Meridian Energy Limited.

Integrated Report 2019.

Meridian.

The Power to Make a Difference.

We're serious about clean energy for a fairer and healthier world.

We believe it's the only way forward. We want people to feel positive about their world and our shared environment. We want them to know there is hope for our future. And we want to work together with them to create a world we can all be proud to be part of.

Menu

This is our business

NZ

5 Offices
840 Employees
(100 at our power stations)

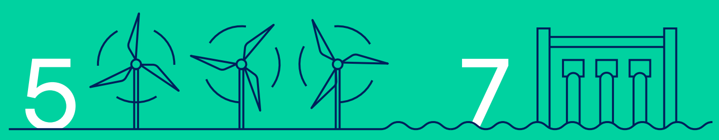
Customers

302K
Customer connections

~15% national retail volume[1]

Retailing as:
Meridian Energy
Powershop

Generation



~30% national electricity generation

AU

1 Office
80 Employees
(10 at our power stations)

132K
Customer connections (incl gas)

<1% National Energy Market retail volume

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

FLUX

1 Office
160 Employees
(3 in the UK)

4
Clients (Software)

Licensing the Flux platform and the Powershop brand

1 Excludes Tiwai Point Aluminium Smelter

Menu

These are our customers

NZ

Meridian

228K

Customer connections:
residential
business
corporate
agri-business

Transitioning to the Flux platform

Powershop NZ

74K

Customer connections:
residential
business

All on the Flux platform

AU

Powershop Australia

110K

Electricity customer connections

22K

Carbon-neutral gas customer connections

All on the Flux platform

FLUX

Under licence

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

75K

nPower customer connections

Now over 300,000 customer connections on the Flux platform in total

NZAS

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

Now in South Australia

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

This is what we generate

NZ

New Zealand's largest electricity generator

~30% national electricity generation

1.7M

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

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

200K

White Hill
West Wind
Mill Creek
Te Āpiti
Te Uku

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

AU

Generating <1% of the National Energy Market

Enough electricity for about 167k homes yearly

50K

Hume
Burrinjuck
Keepit

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

116K

Mt Millar
Mt Mercer

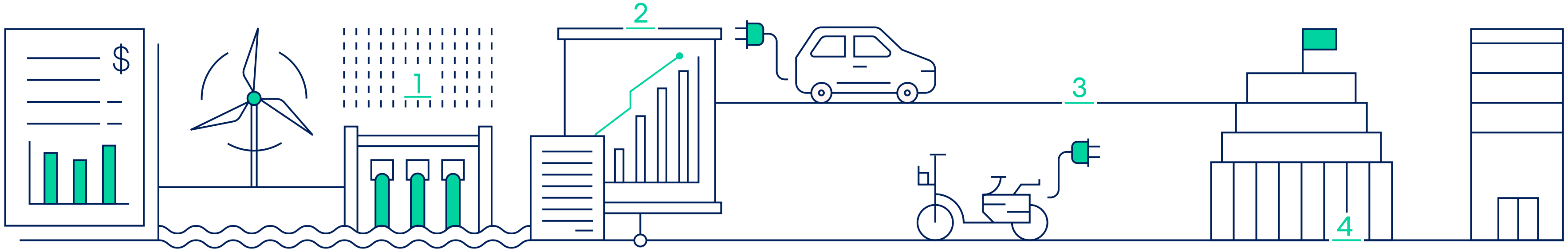
Equivalent to the power needs of around 116,000 Australian homes yearly

FLUX

How we create value

We own hydro power stations and wind farms that generate the electricity we sell into the wholesale market. We also purchase back electricity from the wholesale market to sell directly to customers.

Vertical integration



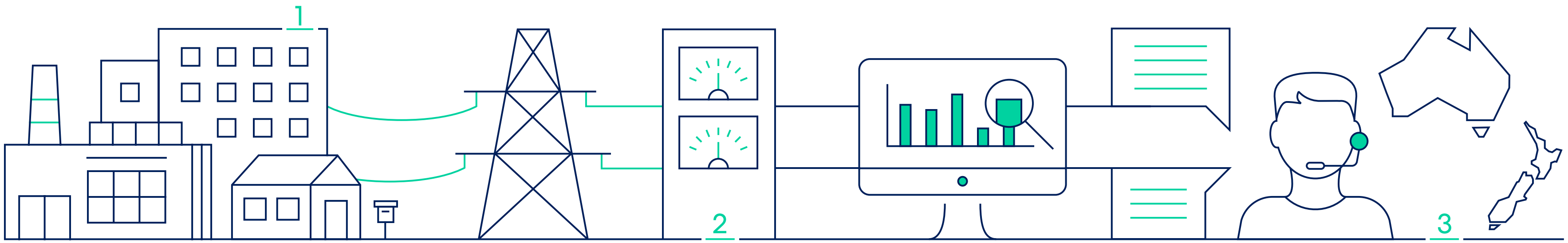
1 Wholesale market prices can vary significantly in New Zealand depending on what technologies are able to generate electricity at any point in time. Prices can be significantly affected by rainfall, as well as gas availability. In the short to medium term, we manage this risk for our physical supply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

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

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

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

Great customer experience



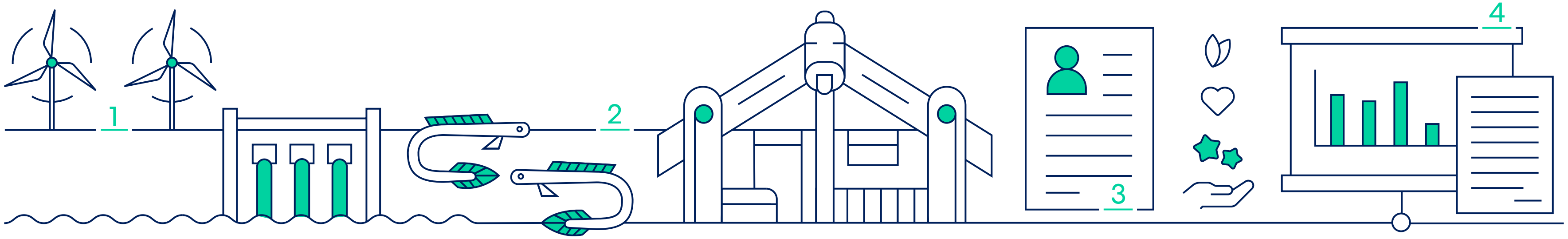
1 Our customers are businesses, households and other electricity companies. We have three retail brands: Meridian and Powershop in New Zealand, and Powershop in Australia. Because there are so many retailers, we need to differentiate ourselves from our competitors with strong brands and by marketing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

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

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

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

Responsible generation



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

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

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

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

Reliable returns

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

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

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

Setting our course

Directors' statement

We are one of the largest companies on the New Zealand Stock Exchange.

Focused on governance
The Meridian Group[2] is listed on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX), and we are substantial in scale in a New Zealand context, with operating revenue this year of $3,491 million, EBITDAF[3] of $838 million and net assets of $5,457 million, although we have a modestly sized workforce of around 1,080 people[4] who are directly employed by or contracted to us, and third parties who provide us with ICT, facilities' management and meter-reading services.

This year, we became New Zealand's largest company on the NZX, with a total market capitalisation in excess of $12 billion. The New Zealand Government is our majority shareholder, and we are precluded by legislation from having any other significant shareholders (i.e. more than 10% holding).

As a business with a significant retail shareholder base, Meridian is constantly looking 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 and officials.

The Board has a policy of rotating the location of the annual shareholder meeting between Auckland, Wellington and Christchurch, and our 2019 meeting will be held in Christchurch. 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.

2 For FY19 the Meridian Group included the parent company Meridian Energy Limited and all its operational subsidiaries (note the Group structure in the financial statements). Throughout the report, non-financial data and commentary pertain to the Meridian Group as much as possible. References to 'Meridian' (the parent company), 'Powershop New Zealand', 'Powershop Australia' and 'Flux' are used when only specific parts of the Group are being discussed ('Powershop Australia' refers to our retailing operations in Australia; the generation activities in Australia are included in discussions of Meridian's generation activities). In both the data and commentary. Dam Safety Intelligence is included in the parent company and Flux-UK Limited employees are included in 'Flux', unless specifically mentioned.
3 Earnings before interest, tax, depreciation, amortisation and changes in fair value of hedges and other significant items.
4 See page 101 for a detailed breakdown of our workforce.

Welcome to this report

This integrated report is a review of our financial, economic, social and environmental performance for FY19 and 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, its people, its 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, 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 109, and has been audited by Deloitte Limited on behalf of the Auditor-General (see the Independent Auditor's Report on page 147). 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 also been assured by Deloitte Limited (see the Independent Accountant's Assurance Report on page 151).

The Board sets Meridian's overall appetite for risk and its approach to risk management. A list of Meridian's key risks can be found in the FY19 Corporate Governance Statement and they are discussed throughout this report. The remainder of the risks and how we manage them are also detailed where relevant throughout this report.

View Corporate Governance Statement

This year we have prepared a report specifically on the risks and opportunities of climate change, based on guidance from the Task Force for Climate-related Financial Disclosures (TCFD). These matters are included throughout this report.

View TCFD Report

Our Meridian Group Greenhouse Gas Inventory Report has been assured by Deloitte Limited and a summary is provided in this report.

View Greenhouse Gas Inventory Report

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

Focusing on what's important

In deciding what to report, 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.

Management 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 in the reporting year. This process also allows us to re-evaluate if our sustainability priorities require adjusting to reflect trends or changes in emphasis.

First, a broad list of topics is generated from the GRI Standards, the United Nations Sustainable Development Goals (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, this list of topics is evaluated by Management 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 (see our GRI Index on page 153 for a full list of reported topics). A variety of other topics are considered relevant and are actively managed by the business, but are not considered significant enough to be included in this report.

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 majority of the South Island where most of 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, a former Chief Executive of Te Rūnanga o Ngāi Tahu (Ngāi Tahu's governing body).

Chris Moller, a Board member from 2008 and our Chair since 2011, will retire this year.

Mark Verbiest will take over the role of Chair from October 2019. Mark was appointed to the Meridian Board in 2017 and is an experienced company director with years of involvement in the energy sector. We welcome Mark to his new role and look forward to his insights and energy.

The Board also bids farewell to Mary Devine, who will step down as a director after the 2019 Annual Shareholder Meeting in October, following the announcement in March that she has taken up the role of Managing Director, Hallenstein Glasson Holdings Limited. Mary has been a director for nine years, including time as Chair of our Remuneration and Human Resources Committee. Mary has brought deep knowledge of marketing and brand to the Board and has been instrumental in building the strong collaborative culture that we have today. We thank her for her energy and her relentless customer focus during her time with us.

In August 2018, the Board farewelled Steve Reindler. Steve had a passion for Meridian, particularly in the fields of engineering, sustainability and health and safety and Chaired the Safety and Sustainability Committee. We are grateful for Steve's significant contribution during the decade he was a director.

In August 2019, Meridian announced three new directors will join the Meridian Board. Michelle Henderson and Julia Hoare will commence as directors prior to Meridian's Annual Shareholders' Meeting in October 2019 and both will retire and seek formal shareholder approval for their election at that meeting. Nagaja Sanatkumar will also seek formal shareholder approval for her election at the Annual Shareholders' Meeting and, if elected, will commence her role as a Director on 1 January 2020.

The role of our Board

Boards have an important role in overseeing companies' activities. Strategy days and regular meetings allow our Board to share their thoughts, and challenge Management, on the direction in which 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 (other than Recommendation 3.6 (Takeover Protocol), which is a result of our 51% Crown ownership) and has also adopted the corporate governance principles of the New Zealand Financial Markets Authority and the ASX. You can read about how we have fulfilled those recommendations and applied those principles in our FY19 Corporate Governance Statement.

View Corporate Governance Statement

Thank you

The Board and people of Meridian would like to acknowledge the considerable and skilful leadership and experience that Chris Moller has brought to the role of Chair.

Chris joined the board in 2008 and has been our Chair since 2011. He has been a strong hand at the helm as the company evolved through the mixed-ownership-model to become New Zealand's largest listed company and the most successful company in the electricity sector in New Zealand and Australia in terms of total shareholder return. He will retire this year, and we wish to take this opportunity to thank him for his service and for the guidance he has provided.

Mark Verbiest
Chair Elect

Menu

Chris Moller
Chair

Peter Wilson
Deputy Chair

Our Board

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

View Director Biographies

Mary Devine
Director

Mark Verbiest
Director

Anake Goodall
Director

Jan Dawson
Director

Mark Cairns
Director

The role of people and culture

None of our 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 our shareholders, so it's essential that they are aligned with the company's strategy and are well supported and rewarded appropriately for their efforts. Our approach to remunerating our people is on page 77.

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.

The roles of Committees

Committees support the Board by providing detail on specific issues and having subject matter experts offer insights and advice. The 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.

The Board and Committees also oversee progress on the UN SDGs we have chosen to focus on. 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 our efforts to be 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.

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

Our Executive Team is proud of the record result achieved this year.

Neal Barclay	Chief Executive
Guy Waipara	General Manager, Generation and Natural Resources
Julian Smith	Chief Customer Officer
Nic Kennedy	Chief Executive, Flux Federation Limited
Jason Stein	General Counsel and Company Secretary
Tania Palmer	Chief People Officer
Mike Roan	Chief Financial Officer
Ed McManus	Chief Executive, Meridian Energy Australia Pty Limited, Powershop Australia Pty Limited

Our Executive Team

There were changes in the Executive Team in the second half of the year.

In June 2019, Tania Palmer joined as Chief People Officer, following the resignation of Jacqui Cleland, General Manager Human Resources in October 2018. Jacqui played a significant role in developing the human resources function at Meridian in the six years she was with us and we thank her for her contribution to the business.

Tania adds further skills to the team in leadership development and health and safety from her previous roles in the energy and banking industries.

At the end of April, Mike Roan, who was in the role of General Manager Wholesale, was appointed Chief Financial Officer, responsible for our finance, strategy and ICT functions. He replaced Paul Chambers, who left us to pursue other opportunities after nearly 10 years with the company. We thank Paul for his massive contribution and wish him all the best for the future.

Nic Kennedy joined Flux as Chief Executive following the resignation of Ari Sargent in May. Ari resigned after 20 years with the Meridian Group, leading the development of both Powershop New Zealand and Flux. Ari, regarded as an industry renegade, made a significant contribution to the sector by always putting the customer first. We thank him for his many achievements. Nic was previously Chair of the Flux board and has a strong background in business and technology. She is a valuable addition to the Meridian Executive team.

Our Chief Customer Officer, Julian Smith, and our Chief Executive of Meridian Australia, Ed McManus, have signalled their intentions to step down later this year. We thank them for their enthusiasm and contribution to our business and wish them both success in their next endeavours.

Chris Moller

Peter Wilson

Further information

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

Chair and CEO Report — The difference we made this year

This year we've successfully pursued our commercial intentions and the advancement of our purpose. We strive for clean energy for a fairer and healthier world in ways that align with our social commitments and the needs of our customers and shareholders.

Chris Moller
Chair

Neal Barclay
Chief Executive

Success driven by principles

Our commercial performance is driven by principles: the unique values we hold, the way we work, our genuine care for our people and customers, and our staunch advocacy as a sustainability leader. Underpinned by our world class assets, these principles define and guide every action we take as a business.

Everything we've achieved this year is a proof point. We've put fairness first, removing prompt payment discounts which have disadvantaged vulnerable Kiwi households for years. We've taken climate action – offsetting our carbon emissions now and committing to reduce our emissions in line with a 1.5 degree warmer world. We've made a real difference in Australia, offering a carbon-neutral alternative in a country dominated by fossil-fuel energy. We've leveraged the value and opportunities of greater diversity, inclusion and engagement among our workforce.

These factors point to an organisation where decision making at all levels is consistent, purposeful, responsible and profitable – as demonstrated by this year's outstanding financial results.

What drives us

Our values:
Putting customers first.
Sustainability leadership.
Great place to work.

Our behaviours:
Be in the waka.
Be a good human.
Be gutsy.

Our key sustainability goals:
SDG13 Climate Action.
SDG7 Affordable and Clean Energy.

Our purpose:

Clean energy for a fairer and healthier world.

Our strategy:

Champion the benefits of competitive markets.

- Competing vigorously
- Leadership in sustainability in New Zealand and Australia
- Supporting wholesale liquidity.

Grow New Zealand retail.

- Simpler systems
- Reduced cost
- Faster adaptation
- Relentless focus on customer experience
- Deployment of New Zealand's most loved energy brands.

Support retail growth and protect our generation legacy.

Demonstrating the contribution of hydro to New Zealand's 100% renewable aspiration, maintaining a best-in-class generation portfolio (safety, efficiency and cost), best-placed renewable energy pipeline.

Grow overseas earnings.

- Grow customer numbers in Australia, maintaining our vertically integrated position
- Flux global growth.

Putting customers first

A bold new identity

The refresh of our Meridian brand and visual identity, one of our three retail brands, towards the end of this financial year is perhaps the most visible sign of our intention to make our mark through what we stand for, what we value, how we behave and how we perform.

Through the change, we wanted to present the market a crisper and bolder articulation of what we stand for: taking climate action through generating 100% renewable energy, made of nothing but wind, water and sun, while actively making a difference to people and the environment.

Our other brands, Powershop in New Zealand and Powershop in Australia, continue to grow in both markets. It's encouraging, for example, to see our Powershop Australia brand making a real name for itself as a challenger in a market dominated by much larger companies that operate predominantly coal-based generation.

We were also very proud of Powershop New Zealand who were awarded Consumer NZ Energy Retailer of the Year at the 2019 Deloitte Energy Awards.

The successful migration of thousands of our Meridian customers to the new Flux platform means we are well on course to deliver exceptional customer experiences. Our success in growing our customer base markedly in both New Zealand and Australia is significant given the high number of competitive retail offers, particularly in Australia, where we have been able to move into new states and expand our product offering to include certified-carbon-neutral reticulated gas.

Supporting retail growth and protecting our generation legacy is all part of advancing our purpose of 'Clean energy for a fairer and healthier world'. This year we undertook important maintenance work at several of our generation sites in accordance with our 20-year rolling generation asset management strategy. At the same time, we're actively working on our three existing consents for new generation projects to get them amended to allow for larger, more efficient wind turbines to inject greater wind capacity into the New Zealand market. Our hope is that we can start construction of our project to the north of Napier at the beginning of 2020, subject to final Meridian Board approval.

1

Significant increase in customers

We've defied industry trends by increasing our customer base in New Zealand by 4% to more than 300,000 customer connections. Our customer connections in Australia have increased by 36% to around 132,000.

2

Outstanding customer service

This year we maintained our market-leading performance in NPS[5] for both the Powershop and Meridian brands — Powershop New Zealand the highest in the industry, Meridian the highest of the big five retailers.

5 Net Promoter Score (NPS) is a measure of customer satisfaction.

3

Flux continues to grow

There are now over 300,000 customer connections on our Flux platform globally. We aim to migrate another 50,000 Meridian customer connections this year.

Engagement remains steady

Our annual Meridian Group engagement survey took place during the first two weeks of May.

Overall our employee engagement results for the year are steady, showing that we have continued to take our people with us through a busy and, at times, challenging year.

While there was a mix of upward and downward trends in individual business units, participation rates continued to be extremely high at over 90%, with our overall engagement score of 77% down just one point from 78% in 2018. This result is positive against a range of external benchmarks, and positions us close to the 78% overall engagement score achieved by the top 25% of all global survey participants (we use the Culture Amp tool).

Health and safety

No members of public were seriously injured at any of our sites this year, however five staff members and three contractors received injuries that required time off work. Another contractor sustained an injury on one of our sites in July this year, also requiring time off work.

Three of these incidents were significant. Whilst we're not happy with this level of performance, we're confident that the business hasn't taken a step backwards either culturally, or in our systems and processes. We are currently taking a fresh look at our approach to understand whether there is a root cause behind these incidents.

In addition to our people's physical safety, we continue to focus on mental health and wellbeing. Our Healthy Minds Programme, featuring Mike King, has been well received with a third of our staff reaching out for further support following the sessions run by Mike. We consider this a sign of the stresses most of us are under in society today, and it is encouraging that people are more open to improving their mental wellbeing.

Sustainable businesses will be the most successful businesses over time.

Sustainable business

We continue to hold the view that sustainable businesses will be the most successful businesses over time. We want to make a meaningful contribution to both human impact on the planet and a more equitable society.

As we noted last year, our business plays an essential role within New Zealand society and we know that it is through creating value for others that we create value for our organisation. In addition to our efforts on creating a great place to work and being a responsible generator, we have again this year focused on sustainability, aligning our efforts with UN SDG13 Climate Action and SDG7 Affordable and Clean Energy.

Prompt Payment Discount

In alignment with our commitment to keeping energy affordable and protecting vulnerable customers, we became the first major energy retailer to stop using Prompt Payment Discounts which impacts those who most struggle to pay their bill and, instead, replacing it with new lower rates.

A real need for climate action

There's a deepening sense amongst many of us that things can't go on as they are – this year has seen school students go on strike in the name of climate action, and a new Intergovernmental Panel on Climate Change (IPCC) assessment of what global warming of 1.5°C will actually mean.

Our most significant climate action is our commitment to 100% renewable energy generation, both here and in Australia. This is our commitment in our own business, but also a long-term aspiration for the electricity systems we are a part of.

As we work together as an industry to reach that goal, there is a valuable and necessary contribution renewable electricity can make to the decarbonisation of the rest of the economy – in both transport and industrial heat. Our ambition is to accelerate the pace of this transition, for example, by supporting the uptake of electric vehicles, providing leadership for other businesses to do the same. Our efforts were recognised at the 2019 Deloitte Energy Awards where we won the Low Carbon Future Award.

At Meridian, we're motivated to be part of the solution. At the same time we recognise that change must be managed justly. Our people, our customers, our investors and communities are all groups who must be supported through the upcoming transition.

We will halve our operational emissions by 2030.

As of the release of this report, we are now net Zero Carbon for our Group operational emissions through the purchase of certified carbon offsets. And we've started work on our forestry project to grow our own carbon offsets in the medium- to long-term.

But we wanted to go a step further, so we've also set a meaningful and significant reduction target of "Half by 2030" — halving our operational greenhouse gas emissions across the Group — which will reduce the amount we offset in future years. This won't be easy given our ambitious plans for growth in our Australian business and with Flux globally, but we know it is the right thing to do, and it brings us into alignment with a 1.5 degree warmer world.

An increasing appetite to decarbonise the economy will challenge businesses to think more deeply about how they mitigate their environmental impacts, both directly and within their dispersed supply chains. Almost certainly the work of the Taskforce on Climate-related Financial Disclosures (TCFD) will see the calls for voluntary climate-related financial disclosures become louder, especially for publicly traded companies.

We are very proud to be the first company in Aotearoa to publish a report using the TCFD's recommendations and we look forward to other companies analysing and disclosing their risks and opportunities, so investors can make sound decisions in light of the climate challenge we are facing globally.

