,000	2.79
100,001–500,000	30	5.23	6,975,000	3.49
500,001 and over	30	5.23	177,545,000	88.77
Total	**574**	**100**	**200,000,000**	**100**

WAIVERS FROM THE NEW ZEALAND AND AUSTRALIAN STOCK EXCHANGES (NZX LR 10.4.5(F)). Details of all waivers granted and published by NZX and relied on by Meridian Energy Limited during FY18 are available on Meridian's website at: https://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 2018. Meridian Energy Limited had a Standard & Poor's corporate credit rating of BBB+/Stable/A-2 in FY18.

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.
- 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 1989 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'[50] 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.

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[50] 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.

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
- 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.

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

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

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

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

Crown directions

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

Trustee corporations and nominee companies

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

Share cancellation

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

NZX Corporate Governance Code

Meridian has a separate Corporate Governance Statement that outlines our compliance with the NZX Corporate Governance Code and is available on our website.

GOOD PROGRESS

MERIDIAN ENERGY LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

GROUP FINANCIAL STATEMENTS

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The income earned and operating expenditure incurred by the Meridian Group during the financial year.

Comprehensive Income Statement **83**
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Statement of Changes in Equity **85**
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Statement of Cash Flows **86**
Cash generated and used by the Meridian Group.

KEY

SUBSEQUENT EVENT

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NOTES TO THE GROUP FINANCIAL STATEMENTS

SIGNED REPORT

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 $M	RESTATED 2017 $M
Operating revenue	A2	**2,762**	2,320
Operating expenses	A3	**(2,096)**	(1,663)
Earnings before interest, tax, depreciation, amortisation and changes in fair value of hedges and other significant items (EBITDAF)		**666**	657
Depreciation and amortisation	A3	**(268)**	(264)
Impairment of assets	A3	**(2)**	(10)
Gain/(loss) on sale of assets	A3	**7**	(4)
Net change in fair value of electricity and other hedges	D1	**(23)**	(76)
Operating profit		**380**	303
Finance costs	A3	**(82)**	(79)
Interest income	A2	**1**	2
Net change in fair value of treasury instruments	D1	**(3)**	55
Net profit before tax		**296**	281
Tax expense	A4	**(95)**	(81)
Net profit after tax attributed to the shareholders of the parent company		**201**	**200**

Earnings per share (EPS) attributed to ordinary equity holders of the parent		**Cents**	**Cents**
Basic and diluted EPS	C3	**7.8**	7.8

COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 $M	RESTATED 2017 $M
Net profit after tax		**201**	200
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Asset revaluation	B1	–	428
Deferred tax on the above item	A4	–	(120)
		–	308
Items that may be reclassified to profit or loss:			
Net gain on cash flow hedges		**2**	2
Exchange differences arising from translation of foreign operations		**11**	1
		13	3
Other comprehensive income for the year, net of tax		**13**	311
Total comprehensive income for the year, net of tax attributed to shareholders of the parent company		**214**	**511**

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

BALANCE SHEET AS AT 30 JUNE 2018

	NOTE	2018 $M	RESTATED 2017 $M
Current assets			
Cash and cash equivalents	C5	**60**	80
Trade receivables	C6	**261**	260
Customer contract assets	A2	**19**	18
Financial instruments	D1	**77**	59
Other assets		**32**	32
Total current assets		**449**	449
Non-current assets			
Property, plant and equipment	B1	**7,941**	7,961
Intangible assets	B2	**60**	58
Deferred tax	A4	**46**	43
Financial instruments	D1	**136**	172
Total non-current assets		**8,183**	8,234
Total assets		**8,632**	8,683
Current liabilities			
Payables and accruals		**267**	288
Employee entitlements		**16**	15
Customer contract liabilities		**14**	8
Current portion of term borrowings	C7	**450**	170
Finance lease payable	C8	**1**	1
Financial instruments	D1	**52**	67
Current tax payable		**43**	30
Total current liabilities		**843**	579
Non-current liabilities			
Term borrowings	C7	**1,023**	1,022
Deferred tax	A4	**1,683**	1,715
Provisions		**9**	9
Finance lease payables	C8	**47**	46
Financial instruments	D1	**129**	124
Term payables		**75**	93
Total non-current liabilities		**2,966**	3,009
Total liabilities		**3,809**	3,588
Net assets		**4,823**	**5,095**
Shareholders' equity			
Share capital	C2	**1,598**	1,598
Reserves		**3,225**	3,497
Total shareholders' equity		**4,823**	**5,095**

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 21 August 2018.

Chris Moller

CHRIS MOLLER, *Chair, 21 August 2018*

J Dawson

JAN DAWSON, *Chair, Audit and Risk Committee, 21 August 2018*

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 2018

$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 2016		**1,597**	**1**	**3,941**	**(28)**	**(3)**	**(458)**	**5,050**
Restatement for adoption of new accounting policies		–	–	–	–	–	10	**10**
Restated balance 1 July 2016		**1,597**	**1**	**3,941**	**(28)**	**(3)**	**(448)**	**5,060**
Net profit for the 2017 financial year		–	–	–	–	–	200	**200**
Other comprehensive income								
Asset revaluation	B1	–	–	428	–	–	–	**428**
Net loss on cash flow hedges		–	–	–	–	2	–	**2**
Exchange differences from translation of foreign operations		–	–	–	1	–	–	**1**
Income tax relating to other comprehensive income		–	–	(120)	–	–	–	**(120)**
Total other comprehensive income, net of tax		**–**	**–**	**308**	**1**	**2**	**–**	**311**
Total comprehensive income for the year, net of tax		**–**	**–**	**308**	**1**	**2**	**200**	**511**
Share-based transactions	C2,F1	1	–	–	–	–	–	**1**
Dividends paid	C4	–	–	–	–	–	(477)	**(477)**
Restated balance at 30 June and 1 July		**1,598**	**1**	**4,249**	**(27)**	**(1)**	**(725)**	**5,095**
Net profit for the 2018 financial year		–	–	–	–	–	201	**201**
Other comprehensive income								
Net loss on cash flow hedges		–	–	–	–	2	–	**2**
Exchange differences from translation of foreign operations		–	–	–	11	–	–	**11**
Total other comprehensive income, net of tax		**–**	**–**	**–**	**11**	**2**	**–**	**13**
Total comprehensive income for the year, net of tax		**–**	**–**	**–**	**11**	**2**	**201**	**214**
Share-based transactions	C2,F1	–	–	–	–	–	–	**–**
Dividends paid	C4	–	–	–	–	–	(486)	**(486)**
Balance at 30 June 2018		**1,598**	**1**	**4,249**	**(16)**	**1**	**(1,010)**	**4,823**

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 2018

	NOTE	2018 $M	2017 $M
Operating activities			
Receipts from customers		**2,765**	2,250
Interest received		**1**	2
Payments to suppliers and employees		**(2,152)**	(1,596)
Interest paid		**(79)**	(75)
Income tax paid		**(108)**	(111)
Operating cash flows	C5	**427**	470
Investment activities			
Sale of property, plant and equipment		**23**	–
Sale of subsidiaries		**–**	1
Sale of other assets		**–**	1
Purchase of property, plant and equipment		**(33)**	(33)
Purchase of intangible assets		**(22)**	(21)
Purchase of subsidiary		**(182)**	–
Australian stamp duty paid		**(10)**	–
Investing cash flows		**(224)**	(52)
Financing activities			
Term borrowings drawn		**462**	158
Term borrowings repaid		**(200)**	(136)
Finance lease paid		**(1)**	(1)
Dividends paid	C4	**(486)**	(477)
Financing cash flows		**(225)**	(456)
Net decrease in cash and cash equivalents		**(22)**	**(38)**
Cash and cash equivalents at the beginning of the year		**80**	118
Effect of exchange rate changes on net cash		**2**	–
Cash and cash equivalents at the end of the year	C5	**60**	**80**

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

ABOUT THIS REPORT FOR THE YEAR ENDED 30 JUNE 2018

IN THIS SECTION. The notes to the financial statements include information that 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 33 Customhouse Quay, Wellington. Meridian Energy Limited is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). As a mixed ownership company, majority owned by Her Majesty the Queen in Right of New Zealand, it is bound by the requirements of the Public Finance Act 1989.

These financial statements have been prepared:

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

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

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

In preparing the Group financial statements, all material intra-group transactions, balances, income and expenses have been eliminated. Subsidiaries are consolidated 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 dates of the transactions. Foreign currency monetary assets and liabilities are translated at the rate prevailing at balance date, 30 June 2018.

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 2018 was 0.9138 (30 June 2017: 0.9536). A full list of international subsidiary functional currencies is provided in note E1 Subsidiaries.

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 that are considered material to understanding the performance of Meridian are found in the following notes:

Note A2:	Income	Page 92
Note A4:	Taxation	Page 94
Note B1:	Property, plant and equipment	Page 95
Note B2:	Intangible assets	Page 97
Note C6:	Trade receivables	Page 100
Note D1:	Financial risk management	Page 103

SIGNIFICANT MATTERS IN THE FINANCIAL YEAR

FOR THE YEAR ENDED 30 JUNE 2018

IN THIS SECTION. Significant matters that have affected Meridian's financial performance and an explanation of non-GAAP measures used within the notes to the financial statements.

EARLY ADOPTION OF NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS. Meridian has adopted NZ IFRS 15 Revenue from Contracts with Customers since 1 July 2017. This has resulted in a change to Meridian's accounting policy relating to the treatment of incentives given to customers (such as credits applied to a customer's account) and any incremental costs directly incurred in acquiring new customers and retaining existing customers (such as sales commissions).

Meridian's previous policy was to recognise customer credits (upfront discounts) as discounts to electricity sales to customers at the time the credits were applied to the customers' accounts, and to recognise the incremental costs of acquiring and retaining as expenses at the time they were incurred. The change of policy will result in customer incentives and incremental costs being deferred to the balance sheet as customer contract assets and amortised on a straight-line basis over the expected average customer contract tenure.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach using the expedient in IFRS 15.C5(d).