Meridian Group greenhouse gas emissions FY19

tCO_2e	Emissions	Offsets[7]	Balance after offsetting
Scope 1	1,099	1,099	–
Scope 2	2,318	2,318	–
Scope 3 operational	33,566	33,566	–
Total Group operational emissions	**36,983**	**36,983**	**–**
Scope 3 energy purchased and onsold[6]			
New Zealand electricity	–	–	
Australian electricity and gas	611,822	611,822	–
Scope 3 one-time construction and upgrades	68	–	68
Total Group value chain emissions	**648,873**	**648,805**	**68**

6 Emissions from our electricity purchased and on sold calculated using market-based methodologies. In New Zealand we use the annual netting off methodology. In Australia we use the National Carbon Offset Standard (NCOS) administered by the Australian government.
7 Offsets include credits surrendered to the New Zealand government for SF6 gas, credits cancelled by suppliers against their own emissions, credits purchased by Powershop Australia as part of NCOS, and Gold Standard Voluntary Emissions Reductions (GS VERs)

Our climate action plan

100% Renewable

We're a 100% renewable energy generator.

Wind. Water. Sun.

Offsetting

FY18 offset Scopes 1 and 2

FY19 offsetting our operational value chain (Scopes 1, 2 and 3)

1,000ha

Planting 1,000ha of forest to grow our own offsets

Reducing Impact

Measuring and auditing our carbon footprint since 2006

2030

Our reduction goal is half by 2030

Investigating an electric boat and other big ideas

Working Together

We're engaging our suppliers

Encouraging suppliers to set science-based targets

Incorporating sustainable design and procurement into our large projects

Workshops for our staff

Supplier Code of Conduct

Understanding Climate Change

We've done the work to analyse how climate change affects our business and we're happy to share

Creating Action

We want to accelerate the pace of change in the systems we're a part of

100%

The goal for renewable electricity in New Zealand

Increasing renewable electricity in Australia

Electrification of transport
Electrification of industrial heat

Our best financial result yet

Up **17%**
NZ Energy Margin

Up **26%**
EBITDAF

Up **11%**
Total Dividend

Up **52%**
Share Price

During the year the New Zealand wholesale electricity market saw periods of sustained higher spot prices in response to supply interruptions from the country's largest offshore gas field.

This gas scarcity coincided with periods of low national hydro inflows and some thermal generation plant outages. Meridian maintained relatively good hydro storage through these periods and as a result New Zealand generation spot revenue was 61% higher than last year. While higher spot prices meant Meridian paid 57% more to supply its New Zealand customers, higher sales to those customers, the higher generation revenue, prudent market hedging and a 45% uplift in the contribution from our Australian business helped achieve a record EBITDAF result in FY19, 26% above FY18.

Despite a reduction to profit from the net fair value of financial instruments, and increases in depreciation, amortisation, interest costs and tax expense, the higher EBITDAF in FY19 translated into higher NPAT (+69%) and higher underlying NPAT (+62%).

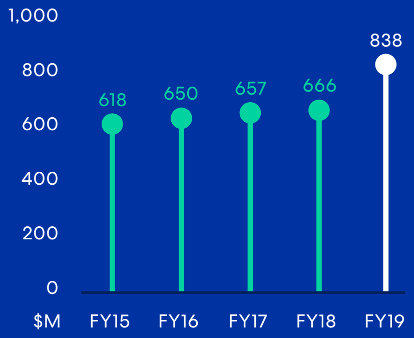
Healthy total return to shareholders (TSR)
Total dividends paid during the year amounted to 19.52 cents per share. Combined with the 52% increase in the share price during FY19, this amounts to a TSR of 59% in the year to 30 June 2019. Low interest rates continue to provide good support for the share prices of New Zealand electricity stocks, including Meridian. This is also reflected in the wider share market, where the yield characteristics of New Zealand utility and property companies have helped support a 17% increase in the NZX 50 index in the year to June 2019.

MyShare scheme
50% of Meridian parent permanent employees now own shares in the company. Employees still at the company holding FY17 shares have this year been awarded extra shares under the terms of the scheme.

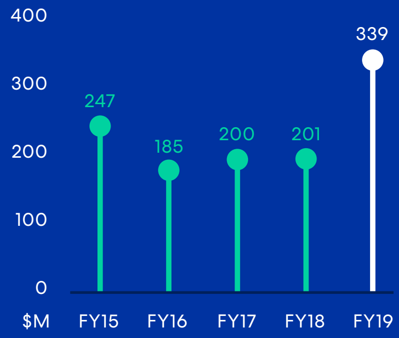
Value for our shareholders

Five-Year Performance
Financial Year Ended 30 June

EBITDAF

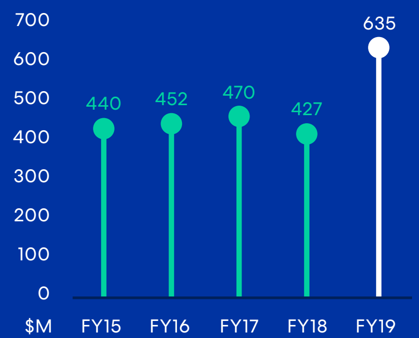


Net profit after tax (NPAT)

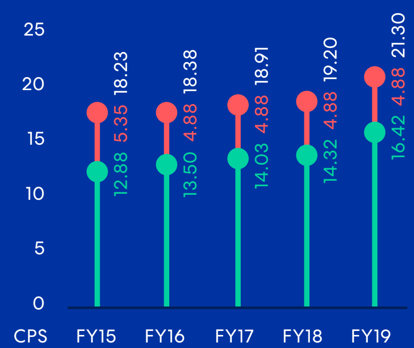


Underlying NPAT

Cash flow from operating activities

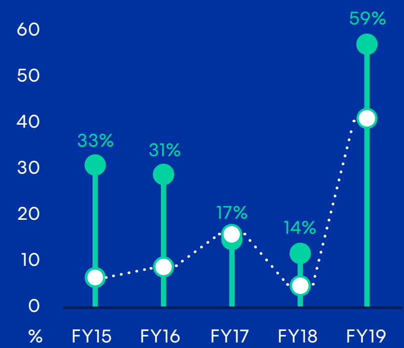


Dividends declared



Ordinary dividends
Special dividends
Total

Total shareholder return



Meridian
Peer group median

The record level of EBITDAF in FY19 supported a similarly high level of free cash flow. The Board has declared a final ordinary dividend of 10.72 cents per share, 20% higher than last year. This brings total ordinary dividends declared in FY19 to 16.42 cents per share, 15% higher than last year and represents a 75% payout of FY19 free cash flow.

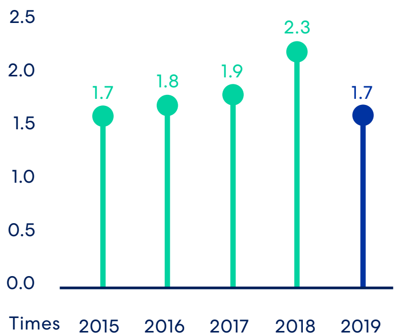
Meridian has also declared a final special dividend of 2.44 cents per share ($62.5 million) under the company's existing capital management programme to return $825 million to shareholders over the seven year period to February 2022. This final special dividend brings the capital management special dividend declared in FY19 to 4.88 cents per share, with $562.5 million now distributed since the capital management programme commenced in August 2015.

The Board has declared total dividends in FY19 of 21.30 cents per share, 11% higher than FY18.

In February 2019, our third United States Private Placement (USPP) transaction raised US$300 million in long term funding across 10, 12 and 15-year maturities. The placement was settled in April. We received circa NZ$439 million which was used to refinance an existing USPP maturity and for general corporate purposes. Meridian's balance sheet remains in a strong position, with the company credit metrics well within the bounds used by rating agency Standard & Poor's.

Net debt/EBITDAF

Financial year ended 30 June



Dividends for the financial year ended 30 June

Dividend declared (cents per share)	Ordinary dividends	Capital management special dividends	Other special dividends	Total
2019	16.42	4.88		**21.30**
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**

Regulatory outlook

There is lot going on in the regulatory world at the moment. While we are of the opinion that the New Zealand electricity market is on the whole well designed, where consumers have genuine choice, there are always improvements that could be made.

The Electricity Price Review has been positive to date. We are broadly supportive of draft recommendations that seek to enhance the market's efficiency and competitiveness, while keeping a focus on affordability and fairness. We note that in response to this review, and the recent Interim Climate Change Committee (ICCC) report, the Minister of Energy and Resources is looking to develop strategies on renewable energy and RMA reform that will help increase the amount of renewable electricity produced.

It is great to see this recognition of the role New Zealand's high level of renewable electricity can play in decarbonising the rest of the economy and this presents an exciting opportunity for the years ahead. We also are keeping a keen eye on the review of the Transmission Pricing Methodology – we continue to believe that reforms will significantly benefit consumers.

We end the year in good heart

The 2020 financial year will no doubt throw up some challenges and opportunities, but we approach the year from a position of strength. Our water position is good thanks to plenty of rainfall in the second half of the year. And we have strong momentum on both sides of the Tasman in our customer businesses.

On behalf of the Board and the Executive Team, a sincere thank you to our shareholders, our customers, communities and partners; and lastly, to the Meridian teams who have delivered you a company to be proud of, and an outstanding financial result.

Chris Moller

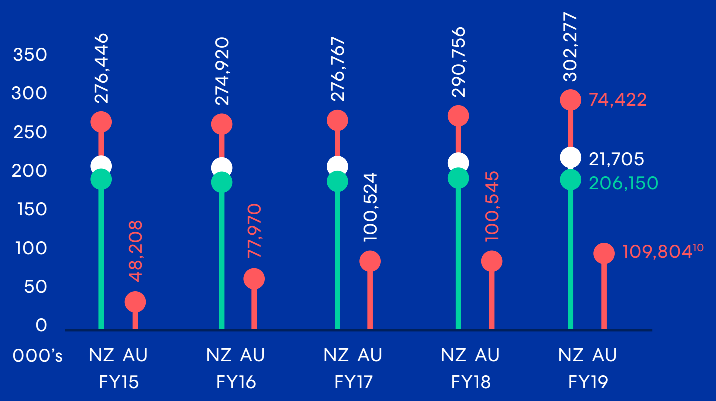
Neal Barclay

Helping our customers make a difference now

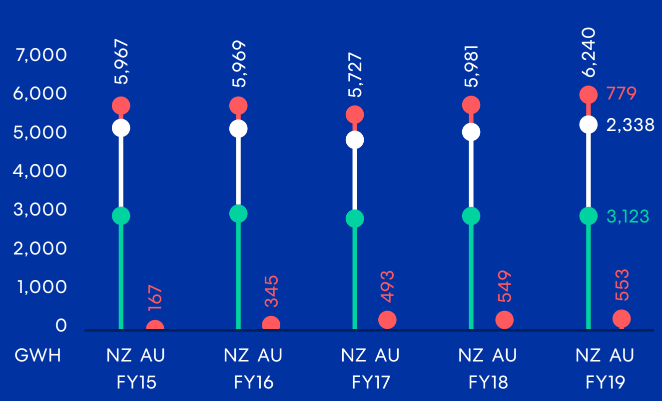
The difference we made this year

Our customers are on the journey with us. We offer them opportunities to make choices about their power providers that they feel good about. That’s a key reason for their choosing us: they want to know they are part of something meaningful, that climate action is happening now.

Customer connections[8] (ICPs[9])



Customer sales volume



8 Excludes the Tiwai Point Aluminium Smelter; <10 of the above ICPs are connected to the transmission network; Around 4,700 customer connections have distributed generation metering .
9 Installation control points (ICPs).
10 Also 22,612 gas customer connections in Australia, with a total of 364TJ in volume.

Retail success is all about focusing on the things our customers tell us they value and delivering them in the most efficient ways possible.

We want to help grow New Zealand retail through simpler systems, reduced costs, faster adaptation and a relentless focus on creating an easy customer experience. Our key project to improve our Meridian customer experience is driven by the transition of our customers to the Flux Federation software platform alongside offering market-leading customer experiences and engagement.

For Meridian and Powershop Australia, we want to be chosen for our leadership in sustainability. For Powershop in New Zealand, we offer control with an irreverent sense of humour. And across all our operations we want to contribute to smooth and efficient markets that work within the frameworks set by our regulators.

Competition works for consumers

There is intense competition in the retail market. New Zealand's residential electricity prices are around 20% lower than the OECD average[11], and these lower prices have been achieved despite New Zealand's low population density and relatively high network costs (due to our geography), and a lack of subsidies.

Part of what keeps prices low in New Zealand is competitor behaviour, but this also represents a key risk to Meridian's business. Aggressive pricing campaigns and the entry of new competitors may put downward pressure on retail electricity prices and reduce Meridian's market share, or require Meridian to increase its sales and marketing costs to maintain sales volumes.

11 International Energy *Electricity Information 2018* shows New Zealand household electricity costs at 194.97 US dollars per megawatt hour (USD/MWh) (converted with purchasing power parity). The mathematical average is 244.66 USD/MWh for the OECD countries for which data was available.

Bill breakdown

Meridian

- 32% generation
- 27% distribution
- 10.5% transmission
- 13% retail
- 13% GST
- 3.5% metering
- 1% market governance

Powershop New Zealand

- 34% generation
- 40% distribution and transmission
- 8.5% retail
- 13% GST
- 3.5% metering
- 1% market governance

Powershop Australia

- 39% generation
- 32% distribution and transmission
- 15% retail
- 9% GST
- 4% metering
- 1% market governance

As you can see from the bill breakdown, about 75% of the price of power is from generation, transmission, distribution and metering (creating the power and getting it to the customer).

Switching rates[12]	FY17	FY18	FY19
Powershop New Zealand	33.9%	33.7%	**29.6%**
Meridian	19.1%	17.9%	**16.9%**
New Zealand combined	22.3%	21.4%	**19.9%**
New Zealand industry average	20.4%	21.0%	**20.5%**

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

Just as consumer behaviour can shape how we and our competitors act, so our behaviour and that of our competitors can be affected by changes in customer behaviour.

Such changes can include reductions in demand (for example, a reduction in consumption by the Tiwai Point aluminium smelter), the displacement of demand by technology change, and large business customers choosing to buy electricity directly on the wholesale spot market rather than enter fixed contracts.

High customer switching levels affect the cost of acquiring and maintaining Meridian's customer base, and they are a good reminder that both Australia and New Zealand have very competitive markets where keeping customers is challenging. Since 2011 in New Zealand there has been no real price increase for consumers arising from the competitive parts of the electricity supply chain (generation and retail).

Meridian's switching rate in the past 12 months has continued to drop. This year it was 16.9% (down from 17.9% last year), which is the lowest among the major electricity retailers. Switching rates for Powershop in both New Zealand and Australia remain higher, but Meridian and Powershop New Zealand's combined switching rate of 19.9% (down from 21.4% last year) is now lower than the industry average of 20.5%.

Changing our pricing structure

Despite the high level of competition creating positive price outcomes for New Zealand and Australian customers, past research has revealed that around 103,000 New Zealand households spent more than 10% of their incomes on their household energy bills[13].

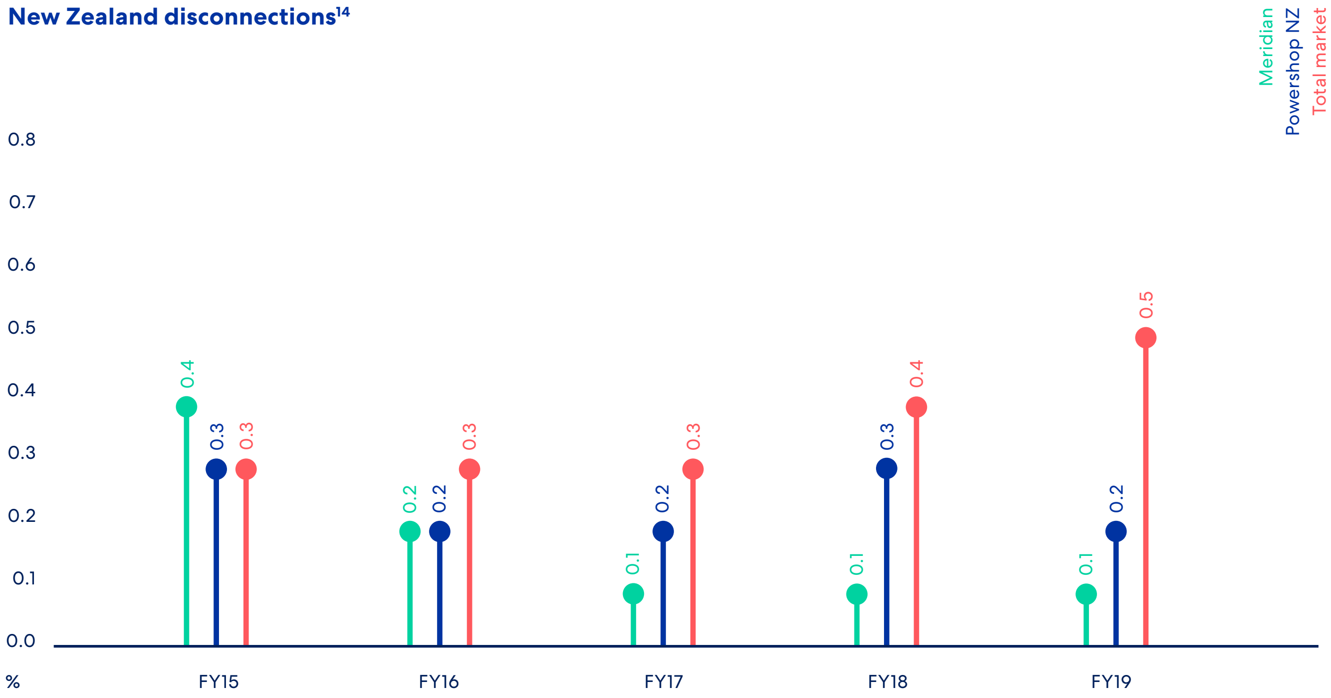
There are multiple reasons for this. We know that people with low incomes are more likely than others to live in housing that is not energy efficient or well insulated, meaning they often need more power to stay warm. These homes are also linked with higher rates of respiratory and other illnesses, which in turn affects health, energy levels, mobility and income.

13 *Electricity Price Review Hikohiko Te Uira* First Report 30 August 2018, page 4.

Part of being a great provider of electricity is making sure that our most vulnerable customers are treated fairly.

This year we have restructured our rates and replaced the Prompt Payment Discount. Instead we are now offering a new lower rate for all our customers. We view prompt payment discounts as unfair to customers who struggle to pay their energy bills from time to time. Our new lower rates ensure that everyone gets the same benefit without being hurt if they're late on their payment dates. The Government's Electricity Price Review panel found that vulnerable households were disproportionately affected by not receiving their Prompt Payment Discount and that the discount was the biggest single cause of price disparities between vulnerable and non-vulnerable households. This gave us comfort that we had made the right move in committing to removing the Prompt Payment Discount shortly before the panel's findings were announced.

New Zealand disconnections[14]



14 Data from the Electricity Authority (emi.ea.govt.nz/Datasets/Retail/Disconnections). FY19 only includes three quarters of data.

So far, Meridian is the first – and only – major energy retailer to replace the Prompt Payment Discount with a lower overall pricing structure. The initiative is expected to cost us $5 million per year. We look forward to other retailers following suit.

The company also has a number of ways of assisting low-income households to pay their power bills, including tailored payment plans, a LevelPay product that keeps monthly bills the same throughout the year, and options to pay for power weekly, fortnightly or monthly. Meridian's customer disconnection rates are among the lowest in our industry. We employ a Hardship Consultant to help customers in difficulty manage their current and future bills. We also work with government support agencies such as Work and Income.

Another initiative, which we were involved with from the start, is EnergyMate, a free in-home coaching service by the Electricity Retailers' Association of New Zealand (ERANZ), that involves a number of electricity retailers, lines companies, community organisations and the Government. It's being trialled with 150 families. The coaches support families at highest risk of energy hardship by helping them talk to their retailers (about payment plans, the right pricing plans, etc), doing high-level assessments of how warm and healthy their homes are, and working with them to access services like curtain banks or talk to their landlords about insulation.

Concern for affordability is also why we strongly support distribution pricing reform. Currently distribution or network charges are not reflective of the actual costs of supplying consumers. This can result in poorer customers paying more than their fair share of network costs. A particularly unfair example is the Low Fixed Charge (LFC) regulations. These cap the fixed charge that households on low user plans pay to around $9 a month but require those households in return to pay a higher variable or per-kilowatt-hour charge. The regulations assume poorer households are able to use less power, but many have high electricity use for a wide range of reasons that are outside their control – poorly insulated homes, illness, being at home during the day, or having many family members under the same roof. These households are actively disadvantaged by the LFC model, and can end up spending a significant portion of their household incomes on their power bills. Most concerningly they are cross-subsidising many high-income households who are comfortably able to reduce power usage and take advantage of LFC rates by having modern homes with good insulation, the latest energy efficient appliances and alternative sources of heating besides electricity.

If network charges were more reflective of actual costs, it would help ensure that all consumers paid their fair share.

Our three brands meet different customer needs

With three distinctive and well-established customer brands in two markets, we offer our customers choice and options that appeal to different emotional and rational drivers.

Despite the intense competition (as at 30 June 2019 there were 40 retail brands in New Zealand and 33 retailers Australia), we are growing in both markets.

Our New Zealand retail customer growth this year bucked the trend of the other large retailers. We continued to grow our customer base, up 4% from last year – mostly as a result of gains by Powershop, which reached 74,400 customer connections by 30 June 2019. At year end the Group passed the 300,000 customer connections threshold in New Zealand for the first time. We also enjoyed strong customer growth in Australia, supported by the introduction of our certified-carbon-neutral household gas product.

Our Meridian brand serves customers who are looking for a renewable energy generator that cares deeply about the environment and the people of New Zealand. Around one-fifth of Meridian customers deliberately choose our brand in alignment with their environmental values. They are part of a growing group of conscientious consumers who filter their brand choices based on the contribution they perceive brands are making to future generations.

Our Powershop brand in New Zealand suits consumers who want to have control over their energy usage and cost, in a fun, irreverent and engaging way.

In Australia, our Powershop Australia brand focuses on sustainability, offering a deliberate contrast to the country's high reliance on coal and lack of clarity on environmental policy. While our Australian business still represents less than 10% of our Group annual revenue and is a relatively small player in that market overall, it continues to grow rapidly as more and more Australian consumers look for cleaner options.

This year, Powershop Australia entered into an arrangement to provide retail services on a white-label basis to DC Power Co, a solar-focused energy retailer. We provide their customers with their energy and all retail-related services. DC Power Co targets the residential solar market specifically, and provides a range of additional services on top. In June, Powershop Australia also signed a white-label agreement with Kogan to launch Kogan Energy before the end of the calendar year. It will be a mass market offering with a digital and low cost approach.

We launched a carbon-neutral retail gas product in Victoria, Australia at the beginning of this financial year. That product has been well received. We now have 22,000 customer connections, with customers who were either electricity customers and added gas, or new customers who signed up for dual fuel. Managing gas risk is new for us, but we've been able to secure long-term contracts for supply and use a range of mechanisms to manage the wholesale price risk.

Flux will help us deliver better customer experiences

As customer expectations around experiences rise, we recognise that improving what we offer is vital to differentiating ourselves from others in a very crowded market. We want the people who buy from us to be able to engage with us easily, on their terms and through the communication channels they prefer.

This year we continued to transition our Meridian customers to the Flux Federation software platform (year two of a $30 million three-year programme). Both Powershop brands are already using this software, so alignment of our customer experience technology will improve the experiences we offer all our customers, allowing us to respond to customers' needs, deliver products to market faster and lower our overall cost to serve. The transformation of our retail business is tracking well. By the end of the 2019 calendar year, up to 50,000 Meridian customer connections will be on our Flux platform.

Our ability to offer competitive customer service and experience is strongly linked to our ability to be an employer of choice.

People are the critical component
Just as Flux depends on people with software design and development talent to develop the platform needed for our ambitious transformation programme, our ability to offer competitive customer service and experience is strongly linked to our ability to be an employer of choice. We continue to develop our call centre, sales and account management staff to meet the needs of our customers and resolve issues in areas ranging from energy efficiency to pricing.

The transformation of Meridian's ICT infrastructure to better align with Flux is much more than a change in technology. It is also driving a change of culture and approach, as we evolve the wider business to more agile ways of working. We're seeing teams take greater responsibility for solving problems. We're also seeing projects deliberately reduce in scope, particularly those that are of low value to our customers. There are changes also in the customer team, where functions that we once would have considered 'back office' have been shifted to the purview of our frontline teams, allowing people dealing with customers to solve their problems much more quickly. That shift has seen us support our people in these frontline roles to focus on their empathy and problem-solving capabilities.

Looking ahead, meeting our customers' and stakeholders' expectations will require diversified teams made up of people who are motivated, well equipped, highly skilled and empowered to help us perform.

Encouraging openness and diversity

Meridian's diversity and inclusion programme centres on four key pillars, each led by a member of the Executive Team who is accountable for ensuring the goals are achieved:

Gender.

To increase the number of women in people leadership and senior specialist positions below Executive Team level to 40% by the end of 2020.

Ethnicity.

To increase ethnic diversity across the workforce to be more representative of the New Zealand population and build cultural awareness.

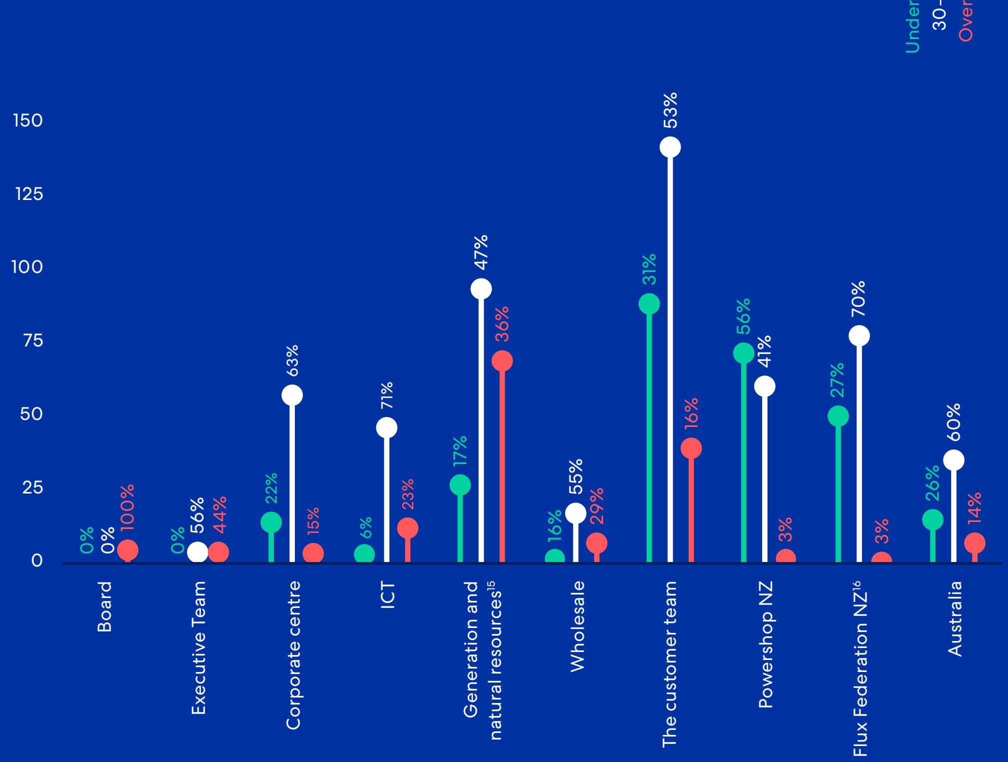
Inclusion.

To be the most inclusive company in New Zealand, to allow our people to bring their whole selves to work.

Flexibility.

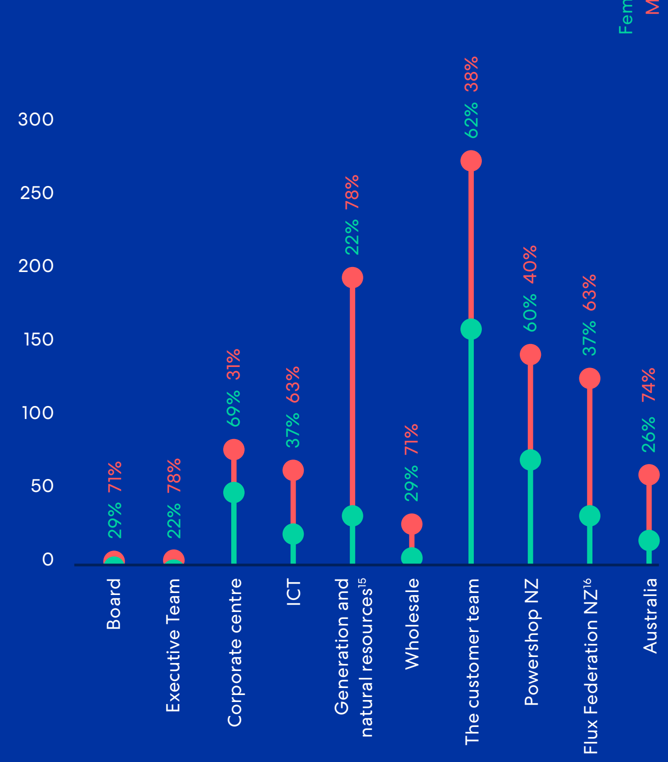
To enhance workplace flexibility as and where appropriate.

Diversity by age (headcount)



15 Includes Dam Safety and Intelligence.
16 Includes Flux UK staff.

Diversity by gender (headcount) for the group



Group % ratio female salary to male salary		
By salary band[17]	**FY18**	**FY19**
K–L	93.0%	91.5%
I–J	97.4%	98.1%
G–H	99.1%	95.4%
E–F	96.1%	99.2%
C–D	103.9%	105.9%
A–B	100.4%	100.3%
Average of average	**98.3%**	**98.4%**

17 K & L are our highest salary bands and A & B are our lowest.

Overall 45% female

We're committed to pay equity for all employees in similarly sized roles, with similar skills, experience and accountabilities, but the average salary across the organisation for men is higher than the average salary for women because there are still more men than women at senior levels.

A more balanced approach

Pay equity has been a focus for Meridian since 2013 when a review highlighted that gender imbalance at senior levels was making the biggest difference to pay inequality.

We have embedded a transparent culture around pay equity from the Board to every manager. This year we won the Progressive Organisation award at the YWCA Equal Pay Awards for our continued commitment to equal pay as part of our overall commitment to being an employer of choice in New Zealand. We were also awarded the 2018 YWCA Equal Pay Compact for our initiatives and focus on equal pay. We also achieved the Gender Tick, a unique New Zealand-based accreditation programme for businesses to demonstrate their commitment to gender equity in the workplace. Meridian is one of just seven organisations to achieve this so far.

In all ways we try to incorporate fairness into our remuneration approach – as a minimum, Meridian pays the Living Wage for all permanent employees in New Zealand.

Gender and age balances are still a work in progress. We are making good inroads in recruiting young women to work in traditionally male-dominated areas like generation, but we know this will take time because of low staff turnover. Women are also under-represented in leadership and senior-level roles throughout the business, and we have an ongoing focus on addressing this.

We currently have 35.2% women in people leadership and senior specialist positions below Executive Team level against a target of 40% by 30 June 2020.

Percentage of women by salary band[18]	FY18	FY19
K–L	16.7%	18.5%
I–J	28.6%	27.1%
G–H	31.2%	30.8%
E–F	43.7%	43.2%
C–D	54.7%	49.7%
A–B	65.4%	72.2%

18 K & L are our highest salary bands and A & B are our lowest.

Percentage of women in senior roles at 30 June[19]	FY17	FY18	FY19
	32.8%	33.5%	35.2%

19 Parent company only, women in people leadership and senior specialist roles, below Executive Team level.

Female representation (%)	FY18	FY19
Female share of total workforce	41.8%	45.3%
Females on the Board	25.0%	28.6%
Females in management positions (as % of total management workforce)	33.6%	37.2%
Females in junior management positions, i.e. first level of management (as % of total junior management positions)	36.3%	40.8%
Females in top management positions, i.e. maximum two levels away from the Chief Executive or comparable positions (as a % of total top management positions)	30.7%	33.6%
Females in management positions in revenue-generating functions (e.g. sales) as a % of all such managers (i.e. excluding support functions such as HR, IT, legal, etc.)	29.4%	33.7%

Helping people to feel included

Part of getting our skills mix right is making sure we incorporate different viewpoints, backgrounds and languages into our culture. We want our make-up as a business to reflect the markets we compete in and the changing ethnic make-up of our countries.

In Aotearoa, we continue to train our Meridian people in tikanga and proper pronunciation of te reo because protocol and language are key expressions of respect. We also encourage our people to explore the many other cultures that are part of our workforce.

Cultural openness is part of a wider initiative to encourage tolerance and inclusion, to encourage people to mix their skills with others' and to engage in design thinking to solve problems. Our intention is to widen our problem-solving capabilities to resolve complex situations.

This year we undertook our first diversity and inclusion survey since 2015. Participation rates were up significantly, with 61% of our people completing the survey. Our commitment to diversity and inclusion seems to be making a positive contribution to our workplace, with our people especially positive about Meridian building diverse teams, and feeling that their opinions are valued.

We won the Diversity & Inclusion Award at the 2019 NZ HR Awards for the work we are doing in all aspects of diversity and inclusion. We also won the HR Specialist Award.

In May, as part of signalling our commitment to diversity and inclusion publicly, we took part in the 2019 Wellington International Pride Parade. Our participation in this colourful celebration is part of what we do to bring to life the Rainbow Tick Meridian received last year, recognising our support for the LGBT+ community both within and beyond our organisation.

Committed to a more flexible workplace

We have been building greater flexibility into our working style across the whole business for some time, recognising that we need to provide a work environment and conditions that encourage and reward people to work to their best.

As an example, in February this year, at our Manapōuri power station in West Arm on Lake Manapōuri, we began trialling a nine-day-fortnight roster. The station is only accessible by boat, meaning the team's daily work programme is dictated by two scheduled 45-minute sailings. The nature of the work also means they need to be physically present on site. For the trial, we scheduled longer working days to fit ten days into nine, giving all team members an extra day off each fortnight. The trial was not without its operational challenges, but in addition to the benefits to our people, the change to the boat schedule could save us more than 60,000 litres of fuel per year.

Increased costs

Alongside supporting our people to feel included and to do their best work, we want to make sure we always have the right people in the right roles to deliver the right outcomes.

We maintain a strong focus on managing headcount, and fill roles from within the business where we can to meet the changing needs of the business rather than simply increasing staff numbers. However, we're also not afraid to invest where we need to in order for the business to flourish. Employee and other operating costs were $282 million in FY19, $23 million (9%) higher than last year, reflecting an ongoing investment to support expansion of the Powershop Australia (including a retail gas offering) and Flux businesses, and continued customer acquisition pressure in the highly competitive New Zealand market. Costs also include refurbishment work that Meridian has been undertaking at the Ōhau hydro stations and Te Āpiti wind farm.

Enduring partnerships

Proof for our customers and our staff that we are a company worth choosing comes in part through the social and environmental partnerships we support.

[View KidsCan](#)
[View Kākāpō Recovery](#)

Our relationships with KidsCan and the Kākāpō Recovery Programme (this year we committed to an additional three years of funding) are an important way of showing we are a trustworthy company that takes meaningful actions to enhance our environmental and social responsibility credentials, as are our Power Up community funds (see page 69). Other sponsorships include Meridian's support for South Island Rowing, and Powershop New Zealand's support of the life-saving work of the Neonatal Trust. And in Australia our key partnerships are with Museums Victoria and the Sydney Gay and Lesbian Mardi Gras.

Better understanding our customers

Identifying the customer segments that are most valuable to our business, and building a deeper understanding of their needs, are goals for both our customer service technology projects with Flux and the training we invest in for our sales staff.

Our marketing strategies also play their part, enabling us to use the data we collect to better understand the priorities and triggers for each group. 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 (an investment of $12.8 million across the Group in FY19). Three-quarters of Meridian customers receive communications via email and around a third use our online portal. Our Powershop businesses rely heavily on digital channels, communicating with customers largely through email and the Powershop mobile app.

To help us assess our relationship with our customers, the Meridian Group uses the Net Promoter Score (NPS). All three brands continue to score much higher than the industry average in their respective markets, reflecting the hard work we put in to excellent customer experiences and fair pricing.

Customer satisfaction — Net Promoter Score (NPS)[20]	FY17	FY18	FY19
Powershop Australia[21]	45	53	53
Australian industry average[22]		(14)	(18)
Powershop New Zealand	48	55	51
Meridian		16	24
New Zealand industry average[22]		14	18

20 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).
21 FY17 data not a full year.
22 Perceptive Group Limited: New Zealand & Australia NPS Industry Benchmarks.

Growing Flux's customer base

The ongoing success of our businesses beyond New Zealand aligns with our intention to grow overseas earnings through expansion of our Powershop challenger brand in the Australian market and the ongoing expansion of Flux Federation's portfolio of customers.

Flux has now been operating as a separate Meridian entity for more than two years, successfully scaling its development capability to improve functionality for our brands and for nPower in the UK (which retails the Powershop brand under licence). New people and teams have seen Flux Federation grow to around 160 software developers, designers, testers and product experts, making them one of the biggest of the Wellington-headquartered software development teams.

A different tomorrow

The New Zealand and Australian markets have very different characteristics. The New Zealand market revolves around water and wind. The Australian market in contrast depends on fossil fuels. These characteristics influence how we do business in each country.

Working with regulators

Changes to public policy that lead to changes to legislation or regulation in either New Zealand or Australia (including electricity regulation, changes in policies to support renewable energy, and new or changed environmental regulations) have the potential to affect our business significantly.

Such changes could adversely affect our sales, costs, relative competitive position, development initiatives or other aspects of our financial and operational performance, or force undesired changes to our business model.

Regulators in both New Zealand and Australia are focused on supporting open, fair and efficient markets. 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 are conducive to achieving our commercial and sustainability goals.

We are committed to affordable energy

As part of that, we champion the benefits of competitive markets through competing vigorously, leading in sustainability in New Zealand and Australia, and supporting wholesale liquidity.

We advocate for value for our New Zealand customers through our membership of ERANZ, and we engage with both regulators and government agencies through regular meetings and submissions.

This year in particular we have engaged in the Electricity Price Review process. This has provided us with an opportunity to make further improvements to a market that is already one of the most efficient and effective in the world. We'd like to congratulate the Electricity Price Review Panel on the work they have done in assessing the state of the electricity sector in New Zealand. We have supported this review for some time because we believe that the New Zealand electricity market is for the most part delivering fair, efficient, reliable and sustainable outcomes for New Zealand consumers.

The panel delivered a final report to the Minister of Energy and Resources at the end of May this year, with 32 recommendations. We look forward to the release of the report. Delivering on the recommendations is likely to be a significant workload and we are pleased with the panel's indication that the recommendations will be prioritised so that the sector knows where to focus.

Other reforms could be considered

But as we pointed out in last year's report, we believe that distribution pricing reform should be accelerated to encourage appropriate investment in new technologies such as rooftop solar and electric vehicles and to avoid the risk that those who can least afford them end up paying for more than their share.

Also, in looking to remedy wider social and affordability issues, we believe the Government, and those reviewing the industry on its behalf, need to tread carefully to ensure that competition and the investments required to maintain security of supply are not compromised or impeded.

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. Even as its work continues, we are expecting important changes in climate policy in the next year. The Interim Climate Change Committee will be superseded by an independent Climate Change Commission enabled by the Climate Change Response (Zero Carbon) Amendment Bill. That Bill is expected to pass into law in late 2019. It accompanies further changes to the Emissions Trading Scheme that we expect to be announced in the new financial year. Because New Zealand's high proportion of renewable electricity is recognised as a key enabler of decarbonisation in the wider economy, we expect electricity demand to rise in the years ahead.

Australian regulatory reform continues

In Australia, our biggest challenge is the lack of a stable, bipartisan federal energy (and related carbon) policy.

A number of regulatory changes are being rolled out at both state and federal level, to improve customer outcomes in the retail market. We continue to work with governments and regulators on these policies.

A change in demand could hurt our business

In addition to how regulation could affect our business in the future, there is a potential impact if demand significantly falls for any reason.

As discussed earlier in this report, market dynamics ensure that the level of customer demand relative to supply from generators is a key determinant of electricity prices for the long term. A fall in demand or generation oversupply may adversely affect prices, potentially for a sustained period.

Demand can be affected by a number of factors, including activity levels in the industrial sector, competitor behaviour, regulatory changes, population growth, economic conditions, technological advances in the more efficient use and generation of electricity (including by customers, potentially as a consequence of regulatory subsidisation of competing technologies), weather and catastrophic events. All of these could in turn affect electricity prices.

Policy changes to achieve strong climate action could also cause a significant reduction in demand from disruption to emissions-intensive industries.

NZAS is an important part of our business

Last year we successfully negotiated a financial contract to hedge NZAS's wholesale market price exposure on a further 50MW of base-load power, enabling the company to restart its fourth potline from October 2018.

The new contract represents a 9% increase in the plant's production capacity and a 1% growth in New Zealand's total electricity demand. It sits separately from Meridian's main hedge agreement with NZAS that provides price certainty for about 5,000GWh of electricity per year to 2030.

NZAS's commitment has important impacts not just for our business but also for the Southland economy in terms of jobs and investment. The aluminium produced by NZAS continues to be among some of the most environmentally friendly and purest in the world. The benefits reach beyond our shores. The aluminium produced here means less is made elsewhere in the world using coal-fired generation.

We acknowledge, though, that if NZAS were to close its Tiwai Point smelter or reduce its electricity consumption significantly, whether or not it also terminated or breached its agreement with us, we may be adversely affected. This is because such a closure or reduction would likely result, in the near term, in a decline in revenue, largely caused by lower electricity prices (both wholesale and retail).

NZAS consumes the equivalent of around 38% of Meridian's generation output in any year, depending on generation output and demand. The size of any reductions and associated losses, and therefore the severity of the impacts on Meridian, would depend on a number of variables, including the volume of NZAS's reduction, the period in which the reduction occurs, transmission constraints, the rate of residual New Zealand electricity demand growth and the response by generators and electricity market participants. For example, other electricity generators with thermal generation plant could choose to mothball or retire their plant, which could in turn reduce the supply of electricity and moderate any reduction in wholesale electricity prices.

We do expect demand to increase

While we openly acknowledge the risks of demand reducing, our overall view is that demand will increase.

We believe the key driver of that rise will be climate action policy – and particularly the Climate Change Response (Zero Carbon) Amendment Bill, upcoming changes to the Emissions Trading Scheme, and the recently proposed Clean Car Standard and Clean Car Discount – which will likely lead to increased decarbonisation in the transport sector as electric vehicles become more prevalent and also the electrification of industrial heat processes that currently rely on gas and coal. Our initiatives to support our customers to take up electric vehicles in greater numbers and adopt new technologies also align with our commitments to UN SDG13 Climate Action and SDG7 Affordable and Clean Energy.

The physical impacts of climate change could also increase demand. Higher temperatures are likely to have a direct impact on electricity demand for heating and air conditioning. Agriculture could be affected due to increased drought leading to an increase in irrigation (and therefore electricity demand). It is also possible that climate change will lead to large-scale international migration as globally regions become uninhabitable, which could increase New Zealand's population and therefore electricity demand.

Encouraging electric vehicle uptake

Meridian supports a shift to more electric vehicles on our roads because they have such potential to help decarbonise New Zealand's transport sector, which currently accounts for around 20% of the country's emissions. Of course, more electric vehicles will also increase demand for electricity.

We want to accelerate the uptake of electric vehicles in New Zealand. Clearly, one of our goals as a leader in sustainability is to be the first choice for customers who have electric vehicles. We introduced an Electric Car pricing plan that rewards consumers who purchase electric cars with cheaper overnight electricity rates for charging their vehicles.

In partnership with our business customers, and at times with Energy Efficiency and Conservation Authority (EECA) funding, we are also installing charging stations for the public, such as at Aoraki/Mt Cook. Despite this growing charging infrastructure network, New Zealand's rate of fossil fuel to electric conversion will have to grow dramatically to meet the national target of 64,000 electric vehicles on the road by 2021. To help understand how we can accelerate uptake, we brought Christina Bu, Secretary General of the Norwegian Electric Vehicle Association, to New Zealand in November to share her insights on what New Zealand can learn from Norway's world-leading conversion to electric vehicles. Norway's electric car transition is currently sitting at over 40% converted.

Meridian's Procurement and Property Manager Nick Robilliard was then invited to attend the global EV Summit in Norway. In April, he joined an international panel to share the New Zealand story and the key elements that are enabling Meridian to make the shift. He brought back insights on what is possible next, the massive scale, and the timeline for introducing electric vehicles and the electrification of other vehicles, including trucks, marine and aviation vehicles.

Meridian's own passenger vehicle fleet is now almost 80% battery electric vehicles (as distinct from hybrids that still have petrol engines) and we are on track to grow that to 90% by the end of 2020. We've also succeeded in converting 15% of our utility vehicles (commercial light vehicles) used on our operational worksites to electric, and we are looking forward to new models becoming available in the next few years to enable us to meet our EV100 commitment of 100% electric vehicles by 2030.

In the year ahead we will continue to promote a wider use of electric vehicles, through our website and advertising, our membership of Drive Electric and the Climate Leaders Coalition, participation in EVWorld and EV100, and continuing to help other businesses to electrify their fleets. We know that the electrification of our transport sector is one of the most significant ways that Aotearoa can combat climate change and we're committed to using our expertise to successfully enable our country's transition to a net zero carbon economy by 2050.

Supporting the adoption of solar in New Zealand

As the electricity sector continues to evolve, we're encouraging our customers to adopt new technologies.

Many of our residential customers who are motivated to switch to new technologies want to play their part in combating climate change. While in New Zealand residential solar installations are not a powerful climate action (given that New Zealand's electricity supply is around 85% renewable already), our customers see it as a way to live their values and take greater responsibility for their own power generation and consumption. Currently, over 4,000 households across our Powershop New Zealand and Meridian brands use solar as part of, or, for all their residential energy.

Commercial solar programmes have the potential for far-reaching benefits, as they use previously untapped locations to generate renewable energy, and commercial energy use tends to be during the day when solar generation is most effective.

We have partnered with Kiwi Property to install almost 2,500 rooftop solar panels on shopping centres in Christchurch, Palmerston North, Hamilton and Auckland. The programme will help make Kiwi Property, the country's largest listed property company, New Zealand's biggest user of solar power. In June the first of four installations was switched on by Minister of Energy and Resources, Hon. Dr Megan Woods, at Northlands Shopping Centre. The 672 panels generate over 200,000kWh of electricity per year, enough to power the equivalent of 30 households or nearly 100 electric vehicles for a year. As part of the power purchase agreement model, we installed and covered the upfront system cost, and Kiwi Property now purchases the electricity produced for a fixed cost.