The Group has adopted Customer contract assets as the terminology used to describe incremental costs of obtaining a contract.

The standard has been applied retrospectively. The effects of this change in accounting policy are shown below:

YEAR ENDED 30 JUNE 17 INCOME STATEMENT EFFECT	ORIGINAL 2017 $M	ADJUSTMENT $M	RESTATED 2017 $M
Operating revenue	2,319	1	2,320
Operating expenses	(1,666)	3	(1,663)
EBITDAF	653	4	657
Income tax expense	(80)	(1)	(81)
Net profit after tax	197	3	200
Earnings per share (cents per share)	7.7	0.1	7.8

AS AT 30 JUNE 2017 BALANCE SHEET EFFECT	ORIGINAL 2017 $M	ADJUSTMENT $M	RESTATED 2017 $M
Customer contract assets	–	18	18
Deferred tax liability	(1,710)	(5)	(1,715)
Retained earnings	738	(13)	725

2017 comparative figures have been restated to reflect the adoption of NZ IFRS 15 Revenue from Contracts with Customers.

GENERATION STRUCTURES AND PLANT REVALUATION. At 30 June 2018 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. The valuation indicated the carrying value is a fair representation of fair value and for this reason Meridian has not completed a full revaluation of this asset class in 2018. Meridian uses an independent valuer to determine a valuation range on which the Board's ultimate valuation decision is based.

For more information, refer to note B1 Property, plant and equipment on page 95.

ACQUISITION OF GSP ENERGY PTY LIMITED. On 29 March 2018 Meridian Energy Australia Pty Limited (a controlled entity of Meridian Energy Limited) purchased 100 percent of the shares in GSP Energy Pty Limited (GSP) for $182 million (A$166 million). GSP operates three hydro power stations: the Hume, Burrinjuck and Keepit power stations, located in New South Wales, Australia. The generation produced from these stations will support sales to Powershop Australia customers. Stamp duty of $10 million (A$9 million) has been paid on the transaction, which has been recognised in tax expense in the income statement.

HYDRO INFLOWS. Dry conditions experienced at the start of the year continued into January (briefly interrupted by spring inflows). These conditions changed dramatically in February, which featured two major weather events ex-tropical Cyclones Fehi and Gita. This was good news for our catchment with Fehi delivering more water into the Waitaki River than any other event in the previous five years. Storage has remained good throughout the start of winter.

The dry conditions resulted in Meridian reducing its hydro generation production and the calling of electricity swaptions in the first half of the year. Prices remained high in this period, which improved revenue but had a negative impact on the cost to supply physical and financial electricity sales. As hydro storage improved in Q3 and Q4, Meridian was able to increase generation production and sell greater volumes into the hedge market. Prices dropped due to hydro generation displacing thermal generation and flat demand as a result of mild weather until late into Q4.

SIGNIFICANT MATTERS IN THE FINANCIAL YEAR *continued*

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

EBITDAF. Earnings before interest, tax, depreciation, amortisation and changes in fair value of hedges and other significant items.

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 electricity market and the broadly offsetting impact of wholesale prices on the cost of Meridian's retail electricity purchases and revenue from generation. Meridian uses the measure of energy margin within Meridian's segmental financial performance in note A1 Segment performance on page 91.

NET DEBT. Net debt is a metric commonly used by investors as a measure of Meridian's indebtedness that takes account of liquid financial assets. Meridian uses this measure within its capital management and this is outlined in note C1 Capital management on page 98.

A

FINANCIAL PERFORMANCE

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

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

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

A1 SEGMENT PERFORMANCE. 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's Aluminium Smelter (NZAS) representing the equivalent of 40 percent (30 June 2017: 38 percent) 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 $73-$78 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 provides frontline customer and back-office services for Powershop Australia. Revenue of $4 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 sale into the Australian wholesale electricity market.
- Retailing of electricity 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, including licensing of the Flux Federation-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 (see page 89 for a definition of these measures) before unallocated central corporate expenses. Balance sheet items are not reported to the Chief Executive at an operating segment level.

A1 SEGMENT PERFORMANCE *continued*

	NZ WHOLESALE		NZ RETAIL		AUSTRALIA		OTHER AND UNALLOCATED		INTER-SEGMENT			
		RESTATED		RESTATED		RESTATED		RESTATED		RESTATED		RESTATED
	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M
Contracted sales, net of distribution costs	435	354	629	614	98	71	–	–	–	–	1,162	1,039
Virtual asset swap margins	(2)	4	–	–	–	–	–	–	–	–	(2)	4
Net cost of acquired generation	41	(4)	–	–	–	–	–	–	–	–	41	(4)
Generation spot revenue	1,039	684	–	–	72	48	–	–	–	–	1,111	732
Inter-segment electricity sales	535	506	–	–	–	–	–	–	(535)	(506)	–	–
Cost to supply contracted sales	(1,259)	(753)	(470)	(460)	(84)	(45)	–	–	535	506	(1,278)	(752)
Other market revenue/(costs)	(6)	(6)	2	1	–	–	–	–	–	–	(4)	(5)
Energy margin	**783**	**785**	**161**	**155**	**86**	**74**	–	–	–	–	**1,030**	**1,014**
Other revenue	2	4	12	13	1	–	20	9	(13)	(7)	22	19
Dividend revenue	–	–	–	–	–	–	46	1	(46)	(1)	–	–
Energy transmission expense	(122)	(125)	–	–	(5)	(5)	–	–	–	–	(127)	(130)
Gross margin	**663**	**664**	**173**	**168**	**82**	**69**	**66**	**10**	**(59)**	**(8)**	**925**	**903**
Employee expenses	(28)	(28)	(31)	(32)	(9)	(8)	(27)	(25)	–	1	(95)	(92)
Electricity metering expenses	–	–	(31)	(30)	–	–	–	–	–	–	(31)	(30)
Other operating expenses	(56)	(54)	(34)	(33)	(29)	(25)	(22)	(18)	8	6	(133)	(124)
EBITDAF	**579**	**582**	**77**	**73**	**44**	**36**	**17**	**(33)**	**(51)**	**(1)**	**666**	**657**
Depreciation and amortisation											(268)	(264)
Impairment of assets											(2)	(10)
Gain/(loss) on sale of assets											7	(4)
Net change in fair value of electricity and other hedges											(23)	(76)
Operating profit											**380**	303
Finance costs											(82)	(79)
Interest income											1	2
Net change in fair value of treasury instruments											(3)	55
Net profit before tax											**296**	**281**
Tax expense											(95)	(81)
Net profit after tax											**201**	**200**
Reconciliation of energy margin												
Electricity sales revenue	1,825	1,483	1,201	1,131	249	193	–	–	(535)	(506)	2,740	2,301
Electricity expenses, net of hedging	(1,042)	(698)	(553)	(517)	(100)	(63)	–	–	535	506	(1,160)	(772)
Electricity distribution expenses	–	–	(487)	(459)	(63)	(56)	–	–	–	–	(550)	(515)
Energy margin	**783**	**785**	**161**	**155**	**86**	**74**	–	–	–	–	**1,030**	**1,014**

A2 INCOME

		RESTATED
OPERATING REVENUE	2018 $M	2017 $M
Electricity sales to customers	**1,652**	1,526
Electricity generation, net of hedging	**1,088**	775
Electricity-related services revenue	**7**	9
Other revenue	**15**	10
	2,762	2,320

		RESTATED
POSITION AS AT CUSTOMER CONTRACT ASSETS	2018 $M	2017 $M
Opening balance	**18**	15
Deferred during the period		
Discounts and up-front credits to customers	**11**	10
Sales costs	**3**	5
	14	15
Released to the income statement during the period		
Electricity sales to customers	**(9)**	(7)
Employee expenses	**(1)**	(1)
Other expenses	**(3)**	(4)
	(13)	**(12)**
Closing balance	**19**	18

		RESTATED
TOTAL REVENUE BY GEOGRAPHIC AREA	2018 $M	2017 $M
New Zealand	**2,502**	2,121
Australia	**249**	192
United Kingdom	**11**	7
Total operating revenue	**2,762**	2,320

	2018 $M	2017 $M
Interest income	**1**	2

OPERATING REVENUE

Electricity 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 electricity.

Electricity generation, net of hedging

Revenue received from:

- electricity generated and sold into the wholesale markets
- net settlement of electricity hedges sold on electricity 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.

Interest income

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

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. Variable elements of the sale price, such as discounts and credits given to customers, and any incremental costs incurred in 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.

Electricity supply agreement with NZAS

The 2015 supply 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. This recognition reflects the fact that a number of variables within the agreement are consistent with a supply agreement and are not features of an electricity financial contract or other forms of financial contract.

Customer contract tenure

Meridian exercises judgement in estimating customer contract tenures where contracts do not have fixed terms. These estimations are based on the average rate of customer churn for groups of customers with similar attributes. The following estimates of customer contract tenure have been used to spread the variable components of the sale price and the incremental costs of acquiring a customer.

New Zealand – residential and business between two and three years.

Australia – residential and business between two and three years.

Prompt payment discounts and payment terms

Where a discount is offered for prompt payment, revenue is initially 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.

A3 EXPENSES

		RESTATED
OPERATING EXPENSES	2018 $M	2017 $M
Electricity expenses, net of hedging	**1,160**	772
Electricity distribution expenses	**550**	515
Electricity transmission expenses	**127**	130
Employee expenses	**95**	92
Electricity metering expenses	**31**	30
Other expenses	**133**	124
	2,096	**1,663**

DEPRECIATION AND AMORTISATION	NOTE	2018 $M	2017 $M
Depreciation	B1	**247**	245
Amortisation of intangibles	B2	**21**	19
		268	**264**

FINANCE COSTS	NOTE	2018 $M	2017 $M
Interest on borrowings		**74**	70
Interest on electricity option premium		**2**	3
Interest on finance lease payable	C8	**6**	6
		82	**79**

IMPAIRMENT AND LOSS ON SALE OF ASSETS	NOTE	2018 $M	2017 $M
Impairment of property, plant and equipment	B1	**2**	10
(Gain)/loss on sale or disposal of assets		**(7)**	4
		(5)	**14**

OPERATING EXPENSES

Electricity expenses, net of hedging

The cost of:

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

Electricity expenses are influenced by the quantity and timing of customer consumption and the wholesale spot price.