We also switched on New Zealand's largest rooftop solar array at Mainfreight's state-of-the-art Auckland distribution centre. The 422kWp system features 1,408 high-spec panels tilted at 10 degrees to maximise efficiency and was delivered by Meridian's commercial solar partner Reid Technology.

Here comes the sun in Australia

Installing solar panels is a very important climate and bill reduction action that Australian households can take, and we are building our customer base around a strong sustainability platform and amplifying our brand credentials in that space.

We currently have over 22,000 customers in Australia who have solar installations. Powershop has successfully introduced initiatives like Grid Impact, which offers customers with solar and batteries the opportunity to become part of a Virtual Power Plant. Alongside our partner Reposit, we activate customers' battery systems when the cost of electricity spikes. This takes pressure off the wider grid and customers receive rewards for opting to do this that help them save on their power bills.

Up until recently, Australian landlords and tenants have not had good incentives to invest in solar energy. We have worked with the Australian company Stoddart to develop SunYield®. This allows both the landlords and tenants to benefit from solar on new homes. An investor can use the SunYield® solar power system to sell solar power produced on an investment property's roof back to the tenants who occupy the property. The investor has another income stream, and the tenants get a discounted rate for their power. This is an innovative solution that is a win for all parties involved.

Powershop Australia's Your Community Energy programme has now raised over $500,000. The programme works where customers choose the Your Community Energy Powerpack when they pay their bills – this has a premium attached that Powershop then distributes to not-for-profit organisations to install small-scale renewable energy solutions.

Helping farmers measure carbon

For the agriculture sector in New Zealand, the pressure to understand and contain carbon footprints will only intensify in coming years, particularly for the farming sector.

We partnered with Westpac New Zealand to support a new carbon calculator that gives farmers a guide to the size of their carbon footprints. The tool, developed by Lincoln University's Agribusiness and Economics Research Unit and Agrilink NZ, gives a farmer a quick approximation of their farm's carbon footprint and compares it to the distance travelled in a car or the area that could be planted in forest to offset their emissions. While the new tool is not intended to replace detailed greenhouse gas modelling tools, it does provide a measure that rural communities can use to act.

Replacing coal and gas boilers

For major users of energy like industrial consumers, there are opportunities to replace and convert their existing coal and gas boilers with plant that is powered by electricity.

In Aotearoa this is a powerful climate action and would increase demand for electricity. These are not quick fixes. They involve sometimes complex considerations around what is feasible commercially and financially. For many big energy users though, sustainability is driving important and wider conversations around efficiencies and more responsible and effective supply chains. We continue to investigate how we can contribute, although our current analysis shows that the commercial gap between current and alternative technologies remains significant.

New options for curbing power use

Our customers in Australia can act to reduce their electricity consumption at peak times, saving money as well as carbon emissions from electricity generation, by taking part in Curb Your Power, our demand response programme.

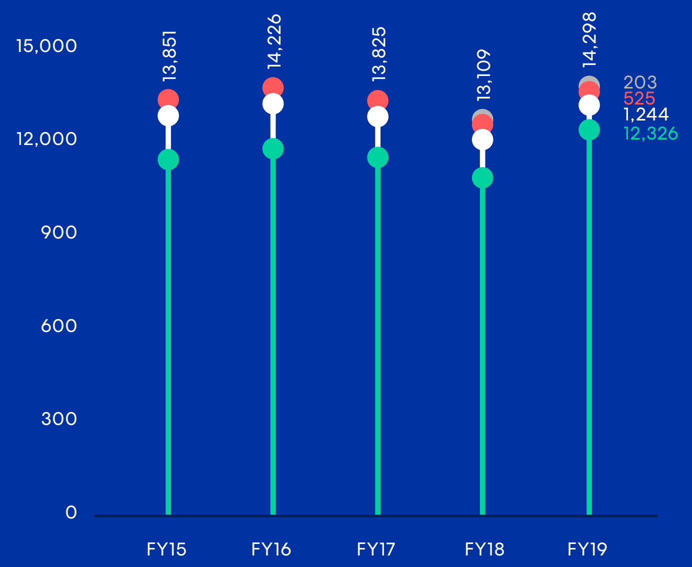
This programme is available to Powershop customers in Victoria with smart meters. When there is a peak demand event, Powershop sends participants an SMS or app notification asking them to curtail their usage voluntarily for a set period of time – no more than four hours. If they successfully hit their Curb targets, they automatically receive discounts on their next energy bills. This programme allows us to manage overall electricity demand, while our customers are able to make positive contributions to the environment by reducing their energy usage and being rewarded for doing so.

Making the most of powerful forces

Our elements of success

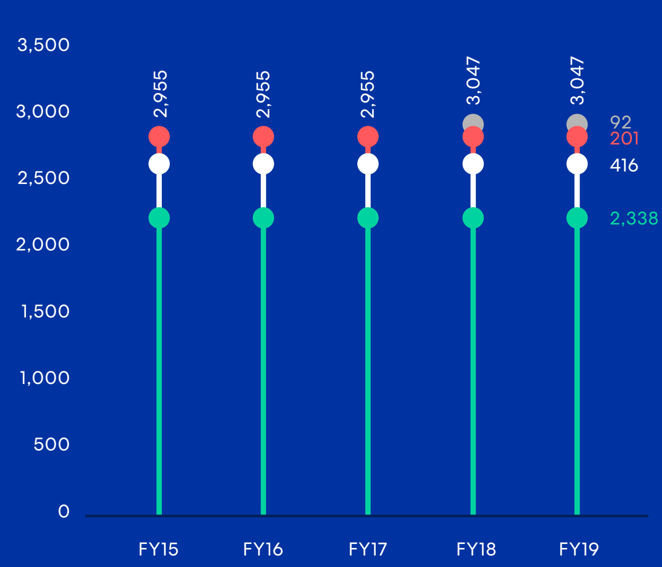
Our business is made of wind, water and sun. We're excited about clean energy and the benefits it brings. We approach generation responsibly and with integrity, in alignment with generating 100% from renewable sources.

Generation (GWh[23])



Capacity (MW[24])

Hydro NZ
Wind NZ
Wind AU
Hydro AU



23 Gigawatt hours: measure of generating output (energy).
24 Megawatts: measure of generating capacity (power).

The flexibility of hydro to deal with shifts in demand and supply is one of its great advantages and is therefore the backbone of New Zealand's high percentage of renewable energy. Hydro has enabled the seamless integration of large amounts of wind and other intermittent renewable energy generation to our energy system and will continue to do so in years to come.

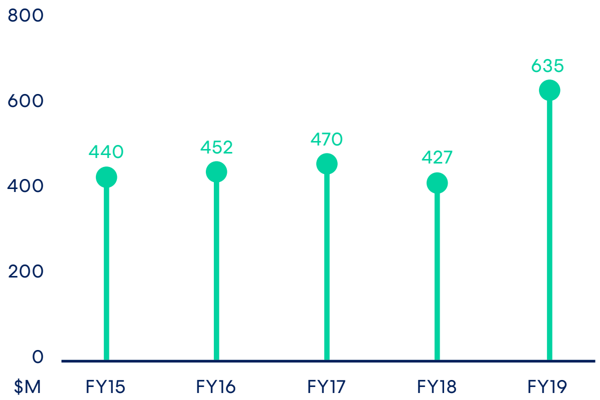
However, the variability of water inflows and the relatively low storage capacity available create an energy market that is one of the most changeable commodity markets in the world.

A key risk for Meridian's New Zealand hydro generation is the availability of, and access to, water. The Waitaki and Manapōuri hydro systems are heavily influenced by seasonal hydrological conditions. Adverse hydrological conditions, resulting from dry periods or drought conditions in those catchments, may reduce water levels and significantly affect our generation capability.

Electricity retailers buy all their electricity from the wholesale market and these prices can vary significantly. When we have low storage levels resulting from low inflows, we may be forced to spend more money on purchasing electricity from the wholesale market to meet our customer commitments than we are making from selling electricity we have generated into the wholesale market.

This is a risk that could be exacerbated by climate change, however our modelling indicates that average annual rainfall into Meridian's catchments could increase by approximately 5–15% by 2055. Seasonal rainfall changes are projected, with winter rainfall in Meridian's hydro catchments predicted to increase more than summer rainfall. While this may improve our ability to match electricity demand, it will mean we need to manage inflow volatility carefully.

Operating cash flows



Stable cash flows

Changeable weather conditions, and the volatility they create in wholesale prices and electricity demand, are part and parcel of our business and we adjust our risk management practices to manage different trading conditions.

Our vertically integrated business model is one way in which we manage changeable commercial risks. In New Zealand we also have agreements with stakeholders and resource consents that give us some flexibility in how we use lake water storage, and we employ what amounts to 'dry-year insurance' through a range of financial instruments with counterparties that shield us from higher wholesale market prices that can accompany prolonged dry conditions. The biggest of these financial instruments is a hedge contract or 'swaption' with Genesis Energy, which we also use to manage transmission constraints. Together, these mechanisms help us achieve greater price certainty for our customers and more reliable returns for our investors.

As a result, the business continues to generate relatively stable, strong cash flows despite the weather – and has done so for some years. Operating cash flows were $635 million in FY19, $208 million (49%) higher than last year, mainly due to the record level of operating earnings. Total capital expenditure in FY19 was $64 million, $48 million of which was in business capital expenditure.

The conditions we reported at half year continued into the second part of the year, with unplanned gas supply constraints followed by planned outages at the Pohokura gas field. These shortages reduced gas power station output, and the resulting uncertainty put upward pressure on wholesale prices. The impact of this was compounded by below-average hydro storage at Lake Taupō (leading to lower hydro generation in the North Island) and higher demand in part due to increased production at the Tiwai Point smelter.

All of these factors meant wholesale prices were significantly higher in FY19 than the FY18 average. These higher prices incentivised us to generate at higher capacity and encouraged thermal generation to operate, including Genesis Energy's 'Rankine units' at Huntly power station. At the same time though, we needed to keep an eye on hydro levels to make sure we had enough water for our traditionally lower inflow period (winter). There were also times when the transmission link between the islands was not able to transmit all of our power north, which limited our ability to generate. Such conditions can also cause wholesale market price separation between the North and South Islands.

During the gas supply events, we made calls on our financial contract with Genesis to manage our commercial exposure to the high spot market prices, as we eased back on hydro generation when our hydro storage was dropping below average, and we entered our low-inflow period. A large inflow event in March (the same event that caused the West Coast flooding) boosted our hydro storage at the start of winter. We finished the year in very good shape and with a record financial result.

More transparency needed

Because wholesale prices were high in the second half, the market was much more unsettled for some of this year and that led four small retailers and a lines company to claim the existence of an Undesirable Trading Situation (UTS).

The Electricity Authority investigated the matters in the claim and concluded there was no UTS. It did point out that spot prices in spring 2018 set new records but that these prices reflected underlying supply and demand constrained by low hydro storage and gas production outages. The regulator also concluded there was no evidence that the high spot prices were caused by collusion or other undesirable behaviour.

What this matter highlights for us is the ongoing lack of visibility of changes and developments in the New Zealand gas market. The lack of in-depth information not only makes it harder for retailers to compete efficiently, because they don't know what they're planning for, but also makes pricing potentially more volatile because of perceived risks. Our view is that the gas industry should be required by regulators to deliver a level of visibility in their activities that is comparable with the requirements of other energy sector participants.

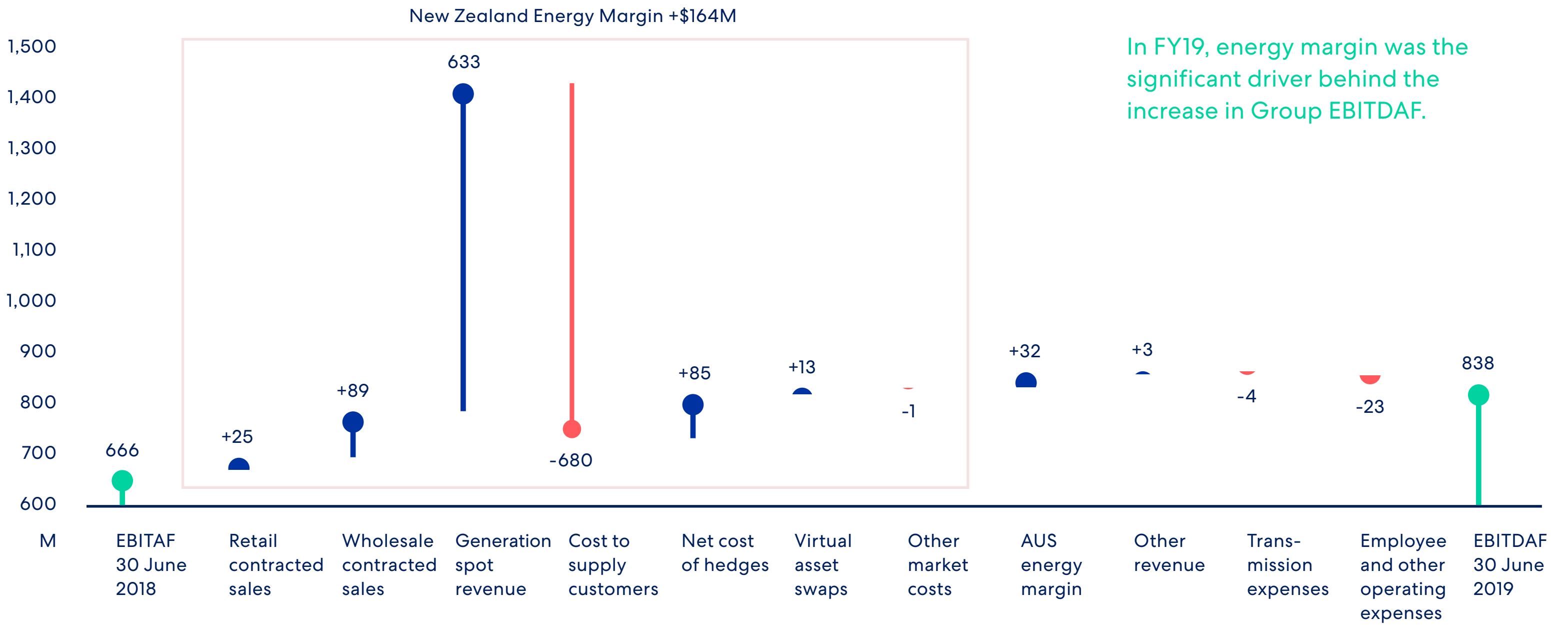
		2019 $M	2018 $M
Retail contracted sales revenue	Revenues received from sales to retail customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers)	654	629
Wholesale contracted sales revenue	Sales to large industrial customers and fixed price revenues from derivatives sold	524	435
Costs to supply customers	The volume of electricity purchased to cover contracted customer sales	(1,874)	(1,194)
Net hedging position	The fixed cost of derivatives used to manage market risk, net of the spot revenue received from those derivatives	126	41
Generation spot revenue	Revenue from the volume of electricity that Meridian generates	1,672	1,039
Net VAS revenue	The net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mercury New Zealand	11	(2)
Other	Other associated market revenues and costs including Electricity Authority levies and ancillary generation revenues such as frequency keeping	(5)	(4)
Total New Zealand energy margin		**1,108**	**944**

Our energy margin

Our energy margin is a measure of the combined financial performance of Meridian's retail and wholesale businesses and is a good indicator of the success of our vertically integrated model.

With high wholesale spot market prices prevailing in the market during much of FY19, New Zealand generation spot revenue was 61% higher than last year. An increase of 8% in physical generation volumes also contributed to this increase, which was supported by inflows of 104% of historical average. While the higher spot prices meant Meridian paid 57% more to supply its New Zealand customers, higher sales to those customers, the higher generation revenue and prudent market hedging saw New Zealand energy margin increase 17% above FY18.

Movement in EBITDAF



In FY19, energy margin was the significant driver behind the increase in Group EBITDAF.

Australian energy margin was 37% higher than FY18, with a full calendar year of the seasonal generation from our Australian hydro assets. However hydro generation was impacted by dry conditions in New South Wales and lower wind volumes and plant availability at Meridian Australia's two wind farms.

Powershop Australia grew its electricity customer base 13% during the year, with a 1% increase in contracted electricity sales. With the launch of a retail gas offer in Victoria, Powershop Australia had 22,600 gas customers by the end of FY19, with sales of 364 TJ.

With the three hydro power stations we own in Australia, we physically control the release of the water, but the local water authority has control over how the available volumes of water are partitioned for various users. The amount we can generate depends on the amount of water we are instructed to release from the dam for downstream cultural, irrigation, environmental or recreational purposes. At Hume, we've been working with the Murray-Darling Basin Authority to trial a change programme that allows us to 'shape' the water released from the dam to coincide with peak electricity demand. The Hume power station has also undergone an automation programme to allow operators to remotely control the output from the station and where the electricity flows into (Victoria or New South Wales). Both of these measures have enabled us to make the most of higher wholesale prices during the day.

Comprehensive asset management

Our ability to generate electricity depends on the continued efficient operation of our power stations.

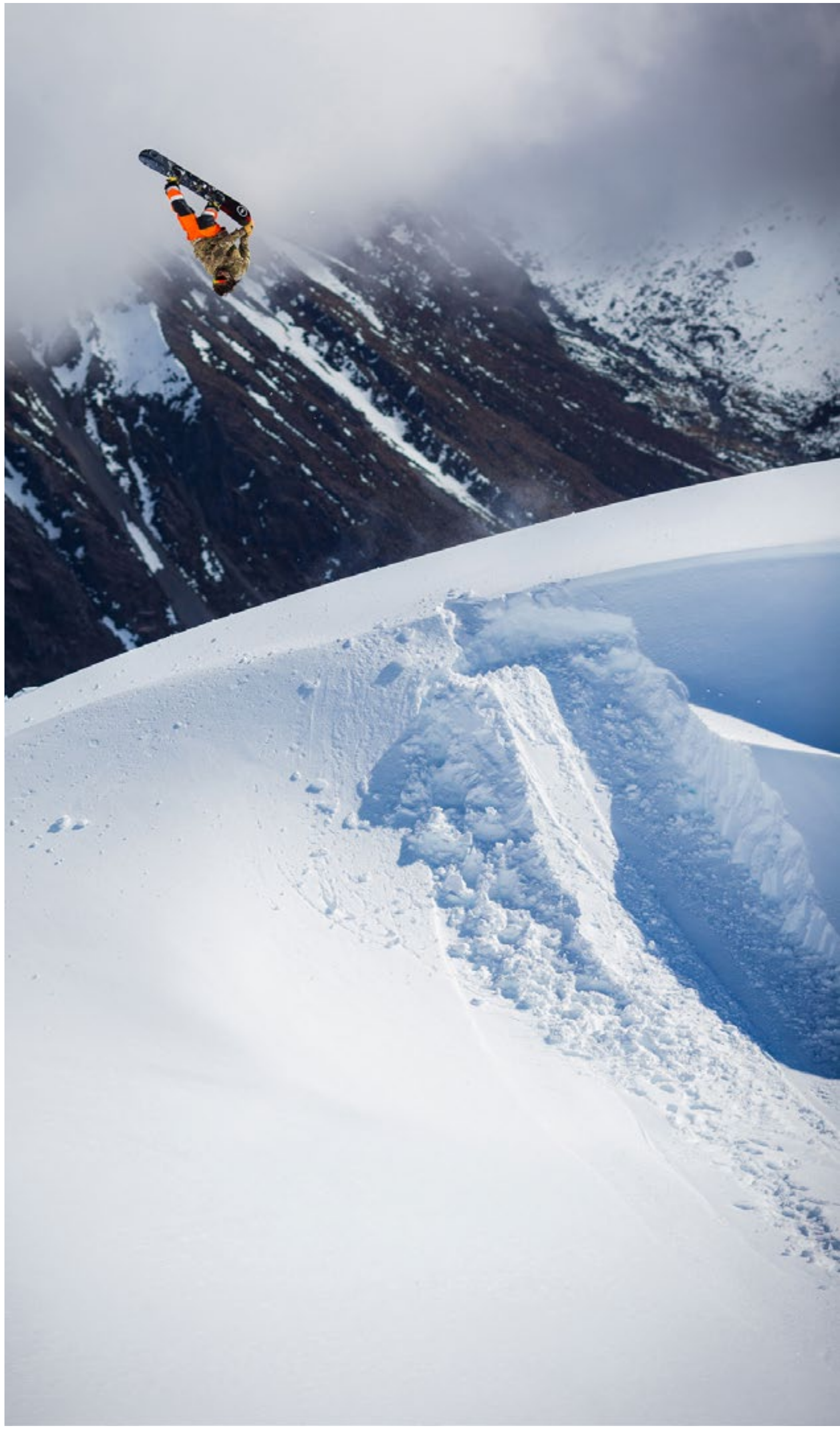
The risk of a catastrophic event such as a major earthquake, landslide, fire, flood, cyclone, explosion or act of terrorism could adversely affect or cause a failure of any or all of our power stations or other operations, or a failure of the national high-voltage transmission grid. Such an event could also affect major electricity consumers (including our own customers), which in turn could have an adverse effect on the markets in which Meridian operates and third-party property owners. One of these risks is extreme flood events damaging our generation assets. Our modelling of climate change impacts indicates that we may experience these events more frequently, and that they may be more severe.

We have confidence in the location of our hydro assets, our Dam Safety Policy and Dam Safety Assurance Programme, and our 20-year strategic asset management plan, which identifies and prioritises remedial or enhancement work on both our hydro and wind generation assets. This year Meridian invested $60 million towards the ongoing maintenance and improvement of our generation assets across the Group.

We also have insurance for up to $1 billion to cover material damage and business interruption losses. However, it is possible that this won't be enough should a single catastrophic event occur or multiple catastrophic events occur in succession, or where insurers contest or delay paying insurance claims.

Our infrastructure risks extend to our information systems – there is a risk that the security of our critical information technology systems will be compromised. If such a compromise did occur, it could interrupt or disable our critical systems or damage operating assets. We could incur costs to stop the attack, repair the systems, potentially repair damaged assets, and manage any subsequent business interruption. Our reputation would likely suffer due to reduced service, potential environmental damage, potential risks to public safety and perceptions of poor security, and the company could be exposed to subsequent fines and penalties.

We mitigate such risks by following industry standard practices and having appropriate security measures in place. This includes identifying and resolving information security risks, raising user awareness and having robust governance. In addition, we hold cyber-insurance cover as part of our overall insurance contracts.



Looking after our plant

We rely on various pieces of equipment and technology at our power stations. If any critical equipment or technology, including, for example, generating plant, transformers, switchgear, control gates and canal civil structures, or control systems were to suffer failures (through issues such as asset condition or human error) requiring unplanned power station outages, replacement or repair, our generation production may be reduced.

We counter these risks through our ongoing improvement and upgrade programmes. We have a very capable reliability engineering team that provides on-the-ground expertise in reviewing the current condition of assets and escalating issues quickly. Our long-term programme of asset management works is prioritised based on a full and detailed understanding of risk. A key achievement for our generation team this year has been the successful replacement of all seven main unit transformers at Manapōuri. That project has taken most of this financial year and means a significant disruption risk has now been removed. We have also completed a major upgrade of the local service systems at Aviemore power station and we are in the middle of a multi-year cooling water upgrade at Benmore power station to replace the current system and improve reliability, redundancy and efficiency. Over the next few years we will be replacing and refurbishing key components at Ōhau A, Ōhau B and Ōhau C as part of keeping those three stations up to date.