Electricity distribution expenses

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

Electricity transmission expenses

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

Employee expenses

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 rates expected to apply at the time of settlement.

Contributions to defined contribution plans (largely KiwiSaver) were $4 million in 2018 (30 June 2017: $4 million).

Electricity 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 the present value of future cash flows expected to be generated by the asset (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. However, if the asset is carried at a revalued amount, the impairment is treated as a revaluation decrease in equity. Any reversal of previous losses is recognised immediately in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase in equity.

During the 2018 financial year the book value of the Central Wind consent was impaired as development at this location is unlikely to occur prior to the expiry of the existing resource consent.

The 2017 impairment is made up of a $12 million impairment in relation to Meridian's wind farm options at Poutō and Hurunui, which Meridian decided not to pursue, and a $2 million reversal of previous impairment reversing the impairment recorded in the income statement in 2015 relating to the revaluation of generation structures and plant (for further details of the revaluation of generation structures and plant, refer to note B1 Property, plant and equipment).

A4 TAXATION

		RESTATED
TAX EXPENSE	2018 $M	2017 $M
Current income tax expense	121	113
Adjustments to tax of prior years	(1)	(3)
Total current tax expense	**120**	**110**
Deferred tax	(35)	(29)
Stamp duty paid on asset acquisition	10	–
Total tax	**95**	**81**
Reconciliation to profit before tax		
Profit before tax	**296**	**281**
Income tax at applicable rates	83	79
Expenditure not deductible for tax	3	5
Income tax (over)/under provided in prior year	(1)	(3)
Stamp duty paid on asset acquisition	10	–
Tax expense	**95**	**81**

		RESTATED
DEFERRED TAX ASSETS AND LIABILITIES	2018 $M	2017 $M
Balance at the beginning of the year	**1,672**	**1,581**
Temporary differences in income statement:		
Depreciation/Amortisation	(31)	(25)
Term payables	2	4
Financial instruments	(6)	(5)
Carried forward unused tax losses	–	(3)
Customer contract assets	1	1
Other – payables and receivables	(1)	(1)
	(35)	**(29)**
Temporary differences in other comprehensive income:		
Revaluation reserve movements	–	120
Balance at the end of the year	**1,637**	**1,672**
Made up of:		
Property, plant and equipment	1,731	1,760
Term payables	(37)	(39)
Financial instruments	(18)	(12)
Customer contract assets	6	5
Other – payables and receivables	1	1
Deferred tax liability	**1,683**	**1,715**
Carried forward unused tax losses	(46)	(43)
Deferred tax asset	**(46)**	**(43)**
Total deferred tax	**1,637**	**1,672**

CURRENT TAX EXPENSE. Tax expense components are current income tax, deferred tax and stamp duty.

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 percent for New Zealand and 30 percent for Australia.

On 29 March 2018 Meridian Energy Australia Pty Limited (a subsidiary of Meridian Energy Limited) purchased 100 percent of the shares in GSP Energy Pty Limited (GSP). GSP operates three hydro power stations subject to stamp duty on purchase. Refer E1 Subsidiaries for further detail on the acquisition.

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

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES – TAXATION. A deferred tax asset is recognised to the extent that it is probable that a future taxable profit will be available to use the asset. This is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset.

B

ASSETS USED TO GENERATE AND SELL ELECTRICITY

IN THIS SECTION. This section shows the assets that 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

b) intangible assets.

B1 PROPERTY, PLANT AND EQUIPMENT

$M	GENERATION STRUCTURES AND PLANT AT FAIR VALUE	LAND AND BUILDINGS AT COST	OTHER PLANT AND EQUIPMENT AT COST	WORK IN PROGRESS AT COST	TOTAL
Cost or fair value	7,566	36	164	91	**7,857**
Less accumulated depreciation	–	(4)	(82)	–	**(86)**
Net book value at 30 June 2016	**7,566**	**32**	**82**	**91**	**7,771**
Additions	–	–	–	34	**34**
Transfers – work in progress	15	–	17	(32)	**–**
Transfers – intangible assets	–	–	–	(9)	**(9)**
Transfers – other assets	(2)	(6)	–	–	**(8)**
Disposals	(1)	–	(1)	–	**(2)**
Impairments	(5)	–	–	(7)	**(12)**
Foreign currency exchange rate movements[51]	2	–	–	–	**2**
Generation structures and plant revaluations:					
Increase taken to revaluation reserve	428	–	–	–	**428**
Increase taken to income statement	2	–	–	–	**2**
Depreciation expense	(231)	(1)	(11)	(2)	**(245)**
Net book value at 30 June 2017	**7,774**	**25**	**87**	**75**	**7,961**
Cost or fair value	7,774	30	169	77	**8,050**
Less accumulated depreciation[52]	–	(5)	(82)	(2)	**(89)**
Net book value at 30 June 2017	**7,774**	**25**	**87**	**75**	**7,961**
Additions	–	–	–	36	**36**
Transfers – work in progress	32	–	11	(43)	**–**
Transfers – intangible assets	–	–	–	(2)	**(2)**
Transfers – other assets	9	–	(9)	–	**–**
Disposals	–	(10)	–	–	**(10)**
Purchase of subsidiary	181	–	–	3	**184**
Foreign currency exchange rate movements[51]	17	–	2	–	**19**
Depreciation expense	(237)	–	(11)	1	**(247)**
Net book value at 30 June 2018	**7,776**	**15**	**80**	**70**	**7,941**
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**

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[51] Through the foreign currency translation reserve in other comprehensive income.

[52] Includes the reversal of accumulated depreciation on generation structures and plant at revaluation date.

B1 PROPERTY, PLANT AND EQUIPMENT *continued*

At 30 June 2018, 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 $2.4 billion (30 June 2017: $2.5 billion).

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 assets to the locations and condition necessary for their intended purposes, and financing costs where appropriate.

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 a level 3 fair value (a definition of the other levels is included in D1 Financial risk management).

As discussed above, the independent valuer uses an income approach that 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.

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
New Zealand generation volume	Annual generation production	13,490GWh p.a. to 15,430GWh p.a.	+ 250GWh	$135M
			- 250GWh	($135M)
Australian generation volume	Annual generation production	840GWh p.a.	+5%	A$37M
			-5%	(A$37M)
Operating expenditure	Meridian's cost of operations	$285Mp.a.	+ $10M	($138M)
			- $10M	$138M
EBITDAF earnings multiple	Valuation multiple (including control premium of 20%) derived from earnings and valuations of comparable companies	12.6 x EBITDAF	+0.5x	$359M
			-0.5x	($359M)

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

B1 PROPERTY, PLANT AND EQUIPMENT *continued*

Revaluation of generation structures and plant

Meridian engaged an independent valuer to assess its generation structures and plant assets at 30 June 2018 using capitalisation of earnings and DCFs when determining a valuation range. The review indicated that the carrying value is a fair representation of fair value, and for this reason Meridian has not completed a full revaluation of this asset class.

At 30 June 2017, the revaluation resulted in a net increase of $199 million (after the reversal of depreciation) in the carrying value of generation structures and plant assets. The impact of the revaluation was recognised as an increase of $308 million (net of deferred tax) in the revaluation reserve and as a $2 million reversal of a previous impairment of Australian generation assets recognised in the income statement.

Depreciation

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

KEY JUDGEMENTS AND ESTIMATES – USEFUL LIVES. Meridian uses its judgement in determining the remaining useful lives and residual values 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.

The residual values 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 or 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	SOFTWARE
Cost or fair value	181
Less accumulated amortisation	(134)
Net book value at 30 June 2016	**47**
Additions	21
Transfers – property, plant and equipment	9
Amortisation expenses	(19)
Net book value at 30 June 2017	**58**
Cost or fair value	211
Less accumulated amortisation	(153)
Net book value at 30 June 2017	**58**
Additions	21
Transfers – property, plant and equipment	2
Amortisation expenses	(21)
Net book value at 30 June 2018	**60**
Cost or fair value	150
Less accumulated amortisation	(90)
Net book value at 30 June 2018	**60**

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 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.

KEY JUDGEMENTS AND ESTIMATES – USEFUL LIVES. Meridian uses its judgement in determining the remaining useful lives and residual values of intangible assets, which are:

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

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

C

MANAGING FUNDING

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

a) equity and dividends

b) net debt

c) receivables and payables.

C1 CAPITAL MANAGEMENT

Capital risk management objectives

Meridian's 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 net debt.

Meridian manages its capital through various means, including:

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

Meridian regularly monitors its capital requirements using various measures that 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.

			RESTATED
	NOTE	2018 $M	2017 $M
Share capital	C2	1,598	1,598
Retained earnings		(1,010)	(725)
Other reserves		4,235	4,222
		4,823	5,095
Drawn borrowings	C7	1,428	1,158
Finance lease payable	C8	48	47
Less: cash and cash equivalents	C5	(60)	(80)
		1,416	1,125
Net capital		6,239	6,220

			RESTATED
NET DEBT TO EBITDAF	NOTE	2018 $M	2017 $M
Drawn borrowings	C7	1,428	1,158
Finance lease payable	C8	48	47
Operating lease commitments	F4	76	71
Less: cash and cash equivalents	C5	(60)	(80)
Add back: restricted cash	C5	29	51
Add back: cash buffer[53]		8	7
Net debt (A)		1,529	1,254
EBITDAF (B)		666	657
Net debt to EBITDAF (times) (A/B)		2.3	1.9

			RESTATED
EBITDAF INTEREST COVER	NOTE	2018 $M	2017 $M
EBITDAF (B)		666	657
Interest on borrowings	A3	74	70
Interest on finance lease	A3	6	6
Interest (C)		80	76
EBITDAF interest cover (times) (B/C)		8.3	8.6
Standard & Poor's rating		BBB+	BBB+

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[53] The cash buffer is calculated as 25 percent of unrestricted cash and cash equivalents.