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

Despite this risk management process, significant failures can still occur. At Te Āpiti wind farm, mechanical issues with our machines have meant we've been working at half capacity for some time. A refurbishment is well in hand and we expect the work to be two-thirds completed by the end of this calendar year.

Strength of our asset maintenance – plant availability

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

Responsible use of water and wind

Water use in New Zealand and Australia continues to be an emotive and important issue, with a wide range of parties concerned about everything from availability to quality to use.

Because water is so central to our own business, we remain highly aware of both the value and the role of water and waterways and actively look to collaborate with and reach agreements with as many parties as we can.

Wind energy too can be an emotive issue, with local communities often voicing strong opinions about the effects of turbines on the places in which they live. Both hydro and wind, however, are vital ingredients in helping both countries to achieve a diverse and resilient energy system capable of meeting climate action goals and targets.

Nationally, we have worked with officials from the Ministry for the Environment and the Ministry of Business, Innovation and Employment on water policy issues that are relevant to both hydro operation and climate change. We have also developed an environmental policy for biodiversity through the Biodiversity Collaborative Group.

Hydro generation itself doesn't alter quality; however, water quality on the Waiau and Waitaki river systems can be compromised by others' activities, potentially boosting the chances of algal growth and weeds. While we can help mitigate any change in water quality by releasing more water into waterways to dilute the effects of these contaminants, such actions affect on our profitability and the amount of renewable energy we can deliver to meet New Zealand's power needs. The best solution for us therefore would be if the water in these catchments were as clean as possible.

Water consumption[25]

	FY15 Mm³	FY16 Mm³	FY17 Mm³	FY18 Mm³	FY19 Mm³
New Zealand					
Fresh surface water (lakes, rivers)	73,883	70,610	72,946	65,562	74,183
Water returned to the source of extraction with similar quality	62,518	56,481	61,499	53,823	61,832
Total net freshwater consumption[26]	11,365	14,130	11,447	11,739	12,351
Australia					
Fresh surface water (lakes, rivers)					3,696
Water returned to the source of extraction with similar quality					3,696

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

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

Notwithstanding its positive contribution to climate action, hydro generation does have impacts on the wider environment, and we have a responsibility to manage these. Hydro generation affects the landscape by creating lakes and canals that divert the water and affect the timing and volume of river flows, as well as the natural movements of native fish.

To address these impacts, we fund or support projects such as eel ‘trap and transfer’ at the Waitaki dam and Manapōuri Lake Control structure, Project River Recovery and the Waiau Fisheries and Wildlife Habitat Enhancement Trust (the “Waiau Trust”). These projects are concentrated on lessening the impacts on eel (tuna) and braided river habitats and are part of the collaboration with local authorities and other interested parties that we agreed to when our consents were originally granted.

Adult eels have to migrate to the sea from freshwater to complete their life cycle and to spawn in the Tonga trench. Juvenile eels need to return to freshwater up-river as small elvers to grow to adulthood. Our structures impede that movement so we use trap and transfer to move both elvers and adults. Every year we move a large number of elvers and adult eels at Manapōuri, and a smaller amount in the Waitaki catchment. Once released, they can migrate successfully to and from the sea.

In Manapōuri, there’s still a large self-sustaining population of eels because it’s a national park and there is no commercial catch pressure. In the Waitaki catchment, the population is much smaller. This is consistent with what is happening in the South Island east coast catchments that have lost a lot of habitat through land use change and commercial fishing pressure, and have smaller numbers of juvenile elvers trying to migrate up the river. Currently, a Ministry for Primary Industries group is looking into possible causes and responses.

We move all the elvers that turn up, and all of the adults that are in migration condition. This year we’ve moved around 700kg of elvers and eels at Manapōuri, down on last year’s exceptionally high catch numbers. At Waitaki, we’ve caught just over 37kg of elvers and eels, equating to thousands of elvers and 72 adult eels.

Project River Recovery has been in place since 1991 in the Waitaki catchment and is perhaps New Zealand's longest-running conservation/business partnership. Funded by Meridian, the Department of Conservation works to preserve and restore braided river habitats in the Waitaki catchment through weed control of the riverbed and pest eradication to protect black-fronted tern/tarapirohe colonies and help kakī or black stilt recover their populations. The partnership has created over 100 hectares of new wetlands. To put that into perspective, the Ministry for the Environment has estimated that roughly 90% of the original New Zealand wetlands have been drained[27], so this is an important project and contribution. The Waiau Trust has also restored significant areas of wetlands.

All our hydro operations are governed by agreements with groups connected with the waterways. For example, we work closely with local government bodies, particularly during consenting and through the submissions process, and we report regularly on our compliance with resource consent conditions. In the past year there were no prosecutions and our public safety as a generator was recertified, allowing us to continue to operate. While we did record four plant-related breaches of environmental compliance, none were serious. We are confident that we acted as a responsible generator in our day-to-day operations.

Retaining access to the water we need

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

Those could include imposing minimum flow or maximum nutrient levels in rivers that have hydro generation, and imposing charges or royalty payments on water users. Plan changes could also adversely affect activities that are currently permitted without resource consents. National and regional water policies could be changed to allocate more water to agricultural users or to meet specified iwi interests or for other purposes, reducing the available flow from the Waitaki or Manapōuri catchment for Meridian.

Regulatory issues could also be exacerbated by climate change as weather becomes more variable, and water more unpredictable for the needs of other users. This could reduce Meridian's access to water either through direct government policy change (e.g. imposition of environmental taxes or through forms of water charging) or from local Resource Management Act (RMA) processes going through to the Environment Court.

It's important therefore that we continue to engage with RMA processes and other stakeholders who have strong interests in water issues in Aotearoa, on how we can all work together to pursue responsible use and access to water.

27 Environment Aotearoa Report 2019
www.mfe.govt.nz/Environment-Aotearoa-2019-Summary

We are committed to our relationships

Our continued access to water, and therefore our continued financial success, depends on strong relationships with government agencies and local communities and our long-term relationship with te rūnanga.

We recognise the mana whenua of Ngāi Tahu, particularly in relation to our hydro schemes in the Ngāi Tahu takiwā, and engage with them and other iwi in several ways. We recognise and respond to the kaupapa of ki uta ki tai (from the mountains to the sea) and work closely with local rūnanga (Arowhenua, Awarua, Hokonui, Moeraki, Ōraka Aparima, Waihao and Waihōpai) through Te Ao Marama and the Waitaki Governance Group as well as trusts to enhance mahinga kai and native fish in the Waitaki and Waiau catchments. In the past year we have worked closely with Ngāi Tahu to develop signage at key sites around our catchment areas. We helped develop the Punatahi Visitor Centre at the bottom of Lake Pūkaki, and unveiled other signage across the district, because it's important that Ngāi Tahu's history is shared with all visitors so we can all better appreciate and understand the area's importance.

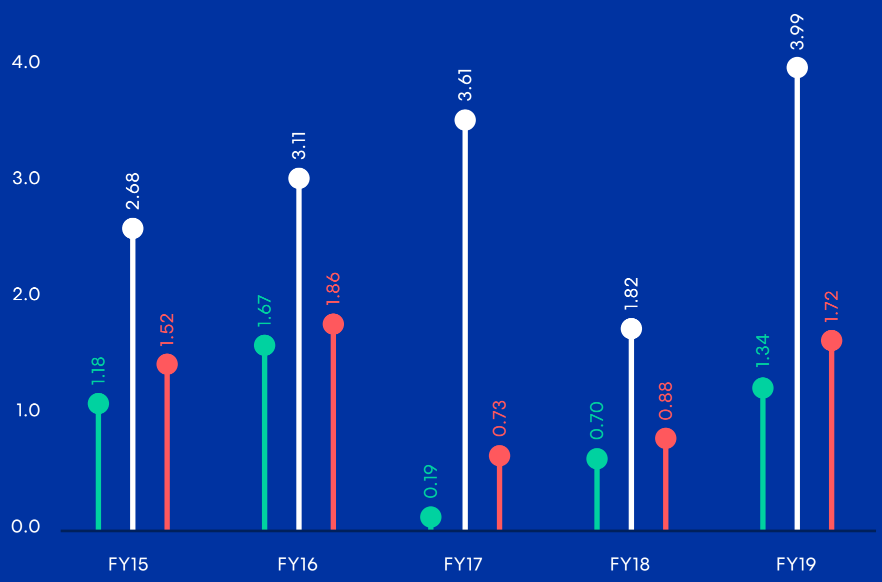
We also hold meetings in specific communities around our wind assets regarding consents. We want people, groups and communities to feel included and consulted in relation to our operations.

Powering up local communities

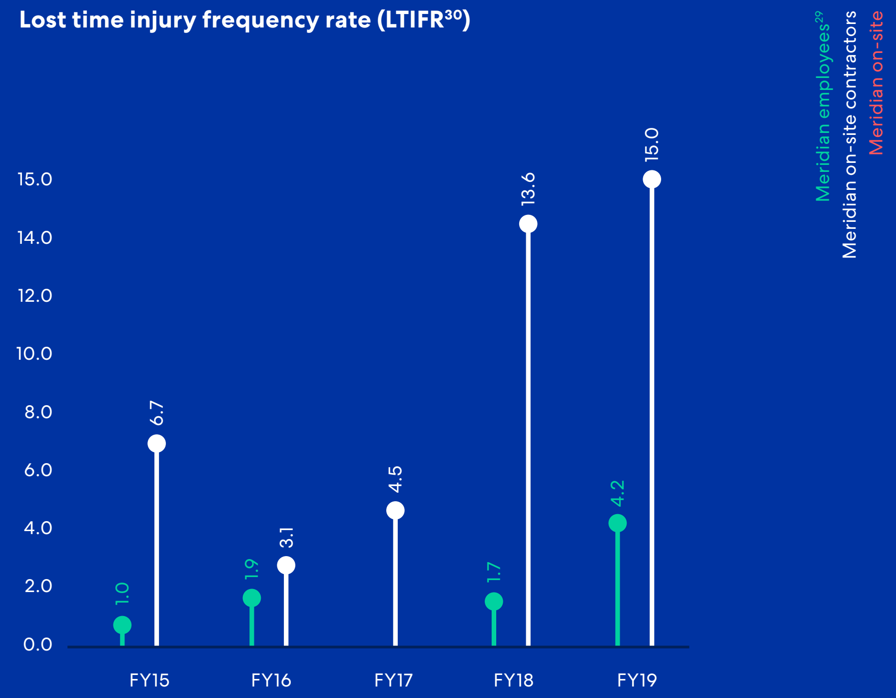
Local employment helps small local communities to flourish and attracts people back to smaller towns.

By building good relationships with and doing good by locals, we demonstrate that we want to be locally involved and supportive and it helps us build strong, mutual relationships with the local communities in which we operate. For 12 years, our community fund Power Up has been supporting local projects in Te Āpiti, Mill Creek, Manapōuri, West Wind, White Hill, Te Uku and Waitaki. In that time we've been able to undertake a range of projects that are important to locals and invested over $7.5 million through 1,000 projects back into these local communities.

Total recordable injury frequency rate (TRIFR[28])



Lost time injury frequency rate (LTIFR[30])



28 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 off-site contractors, the TRIFR cannot be calculated as the number of hours worked for those periods has not been recorded.
29 Includes Meridian Australia generation staff.

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

Looking after our people

Keeping our people safe is critical to the responsible operation of our generation assets, and we want none of our people to have their lives and what they value in their lives put at risk from their work. We operate in technically challenging environments, with extremely large electrical and mechanical assets.

Our people work in a variety of locations – underground, inside large structures, on tall wind and hydro structures and close to large volumes of water. There is a risk that an incident will lead to the fatality of or serious injury to a staff member, a contractor, a customer or a member of the public. Our staff and contractors are also exposed to hazards on operating assets, on construction sites, in remote locations requiring a lot of on-road and off-road driving, and at customer sites when connecting and disconnecting power. These activities have been identified through our Fatal Risk Framework as posing a risk of high-consequences injuries and have controls in place following analysis using the Bow Tie approach.

Site-specific health and safety committees represent all employees on our sites, including contractors. These committees meet monthly to identify hazards and review incidents that have occurred. The representatives on these committees receive regular training in risk identification and controls and are supported by dedicated safety specialists in each of our business units, who assist with regular reviews of the hazards presented by our operations.

Our wind farms in Australia are fully embedded into our safety approach, and we've worked hard in the past year to integrate management of safety at the Australian hydro stations as well.

Generation and wholesale staff approaching retirement age

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

The skills required to manage, maintain and upgrade our assets are changing. The assets require broader expertise to run, particularly as we look to use technology to make efficiency and accuracy gains. We invest continuously in training programmes to raise safety and health awareness and encourage consistent behaviour and attitudes towards safety at work. Our engagement extends to our suppliers and contractors in the generation part of our business and beyond through direct engagement, tender processes and performance management meetings. Our approach goes beyond just our people's physical safety. We also have several programmes, including our Healthy Minds programme, that focuses on our employees' overall wellbeing and mental health.

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 one of our organisations elected health and safety representatives or site managers.

This year there were eight lost time injury incidents: three involving contractors; and five employees. Two of these incidents were serious. One involved a fingertip loss at Te Āpiti, where a contractor who had been working at the site for two years was involved in an incident with a complex web of causes. The other serious incident was a finger injury to a contractor working with a winch at Gate 22 on the Waitaki chain.

In the case of the fingertip loss, because Meridian had not had an incident like this for a long time, we engaged psychologist Dr Phil Voss to work with our people at Te Āpiti and look at whether we had any culture problems that could have caused it. We also did a refresher on Zero Induction Process (ZIP) training – a course that teaches personal responsibility and accountability for safety behaviour and results, looking at the 'why' we want to stay safe versus the 'how'.

The rest of the incidents were minor, involving slips, back pain and minor mishaps. While no-one wants to see anyone injured at work, we are pleased that these matters have been reported and that people are looking after themselves rather than soldiering on.

Overall, we are confident that our safety culture is robust and that we have honest reporting of unsafe behaviour (and positive reporting behaviour, including of hazards). We invest a considerable amount every year on safety and health training, helping our people to protect themselves. Our senior leaders engage with people on a regular basis and encourage them to speak up if work is unsafe, as is their right.

We're also an active member of Stay Live, an electricity industry forum focussing on working together across the sector to improve safety. We have several Meridian people involved – as chair of the forum and on multiple working groups. Later this year the Stay Live group will proudly launch a specific training and competency tool, an industry first, including a database detailing all contractors current state of training.

From one generation to the next

Gender balance is only one part of the people puzzle in the generation part of our business (see page 45).

A significant percentage of our experienced staff may soon be considering retirement. To help ensure that their skills are passed on, we have actively encouraged young professionals (often graduates) to join our teams and offered opportunities for people to complete their trade apprenticeships with us. Our goal is to ensure that as our older people consider retirement they are supported to transition out of work smoothly (for example through part-time arrangements) and that there is a clear succession plan for their areas of expertise.

Our powerful future

In New Zealand, wind and solar generation is becoming more viable as the country looks for ways to hit its renewable energy targets. In Australia, the opportunities for renewables are exciting but there is less commitment from federal and state governments.

Wind generation pipeline in New Zealand

At year end, we have a portfolio of generation options that are either consented or being investigated further. Together these represent important opportunities to increase renewable generation in New Zealand significantly, with 1,148GWh of consents, options on 1,135GWh and investigations underway for a further 390GWh.

By way of context, we are forecasting an overall increase in demand of at least 0.5–1% per year for the next few years, which equates to an additional 2,000 to 4,000GWh of demand over the next decade (accelerated decarbonisation efforts in the wider economy may add to this).

Preliminary work continues with our consented wind farm in Hawke's Bay, including applying for a variation to the consent to accommodate larger wind turbines. Should we be granted the variation, we intend to start physical works at the beginning of 2020, subject to final Meridian Board approval.

Meanwhile, at our Te Āpiti wind farm, the New Zealand Transport Agency (NZTA) have proposed a replacement route for the Manawatū Gorge section of State Highway 3 that will go directly through our site. This could affect us financially, and reduce the amount of renewable generation available to New Zealand. Our goal in working this through with NZTA is to ensure the continued operation of the wind farm during construction, and avoid the removal of turbines. To date NZTA has appointed a consortium to manage construction, and we remain hopeful that any impacts can be minimised.

Conversations around Waitaki reconsenting underway

Our consents for the Waitaki Power Scheme, which plays a critical role in providing renewable energy for New Zealand, expire in 2025.

We have begun work on re-consenting the scheme on a like-for-like basis, meaning we are not asking for any more water (which could increase environmental impacts) or any less (which would decrease the amount of renewable energy generated for the country). Any changes to our access to water do, however, represent a significant financial risk. If we have less water to generate from, our ability to provide a steady return to our shareholders could be affected. Because this matter is so important to us, we have entered into early conversations with most of our stakeholders, with scientific studies either planned or underway. We expect to lodge our application around 2022/23.

Removing the barriers

We continue to investigate several new wind sites in New Zealand, making good progress in building a portfolio of options. Consenting remains our biggest hurdle.

The current Resource Management Act does not in our view allow for a fair and balanced conversation on consents for renewable electricity generation. Our hope is that, with the expected passing of the Climate Change Response (Zero Carbon) Amendment Bill later this year, we will be able to engage the Government to make the Resource Management Act framework more streamlined while still creating opportunities for us to work with communities in a way that provides co-benefits and meaningful connections for both.

Globally, the costs involved in building wind infrastructure and then integrating it into standard energy networks have been significant barriers. That is changing for the better. One of the major attractions for more wind generation now is that the cost has reduced significantly and the machinery is becoming more efficient. Solar generation too is coming down in price, and within 10 years a continuing decline in the cost of utility-scale solar installations may well represent an unsubsidised way to make significant amounts of renewable energy alongside wind, geothermal and hydro. Another key advantage in Aotearoa in terms of integration is that our hydro backbone enables much easier and cheaper integration of intermittent generation like wind and solar into the overall network than in virtually any other country in the world.

Our determination for New Zealand electricity to be zero carbon

New Zealand currently generates around 85% renewable electricity, primarily through water, wind and geothermal. This is significantly more than most other countries. In addition, we already have many of the features that are necessary for a very low carbon electricity future, including a mature wholesale market, a robust regulatory framework and a significant volume of flexible hydro generation.

We're confident that our market is one of the best in the world, environmentally and from a regulatory perspective. Everything points to geothermal and wind generation being the cheapest and most viable option for building additional capacity and to replace fossil-fuel power stations as they retire, particularly as the cost of wind technology continues to fall and the price of carbon continues to rise. So we remain confident that the current market structure and the introduction of increased carbon pricing through the Emissions Trading Scheme will create the investment incentives needed for Aotearoa to reach at least 95% renewable energy within the next 10–15 years (once larger scale thermal plants are retired).

As we discussed in last year's report, though, the last 5% will be more difficult and expensive because the country still needs thermal fuel to make up for longer-term climatic events such as extended dry spells. Stored thermal generation capacity is useful in that it can be activated to handle the 3,000–5,000GWh energy deficits that occur in some years. We are investigating how the system could meet those deficits in non-fossil-fuel dependent ways.

Opportunities and challenges for renewables in Australia

Things are more complicated in Australia, where fossil-fuel-based generation still makes up the majority of electricity production. The challenge is to decarbonise the sector while maintaining acceptable price and reliability.

As part of our commitment to SDG13 Climate Action and SDG7 Affordable and Clean Energy, we continue to investigate how we can support a faster conversion of the Australian electricity system to renewable energy.

In Australia, our annual renewable generation is sitting at around 728GWh, which represents around 5% of our overall Group generation volume. Our medium- to long-term plan is to continue to invest in renewable energy as this has three key advantages: it is increasingly attractive to consumers in the Australian market; it's good for the country; and it supports continued customer growth for us through the Powershop brand.

Rewarding strong performance

As a business

We depend heavily on our people to deliver strong returns for our shareholders. We have structured our remuneration to attract the best people we can, to retain them in our business and to remunerate them competitively for their contributions.

Our approach to remunerating our people

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

Our remuneration philosophy is guided by the principles that remuneration will

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

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

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

Fixed remuneration

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

Short-term incentive (STI)

The STI is an at-risk incentive, which may be offered for a specific year by invitation from the Board. Potential STI payments reflect 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.

The STI opportunity within total remuneration reflects the complexity and levels of the roles. The CE had an STI opportunity of 40% of salary, and the Executive Team STI opportunity was 30%.

Long-term incentive (LTI)

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

The LTI opportunity is 40% of salary for the CE and 30% of salary for the Executive Team. Vesting of the LTI is contingent on 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 84.

Employee share ownership
Employees are invited to join Meridian's employee share ownership plan, MyShare. Under MyShare, Meridian shares are purchased for participating employees, funded by monthly pay deductions of between $500 and $5,000 per annum. After three years, participants may be eligible for award shares subject to ongoing employment (Tenure Award Shares) and the company TSR outperforming a peer group of competitors (Performance Award Shares). In FY19, 50% of employees participated in MyShare.

Employee remuneration range
The number of employees and former employees of Meridian and its subsidiaries (not including directors) who during the year ended 30 June 2019 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	66
$110,000–119,999	75
$120,000–129,999	57
$130,000–139,999	46
$140,000–149,999	37
$150,000–159,999	31
$160,000–169,999	18
$170,000–179,999	21
$180,000–189,999	12
$190,000–199,999	9
$200,000–209,999	10
$210,000–219,999	10
$220,000–229,999	4
$230,000–239,999	7
$240,000–249,999	3
$250,000–259,999	3
$260,000–269,999	3
$270,000–279,999	2
$280,000–289,999	4
$290,000–299,999	4
$300,000–309,999	2
$310,000–319,999	3
$320,000–329,999	4
$330,000–339,999	3
$360,000–369,999	1
$380,000–389,999	2
$470,000–479,999	1
$490,000–499,999	1
$520,000–529,999	1
$610,000–619,999	2
$670,000–679,999	1
$690,000–699,999	1
$730,000–739,999	1
$760,000–769,999	1
$1,030,000–1,039,999	1
$1,490,000–1,499,999	1
	448[31]

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

Chief Executive remuneration

Chief Executive remuneration for performance period ending 30 June 2019

Year	Base salary	Taxable benefits[32]	Fixed rem[33]	MyShare[34]	Pay for performance			Total rem
					STI[35]	LTI[36]	Subtotal	
FY19 Neal Barclay	$973,750	$38,950	$1,012,700	$2,500	$431,086	$248,909	$679,995	$1,695,195

Chief Executive remuneration for performance period ending 30 June 2018

Year	Base salary	Taxable benefits[32]	Fixed rem[33]	MyShare[34]	Pay for performance			Total rem
					STI[35]	LTI[36]	Subtotal	
FY18 CE Total	**$1,120,545**	**$44,822**	**$1,165,367**	**$4,274**	**$384,919**	**$601,924**	**$986,843**	**$2,156,484**
FY18 CE1 Mark Binns	$645,545	$25,822	$671,367	$1,774	$216,999	$357,901	$574,900	$1,248,041
FY18 CE2 Neal Barclay	$475,000	$19,000	$494,000	$2,500	$167,920	$244,023	$411,943	$908,443

Notes

- MyShare is the $2,500 award shares related to participation in the FY17 MyShare plan.
- The LTI figure is payment relating to the full vesting of the FY17 LTI scheme, from when Neal Barclay was in a previous management role.

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 FY19 the company's KiwiSaver contributions were $57,608 for Neal Barclay.

Five year remuneration summary

Year	Single figure rem	% STI against maximum	% vested LTIs against maximum[37]	Span of LTI performance period
FY19	$1,695,195	90.91%	100%	FY17–FY19
FY18	$2,156,484	72.8%	75%	FY16–FY18
FY17	$2,379,768	79.29%	100%	FY15–FY17
FY16	$2,370,556	86.34%	100%	FY14–FY16
FY15	$1,909,121	82.93%	n/a	

32 Taxable benefits are 4% company KiwiSaver contributions on salary.
33 Fixed remuneration is salary plus company KiwiSaver contributions.
34 MyShare is gross value of award shares received in the applicable period.
35 STI is the potential payment based on performance achieved for the applicable period and includes 4% company KiwiSaver contributions.
36 LTI is grossed up for PAYE and includes 4% company KiwiSaver contributions.
37 The LTI plan was introduced in FY14 and the first plan vested in FY16. Prior to that no LTI was offered.

Breakdown of Chief Executive pay for performance (FY19)

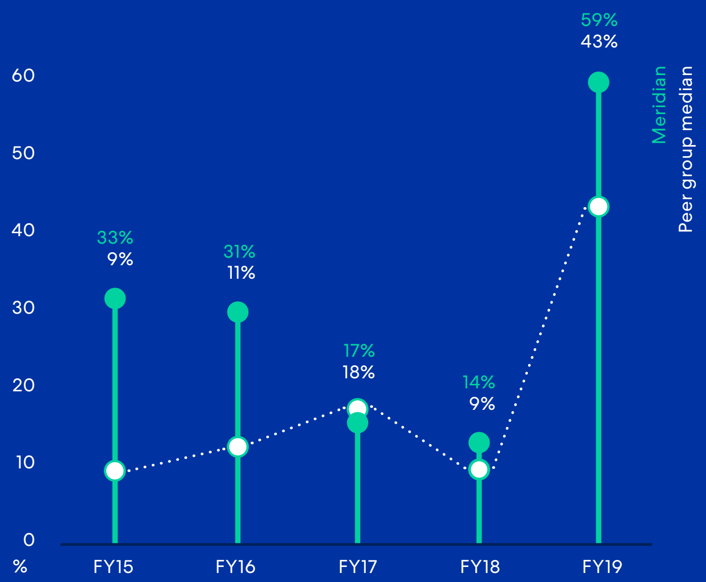
Description		Performance measures	% achieved
STI	40% of base salary. Combination of company result and a scorecard of financial and non-financial company measures.	60% weighting on company performance (company profit, which comprises Group EBITDAF minus capital charge).	126.7%
		40% weighting on performance against a Board-approved scorecard comprising financial and non-financial objectives, as shown in the table below.	76%
LTI	Conditional awards of shares under LTI plan. 40% of base salary.	Absolute TSR over the relevant assessment period: · must be positive; and > 50th percentile/median TSR of the peer group[38].	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%

38 Peer group comprises AGL Energy, Origin Energy, Contact Energy, Mercury NZ, Trustpower and Genesis Energy.

Pay for Performance Scorecard Measures for FY19

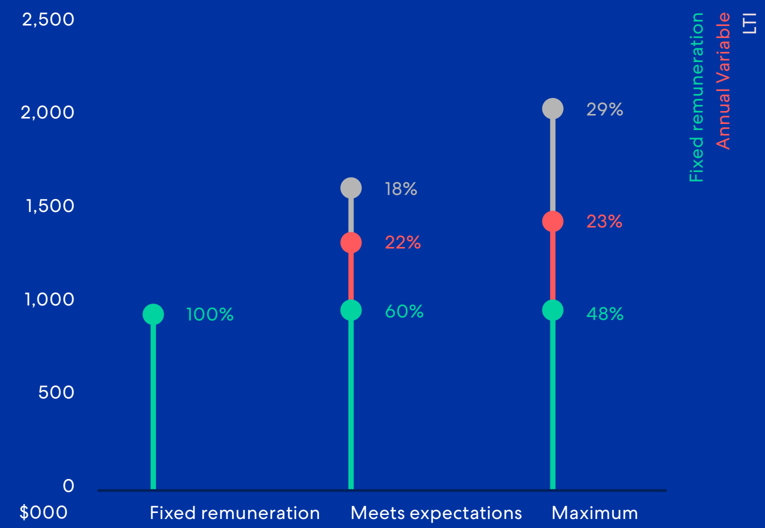
Performance area	Measures	Weighting
Financial/Stewardship	· Total Shareholder Return · Delivery of consenting milestones	25%
Customer	· New Zealand retail netback · Australian customer numbers · Net Promoter Score – measurement for each brand	25%
Future Development	· Wind development pipeline	20%
Employees	· Engagement · Safety Culture · Diversity & Inclusion progress	15%
Environment	· Progress against sustainability initiatives	15%

Five-year summary – performance (Meridian Energy vs peer group[39])



39 Peer group comprises AGL Energy, Origin Energy, Contact Energy, Mercury NZ, Trustpower and Genesis Energy.

Chief Executive remuneration performance pay for FY19



The TSR summary above illustrates the performance of Meridian's shares against a peer group of companies between 30 June 2015 and 30 June 2019. TSR performance outcomes are independently validated by external experts.

The chart above depicts elements of the CE's remuneration design under various scenarios for the year ended 30 June 2019 as a proportion of total remuneration.

Approved director remuneration for FY19

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

	FY18	FY19
Board fees	$1,000,000	$1,000,000
Committee fees	$100,000	$100,000
Total pool	$1,100,000	$1,100,000

Individual Board – approved annual fee breakdown

Position held	FY18	FY19
Chair	$200,000	$200,000
Deputy Chair	$140,000	$140,000
Director	$110,000	$110,000
Audit & Risk Committee Chair	$22,500	$22,500
Audit & Risk Committee member	$10,000	$10,000
Safety & Sustainability Committee Chair	$15,000	$15,000
Safety & Sustainability Committee member	$9,200	$9,200
Remuneration & Human Resources Committee Chair	$15,000	$15,000
Remuneration & Human Resources Committee member	$9,100	$9,100

Director remuneration received in FY19

Name of director	Board fees	Audit & Risk Committee	Remuneration & Human Resources Committee	Safety & Sustainability Committee	Total remuneration
Chris Moller[40] (Chair)	$200,000	–	–	–	$200,000
Peter Wilson (Deputy Chair)[41]	$140,000	$10,000	–	$14,033	$164,033
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[42]	$17,142	–	–	$2,337 (Chair)	$19,479
Mark Verbiest	$110,000	–	$9,100	–	$119,100
Total	**$907,142**	**$42,500**	**$24,100**	**$25,570**	**$999,312**

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 FY19.

40 Chris Moller does not receive additional fees for committee membership.
41 Peter Wilson became Chair of the safety and Sustainability Committee from September 2018.
42 Steve Reindler resigned from the Board effective 27 August 2018, so fees do not represent a full year.

Remuneration paid to non-executive directors in their capacity as directors of subsidiaries of Meridian during the year ended 30 June 2019 was:

Name of director	Subsidiary	Fees
Nicola Kennedy (independent Chair)	Flux Federation Limited	$66,668
Catherine Reynolds (independent director)	Flux Federation Limited	$46,667
Michael Koziarski (independent director)	Flux Federation Limited	$25,833

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

Other remuneration report components

Long-term incentive (LTI) plan

The LTI plan 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; and
- The company's TSR compared to a benchmark peer group.

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

- If the company's TSR over the three-year period exceeds the 50th percentile TSR of the benchmark peer group, at least 50% of an executive's shares will vest.
- 100% shares will vest on meeting the 75th percentile TSR of the peer group, with vesting on a straight-line basis between these two points.
- 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 (i.e. in absolute terms is less than zero) or if the TSR does not meet the peer group relative TSR hurdle of the 50th percentile, the shares are forfeited to the trustee and the relevant executive receives no benefits under the LTI plan. Where the TSR is greater than the 50th percentile of the benchmark peer group, but below the 75th percentile, shares that have not vested will also be forfeited.

For the LTI plan that vested at the end of FY19, the level of vesting was 100%. Therefore, the outstanding balance of the interest-free loans at 30 June 2019 of $555,162 has now been repaid. A total of 223,623 shares has been transferred to the eligible participants.

Other information provided in Corporate Governance Statement

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

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

Mr Barclay will be employed as CE until his employment is terminated in accordance with his employment agreement. Pursuant to the employment agreement, the CE and Meridian have mutual rights of termination on the provision of six months' written notice. Meridian may also terminate the CE's employment on the grounds of redundancy or serious misconduct or where an act of bankruptcy is committed. The CE will be entitled to receive certain termination payments following the termination of his employment.

Further disclosures

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

Meridian Energy

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

The Board has determined that as at 30 June 2019, all directors are independent having regard to the NZX Listing Rules and the factors set out in the NZX Corporate Governance Code.

Company name	Directors
Meridian Energy Limited	Anake Goodall, Chris Moller, Jan Dawson, Mark Cairns, Mark Verbiest, Mary Devine, Peter Wilson, Steve Reindler (ceased 27 August 2018)

Current Board and Executive team gender composition

In accordance with the NZX Listing Rules, the gender make-up of Meridian's directors and officers as at 30 June 2019 is:

Company name	As at 30 June 2019		As at 30 June 2018	
	Female	Male	Female	Male
Number of directors	2	5	2	6
Percentage of directors	28.6%	71.4%	25.0%	75.0%
Number of officers[43]	2	7	1	7
Percentage of officers	22.2%	77.8%	12.5%	87.5%

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

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	Further information
Dam Safety Intelligence Limited	Neal Barclay, Jason Stein	
Flux Federation Limited	Jason Stein, Michael Roan (appointed 5 June 2019), Neal Barclay (appointed 5 June 2019), Gillian Blythe (A)	Paul Chambers (ceased 12 April 2019), Nicola Kennedy (ceased 5 June 2019), Catherine Reynolds (Gould) (ceased 5 June 2019), Michael Koziarski (appointed 19 February 2019, ceased 5 June 2019)
Meridian Energy Captive Insurance	Neal Barclay, Michael Roan (appointed 28 May 2019), Jason Stein	Paul Chambers (ceased 12 April 2019)
Meridian Energy International Limited	Neal Barclay, Michael Roan (appointed 28 May 2019), Jason Stein	Paul Chambers (ceased 12 April 2019)
Meridian Limited	Neal Barclay, Michael Roan (appointed 28 May 2019), Jason Stein	Paul Chambers (ceased 12 April 2019)
Meridian LTI Trustee Limited	Mary Devine, Anake Goodall	
Powershop New Zealand Limited	Neal Barclay, Michael Roan (appointed 28 May 2019), Jason Stein (appointed 12 April 2019)	Paul Chambers (ceased 12 April 2019)
Three River Holdings No. 1 Limited	Neal Barclay, Michael Roan (appointed 28 May 2019), Jason Stein	Paul Chambers (ceased 12 April 2019), Kelvin Mason (A) (ceased 12 April 2019)
Three River Holdings No. 2 Limited	Neal Barclay, Michael Roan (appointed 28 May 2019), Jason Stein	Paul Chambers (ceased 12 April 2019), Kelvin Mason (A) (ceased 12 April 2019)

Australian subsidiaries

Company name	Directors	Further information
Meridian Australia Holdings Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Meridian Energy Australia Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Meridian Energy Markets Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Meridian Finco Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Meridian Wind Australia Holdings Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Meridian Wind Monaro Range Holdings Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Meridian Wind Monaro Range Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Mt Millar Wind Farm Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Mt Mercer Wind Farm Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
Powershop Australia Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)
GSP Energy Pty Limited	Neal Barclay, Michael Roan (appointed 12 June 2019), Ed McManus, Gillian Blythe (appointed 24 July 2018)	Paul Chambers (ceased 12 April 2019)

UK subsidiary

Company name	Directors	Further information
Flux-UK Limited	Neal Barclay, Jim Barrett	Paul Chambers (ceased 12 April 2019) Ari Sargent (ceased 3 May 2019)

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 opposite 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 Port of Tauranga Limited—Employee Port of Tauranga Trustee Company Limited—Director Quality Marshalling Limited—Chair Northport Limited—Director
Jan Dawson	Director, Meridian Energy Limited	AIG Insurance New Zealand Limited—Director Air New Zealand Limited—Director, Shareholder and Bondholder Beca Group Limited—Director[44] Mercury NZ Limited—Shareholder Westpac New Zealand Limited—Director (Chair from March 2015)
Mary Devine	Director, Meridian Energy Limited and Meridian LTI Trustee Limited	Briscoe Group—Director[44] Christchurch City Holdings Limited—Director[44] Foodstuffs (New Zealand) Limited—Director Foodstuffs South Island Limited—Director Hallenstein Glasson Holdings Limited—Director (Managing Director from 1 April 2019)[45] IAG New Zealand Limited—Director[44] IAG (NZ) Holdings Limited—Director[44]
Anake Goodall	Director, Meridian Energy Limited and Meridian LTI Trustee Limited	Impax Environmental Markets—Shareholder Moreton Resources Limited (formerly Cougar Energy Limited)—Shareholder Seed The Change – He Kākano Hāpai—Chair[45]
Chris Moller	Chair, Meridian Energy Limited	Contact Energy Limited—Shareholder Trustpower Limited—Bondholder Westpac New Zealand Limited—Director

Name	Position	Disclosures
Peter Wilson	Director, Meridian Energy Limited	Arvida Group—Chair Contact Energy Limited–Shareholder Farmlands Trading Society Limited—Director[44] Genesis Energy Limited–Bondholder Genesis Energy Limited—Shareholder Infratil Limited—Shareholder[45] Mercury NZ Limited—Bondholder Mercury NZ Limited—Shareholder
Mark Verbiest	Director, Meridian Energy Limited	ANZ Bank New Zealand Limited—Director Aspiring Foundation Trust—Trustee[44] Bear Fund NZ Limited—Director[44] Freightways Limited—Chair and Shareholder Infratil Limited—Shareholder Mycare Limited—Chair and Shareholder New Zealand Treasury Advisory Board New Zealand Treasury Commercial Operations Advisory Board—Member[44] NZ Council of Women—Advisory panel member[44] Southern Lakes Arts Festival Trust—Trustee Southern Alps Rescue Trust—Trustee Spark New Zealand—Shareholder[44] UDC Finance Limited—Chair[45] (ceasing 30 September 2019) Willis Bond Capital Partners Limited—Chair and Shareholder Willis Bond General Partner Limited—Chair

44 Entries removed by notices given by directors during the year ended 30 June 2019.
45 Entries added by notices given by directors during the year ended 30 June 2019.

As at 30 June 2019 one director of Meridian Energy Limited had disclosed, in accordance with section 148 of the Companies Act 1993, the acquisition 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
Mark Cairns					
Beneficial interest	2 April 2019	Acquisition	Shares	35,000	$4.174

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 2019, Meridian's directors' and officers' liability insurance was renewed to cover risks normally covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

Donations

The Meridian Energy Group made donations totalling $250,000 during FY19. 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 $0.8 million (2018: $0.7 million) to Deloitte Limited as audit fees in FY19.

The fees for other services undertaken by Deloitte Limited during FY19 totalled $0.1 million (2018: $0.1 million). These related to other assurance activities including reviews of carbon emissions, securities registers, vesting of the executive LTI plan, solvency return of Meridian Energy Captive Insurance Limited and trustee reporting.

Interests in Meridian Securities

In accordance with NZX Listing Rule 3.7.1(d), as at 30 June 2019 Meridian Energy Limited directors had the following relevant interests in Meridian Energy Limited Quoted Financial Products:

Director	Number of shares
Mark Cairns	235,000
Jan Dawson	51,300
Mary Devine	51,510
Anake Goodall	60,000
Chris Moller	92,880
Peter Wilson	99,170
Mark Verbiest	35,000

Senior managers' equity holdings

As at 30 June 2019, the following senior managers had relevant interests in Meridian Energy Limited equity:

	Number of shares
Neal Barclay	444,618
Mike Roan	226,932
Julian Smith	41,873
Guy Waipara	327,517

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

The table opposite lists the company's 20 largest registered shareholders as at 30 June 2019:

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	51.02
HSBC Nominees (New Zealand) Limited[46]	132,003,558	5.15
HSBC Nominees (New Zealand) Limited[46]	105,368,302	4.00
J.P. Morgan Chase Bank Na NZ Branch-Segregated Clients Acct[46]	92,929,558	3.63
Citibank Nominees (New Zealand) Limited[46]	73,813,643	2.88
Accident Compensation Corporation[46]	39,779,307	1.55
Custodial Services Limited	29,878,669	1.17
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited[46]	29,273,158	1.14
National Nominees New Zealand Limited[46]	28,009,446	1.09
Forsyth Barr Custodians Limited	27,335,668	1.07
TEA Custodians Limited Client Property Trust Account[46]	25,542,437	1.00
Custodial Services Limited	24,591,171	0.96
JBWere (NZ) Nominees Limited	24,083,397	0.94
HSBC Custody Nominees (Australia) Limited	21,626,958	0.84
FNZ Custodians Limited	18,825,645	0.74
BNP Paribas Nominees (NZ) Limited[46]	18,292,610	0.71
Custodial Services Limited	17,396,036	0.68
ANZ Wholesale Australasian Share Fund[46]	15,307,568	0.60
BNP Paribas Nominees (NZ) Limited[46]	14,869,829	0.58
Citicorp Nominees Pty Limited	10,628,541	0.42

As at 30 June 2019, 608,582,499 Meridian ordinary shares (or 23.74% of the ordinary shares on issue) were held through NZCSD.

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

The table opposite lists the company's 20 largest registered holders of MEL030 retail fixed-rate bonds as at 30 June 2019:

Names	Number of bonds	% of issued shares
BNP Paribas Nominees (NZ) Limited[46]	22,087,000	14.72
BNP Paribas Nominees (NZ) Limited[46]	16,800,000	11.20
Citibank Nominees (New Zealand) Limited[46]	13,300,000	8.87
FNZ Custodians Limited	13,041,000	8.69
Forsyth Barr Custodians Limited	12,444,000	8.30
TEA Custodians Limited Client Property Trust Account[46]	5,335,000	3.56
Investment Custodial Services Limited	5,048,000	3.37
Mt Nominees Limited[46]	4,000,000	2.67
Ning Gao	3,331,000	2.22
Custodial Services Limited	2,992,000	1.99
ANZ Custodial Services New Zealand Limited[46]	2,657,000	1.77
Custodial Services Limited	2,612,000	1.74
FNZ Custodians Limited	2,493,000	1.66
Custodial Services Limited	2,327,000	1.55
J.P. Morgan Chase Bank Na NZ Branch-Segregated Clients Acct[46]	2,220,000	1.48
Custodial Services Limited	1,752,000	1.17
University Of Otago Foundation Trust	1,400,000	0.93
FNZ Custodians Limited	1,132,000	0.75
Forsyth Barr Custodians Limited	1,105,000	0.74
Forsyth Barr Custodians Limited	1,100,000	0.73

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

The table opposite lists the company's 20 largest registered holders of MEL040 retail fixed-rate bonds as at 30 June 2019:

Names	Number of bonds	% of issued shares
BNP Paribas Nominees (NZ) Limited[46]	19,718,000	13.15
Citibank Nominees (New Zealand) Limited[46]	16,430,000	10.95
BNP Paribas Nominees (NZ) Limited[46]	11,050,000	7.37
Custodial Services Limited	7,725,000	5.15
FNZ Custodians Limited	7,382,000	4.92
Custodial Services Limited	7,064,000	4.71
Investment Custodial Services Limited	5,917,000	3.94
HSBC Nominees (New Zealand) Limited[46]	5,060,000	3.37
Forsyth Barr Custodians Limited	4,740,000	3.16
Custodial Services Limited	4,381,000	2.92
Custodial Services Limited	3,663,000	2.44
TEA Custodians Limited Client Property Trust Account[46]	3,446,000	2.30
J.P. Morgan Chase Bank Na NZ Branch[46]	3,000,000	2.00
National Nominees New Zealand Limited[46]	3,000,000	2.00
NZPT Custodians (Grosvenor) Limited	3,000,000	2.00
Custodial Services Limited	2,843,000	1.90
New Zealand Methodist Trust Association	2,357,000	1.57
Forsyth Barr Custodians Limited	2,060,000	1.37
JBWere (NZ) Nominees Limited	1,317,000	0.88
Woolf Fisher Trust Incorporated	1,300,000	0.87

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

The table opposite lists the company's 20 largest registered holders of MEL050 retail fixed-rate bonds as at 30 June 2019:

Names	Number of bonds	% of issued shares
ANZ Custodial Services New Zealand Limited[46]	52,890,000	26.45
FNZ Custodians Limited	16,526,000	8.26
Forsyth Barr Custodians Limited	15,443,000	7.72
Investment Custodial Services Limited	13,703,000	6.85
HSBC Nominees (New Zealand) Limited	11,900,000	5.95
BNP Paribas Nominees (NZ) Limited[46]	7,397,000	3.70
Custodial Services Limited	7,105,000	3.55
Custodial Services Limited	6,228,000	3.11
Custodial Services Limited	4,426,000	2.21
Citibank Nominees (New Zealand) Limited[46]	4,400,000	2.20
Mt Nominees Limited[46]	4,000,000	2.00
Mint Nominees Limited[46]	3,980,000	1.99
HSBC Nominees (New Zealand) Limited[46]	3,700,000	1.85
Custodial Services Limited	3,380,000	1.69
JBWere (NZ) Nominees Limited	2,918,000	1.46
NZPT Custodians (Grosvenor) Limited[46]	2,720,000	1.36
TEA Custodians Limited Client Property Trust Account[46]	2,420,000	1.21
Custodial Services Limited	1,737,000	0.87
Risk Reinsurance Limited	1,600,000	0.80
Forsyth Barr Custodians Limited	1,292,000	0.65

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

Substantial security holder

In accordance with the Financial Markets Conduct Act 2013, as at 30 June 2019 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 opposite:

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	51.02	21 May 2016

Distribution of security holders and holdings as at 30 June 2019

The table opposite sets out the distribution of security holders and holdings of Meridian Energy Limited ordinary shares as at 30 June 2019:

Size of holding	Number of holders	%	Number of shares	Holding quantity %
1–1,000	7,515	16.12	6,662,680	0.26
1,001–5,000	22,265	47.77	65,194,757	2.54
5,001–10,000	9,122	19.57	72,051,243	2.81
10,001–50,000	6,928	14.87	141,242,728	5.51
50,001–100,000	477	1.02	33,868,592	1.32
100,001–500,000	222	0.48	41,953,272	1.64
500,001 and over	76	0.16	2,202,026,728	85.92
Total	**46,605**	**100**	**2,563,000,000**	**100**

Bondholder statistics as at 30 June 2019

The table opposite provides information on the distribution of MEL030 retail fixed-rate bonds as at 30 June 2019:

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001–5,000	78	9.75	390,000	0.26
5,001–10,000	188	23.5	1,788,000	1.19
10,001–50,000	413	51.63	11,393,000	7.60
50,001–100,000	49	6.13	4,083,000	2.72
100,001–500,000	46	5.75	9,510,000	6.34
500,001 and over	26	3.25	122,836,000	81.89
Total	**800**	**100**	**150,000,000**	**100**

The table opposite provides information on the distribution of MEL040 retail fixed-rate bonds as at 30 June 2019:

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001–5,000	39	5.26	195,000	0.13
5,001–10,000	113	15.23	1,058,000	0.71
10,001–50,000	455	61.32	12,441,000	8.29
50,001–100,000	71	9.57	5,430,000	3.62
100,001–500,000	37	4.99	9,231,000	6.15
500,001 and over	27	3.64	121,645,000	81.10
Total	**742**	**100**	**150,000,000**	**100**

The table opposite provides information on the distribution of MEL050 retail fixed-rate bonds as at 30 June 2019:

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001–5,000	30	4.46	146,000	0.07
5,001–10,000	103	15.33	966,000	0.48
10,001–50,000	392	58.33	10,943,000	5.47
50,001–100,000	89	13.24	6,954,000	3.48
100,001–500,000	29	4.32	6,423,000	3.21
500,001 and over	29	4.32	174,568,000	87.28
Total	**672**	**100**	**200,000,000**	**100**

Waivers from NZX

No waivers were granted and published by NZX during FY19. Details of the waivers relied on by Meridian Energy Limited during FY19 are available on Meridian's website.