C2 SHARE CAPITAL

	2018		2017	
SHARE CAPITAL	SHARES	$M	SHARES	$M
Shares issued	2,563,000,000	1,600	2,563,000,000	1,600
Treasury shares held	(560,596)	(2)	(1,057,903)	(2)
Share capital	2,562,439,404	1,598	2,561,942,097	1,598

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

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

C3 EARNINGS PER SHARE

BASIC AND DILUTED EARNINGS PER SHARE (EPS)	2018	2017
Profit after tax attributable to shareholders of the parent company ($M)	201	200
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)	7.8	7.8

C4 DIVIDENDS

DIVIDENDS DECLARED AND PAID	2018 $M	2017 $M
Interim ordinary and special dividend 2018: 7.82cps (cents per share) (2017: 7.77cps)	200	199
Final ordinary and special dividend 2017: 11.14cps (2016: 10.84cps)	286	278
Total dividends paid	486	477

DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY		
Final ordinary dividend 2018: 8.94cps (2017: 8.7cps)	229	223
Special dividend 2018: 2.44cps (2017: 2.44cps)	63	63

IMPUTATION CREDIT BALANCE		
Imputation credits available for future use	29	35

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.

SUBSEQUENT EVENT – DIVIDEND DECLARED. On 21 August 2018 the Board declared a partially imputed final ordinary dividend of 8.94 cents per share. Additionally the Board declared an unimputed special dividend of 2.44 cents per share.

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 21 August 2018, therefore recognising any tax payments between balance date and 21 August 2018.

C5 CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	2018 $M	2017 $M
Current account	**60**	80
Cash and cash equivalents	**60**	**80**

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 2018, this collateral was $29 million (30 June 2017: $51 million).

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

RECONCILIATION OF NET PROFIT AFTER TAX TO CASH FLOWS FROM OPERATING ACTIVITIES	2018 $M	RESTATED 2017 $M
Net profit after tax	**201**	**200**
Adjustments for operating activities' non-cash items:		
Depreciation and amortisation	**268**	264
Movement in deferred tax	**(35)**	(29)
Net change in fair value of financial instruments	**26**	21
Electricity option premiums	**(15)**	(15)
Share-based payments	**1**	1
	245	**242**
Items classified as investing activities:		
Impairment of assets	**2**	10
(Gain)/loss on sale of assets	**(7)**	4
Australian stamp duty paid	**10**	–
	5	**14**
Changes in working capital items:		
(Increase) in accounts receivable	**(1)**	(66)
(Increase) in customer contract assets	**(1)**	(3)
(Increase) in other assets	**–**	(9)
(Decrease)/increase in payables and accruals/employee entitlements	**(20)**	90
Increase in customer contract liabilities	**6**	1
Increase/(decrease) in current tax payable	**13**	(1)
Working capital items in investing activities	**(14)**	(5)
Working capital items in financing activities and other non-cash items	**(7)**	7
	(24)	**14**
Cash flow from operating activities	**427**	**470**

C6 TRADE RECEIVABLES

TRADE RECEIVABLES	2018 $M	2017 $M
Accrued receivables	**197**	205
Current billed	**57**	43
Past due 1 to 30 days	**7**	11
Past due 31 to 60 days	**2**	2
Past due 61 to 90 days	**1**	1
Past due greater than 90 days	**2**	4
Less: provision for doubtful debts	**(5)**	(6)
Total trade receivables	**261**	**260**
Accounts receivable past due but not impaired	**7**	12

MOVEMENT IN PROVISION FOR DOUBTFUL DEBTS	2018 $M	2017 $M
Opening provision	**(6)**	(5)
Provision created in the year	**(5)**	(5)
Provision used in the year	**6**	4
Closing provision for doubtful debts	**(5)**	**(6)**

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 $6 million (30 June 2017: $4 million).

KEY JUDGEMENTS AND ESTIMATES – DOUBTFUL DEBTS. Allowances are made for estimated unrecoverable amounts (provision for doubtful debts), and these are recognised in the income statement. The provision for doubtful debts is measured as the difference between the trade receivables carrying amount and expected future cash flows. The future cash flows have considered customer credit history and historical recovery performance and trends.

C7 BORROWINGS

	2018					2017			
NZ$M	CURRENCY BORROWED IN	DRAWN FACILITY AMOUNT	TRANSACTION COSTS PAID	FAIR VALUE ADJUSTMENT	CARRYING AMOUNT	DRAWN FACILITY AMOUNT	TRANSACTION COSTS PAID	FAIR VALUE ADJUSTMENT	CARRYING AMOUNT
Current borrowings									
Unsecured borrowings	NZD	**169**	**(1)**	**–**	**168**	171	(1)	–	170
Unsecured borrowings	USD	**272**	**–**	**10**	**282**	–	–	–	–
Total current borrowings		**441**	**(1)**	**10**	**450**	**171**	**(1)**	**–**	**170**
Non-current borrowings									
Unsecured borrowings	NZD	**821**	**(3)**	**–**	**818**	556	(1)	–	555
Unsecured borrowings	USD	**166**	**–**	**39**	**205**	431	(1)	37	467
Total non-current borrowings		**987**	**(3)**	**39**	**1,023**	**987**	**(2)**	**37**	**1,022**
Total borrowings		**1,428**	**(4)**	**49**	**1,473**	**1,158**	**(3)**	**37**	**1,192**

Borrowings, measurement and recognition

Borrowings are recognised initially at the fair value of the drawn facility amounts, net of transaction costs paid. Borrowings are subsequently stated at amortised cost using the effective interest method. Any borrowings that have been designated as hedged items (United States Dollar [USD] borrowings) are carried at amortised cost plus a fair value adjustment under hedge accounting requirements. 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.

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

Fair value of items held at amortised cost

	2018		2017	
NZ$M	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Retail bonds	**500**	**514**	300	311
Floating rate notes	**100**	**102**	100	102
Unsecured term loan (EKF facility)	**80**	**86**	90	98

Within term borrowings there are longer-dated instruments that 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 DCF calculation, and the resultant values are 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 being classified as level 1 (a definition of levels is included in D1 Financial risk management on page 103).

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

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.

	2018							
NZ$M	BALANCE AT 1 JULY 2017	TERM BORROWINGS DRAWN	TERM BORROWINGS REPAID	FAIR VALUE ADJUSTMENTS	FOREIGN EXCHANGE	TRANSACTION COSTS PAID & ACCRUED	FINANCE LEASE PAID	BALANCE AT 30 JUNE 2018
Unsecured borrowings – NZD	725	462	(200)	–	–	(1)	–	986
Unsecured borrowings – USD	467	–	–	12	7	1	–	487
Finance lease	47	–	–	–	2	–	(1)	48
Total	**1,239**	**462**	**(200)**	**12**	**9**	**–**	**(1)**	**1,521**

C7 BORROWINGS *continued*

		2018			2017		
SOURCES OF FUNDING – NZ$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[54]	NZD	**650**	**164**	**486**	525	84	441
EKF funding[55]	NZD	**80**	**80**	**–**	90	90	–
Total bank facilities		**730**	**244**	**486**	**615**	**174**	**441**
Other sources of borrowing							
Retail bonds[56]	NZD	**500**	**500**	**–**	300	300	–
Floating rate notes[54]	NZD	**100**	**100**	**–**	100	100	–
Fixed rate bonds[57]	USD	**439**	**439**	**–**	431	431	–
Commercial paper[58]	NZD	**145**	**145**	**–**	153	153	–
Total other sources of borrowing		**1,184**	**1,184**	**–**	**984**	**984**	**–**
Total sources of funding		**1,914**	**1,428**	**486**	**1,599**	**1,158**	**441**

[54] Funding bears interest at the relevant market floating rate plus a margin.

[55] The EKF facility is an unsecured 10-year amortising term loan, provided by the official export credit agency of Denmark, for the construction of Te Uku wind farm.

[56] Retail bonds are senior unsecured retail bonds bearing interest rates of 4.53 percent, 4.88 percent and 4.21 percent.

[57] USD fixed rate bonds are unsecured fixed rate bonds issued in the United States Private Placement Market.

[58] NZD commercial paper comprises senior unsecured short-term debt obligations paying a fixed rate of return over a set period of time.

C8 FINANCE LEASE PAYABLE

FINANCE LEASE PAYABLE ANALYSIS	2018 $M	2017 $M
Minimum lease payments		
Not later than 1 year	**7**	7
Later than 1 year and not later than 3 years	**14**	14
Later than 3 years and not later than 5 years	**13**	13
Later than 5 years	**89**	91
Gross investment in finance lease	**123**	**125**
Less future finance costs	**(75)**	(78)
Present value of minimum lease payments	**48**	**47**
Analysed as:		
Not later than 1 year	**1**	1
Later than 1 year and not later than 3 years	**2**	2
Later than 3 years and not later than 5 years	**2**	2
Later than 5 years	**43**	42
Gross investment in finance lease	**48**	**47**
Comprising:		
Current	**1**	1
Non-current	**47**	46
	48	**47**

Finance lease payable, measurement and recognition

A finance lease transfers substantially all the risks and rewards of ownership to the lessee. Meridian recognises the present value of minimum lease payments under finance lease arrangements as a finance lease payable. Resulting repayments are split between principal and interest expense. The interest reflects a constant periodic charge over the term of the lease. Finance lease payables are classified as financial liabilities at amortised cost.

Finance lease details

Meridian's finance leases relate to certain transmission assets that connect wind farms at Mill Creek and Mt Mercer to the transmission network.

Meridian reported a finance lease interest expense of $6 million (30 June 2017: $6 million) in finance costs in the income statement.

The net book value of assets subject to finance leases and included in note B1 Property, plant and equipment is $42 million (30 June 2017: $35 million). All assets are classified as other plant and equipment.

D

FINANCIAL INSTRUMENTS USED TO MANAGE RISK

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

a) outlining Meridian's approach to financial risk management

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

D1 FINANCIAL RISK MANAGEMENT. Meridian's activities expose it to a variety of financial risks. Its financial risk management framework focuses on the unpredictability of financial markets and wholesale electricity markets. The Board approves policies including Group Treasury, Electricity Hedging and Credit Policies that set appropriate principles and risk tolerance levels to guide Management in carrying out financial risk management activities to minimise potential adverse effects on the financial performance and economic value of the Group. In order to hedge certain risk exposures, Meridian uses derivative financial instruments (hedges). These hedges are not always designated in a hedging relationship for accounting purposes. Meridian does not enter into speculative trades.

FINANCIAL INSTRUMENT RECOGNITION. Meridian designates or classifies financial hedging instruments as:

- **fair value hedges** – hedges of the fair value of recognised assets or liabilities or a firm commitment
- **cash flow hedges** – hedges of a particular cash flow associated with a recognised asset or liability or a highly probable forecast transaction
- **held for trading,** financial instruments that have not been designated in hedging relationships.

Hedging instruments are recognised at fair value on the dates the contracts are agreed and are remeasured on a periodic basis. The recognition of movements in fair value depends upon the hedging instrument and its designation or classification. Realised gains or losses are recognised in the income statement or balance sheet on the same line as the hedged item.

Fair value hedge

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

Cash flow hedge

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

Amounts accumulated in other comprehensive income are recycled in the income statement in the periods when the forecast transactions take place.

Held for trading

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

FAIR VALUE OF HEDGING FINANCIAL INSTRUMENTS. The recognition and measurement of hedging financial instruments require management estimations and judgement (this is discussed in further detail later in this note). These estimates can have a significant risk of material adjustment in future periods. Fair value measurements are grouped within a three-level fair value hierarchy based on the observability of valuation inputs (described below).

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs – either directly (i.e. that is, as prices) or indirectly (derived from prices) observable inputs other than quoted prices included in level 1.
- Level 3 inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

D1 FINANCIAL RISK MANAGEMENT *continued*

MANAGEMENT OF MERIDIAN'S KEY FINANCIAL RISKS AND THE FAIR VALUE OF INSTRUMENTS USED TO MANAGE THEM

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

Management monitor the size and nature of retail customer exposure and act to mitigate a risk if it is deemed to exceed acceptable levels.

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

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

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

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

Meridian maintains flexibility in funding by keeping committed surplus credit lines available of at least $200 million, which ensures that it has sufficient headroom under normal and abnormal conditions (see C7 Borrowings for details of undrawn facilities).

In addition to borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements that provide credit support of $79 million for the collateral requirements of Meridian's trading business (30 June 2017: $124 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.

Funding risks. Meridian manages its funding requirements on a portfolio basis. This portfolio is made up of a mix of funding sources and borrowing tenures that expose Meridian to interest rate changes and, where borrowing is made in currencies other than the reporting currency, to foreign exchange changes.

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 interest rate swaps. This is achieved using a combination of Cross Currency Interest Rate Swap (CCIRS) and Interest Rate Swap (IRS) hedges. Where Meridian borrows in foreign currencies 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.

D1 FINANCIAL RISK MANAGEMENT *continued*

		FAIR VALUE ON THE BALANCE SHEET				FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT		OUTSTANDING AGGREGATE NOTIONAL PRINCIPALS[59]	
		2018		2017		2018	2017	2018	2017
	LEVEL	ASSETS $M	LIABILITIES $M	ASSETS $M	LIABILITIES $M	$M	$M	$M	$M
Treasury hedges		**61**	**(114)**	52	(114)	**(3)**	55		
CCIRS – fair value hedge	**2**	**4**	**-**	27	(3)	**-**	1	**439**	431
Converts fixed interest borrowings to floating in the originating currency, with changes in fair value recorded in the income statement in 'Net change in fair value of treasury instruments', together with changes in fair value hedge adjustments on the designated borrowings. See note C7 Borrowings.									
CCIRS – cash flow hedge	**2**	**(1)**	**–**	–	(3)	**–**	–	**439**	431
Converts floating interest in the originating borrowing currency to the reporting currency of the borrowing entity with a credit margin. Changes in fair value relating to the effective hedge portion are recognised in other comprehensive income, with any ineffective portion recognised in the income statement within 'Net change in fair value of treasury instruments'.									
CCIRS – foreign exchange retranslation	**2**	**44**	**–**	16	(2)	**–**	–	**439**	431
Converts foreign currency borrowing into the reporting currency. The impact of retranslation on the CCIRS 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 USD borrowings.									
IRS	**2**	**14**	**(114)**	9	(106)	**(3)**	54	**1,837**	1,915
Classified as held for trading, with changes in fair value recognised in the income statement within 'Net change in fair value of treasury instruments'.									

Sensitivity analysis

This table summarises the impacts 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 foreign exchange retranslation of the fixed-rate bonds. Therefore the CCIRS profit and loss sensitivity is nil and they are not shown in the table below.

		IMPACT ON AFTER-TAX PROFIT AND EQUITY	
$M	SENSITIVITY	2018	2017
Interest rates			
New Zealand benchmark bill rate	-100 basis points (bps)	**(37)**	(36)
	+100 bps	**36**	32
Australian benchmark bill rate	-100 bps	**(4)**	(4)
	+100 bps	**4**	4

FOREIGN EXCHANGE RISK. Meridian is exposed to foreign exchange risk arising from the sale and procurement of goods and services denominated in foreign currencies (primarily the British pound and Australian dollar).

Foreign exchange contracts are used to hedge known, material, highly probable commitments of foreign currency exposures. If hedge accounting is applied, a combination of both cash flow and fair value hedges is created.

The gain or loss on the hedge is included as a component of the hedged transaction. If hedge accounting is not applied, hedges are classified as held for trading and changes in fair value are recognised in the income statement within 'Net change in fair value of treasury instruments'.

		FAIR VALUE ON THE BALANCE SHEET				FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT		OUTSTANDING AGGREGATE NOTIONAL PRINCIPALS	
		2018		2017		2018	2017	2018	2017
	LEVEL	ASSETS $M	LIABILITIES $M	ASSETS $M	LIABILITIES $M	$M	$M	$M	$M
Foreign exchange hedges	**2**	**–**	**–**	**1**	**–**	**(1)**	**–**	**13**	**16**

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[59] These cover multiple legs including offsetting legs and maturities out to 2026.

D1 FINANCIAL RISK MANAGEMENT *continued*

Electricity price and volume risk

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

Meridian uses a hedging strategy that focuses on its net exposure by estimating both the expected generation and electricity purchases required to support contracted sales. The execution of this strategy is guided by Board-approved parameters.

The electricity hedges, LGC forward contracts, options and holdings are classified as held for trading, and changes in fair value are recognised in the income statement within 'Net change in fair value of electricity and other hedges'.

		FAIR VALUE ON THE BALANCE SHEET				FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT		OUTSTANDING AGGREGATE NOTIONAL VOLUMES[60]	
		2018		2017		2018	2017	2018	2017
	LEVEL	ASSETS $M	LIABILITIES $M	ASSETS $M	LIABILITIES $M	$M	$M		
Electricity-related hedges		**152**	**(67)**	178	(77)	**(22)**	(76)		
Market traded electricity hedges:	**1**	**30**	**(9)**	21	(29)	**24**	(22)	**10,422GWh**	9,242GWh
Meridian trades hedges on various exchange-based markets.									
Other electricity hedges:	**3**	**13**	**(52)**	41	(29)	**(51)**	(51)	**26,667GWh**	30,513GWh
Meridian also trades hedges with other electricity generators, retailers and customers. These hedges are generally long-term, large-volume contracts that manage specific risks that cannot be managed through futures markets.									
Electricity options:	**3**	**87**	**–**	98	–	**(11)**	(22)	**5,123GWh**	6,256GWh
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.									
Large Scale Generation Certificates:									
Meridian's Australian wind farms earn Renewable Energy Certificates (RECs) in the form of Large Scale Generation Certificates (LGCs). Additionally, Powershop Australia is required to purchase and surrender RECs. Forward contracts and options are 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, forward contracts and options are accumulated and all recognised as financial instruments on the balance sheet at their fair value.									
LGC – holdings created from wind farm generation	**1**	**17**	**–**	16	–	**–**	(2)	**0.2 million**	0.2 million
LGC – forward and option contracts[61]	**2**	**5**	**(6)**	2	(19)	**16**	21	**1.4 million**	1.9 million

Settlements

The following provides a summary of the settlements through EBITDAF for financial instruments.

	2018				2017			
	ELECTRICITY HEDGES	LGCs	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGCs	ELECTRICITY OPTIONS	TOTAL
Operating revenue	**(41)**	**35**	**–**	**(6)**	23	30	–	53
Operating expenses	**27**	**(12)**	**6**	**21**	(23)	(9)	1	(31)
Total settlements in EBITDAF	**(14)**	**23**	**6**	**15**	**–**	**21**	**1**	**22**

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[60] These cover multiple offsetting contracts and maturities out to 2030.

[61] The LGC forward and option contracts have been transferred from level 3, as inputs derived from observable market prices are now available to value them.

D1 FINANCIAL RISK MANAGEMENT *continued*

Sensitivity analysis

The table below summarises the impacts of changes in significant inputs (assuming all other variables are held constant) on the valuation of electricity-related hedges and therefore on Meridian's after-tax profit and equity.

		IMPACT ON AFTER-TAX PROFIT AND EQUITY	
$M	SENSITIVITY	2018	2017
Electricity hedges and options[62]			
	-10%	**(48)**	(54)
Electricity prices	+10%	**48**	55
	-100bps	**1**	3
Discount rates	+100bps	**(1)**	(3)
	-10%	**(6)**	(7)
Call volumes	+10%	**6**	7
LGCs			
	-10%	**4**	4
LGC prices	+10%	**(4)**	(4)

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 reports 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 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 the forward IRS curve adjusted for counterparty risk
- the calibration factor applied to forward price curves as a consequence of initial recognition differences
- NZAS continues to operate
- contracts run their full terms.