View 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 2019

Meridian Energy Limited had a Standard & Poor's corporate credit rating of **BBB+/Stable/A-2** in FY19.

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 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'[47] in more than 10% of the shares on issue (10% Limit).

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

Ascertaining whether a breach has occurred

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

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

Determining whether a breach has occurred

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

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

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

Effect of exceeding the 10% Limit

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

- comply with any notice that they receive from the company requiring them to dispose of shares or their relevant interest in shares, or take any other steps that are specified in the notice, for the purpose of remedying the breach and reducing their holding below the 10% Limit
- 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.

47 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 disposal of, that share. A person may also have a 'relevant interest' in a share in which another person has a 'relevant interest' depending on the nature of the relationship between them.

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

- no votes may be cast directly by a shareholder in respect of any of the shares in which a relevant interest is held in excess of the 10% Limit
- 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, which outlines our compliance with the NZX Corporate Governance Code and is available on our website.

View Corporate Governance Statement

The Corporate Governance Code is current as at 26 August 2019.

Meridian Group Workforce

	New Zealand[49]		Australia[50]		
Permanent employees	**Female**	**Male**	**Female**	**Male**	**Total**
Permanent full time[48]	418	501	19	51	989
Permanent part time	18	4	1	1	24
Temp/Fixed term employees					
Temp/fixed term full time	16	18	–	3	37
Temp/fixed term part time	17	10	–	2	29
Total	**469**	**533**	**20**	**57**	**1,079**

48 3 of these employees are based in the UK (all male).
49 143 of these employees work for Powershop New Zealand. 158 of these employees work for Flux Federation New Zealand.
50 7.79% of these staff are covered by collective bargaining agreements.

Membership of associations

	FY16	**FY17**	**FY18**	**FY19**
Total spent (NZD)	**$162,365**	**$242,513**	**$246,463**	**$211,927**
Largest contributions				
Value to electricity customers (ERANZ, Australian Energy Council)	$52,365	$167,763	$167,763	$122,077
Sustainable business (SBC, SBN)	$21,000	$18,500	$22,450	$22,450
Clean energy advocacy (CEC, NZWEA, NZ Hydrogen, Drive Electric)	$7,000	$21,750	$24,250	$35,400
Other Large Expenditures (Business NZ)	$82,000	$34,500	$32,000	$32,000

Financial performance

And as a result...

This year we achieved our best ever financial result by generating strongly into favourable wholesale market conditions, by focusing on growing our customer base and by encouraging our retail brands in Australia and New Zealand to build customer loyalty.

Group financial statements

Key

Subsequent event

Key judgements and estimates

Risks

Notes to the Group financial statements

Income Statement

	Note	2019 $M	2018 $M
Operating revenue	A2	**3,491**	2,762
Operating expenses	A3	**(2,653)**	(2,096)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**838**	666
Depreciation and amortisation	A3	**(276)**	(268)
Impairment of assets	A3	**(5)**	(2)
Gain on sale of assets	A3	**3**	7
Net change in fair value of electricity and other hedges	D1	**58**	(22)
Operating profit		**618**	381
Finance costs	A3	**(84)**	(82)
Interest income	A2	**1**	1
Net change in fair value of treasury instruments	D1	**(63)**	(4)
Net profit before tax		**472**	296
Tax expense	A4	**(133)**	(95)
Net profit after tax attributed to the shareholders of the parent company		**339**	**201**

Earnings per share (EPS) attributed to ordinary equity holders of the parent		Cents	Cents
Basic and diluted earnings per share	C3	**13.2**	**7.8**

Comprehensive Income Statement

	Note	2019 $M	2018 $M
Net profit after tax		**339**	201
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Asset revaluation	B1	**1,139**	–
Deferred tax on the above item	A4	**(320)**	–
		819	–
Items that may be reclassified to profit or loss:			
Net (loss)/gain on cash flow hedges		**(5)**	2
Exchange differences arising from translation of foreign operations		**(21)**	11
Income tax on the above items	A4	**1**	–
		(25)	13
Other comprehensive income for the year, net of tax		**794**	13
Total comprehensive income for the year, net of tax attributed to shareholders of the parent company		**1,133**	**214**

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

Balance Sheet

	Note	2019 $M	2018 $M
Current assets			
Cash and cash equivalents	C5	**78**	60
Trade receivables	C6	**292**	261
Customer contract assets	B3	**20**	19
Financial instruments	D1	**118**	77
Other assets		**34**	32
Total current assets		**542**	**449**
Non-current assets			
Property, plant and equipment	B1	**8,825**	7,941
Intangible assets	B2	**59**	60
Deferred tax	A4	**40**	46
Financial instruments	D1	**191**	136
Total non-current assets		**9,115**	**8,183**
Total assets		**9,657**	**8,632**

	Note	2019 $M	2018 $M
Current liabilities			
Payables and accruals		**303**	267
Employee entitlements		**17**	16
Customer contract liabilities		**16**	14
Current portion of term borrowings	C7	**167**	450
Finance lease payable	C8	**1**	1
Financial instruments	D1	**36**	52
Current tax payable		**80**	43
Total current liabilities		**620**	**843**
Non-current liabilities			
Term borrowings	C7	**1,303**	1,023
Deferred tax	A4	**1,968**	1,683
Provisions		**9**	9
Finance lease payables	C8	**31**	47
Financial instruments	D1	**209**	129
Term payables		**60**	75
Total non-current liabilities		**3,580**	**2,966**
Total liabilities		**4,200**	**3,809**
Shareholders' equity			
Share capital	C2	**1,599**	1,598
Reserves		**3,858**	3,225
Total shareholders' equity		**5,457**	**4,823**
Total liabilities and shareholders' equity		**9,657**	**8,632**

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 23 August 2019.

Chris Moller,
Chair, 23 August 2019

Jan Dawson,
Chair, Audit and Risk Committee, 23 August 2019

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

Statement of Changes in Equity

$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 2017		1,598	1	4,249	(27)	(1)	(725)	**5,095**
Net profit for the 2018 financial year		–	–	–	–	–	201	**201**
Other comprehensive income								
Net gain 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 and 1 July 2018		**1,598**	**1**	**4,249**	**(16)**	**1**	**(1,010)**	**4,823**
Net profit for the 2019 financial year		**–**	**–**	**–**	**–**	**–**	**339**	**339**
Other comprehensive income								
Asset revaluation	B1	**–**	**–**	**1,139**	**–**	**–**	**–**	**1,139**
Net loss on cash flow hedges		**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Exchange differences from translation of foreign operations		**–**	**–**	**–**	**(21)**	**–**	**–**	**(21)**
Income tax relating to other comprehensive income	A4	**–**	**–**	**(320)**	**–**	**1**	**–**	**(319)**
Total other comprehensive income, net of tax		**–**	**–**	**819**	**(21)**	**(4)**	**–**	**794**
Total comprehensive income for the year, net of tax		**–**	**–**	**819**	**(21)**	**(4)**	**339**	**1,133**
Share-based transactions	C2,F1	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Dividends paid	C4	**–**	**–**	**–**	**–**	**–**	**(500)**	**(500)**
Balance at 30 June 2019		**1,599**	**1**	**5,068**	**(37)**	**(3)**	**(1,171)**	**5,457**

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

Statement of Cash Flows

	Note	2019 $M	2018 $M
Operating activities			
Receipts from customers		**3,463**	2,765
Interest received		**1**	1
Payments to suppliers and employees		**(2,628)**	(2,152)
Interest paid		**(77)**	(79)
Income tax paid		**(124)**	(108)
Operating cash flows	C5	**635**	427
Investing activities			
Sale of property, plant and equipment		**–**	23
Purchase of property, plant and equipment		**(45)**	(33)
Purchase of intangible assets		**(24)**	(22)
Purchase of subsidiary		**–**	(182)
Australian stamp duty paid		**–**	(10)
Investing cash flows		**(69)**	(224)
Financing activities			
Term borrowings drawn		**439**	462
Term borrowings repaid		**(484)**	(200)
Finance lease paid		**(1)**	(1)
Dividends paid	C4	**(500)**	(486)
Financing cash flows		**(546)**	(225)
Net increase/(decrease) in cash and cash equivalents		**20**	(22)
Cash and cash equivalents at beginning of year		**60**	80
Effect of exchange rate changes on net cash		**(2)**	2
Cash and cash equivalents at end of year	C5	**78**	**60**

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

About this report

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

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

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

The registered office of Meridian is Level 2, 55 Lady Elizabeth Lane, Wellington. Meridian Energy Limited is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). As a mixed ownership company, majority owned by Her Majesty the Queen in Right of New Zealand, it is bound by the requirements of the Public Finance Act 1989.

These financial statements have been prepared:

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

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

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

Note	
A2	Income
B1	Property, plant + equipment
B3	Customer contract assets
D1	Financial risk management

Basis of consolidation

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

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

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

Foreign currency

Transactions denominated in foreign currencies are converted at the exchange rates at the date of the transactions. Foreign currency monetary assets and liabilities are translated at the rate prevailing at balance date, 30 June 2019.

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 2019 was 0.9571 (30 June 2018: 0.9138). A full list of international subsidiary functional currencies is provided in note E1 Subsidiaries.

Significant matters in the financial year

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

Hydro inflows

Good hydro storage existed at the beginning of this financial year but conditions became drier in spring and national storage declined. This combined with gas pipeline issues resulted in periods of high spot prices over an average of $300 in October. These high prices dropped slightly but remained above average in the latter half of the financial year. Hydro inflows and storage also improved in the latter half of the year and as a result Meridian was able to generate strongly into the market to meet customer demand, ultimately increasing revenues.

Adoption of NZ IFRS 9: Financial Instruments

Meridian Group retrospectively adopted NZ IFRS 9 during the financial year. The implementation of the new standard has not resulted in any material impacts to the primary financial statements. The prior period has therefore not been restated as a result of the adoption.

There have been several additions to Meridian's note disclosures due to the implementation of both NZ IFRS 9 and the associated reporting requirements in NZ IFRS 7. As such, users will note both additions and amendments have been made in the following areas:

- Section C: Provision for Credit Losses
- Section D: Key Financial Risks & Risk Management
- Section D: Hedging Instruments
- Section D: Hedge Accounting

The changes provide additional information compared to prior periods, or amended presentation style compared to prior periods.

Generation structures and plant revaluation

At 30 June 2019 a valuation of Meridian's generation structures and plant assets has been undertaken, to determine the fair value of the assets as at this date. Meridian uses an independent valuer to determine a valuation range on which the Board's ultimate valuation decision is based. The valuation range is set using an income approach based primarily on capitalisation of earnings with additional consideration of discounted cashflows (DCFs).

The valuation has resulted in a net increase of $819 million from 30 June 2018 (net of deferred tax).

Key factors that influenced the valuation were:

- higher market multiples for Meridian and its sector peers; and
- the current low interest rate environment in New Zealand and Australia.

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

Non-GAAP measures

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

EBITDAF

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

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

Energy margin

Energy margin provides a measure of financial performance that, unlike total revenue, accounts for the variability of the wholesale 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.

Net debt

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

A
Financial performance

In this section.

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

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

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

A1 Segment performance

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

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

New Zealand wholesale

- Generation of electricity and its sale into the New Zealand wholesale electricity market.
- Purchase of electricity from the wholesale electricity market and its sale to the NZ Retail segment and to large industrial customers, including New Zealand Aluminium Smelter (NZAS) representing the equivalent of 39% (30 June 2018: 40%) 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 $74–$79 per megawatt hour (MWh) and electricity sold to business and industrial customers on spot (variable price) agreements is purchased from the Wholesale segment at prevailing wholesale spot market prices.

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

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

Australia

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

Other and unallocated

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

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

A

A1 Segment performance continued

	NZ Wholesale		NZ Retail		Australia		Other and Unallocated		Inter-segment		Total	
	2019 $M	2018 $M	2019 $M	2018 $M	2019 $M	2018 $M	2019 $M	2018 $M	2019 $M	2018 $M	2019 $M	2018 $M
Contracted sales, net of distribution costs	**524**	435	**654**	629	**152**	124	**–**	–	**–**	–	**1,330**	1,188
Cost to supply customers	**(1,985)**	(1,259)	**(502)**	(470)	**(150)**	(99)	**–**	–	**613**	535	**(2,024)**	(1,293)
Net cost of hedging	**126**	41	**–**	–	**4**	(25)	**–**	–	**–**	–	**130**	16
Generation spot revenue	**1,672**	1,039	**–**	–	**113**	87	**–**	–	**–**	–	**1,785**	1,126
Inter-segment electricity sales	**613**	535	**–**	–	**–**	–	**–**	–	**(613)**	(535)	**–**	–
Virtual asset swap margins	**11**	(2)	**–**	–	**–**	–	**–**	–	**–**	–	**11**	(2)
Other market revenue/(costs)	**(7)**	(6)	**2**	2	**(1)**	(1)	**–**	–	**–**	–	**(6)**	(5)
Energy margin	**954**	**783**	**154**	**161**	**118**	**86**	**–**	**–**	**–**	**–**	**1,226**	**1,030**
Other revenue	**2**	2	**12**	12	**2**	1	**29**	20	**(20)**	(13)	**25**	22
Dividend revenue	**–**	–	**–**	–	**–**	–	**41**	46	**(41)**	(46)	**–**	–
Energy transmission expense	**(125)**	(122)	**–**	–	**(6)**	(5)	**–**	–	**–**	–	**(131)**	(127)
Gross margin	**831**	**663**	**166**	**173**	**114**	**82**	**70**	**66**	**(61)**	**(59)**	**1,120**	**925**
Employee expenses	**(28)**	(28)	**(31)**	(31)	**(13)**	(9)	**(30)**	(27)	**–**	–	**(102)**	(95)
Electricity metering expenses	**–**	–	**(33)**	(31)	**–**	–	**–**	–	**–**	–	**(33)**	(31)
Other operating expenses	**(63)**	(56)	**(35)**	(34)	**(37)**	(29)	**(22)**	(22)	**10**	8	**(147)**	(133)
EBITDAF	**740**	**579**	**67**	**77**	**64**	**44**	**18**	**17**	**(51)**	**(51)**	**838**	**666**
Depreciation and amortisation	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(276)**	(268)
Impairment of assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(5)**	(2)
Gain/(Loss) on sale of assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3**	7
Net change in fair value of electricity and other hedges	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**58**	(22)
Operating profit											**618**	381
Finance costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(84)**	(82)
Interest income	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1**	1
Net change in fair value of treasury instruments	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(63)**	(4)
Net profit before tax											**472**	**296**
Tax expense	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(133)**	(95)
Net profit after tax	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**339**	201
Reconciliation of energy margin												
Electricity sales revenue, net of hedging	**2,492**	1,825	**1,297**	1,201	**290**	249	**–**	–	**(613)**	(535)	**3,466**	2,740
Electricity expenses, net of hedging	**(1,538)**	(1,042)	**(630)**	(553)	**(107)**	(100)	**–**	–	**613**	535	**(1,662)**	(1,160)
Electricity distribution expenses	**–**	–	**(513)**	(487)	**(65)**	(63)	**–**	–	**–**	–	**(578)**	(550)
Energy margin	**954**	**783**	**154**	**161**	**118**	**86**	**–**	**–**	**–**	**–**	**1,226**	**1,030**

A

A2 Income

Operating revenue	2019 $M	2018 $M
Electricity sales to customers	1,773	1,652
Electricity generation, net of hedging	1,693	1,088
Electricity related services revenue	8	7
Other revenue	17	15
	3,491	2,762

Total revenue by geographic area	2019 $M	2018 $M
New Zealand	3,187	2,502
Australia	292	249
United Kingdom	12	11
	3,491	2,762

	2019 $M	2018 $M
Interest income	1	1

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; and
- 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.

Key judgements and estimates – Revenue.

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

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

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

Discounts and payment terms
Where a discount is offered revenue is 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.

A

A3 Expenses

Operating expenses	2019 $M	2018 $M
Electricity expenses, net of hedging	**1,662**	1,160
Electricity distribution expenses	**578**	550
Electricity transmission expenses	**131**	127
Employee expenses	**102**	95
Electricity metering expense	**33**	31
Other expenses	**147**	133
	2,653	**2,096**

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; and
- related charges and services.

Electricity expenses are influenced by 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 rate expected to apply at the time of settlement.

Contributions to defined contribution plans (largely KiwiSaver) were $5 million in 2019 (30 June 2018: $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.

Depreciation and amortisation	Note	2019 $M	2018 $M
Depreciation	B1	**250**	247
Amortisation of intangibles	B2	**26**	21
		276	**268**

Finance costs	Note	2019 $M	2018 $M
Interest on borrowings		**78**	74
Interest on electricity option premium		**2**	2
Interest on finance lease payable	C8	**4**	6
		84	**82**

Impairment and gain on sale of assets	Note	2019 $M	2018 $M
Impairment of property, plant and equipment	B1	**5**	2
(Gain) on sale on disposal of assets		**(3)**	(7)

Impairment of non-financial assets

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

The impairment in 2019 is a result of the revaluation of our generation structures and plant and relates specifically to our Australian generation assets. Refer to note B1 PP&E for further detail.

In 2019 $2 million of the gain on sale on disposal of assets relates to the derecognition of the Mt Mercer Finance lease (refer to note C8 Finance lease payable for further detail). A $13 million gain was recorded in the income statement due to the derecognition of the finance lease liability which was largely offset by an $11 million loss on disposal of the corresponding asset.

During the 2018 financial year the book value of Central Wind consent was impaired as development is unlikely to occur under the terms of the existing resource consent.

A

A4 Taxation

Tax expense	2019 $M	2018 $M
Current income tax expense	**161**	121
Adjustments to tax of prior years	**–**	(1)
Total current tax expense	**161**	**120**
Deferred tax	**(28)**	(35)
Stamp duty paid on asset acquisition	**–**	10
Total tax	**133**	**95**
Reconciliation to profit before tax		
Profit before tax	**472**	**296**
Income tax at applicable rates	**133**	83
Expenditure not deductible for tax	**–**	3
Income tax (over)/under provided in prior year	**–**	(1)
Stamp duty paid on asset acquisition	**–**	10
Tax expense	**133**	**95**

Current tax expense

Tax expense components are current income tax, deferred tax and stamp duty in 2018.

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

A

A4 Taxation continued

Deferred tax assets and liabilities	2019 $M	2018 $M
Balance at beginning of year	**1,637**	1,672
Temporary differences in income statement:		
Depreciation/amortisation	**(38)**	(31)
Term payables	**9**	2
Financial instruments	**(1)**	(6)
Australia tax losses utilised	**6**	–
Customer contract assets	**–**	1
Deferred income	**(2)**	–
Other – payables & receivables	**(2)**	(1)
	(28)	**(35)**
Temporary differences in other comprehensive income:		
Revaluation reserve movements	**320**	–
Other	**(1)**	–
Balance at end of year	**1,928**	**1,637**
Made up of:		
Property, Plant and Equipment	**2,009**	1,731
Term payables	**(27)**	(37)
Financial instruments	**(19)**	(18)
Customer contract assets	**6**	6
Other – payables & receivables	**(1)**	1
Deferred tax liability	**1,968**	1,683
Carried forward unused tax losses	**(38)**	(46)
Deferred income	**(2)**	–
Deferred tax asset	**(40)**	(46)
Total deferred tax	**1,928**	**1,637**

Deferred tax assets and liabilities

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

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

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

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

Unused tax losses

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

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

Offsetting deferred tax balances

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

B

Assets used to generate and sell electricity

In this section.

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

a. property, plant and equipment;

b. intangible assets; and

c. customer contract 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	7,774	30	169	77	**8,050**
Less accumulated depreciation	–	(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**
Additions	–	–	–	39	**39**
Transfers – work in progress	8	–	6	(14)	**–**
Derecognition of Mt Mercer finance lease assets	–	–	(11)	–	**(11)**
Foreign currency exchange rate movements[51]	(26)	–	(2)	–	**(28)**
Generation structures and plant revaluation:					
Increase taken to revaluation reserve	1,139				**1,139**
Decrease taken to income statement	(5)				**(5)**
Depreciation expense	(238)	–	(10)	(2)	**(250)**
Net book value at 30 June 2019	**8,654**	**15**	**63**	**93**	**8,825**
Cost or fair value	8,655	20	160	96	**8,931**
Less accumulated depreciation[52]	(1)	(5)	(97)	(3)	**(106)**
Net book value at 30 June 2019	**8,654**	**15**	**63**	**93**	**8,825**

At 30 June 2019, 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 $2.5 billion (30 June 2018: $2.6 billion).

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.

B

B1 Property, plant and equipment continued

Recognition and measurement

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

Fair value and revaluation of generation structures and plant

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

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

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

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

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

Revaluation of generation structures and plant

Meridian revalued its generation structures and plant assets at 30 June 2019. An independent valuer assessed values using capitalisation of earnings and DCFs when determining a valuation range.

This revaluation resulted in a net increase of $657 million (30 June 2018: nil) (after the reversal of depreciation) in the carrying value of generation structures and plant assets. The impact of the revaluation is recognised as an increase of $819 million (30 June 2018: nil) (net of deferred tax) in the revaluation reserve and as a $5 million (30 June 2018 : nil) impairment of Australian generation assets recognised in the income statement.

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

Depreciation

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

Useful lives

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

- generation structures and plant – up to 80 years;
- buildings – up to 67 years; and
- other plant and equipment – up to 20 years.

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

Disposals or retirement

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

Key judgements and estimates – Generation structures and plant valuation techniques and key inputs.
The Meridian Board uses its judgement to decide on the appropriateness of key valuation techniques and inputs for fair value measurement. Judgement is also used in determining the estimated remaining useful lives of assets.
As the valuation of generation structures and plant does not fully use observable market data, it continues to be classified as a level 3 fair value financial instrument (a definition of the other levels is included in D1 Financial risk management).

As discussed above, the independent valuer uses an income approach which involves incorporating two techniques in establishing a valuation range being capitalisation of earnings and DCF. 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.