The table below describes the additional key inputs and techniques used in the valuation of level 2 and 3 electricity-related hedges.

FINANCIAL ASSET OR LIABILITY	DESCRIPTION OF INPUT	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP OF INPUT TO FAIR VALUE
Electricity hedges, valued using DCFs	***Price:*** where quoted prices are not available or not relevant (that is, 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	$60/MWh to $108/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 and 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. Another factor is the calibration factor applied to forward price curves as a consequence of initial recognition differences	A$27 to A$79	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

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[62] The majority of impacts on after-tax profit and equity result from level 3 hedges.

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 3 financial instruments:

	2018				2017			
RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS $M	ELECTRICITY HEDGES	LGCS	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGCS	ELECTRICITY OPTIONS	TOTAL
Electricity and other hedges settled in EBITDAF:								
Operating revenue	**(41)**	**–**	**–**	**(41)**	25	–	–	**25**
Operating expenses	**27**	**–**	**6**	**33**	(23)	–	1	**(22)**
Total settlements in EBITDAF	**(14)**	**–**	**6**	**(8)**	**2**	**–**	**1**	**3**
Net change in fair value of electricity and other hedges:								
Remeasurement	**(65)**	**–**	**(5)**	**(70)**	(49)	–	(21)	**(70)**
Hedges settled	**14**	**–**	**(6)**	**8**	(2)	–	(1)	**(3)**
Total net change in fair value of electricity and other hedges	**(51)**	**–**	**(11)**	**(62)**	**(51)**	**–**	**(22)**	**(73)**
Balance at the beginning of the period	**12**	**–**	**98**	**110**	**63**	**(38)**	**120**	**145**
Transfers to level 2	**–**	**–**	**–**	**–**	–	38	–	**38**
Fair value movements	**(51)**	**–**	**(11)**	**(62)**	(51)	–	(22)	**(73)**
Balance at the end of the year	**(39)**	**–**	**87**	**48**	**12**	**–**	**98**	**110**

During 2017, LGC options and forwards were transferred to level 2 as inputs derived from observable market prices are available to value them.

Fair value movements of level 3 electricity hedges in 2018 that are held at balance date total $(44) million (30 June 2017: $(65) million).

Movements in recalibration differences arising from electricity hedges and options

	2018 $M	2017 $M
Opening difference	**6**	(55)
Initial differences on new hedges and options	**–**	–
Volumes expired and amortised	**(1)**	8
Recalibration for future price estimates and time	**–**	53
Closing difference	**5**	**6**

Initial recognition difference

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

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

D1 FINANCIAL RISK MANAGEMENT *continued*

Financial instruments that 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.

	2018			2017		
$M	GROSS VALUE	VALUE OFFSET	CARRYING VALUE	GROSS VALUE	VALUE OFFSET	CARRYING VALUE
Financial instrument assets						
Electricity and other hedges	**197**	**(45)**	**152**	249	(71)	178
Treasury hedges	**61**	**–**	**61**	53	–	53
Total financial instrument assets	**258**	**(45)**	**213**	**302**	**(71)**	**231**
Financial instrument liabilities						
Electricity and other hedges	**(112)**	**45**	**(67)**	(148)	71	(77)
Treasury hedges	**(114)**	**–**	**(114)**	(114)	–	(114)
Total financial instrument liabilities	**(226)**	**45**	**(181)**	**(262)**	**71**	**(191)**
Net financial instruments	**32**	**–**	**32**	**40**	**–**	**40**

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.

	2018							
$M	DUE WITHIN 1 YEAR	DUE IN 1-2 YEARS	DUE IN 3-5 YEARS	DUE AFTER 5 YEARS	TOTAL UNDISCOUNTED CASH FLOWS	IMPACT OF OTHER NON-CASH ITEMS	IMPACT OF INTEREST/FX DISCOUNTING	2018 CARRYING VALUE
Borrowings	501	101	538	571	**1,711**	(4)	(234)	**1,473**
Finance leases	7	14	13	89	**123**	–	(75)	**48**
Payables, accruals, provisions and option premiums	295	30	53	32	**410**	–	(29)	**381**
IRSs	29	25	51	28	**133**	–	(19)	**114**
CCIRSs	–	–	–	–	**–**	–	–	**–**
Electricity hedges	20	8	25	10	**63**	3	(5)	**61**
LGCs	6	–	–	–	**6**	–	–	**6**
	858	**178**	**680**	**730**	**2,446**	**(1)**	**(362)**	**2,083**

	2017							
$M	DUE WITHIN 1 YEAR	DUE IN 1-2 YEARS	DUE IN 3-5 YEARS	DUE AFTER 5 YEARS	TOTAL UNDISCOUNTED CASH FLOWS	IMPACT OF OTHER NON-CASH ITEMS	IMPACT OF INTEREST/FX DISCOUNTING	2017 CARRYING VALUE
Borrowings	216	380	263	521	**1,380**	(4)	(184)	**1,192**
Finance leases	7	14	13	91	**125**	–	(78)	**47**
Payables, accruals, provisions and option premiums	311	28	64	18	**421**	–	(8)	**413**
IRSs	32	26	46	24	**128**	–	(22)	**106**
CCIRSs	–	12	–	–	**12**	–	(4)	**8**
Electricity hedges	25	14	10	10	**59**	2	(3)	**58**
LGCs	13	7	–	–	**20**	–	(1)	**19**
	604	**481**	**396**	**664**	**2,145**	**(2)**	**(300)**	**1,843**

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 proportions of ownership interests held equal the Group's voting rights.

Meridian Energy Limited provides support to its subsidiaries where necessary in order to ensure they meet their obligations as they fall due.

			INTEREST HELD BY THE GROUP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	FUNCTIONAL CURRENCY	2018	2017
Meridian Energy Limited				
Powershop New Zealand Limited	Electricity retailing	New Zealand dollar	100%	100%
Flux Federation Limited	Software development	New Zealand dollar	100%	100%
Flux-UK Limited[63]	Licence holder	British pound	100%	100%
Three River Holdings No. 1 Limited[64]	Holding company	New Zealand dollar	100%	100%
Three River Holdings No. 2 Limited[64]	Holding company	New Zealand dollar	100%	100%
Meridian Energy Australia Pty Limited[64]	Management services	Australian dollar	100%	100%
GSP Energy Pty Limited	Electricity generation	Australian dollar	100%	–
Meridian Finco Pty Limited[64]	Financing	Australian dollar	100%	100%
Meridian Energy Markets Pty Limited[64]	Non-trading entity	Australian dollar	100%	100%
Meridian Wind Monaro Range Holdings Pty Limited[64]	Holding company	Australian dollar	100%	100%
Meridian Wind Monaro Range Pty Limited[64]	Holding company	Australian dollar	100%	100%
Mt Millar Wind Farm Pty Limited[64]	Electricity generation	Australian dollar	100%	100%
Meridian Australia Holdings Pty Limited[64]	Holding company	Australian dollar	100%	100%
Meridian Wind Australia Holdings Pty Limited[64]	Holding company	Australian dollar	100%	100%
Mt Mercer Wind Farm Pty Limited[64]	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%

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[63] On 4 June 2018, Powershop UK Limited changed its name to Flux-UK Limited.

[64] Members of guaranteeing group.

E1 SUBSIDIARIES *continued*

On 1 July 2017, Powershop New Zealand Limited sold the electricity and gas retail platform and supporting business assets as well as its full shareholding in Flux-UK Limited (previously Powershop UK Limited) to Flux Federation Limited (a wholly owned subsidiary of Meridian). Powershop New Zealand Limited continues to retail electricity in New Zealand and provide frontline customer and back-office services to Powershop Australia Pty Limited.

On 25 May 2017, Meridian established Flux Federation Limited as a subsidiary responsible for developing and licensing the electricity and gas retail platforms.

On 4 November 2016, Dam Safety Intelligence Limited was incorporated as a subsidiary of the Group, to provide dam safety consultancy services.

On 29 March 2018 Meridian Energy Australia Pty Limited purchased 100 percent of the shares in GSP Energy Pty Limited (GSP) for $182 million (A$166 million). GSP operates three hydro power stations: the Hume, Burrinjuck and Keepit power stations, located in New South Wales, Australia. The generation produced from these stations will support sales to Powershop Australia customers.

The total consideration paid and recognised in the financial statements is as follows:

	GROUP
	2018 $M
Purchase price	184
Working capital adjustment	(2)
Cash consideration paid	**182**

Acquisition-related costs have been excluded from the total consideration paid and have been recognised as an expense in the income statement in the current year within other expenses.

In addition, Meridian Energy Australia Pty Ltd paid stamp duty of $10 million (A$9 million) to Revenue NSW, which has been recognised in tax expense in the income statement.

The allocation of the purchase price is as follows:

	GROUP
	2018 $M
Net assets acquired	182
	182

The net assets acquired on 29 March 2018 consisted of the following:

	GROUP
	2018 $M
Accounts receivable	4
Property, plant and equipment	184
Total assets acquired	**188**
Accounts payable	(5)
Current tax payable	(1)
Total liabilities assumed	**(6)**
Net assets acquired	**182**

Impact of acquisition on the results of the Group

Included in the income statement for the year is $2.3 million attributable to the additional revenue generated by GSP and EBITDAF of $0.7 million.

Had the acquisition of GSP been effected at 1 July 2017, the revenue of the Group from continuing operations would have been $28.3 million.

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)

The 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 TSR must be positive
- 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
- 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 the TSR of Meridian and the peer group of companies along with the outcome on the progressive vesting scale. If the TSR is not positive (that is, in absolute terms, it 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 FY18, the level of vesting was 100%. Therefore, $0.7 million of interest-free loans that were granted by the company to LTI participants in 2016 has now been repaid and a total amount of 439,565 shares have been transferred to the eligible participants.

Movement in zero-priced share options

			NUMBER OF OPTIONS				
GRANT DATE	VESTING DATE	WEIGHTED AVERAGE FAIR VALUE OF OPTION	BALANCE AT THE START OF THE YEAR	GRANTED DURING THE YEAR	VESTED DURING THE YEAR	FORFEITED DURING THE YEAR	BALANCE AT THE END OF THE YEAR
2018							
07/09/2017	30/06/2020	**$1.38**	**–**	**344,016**	**–**	**(41,483)**	**302,533**
04/08/2016	30/06/2019	**$1.63**	**456,205**	**–**	**–**	**(198,142)**	**258,063**
03/09/2015	30/06/2018	**$1.20**	**544,848**	**–**	**(439,565)**	**(105,283)**	**–**
Total			**1,001,053**	**344,016**	**(439,565)**	**(344,908)**	**560,596**
2017							
04/08/2016	30/06/2019	$1.63	–	456,205	–	–	456,205
03/09/2015	30/06/2018	$1.20	544,848	–	–	–	544,848
17/09/2014	30/06/2017	$1.04	614,325	–	(614,325)	–	–
Total			**1,159,173**	**456,205**	**(614,325)**	**–**	**1,001,053**

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	
	2018 $M	2017 $M
Directors' fees	**1**	1
Chief Executive, Executive Team and subsidiary chief executives		
Salaries and short-term benefits	**7**	6
Post-employment benefits	**–**	–
Redundancy benefits	**–**	–
Long-term benefits	**1**	2
	8	**8**

F3 AUDITOR'S REMUNERATION

	GROUP	
	2018 $M	2017 $M
Audit and review of New Zealand-based companies' financial statements	**0.5**	0.5
Audit of overseas-based companies' financial statements	**0.2**	0.1
Total audit fees	**0.7**	0.6
Other assurance fees	**0.1**	0.1
Total auditor remuneration	**0.8**	**0.7**

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 appointed Trevor Deed of Deloitte Limited as auditor of the company in the last financial year.

The audit fee includes an Office of the Auditor-General overhead contribution of $29,500 (30 June 2017: $28,600).

Other services undertaken by Deloitte Limited during the year included other assurance activities including reviews of carbon emissions, sustainability information, securities registers, vesting of the Executive Long-Term Incentive Plan, solvency return of insurance captive and supervisor reporting.

F4 COMMITMENTS

	GROUP	
NON-CANCELLABLE OPERATING LEASE COMMITMENTS ARE AS FOLLOWS:	2018 $M	2017 $M
Less than 1 year	**7**	6
Later than 1 year and not later than 3 years	**12**	10
Later than 3 years and not later than 5 years	**12**	8
More than 5 years	**45**	47
Total operating lease commitments	**76**	**71**

	GROUP	
CAPITAL EXPENDITURE COMMITMENTS	2018 $M	2017 $M
Property, plant and equipment	**4**	13
Software	**1**	–
Total capital expenditure commitments	**5**	**13**

Operating leases, measurement and recognition

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

Operating lease payments are recognised in other operating expenses on a straight-line basis over the term of the lease. Lease payments were $6 million in FY18 (30 June 2017: $6 million).

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

Meridian also leases office space, with terms of the leases ranging from 1 to 12 years, with options to extend up to 11 years. Lease contracts contain rent review clauses, including Consumer Price Index increases and market rental reviews, in the event that Meridian exercises its options to renew.

Guarantees

Meridian Energy Limited provided a bank guarantee of A$38 million (30 June 2017: A$38 million) to the financiers of the purchaser of the Macarthur Wind Farm, guaranteeing that it will comply with its various obligations under the Refinancing Coordination Deed.

Meridian Energy Limited has provided parent guarantees for various construction and grid connection obligations of Mt Mercer Wind Farm Pty Limited. The maximum liability under these guarantees is A$33 million (30 June 2017: A$35 million).

F5 CONTINGENT ASSETS AND LIABILITIES

The Ministry of Business, Innovation and Employment (MBIE) is currently reviewing Meridian's approach to the application of amounts under the Holidays Act 2003. The review has identified a potential issue with a specific point of law. Meridian and MBIE are intending to jointly seek legal clarification and depending on the outcome, there is a possibility that an underpayment ranging between $3-4 million will apply.

Apart from the guarantees referred to in F4 Commitments, there were no other contingent assets or liabilities at 30 June 2018 (30 June 2017: Nil).

F6 SUBSEQUENT EVENTS

There have been no subsequent events other than dividends declared on 21 August 2018 (refer to note C4 Dividends for further details).

F7 CHANGES IN FINANCIAL REPORTING STANDARDS

In the current year, Meridian has adopted all mandatory new and amended standards. The application of these new and amended standards has affected the amounts recognised or disclosed in the financial statements as set out in significant matters in the financial year on page 88.

Meridian is not aware of any standards issued but not yet effective (other than those listed below) that would materially affect the amounts recognised or disclosed in the financial statements.

NZ IFRS 9 Financial Instruments (effective 1 January 2018). NZ IFRS 9 will be effective in Meridian's 2019 financial year. This standard requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows, and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. The standard also broadens the eligibility for hedge accounting as it introduces an objectives-based test that focuses on the economic relationship between hedged items and hedging instruments. Meridian has commenced the process to assess whether currently fair valued financial instruments could be hedge accounted. Meridian expects there to be no balance sheet change, merely a potential shift from the income statement to other comprehensive income.

NZ IFRS 16 Leases (effective 1 January 2019). NZ IFRS 16 will be effective in Meridian's 2020 financial year. It will fundamentally change the way leases are accounted for by lessees. Currently, leases are accounted for as either on-balance-sheet finance leases or off-balance-sheet operating leases (by lessees). Under the new accounting standard, these will be replaced by a single, on-balance-sheet model for all leases, which is similar to the current finance lease approach. The full impact of this standard has not yet been fully assessed, although it is likely that certain lease obligations will in future be capitalised as assets the post implementation. Meridian's current finance lease position can be seen in note C8 Finance lease payable on page 102, and operating lease position in note F4 Commitments on page 113.

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MERIDIAN ENERGY LIMITED GROUP

The Auditor-General is the auditor of Meridian Energy Limited and its subsidiaries (the Group). The Auditor-General has appointed me, Trevor Deed, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements of the Group on his behalf.

OPINION. We have audited the consolidated financial statements of the Group on pages 83 to 114, that comprise the consolidated balance sheet as at 30 June 2018, and 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 of the Group on pages 83 to 114 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and 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 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 are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised) 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.

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 and sustainability reporting 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 supervisor reporting, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our independence as auditor of the Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Group.

AUDIT MATERIALITY. We consider materiality primarily in terms of the magnitude of misstatement in the 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 financial statements as a whole to be $16 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 the balance sheet date. The net book value of generation structures and plant as reflected in note B1 is $7,776 million (2017: $7,774 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. In the current year no revaluation was accounted for in the financial statements as the Group assessed that the carrying value is a reasonable representation of the fair value as at 30 June 2018. A revaluation gain of $428 million was booked in 2017. We include valuation of generations structures and plant as a key audit matter because of the inherent technical and judgemental complexity associated with the capitalised earnings and discounted cash flow valuation techniques for determining the enterprise and business unit values, specifically the determination of the forecast 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 · The reasonableness of the forecasted future maintainable earnings and · The reasonableness of the allocations of the enterprise value to business units/assets. 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, and · Utilising our in-house valuation specialist to assess the appropriateness of the valuation methodology and challenge the reasonableness of the underlying key assumptions. Our specialist particularly focused on the assumptions in respect of earnings multiple, forecasted future maintainable earnings, the discount rate used in the discounted cash flow and the long-term energy market outlook.
VALUATION OF LEVEL 3 ELECTRICITY DERIVATIVES	
As explained in note D1, the Group's activities expose it to electricity wholesale price, currency and interest rate risks which are managed using derivative financial instruments. These instruments are carried at their fair value as at 30 June 2018. At 30 June 2018, level 3 electricity derivative assets totalled $100 million (2017: $139 million) and level 3 electricity derivative liabilities were $52 million (2017: $29 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 long-term forward wholesale electricity prices, which involves significant judgment and estimates regarding discount factors, expected demand, cost of new supply, and other relevant market factors; and · The complexity and judgment involved in the valuation techniques and the judgement involved in evaluating the long-term expected call volume 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, and · The reasonableness of the underlying assumptions and inputs in the valuation models. Our procedures included: · In conjunction with our internal experts we evaluated the appropriateness of the methodology applied in the valuation models for these electricity hedges, options and swaps · Challenging the key assumptions applied, including the long-term forward wholesale electricity prices, day one adjustment and discount rate, and · Agreeing underlying data to contract terms, specifically the contract term, price and volumes.

OTHER INFORMATION. The Directors are responsible on behalf of the Group for the other information. The other information comprises the information included on pages 1 to 82, 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, 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 decisions of shareholders taken on the basis of these consolidated financial statements.

We did not evaluate the security and controls over the electronic publication of the audited information.

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.

TREVOR DEED, Partner

for Deloitte Limited
On behalf of the Auditor-General
Wellington, New Zealand

21 August 2018

Deloitte.

INDEPENDENT ACCOUNTANT'S ASSURANCE REPORT TO THE DIRECTORS OF MERIDIAN ENERGY LIMITED

REPORT ON THE SUSTAINABILITY CONTENT OF THE 2018 INTEGRATED REPORT. We have been engaged by the Directors to conduct a limited assurance engagement relating to the sustainability content prepared in accordance with the GRI Standards: Core Option on pages 4 to 51 of the 2018 Integrated Report (the 'Integrated Report') of Meridian Energy Limited (the 'Group') for the year ended 30 June 2018.

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 included in Meridian's 2018 Integrated Report has not been prepared, in all material respects, in accordance with the 'Core' requirements of the Global Reporting Initiative's Sustainability Reporting Standards ('the GRI Standards'), for the year ended 30 June 2018.

BASIS FOR CONCLUSION. Our engagement has been conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000') 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 conclusions.

BOARD OF DIRECTOR'S RESPONSIBILITY. The Board of Directors, on behalf of the Group, is responsible for:

- ensuring that the Integrated Report is prepared in accordance with the GRI Standards: Core Option;
- determining Meridian's objectives in respect of sustainability reporting; and
- establishing and maintaining appropriate performance management and internal control systems in order to derive the sustainability information.

The specific GRI Standards reported against are outlined in the GRI Index on pages 120 to 124.

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 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 supervisor reporting, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our Independence. 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.

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 a conclusion whether, based on the procedures performed, anything has come to our attention that causes us to believe that the sustainability content included in Meridian's 2018 Integrated Report has not been prepared, in all material respects, in accordance with the 'Core' requirements of the GRI Standards', for the period ended 30 June 2018.

We did not evaluate the security and controls over the electronic publication of the sustainability content.

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 Report;
- 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 Level, and the GRI Electricity Utilities Sector Supplement; and
- Evaluating whether the information presented is consistent with our overall knowledge and experience of the sustainability processes of the Group.

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 the Group's Integrated Report has been prepared, in all material respects, in accordance with the Core requirements of the GRI Standards.

INHERENT LIMITATIONS. Because of the inherent limitations of any limited assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance engagement is not designed to detect all instances of non-compliance with the Core requirements of the GRI Standards as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The conclusion expressed in this report has been formed on the above basis.

A limited assurance engagement does not provide assurance on whether compliance with the GRI Standards will continue in the future or any forward looking statements made in the report.

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

Auckland, New Zealand

21 August 2018

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	6-7	
102-3	Location of headquarters	125	
102-4	Location of operations	6-7	Also see meridianenergy.co.nz/asset-map
102-5	Ownership and legal form	6	
102-6	Markets served	6-7	
102-7	Scale of the organisation	6-7	
102-8	Information on employees and other workers	62	
102-9	Supply chain	6-7	
102-10	Significant changes	2	
102-11	Precautionary principle or approach	39	Our approach to environmental management includes the precautionary-principle-based approach of relevant legislation
102-12	External initiatives		Zero Harm pledge, Climate Leaders Coalition, Sustainable Business Council's Platform for Action on Climate and Emissions (PACE)
102-13	Memberships of associations	35	
EU1[65]	Installed capacity	6	
EU2	Net energy output	6	
EU3	Number of customer accounts	7	
EU4	Transmission and distribution lines	n/a	Length insignificant
EU5	Allocation of CO_2e emissions allowances	n/a	No emissions allowances received
STRATEGY			
102-14	Statement from senior decision-maker	10-17	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards, and norms of behavior	12-13	Also see our Corporate Governance Statement on our website: meridianenergy.co.nz/investors/governance/
GOVERNANCE			
102-18	Governance structure	4-5	Also see our Corporate Governance Statement on our website: meridianenergy.co.nz/investors/governance/
STAKEHOLDER ENGAGEMENTS			
102-40	List of stakeholder groups	18-20	
102-41	Collective bargaining agreements	62	
102-42	Identifying and selecting stakeholders	21	
102-43	Approach to stakeholder engagement	18, 4, 7, 34, 35, 39, 40, 51	
102-44	Key topics and concerns raised	18-20	

GENERAL DISCLOSURES		PG #	COMMENT
Reporting practice			
102-45	Entities included in the consolidated financial statements	110-111	
102-46	Defining report content and topic Boundaries	21	
102-47	List of material topics	18-20	Also see this GRI Content Index
102-48	Restatements of information		Discussed throughout the report where relevant
102-49	Changes in reporting		None, other than increased focus on climate change
102-50	Reporting period	2	
102-51	Date of most recent report	2	
102-52	Reporting cycle	2	
102-53	Contact point for questions regarding the report	125	
102-54	Claims of reporting in accordance with the GRI Standards	120	
102-55	GRI content index	120	
102-56	External assurance policy	2	

MATERIAL TOPICS AND ASSOCIATED DICLOSURES		PG #	COMMENT
ECONOMIC			
Financial performance[66]			
GRI 103: MANAGEMENT APPROACH 2016[67]		15-16	
Non-GRI[66]	Various financial measures	64-70	
Financial impacts of hydrology[66]			
GRI 103: MANAGEMENT APPROACH 2016		16	
Non-GRI	Financial implications of variability in hydrology	16	
Financial impacts of climate change			
GRI 103: MANAGEMENT APPROACH 2016		27	
GRI 201: ECONOMIC PERFORMANCE 2016			
201-2	Financial implications and other risks and opportunities due to climate change	27	
Pipeline of generation options[66]			
GRI 103: MANAGEMENT APPROACH 2016		24-25	
EU10	Planned capacity against demand	24-25	
ENVIRONMENTAL			
Action on climate change[66]			
GRI 103: MANAGEMENT APPROACH 2016		14-16, 24-28	
Non-GRI	Proportion of Meridian Group generation from renewable resources	24	
Non-GRI	Support for customers' climate change mitigation actions	27-28	
Non-GRI	Parent company corporate emissions	26	
Non-GRI	Parent corporate emissions reduction target	26	
Non-GRI	Funds raised for community energy projects in Australia	33	

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[65] Disclosures starting with "EU" are from the Electricity Sector Supplement.

[66] Non-GRI – some material topics and disclosures listed above are additional or alternatives to those covered in the GRI Standards.

[67] Each Disclosure of Management Approach 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 accorance with GRI 103: Management Approach 2016.

MATERIAL TOPICS AND ASSOCIATED DICLOSURES		PG #	COMMENT
Operational carbon emissions			
GRI 103: MANAGEMENT APPROACH 2016		26-27	
GRI 305: EMISSIONS 2016			
305-1	Direct (Scope 1) GHG emissions	27	Also see our Meridian Group Greenhouse Gas Inventory Report FY18 on our website: meridianenergy.co.nz/about-us/sustainability/green-house-gas-emissions-reports
305-2	Energy indirect (Scope 2) GHG emissions	27	
305-3	Other indirect (Scope 3) GHG emissions	27	
Impact on water			
GRI 103: MANAGEMENT APPROACH 2016		39	
GRI 303: WATER AND EFFLUENTS 2018			
303-1	Interactions with water as a shared resource	39-40	
303-2	Management of water discharge-related impacts	41	
303-3	Water withdrawal	40	
303-4	Water discharge	40	
303-5	Water consumption	40	
Impact on biodiversity			
GRI 103: MANAGEMENT APPROACH 2016		40-41	
GRI 304: BIODIVERSITY 2016			
304-2	Significant impacts of activities, products, and services on biodiversity	40-41	
Environmental compliance			
GRI 103: MANAGEMENT APPROACH 2016		39	
GRI 307: ENVIRONMENTAL COMPLIANCE 2016			
307-1	Non-compliance with environmental laws and regulations	39	
LABOUR PRACTICES			
Employee engagement[66]			
GRI 103: MANAGEMENT APPROACH 2016		51	
Non-GRI	Employee engagement surveys	51	
Occupational health and safety			
GRI 103: MANAGEMENT APPROACH 2016		42	
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2018			
403-1	Occupational health and safety management system	42	
403-2	Hazard identification, risk assessment, and incident investigation	42	
403-3	Occupational health services	42	
403-4	Worker participation, consultation, and communication on occupational health and safety	42	
403-5	Worker training on occupational health and safety	42	
403-6	Promotion of worker health	42	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	42	
403-8	Workers covered by an occupational health and safety management system	42	
403-9	Work-related injuries	42	
Non-GRI	Total recordable injury frequency rate (TRIFR)	42	
Diversity and equal opportunity			
GRI 103: MANAGEMENT APPROACH 2016		47-50	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016			
405-1	Diversity of governance bodies and employees	49, 62, 71	
405-2	Ratio of basic salary and remuneration of women to men	49	
Non-GRI	Women in people leadership and senior specialist positions	50	
Retaining expertise[66]			
GRI 103: MANAGEMENT APPROACH 2016		41	
EU15	Tenure by age	41	
SOCIETY			
Access to water[66]			
GRI 103: MANAGEMENT APPROACH 2016		38-40	
Non-GRI	Strength of relationships with stakeholders interested in water	39-41	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		39-40	
GRI 413: LOCAL COMMUNITIES 2016			
413-1	Operations with local community engagement, impact assessments, and development programs		13 out of our 14 power stations have local community engagement programmes (Mt Millar doesn't) – 93%
Non-GRI	Contribution to local communities in New Zealand	40	
Non-GRI	Number of community fund grants in New Zealand	40	
Contribution to public policy			
GRI 103: MANAGEMENT APPROACH 2016		35	
GRI 415: PUBLIC POLICY 2016			
415-1	Political contributions	74	Meridian does not donate to any political parties (as specified in Code of Conduct)
Non-GRI	Expenditure on "lobbying" organisations such as trade associations	35	
Non-GRI	Key regulatory issues	17, 29, 35	

MATERIAL TOPICS AND ASSOCIATED DICLOSURES		PG #	COMMENT
Product Responsibility			
Customer satisfaction[66]			
GRI 103: MANAGEMENT APPROACH 2016		34-35	
Non-GRI	Level of customer satisfaction	34	
Non-GRI	Customer retention rates (churn)	35	
Electricity pricing[66]			
GRI 103: MANAGEMENT APPROACH 2016		29, 35	
Non-GRI	Price of electricity in AU and NZ compared to other other OECD countries	35	
Support for vulnerable customers			
GRI 103: MANAGEMENT APPROACH 2016		28-29	
EU27	Disconnections	28	
Plant performance[66]			
GRI 103: MANAGEMENT APPROACH 2016		42-43	
EU30	Plant availability factor	43	
Process safety[66]			
GRI 103: MANAGEMENT APPROACH 2016		42	
Non-GRI	Actions to improve process safety	42	

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If you have any questions or comments, please email investors@meridianenergy.co.nz or service@meridianenergy.co.nz

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INTEGRATED REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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