Key input to measure fair value	Description	Range of unobservable inputs	Sensitivity	Impact on valuation
New Zealand generation volume	Annual generation production	13,520GWh p.a. to 15,500GWh p.a.	+ 250GWh – 250GWh	$240M ($240M)
Australian generation volume	Annual generation production	890GWh p.a.	+5% –5%	A$35M (A$35M)
Operating expenditure (excluding electricity related expenditure – refer note A3)	Meridian's cost of operations	$291M p.a.	+ $10M – $10M	($153M) $153M
EBITDAF earnings multiple	Valuation multiple (including control premium of 20%) derived from earnings and valuations of comparable companies	12.6 x EBITDAF	+0.5x –0.5x	$395M ($395M)

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

B

B2 Intangible assets

$M	Software
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**
Additions	25
Amortisation expenses	(26)
Net book value at 30 June 2019	**59**
Cost or fair value	173
Less accumulated amortisation	(114)
Net book value at 30 June 2019	**59**

Software

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

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

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

Useful lives

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

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

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

B

B3 Customer Contract Assets

	2019 $M	2018 $M
Opening balance	**19**	18
Deferred during the period		
Upfront discounts and credits to customers	**11**	11
Sales costs	**5**	3
Total deferred during the period	**16**	14
Released to the income statement during the period		
Electricity sales to customers	**(10)**	(9)
Employee expenses	**(1)**	(1)
Other expenses	**(4)**	(3)
Total released to the income statement during the period	**(15)**	(13)
Closing balance	**20**	**19**

Key judgements and estimates – Customer Contract Assets

Customer contract tenure
Meridian exercises judgement in estimating customer contract tenures where contracts do not have a fixed term. These estimations are based upon 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 variable components of the sale price and incremental costs of acquiring a customer:

New Zealand – residential and business between 2 and 3 years.

Australian – residential and business between 2 and 3 years.

C
Managing funding

In this section.

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

a. equity and dividends;

b. net debt;

c. receivables and payables; and

d. leases and commitments.

C1 Capital management

Capital risk management objectives

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

Capital is defined as the combination of shareholders' equity, reserves and net debt.

Meridian manages its capital through various means, including:

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

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

Meridian is in full compliance with debt facility financial covenants.

	Note	2019 $M	2018 $M
Share capital	C2	**1,599**	1,598
Retained earnings		**(1,171)**	(1,010)
Other reserves		**5,029**	4,235
		5,457	4,823
Drawn borrowings	C7	**1,376**	1,428
Finance lease payable	C8	**32**	48
Less: cash and cash equivalents	C5	**(78)**	(60)
		1,330	1,416
Net capital		**6,787**	**6,239**

	Note	2019 $M	2018 $M
Net debt to EBITDAF			
Drawn borrowings	C7	**1,376**	1,428
Finance lease payable	C8	**32**	48
Operating lease commitments	C9	**91**	76
Less: cash and cash equivalents	C5	**(78)**	(60)
Add back: restricted cash	C5	**27**	29
Add back: cash buffer[53]		**13**	8
Net debt (A)		**1,461**	1,529
EBITDAF (B)		**838**	666
Net debt to EBITDAF (times) (A/B)		**1.7**	**2.3**

	Note	2019 $M	2018 $M
EBITDAF Interest cover			
EBITDAF (B)		**838**	666
Interest on borrowings	A3	**78**	74
Interest on finance lease	A3	**4**	6
Interest (C)		**82**	80
EBITDAF interest cover (times) (B/C)		**10.2**	**8.3**
Standard & Poor's rating		**BBB+**	**BBB+**

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

C

C2 Share Capital

	2019 Shares	2019 $M	2018 Shares	2018 $M
Shares issued	**2,563,000,000**	**1,600**	2,563,000,000	1,600
Treasury shares held	**(681,881)**	**(1)**	(570,607)	(2)
Share capital	**2,562,318,119**	**1,599**	**2,562,429,393**	**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)	2019	2018
Profit after tax attributable to shareholders of the parent company ($M)	**339**	201
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)	**13.2**	7.8

C4 Dividends

	2019 $M	2018 $M
Dividends declared and paid		
Interim ordinary and special dividend 2019: 8.14cps (cents per share) (2018: 7.82cps)	**208**	200
Final ordinary and special dividend 2018: 11.38cps (2017: 11.14cps)	**292**	286
Total dividends paid	**500**	**486**
Dividends declared and not recognised as a liability		
Final ordinary dividend 2019: 10.72cps (2018:8.94cps)	**275**	229
Special dividend 2019: 2.44cps (2018:2.44cps)	**63**	63
Imputation credit balance		
Imputation credits available for future use	**64**	29

Dividend policy

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

Imputation credit balance

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

The imputation credits available for future use reflect the balance available on 23 August 2019, therefore recognising any tax payments between balance date and 23 August 2019.

Subsequent event – dividend declared

On 23 August 2019 the Board declared a partially imputed final ordinary dividend of 10.72 cents per share. Additionally the Board declared an un-imputed special dividend of 2.44 cents per share.

C

C5 Cash and cash equivalents

Cash and cash equivalents	2019 $M	2018 $M
Current account	**78**	60
Cash and cash equivalents	**78**	**60**

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 J.P. 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 2019, this collateral was $27 million (30 June 2018: $29 million).

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

Reconciliation of net profit after tax to cash flows from operating activities	2019 $M	2018 $M
Net profit after tax	**339**	201
Adjustments for operating activities' non-cash items:		
Depreciation and amortisation	**276**	268
Movement in deferred tax	**(28)**	(35)
Net change in fair value of financial instruments	**5**	26
Electricity option premiums	**(19)**	(15)
Share-based payments	**1**	1
	235	245
Items classified as investing activities:		
Impairment of assets	**5**	2
(Gain)/Loss on sale of assets	**(3)**	(7)
Australian stamp duty paid	**–**	10
	2	5
Changes in working capital items:		
(Increase) in accounts receivable	**(31)**	(1)
(Increase) in customer contract assets	**(1)**	(1)
(Increase) in other assets	**(2)**	–
Increase/(decrease) in payables and accruals/employee entitlements	**37**	(20)
Increase in customer contract liabilities	**2**	6
Increase in current tax payable	**37**	13
Working capital items in investing activities	**5**	(14)
Working capital items in financing activities and other non-cash items	**12**	(7)
	59	(24)
Cash flow from operating activities	**635**	**427**

C

C6 Trade receivables

	2019 $M	2018 $M
Trade receivables		
Accrued receivables	**223**	197
Current billed	**57**	57
Past due 1 to 30 days	**11**	7
Past due 31 to 60 days	**2**	2
Past due 61 to 90 days	**2**	1
Past due greater than 90 days	**2**	2
Less: credit loss allowance	**(5)**	(5)
Total trade receivables	**292**	**261**
Accounts receivable past due but not impaired	**12**	7
Movement in provision for credit loss allowance		
Opening provision	**(5)**	(6)
Provision created in the year	**(4)**	(5)
Provision used in the year	**4**	6
Closing provision for credit loss allowance	**(5)**	**(5)**

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

Trade receivables written off during the year were $4 million (30 June 2018 : $6 million).

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

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

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

C

C7 Borrowings

	Currency borrowed in	2019 Drawn facility amount	2019 Transaction costs paid	2019 Fair value adjustment	2019 Carrying amount	2018 Drawn facility amount	2018 Transaction costs paid	2018 Fair value adjustment	2018 Carrying amount
Current borrowings									
Unsecured borrowings	NZD	**168**	**(1)**	**–**	**167**	169	(1)	–	168
Unsecured borrowings	USD	**–**	**–**	**–**	**–**	272	–	10	282
Total current borrowings		**168**	**(1)**	**–**	**167**	**441**	**(1)**	**10**	**450**
Non-current borrowings									
Unsecured borrowings	NZD	**610**	**(2)**	**–**	**608**	821	(3)	–	818
Unsecured borrowings	USD	**598**	**(1)**	**98**	**695**	166	–	39	205
Total non-current borrowings		**1,208**	**(3)**	**98**	**1,303**	**987**	**(3)**	**39**	**1,023**
Total borrowings		**1,376**	**(4)**	**98**	**1,470**	**1,428**	**(4)**	**49**	**1,473**

Borrowings, measurement and recognition

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

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

Fair value of items held at amortised cost	2019 $M Carrying value	2019 $M Fair value	2018 $M Carrying value	2018 $M Fair value
Retail bonds	**500**	**542**	500	514
Floating Rate Notes	**100**	**101**	100	102
Unsecured term loan (EKF facility)	**70**	**75**	80	86

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

Fair value is calculated using a discounted cash flow calculation and the resultant values 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 from being classified as level 1 (a definition of levels is included in D1 Financial instruments).

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

C

C7 Borrowings continued

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

2019									
NZ$M	Balance at 1 July 2018	Term borrowings drawn	Term borrowings repaid	Fair value adjustments	Foreign Exchange	Transaction costs paid & accrued	Finance lease paid	Lease Derecognition	Balance at 30 June 2019
Unsecured borrowings – NZD	986	–	(212)	–	–	1	–	–	775
Unsecured borrowings – USD	487	439	(272)	37	5	(1)	–	–	695
Finance lease	48	–	–	–	(2)	–	(1)	(13)	32
Total	**1,521**	**439**	**(484)**	**37**	**3**	**–**	**(1)**	**(13)**	**1,502**

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	Lease Derecognition	Balance at 1 July 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**

		2019			2018		
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	600	28	572	650	164	486
EKF funding[55]	NZD	70	70	–	80	80	–
Total bank facilities		**670**	**98**	**572**	**730**	**244**	**486**
Other sources of borrowing							
Retail bonds[56]	NZD	500	500	–	500	500	–
Floating rate notes[54]	NZD	100	100	–	100	100	–
Fixed rate bonds[57]	USD	598	598	–	439	439	–
Commercial paper[58]	NZD	80	80	–	145	145	–
Total other sources of borrowing		**1,278**	**1,278**	**–**	**1,184**	**1,184**	**–**
Total sources of funding		**1,948**	**1,376**	**572**	**1,914**	**1,428**	**486**

54 Funding bears interest at the relevant market floating rate plus a margin.
55 EKF facility is an unsecured amortising term loan, provided by the official export credit agency of Denmark, for the construction of Te Uku wind farm.
56 Retail Bonds are senior unsecured retail bonds bearing interest rates of 4.53%, 4.88% and 4.21%.
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.

C

C8 Finance lease payable

Finance lease payable analysis	2019 $M	2018 $M
Minimum lease payments		
Not later than 1 year	**5**	7
Later than 1 year and not later than 3 years	**9**	14
Later than 3 years and not later than 5 years	**9**	13
Later than 5 years	**56**	89
Gross investment in finance lease	**79**	123
Less future finance costs	**(47)**	(75)
Present value of minimum lease payments	**32**	**48**
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	**27**	43
Gross investment in finance lease	**32**	48
Comprising:		
Current	**1**	1
Non-current	**31**	47
	32	**48**

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 connection assets that connect wind farms at Mill Creek and Mt Mercer to the transmission network.

In 2019 it was determined that a portion of the finance lease in relation to Mt Mercer no longer met the definition due to loss of control, as a result this portion has been derecognised in 2019.

Meridian reported a finance lease interest expense of $4 million (30 June 2018: $6 million) in finance costs in the income statement.

The net book value of assets subject to a finance lease and included in note B1 Property, plant and equipment is $27 million (30 June 2018: $42 million). All assets are classified as other plant and equipment.

C

C9 Commitments

Non-cancellable operating lease commitments	Group 2019 $M	Group 2018 $M
Less than 1 year	**6**	7
Later than 1 year and not later than 3 years	**12**	12
Later than 3 years and not later than 5 years	**11**	12
More than 5 years	**62**	45
Total operating lease commitments	**91**	**76**

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 $7 million in 2019 (30 June 2018: $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 10 years. Lease contracts contain rent review clauses, including Consumer Price Index increases and market rental reviews, in the event Meridian exercises its options to renew.

Capital expenditure commitments	Group 2019 $M	Group 2018 $M
Property, plant and equipment	**8**	4
Software	**–**	1
Total capital expenditure commitments	**8**	**5**

Guarantees

Various entities within the Group provide guarantees to external counterparties, with these mostly relating to security for energy market clearing and lines companies. The maximum liability under these guarantees is $35 million (30 June 2018: $79 million).

In addition to the above Meridian Energy Limited has provided parent guarantees for various construction and grid connection obligations of Mt Mercer Windfarm Pty Limited. The maximum liability under these guarantees is $32 million (30 June 2018: $36 million).

D

Financial instruments used to manage risk

In this section.

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

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

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

D1 Financial risk management

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

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

Financial instrument recognition

Meridian designates or classifies financial hedging instruments as:

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

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

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

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

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

Calculation of fair value for financial instruments

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

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

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

D

D1 Financial risk management continued

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.

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

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

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

The carrying amounts of financial assets recognised on the balance sheet best represent Meridian's maximum likely exposure to credit risk at the date of this report. Refer to Note C6 for a description of how we provide for any expected credit losses. 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 ensures flexibility in funding by maintaining committed surplus credit lines available of at least $200 million (see C7 Borrowings for details of undrawn facilities). This helps ensure Meridian has sufficient headroom under both normal and abnormal hydrological conditions.

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

In addition to borrowings, Meridian has entered into a number of letters of credit and guarantee arrangements which provide credit support of $67 million for Meridian's general operations (30 June 2018: $115 million). Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

D

D1 Financial risk management continued

Liquidity Risk – Contractual maturities

The following tables are an analysis of the contractual undiscounted cash flows (settlements expected under the contracts) relating to financial liabilities and a reconciliation from total undiscounted cash flows to carrying amounts.

Meridian expects to meet its future obligations from operating cash flows and debt financing.

2019 $M	Due within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total undiscounted cash flows	Impact of other non-cash items	Impact of interest/FX discounting	2019 carrying value
Borrowings	223	62	572	953	1,810	(4)	(336)	1,470
Finance leases	5	9	9	56	79	–	(47)	32
Payables, accruals, provisions and option premiums	336	35	30	25	426	–	(21)	405
IRS	29	32	77	64	202	–	(18)	184
Electricity hedges	9	4	26	29	68	(1)	(6)	61
	602	142	714	1,127	2,585	(5)	(428)	2,152

2018 $M	Due within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total undiscounted cash flows	Impact of other non-cash items	Impact of interest/FX discounting	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
IRS	29	25	51	28	133	–	(19)	114
Electricity hedges	20	8	25	10	63	3	(5)	61
LGCs	6	–	–	–	6	–	–	6
	858	178	680	730	2,446	(1)	(362)	2,083

Market risk

Meridian is involved in both the electricity and financial markets and as such is exposed to rises and falls in those markets and the subsequent income statement volatility this can cause. The main sub-types of market risk that we are exposed to are discussed below.

Commodity price risk

Meridian trades in the wholesale electricity market and so is exposed to volatility in forward electricity prices.

Being both a generator and a retailer of electricity means that Meridian has a natural hedge for most of the exposure to future energy prices.

Meridian also uses electricity derivatives to help manage its net energy position, some of which are traded on the Australian Stock Exchange, and some of which are traded directly with other energy market participants. Energy hedges are not placed in hedge accounting relationships.

Foreign exchange risk

Meridian is exposed to foreign exchange risk arising from sales and procurement of goods and services denominated in foreign currencies and also from term debt raised in foreign currencies.

For exposures resulting from Meridian's general operations, we use foreign exchange spot or forward contracts to fix the value in reporting currency terms. Material items may be placed in hedge accounting relationships and can be either fair value hedges or cash flow hedges, depending on the nature of the transaction/underlying exposure.

For term debt raised in US Dollars, cross currency interest rate swaps (CCIRS) are used to convert the proceeds back to functional currency. These derivatives minimise foreign exchange risk on both the notional and the coupon flows over the life of the debt. CCIRS are placed in both fair value and cash flow hedge accounting relationships.

Interest Rate risk

Meridian is exposed to interest rate risk arising from its funding portfolio, which is a mix of fixed and floating rate debt.

Meridian issues debt on both a fixed and a floating basis and is thus exposed to changes in interest rates over time.

A portfolio of interest rate swaps (IRS) is then used to manage the net exposure to interest rate risk, in line with a Board approved hedging policy and profile. Please also refer to the Foreign Exchange section for derivatives used for term debt raised in foreign currencies.

Meridian swaps a significant portion of its borrowings to floating rates at loan inception, and hedges the resulting interest rate exposure over a tenure based profile of fixed IRS. This is achieved using a combination of CCIRS and IRS hedges. Where Meridian borrows in foreign currency it uses CCIRSs to swap all foreign currency denominated interest and principal repayments to the reporting currency. This results in floating rate borrowings in the entity's reporting currency. Meridian uses IRS hedges to fix floating interest rates in line with the Board approved hedging policy and profile.

D

D1 Financial risk management continued

Meridian groups its financial instrument into two categories – Treasury hedges and Electricity-related hedges.

	Fair value on the balance sheet			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Treasury Hedges	**114**	**(184)**	61	(114)
Electricity-Related Hedges	**195**	**(61)**	152	(67)
	309	**(245)**	**213**	**(181)**
of which				
Current	**118**	**(36)**	77	(52)
Non Current	**191**	**(209)**	136	(129)
	309	**(245)**	**213**	**(181)**

Further disclosure and analysis of these two categories are noted on the following pages.

Treasury Hedges

Hedges in the Treasury category generally relate to management of the interest rate risk and foreign exchange risks that arise from Meridian's funding activities and from general Group operations.

The instruments used are CCIRS, IRS and forward exchange contracts (FX).

		Fair value on the balance sheet				Fair value movements in the income statement		Outstanding aggregate notional principals[63]	
		2019 $M		2018 $M		2019 $M	2018 $M	2019 $M	2018 $M
Treasury Hedges	Level	Assets	Liabilities	Assets	Liabilities				
CCIRS									
– Interest Rate Risk[59]		**40**	**–**	4	–	**(1)**	–		
– Basis and Margin Risk[60]		**(6)**	**–**	(1)	–	**–**	–		
– Foreign Exchange Risk[61]		**58**	**–**	44	–	**–**	–		
	2	**92**	**–**	47	–	**(1)**	–	**598**	439
IRS[62]	2	**22**	**(184)**	14	(114)	**(62)**	(3)	**1,492**	1,837
FX[62]	2	**–**	**–**	–	–	**–**	(1)	**14**	13
Treasury hedges		**114**	**(184)**	**61**	**(114)**	**(63)**	**(4)**		

Meridian uses CCIRS to hedge risks involved with long term debt issued in USD. In the above table the CCIRS are separated into component parts as follows:

59 Interest rate risk: this is the movement in value of the CCIRS due to changes in benchmark interest rates. The other side of this movement is recorded in the income statement in the "Net change in fair value of treasury instruments", together with changes in the fair value hedge adjustments on the designated USD borrowings.
60 Basis and margin risk: this is the movement in the value of the CCIRS due to changes in basis (excluding foreign exchange) and credit margin. The other side of this movement is recorded in the income statement in the "Net change in fair value of treasury instruments", together with cash flow hedge accounting adjustments that transfer effective hedge portions to the Cash Flow Hedge Reserve within Equity.
61 Foreign Exchange Risk: this is the movement in value of the CCIRS due to changes in spot foreign exchange rates. The impact of retranslation is recorded in the income statement in "Net change in fair value of treasury instruments" and is offset by equal and opposite retranslation effects on the related borrowings.
62 Changes in fair value of the IRS and FX portfolios are recognised in the income statement within "Net change in fair value of treasury instruments".
63 These cover multiple legs including offsetting legs and maturities out to 2034.

Note that in the opposite table, fair value movements in the income statement are shown net of any related hedge accounting adjustments and retranslation of foreign currency borrowings. Please refer to the Hedge Accounting section of note D1 Financial risk management for further detail on the fair value and cash flow hedge relationships that the CCIRS are designated in.

Treasury Hedges – Sensitivity Analysis

The table below summarises the impact of changes in significant inputs (assuming all other variables are held constant) on the valuation of Treasury Hedges and therefore on Meridian's after tax profit and equity.

Note that changes in the fair value of the CCIRS are fully offset by opposite impacts from hedge accounting entries and the FX retranslation of the USD debt. Therefore the CCIRS P&L sensitivity is nil and is not shown in the below table. Due to the small size of the FX portfolio, changes in spot exchanges rates result in very little change to fair values and therefore these are not shown in the table.

		Impact on after tax profit & equity	
	Sensitivity	2019 $M	2018 $M
Interest rates			
New Zealand benchmark bill rate	-100 basis points (bps)	**(39)**	(37)
	+100 bps	**42**	36
Australian benchmark bill rate	-100 bps	**(4)**	(4)
	+100 bps	**4**	4

Electricity Related Hedges

Hedges in this category relate to Meridian's management of risk arising from the generation, purchase and sale of electricity.

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 into Meridian's storage lakes are variable, therefore the volume of electricity required to supply customers may exceed (or fall short of) generation production.

Meridian's hedging strategy focuses on its net exposure by estimating both expected generation and electricity purchases required to support contracted sales. Execution of this strategy is guided by Board approved parameters. Changes in the fair value of electricity related hedges are recognised in the income statement within "Net change in fair value of electricity and other hedges". Hedge accounting is not applied to Electricity Related Hedges.

		Fair value on the balance sheet				Fair value movements in the income statement		Outstanding aggregate notional volumes[64]	
		2019 $M		2018 $M		2019 $M	2018 $M	2019	2018
Electricity Related Hedges	Level	Assets	Liabilities	Assets	Liabilities				
Market traded electricity hedges:	1	**52**	**(3)**	30	(9)	**21**	24	**14,613 GWh**	**10,422 GWh**
Other electricity hedges:	3	**51**	**(58)**	13	(52)	**35**	(51)	**24,589 GWh**	**26,667 GWh**
Electricity options:	3	**70**	**–**	87	–	**(17)**	(11)	**3,990 GWh**	**5,123 GWh**
LGCs:									
– LGC – Holdings created from wind farm generation	1	**6**	**–**	17	–	**2**	–	**0.1 million**	**0.2 million**
– LGC – Hedges	2	**16**	**–**	5	(6)	**17**	16	**1.0 million**	**1.4 million**
		22	**–**	22	(6)	**19**	16		
Electricity related hedges		**195**	**(61)**	152	(67)	**58**	(22)		

64 These cover multiple legs including offsetting legs and maturities out to 2030

The "Market traded electricity hedges" category contains those instruments that are traded on various exchange based markets.

The "Other Electricity Hedges" category contains over the counter derivatives, where the counterparties include customers, other energy market participants or financial institutions.

These hedges are generally long-term, large volume contracts that manage specific risks that can not be managed through futures markets.

Meridian trades electricity options with other generators. These are used to support the management of inflow and storage variability in the catchments where it generates electricity.

The LGC category has two sub-components. The first represents the Renewable Energy Certificates (RECs) that Meridian's Australian wind farms earn in the form of Large Scale Generation Certificates (LGCs). Additionally, Powershop Australia is required to purchase and surrender RECs. The second represents the derivatives used to firm prices received for LGCs generated and consequently reduce the profit volatility of each wind farm. At the time of generation, LGCs are recognised as income in energy margin at the prevailing spot price. LGC holdings and hedges are all recognised as financial instruments on the balance sheet at their fair value.

D1 Financial risk management continued

Electricity Related Hedges – Sensitivity Analysis

The table below summarises the impact of changes in significant inputs (assuming all other variables are held constant) on the valuation of Electricity Related Hedges and therefore on Meridian's after tax profit and equity.

	Sensitivity	Impact on after tax profit & equity 2019 $M	2018 $M
Electricity hedges & options			
Electricity prices	–10%	**(57)**	(48)
	+10%	**57**	48
Discount rates	–100 bps	**(1)**	1
	+100 bps	**1**	(1)
Call volumes	–10%	**(5)**	(6)
	+10%	**5**	6
LGC prices	–10%	**1**	4
	+10%	**(1)**	(4)

Settlements of Electricity Related Hedges

The following provides a summary of the settlements through EBITDAF for Electricity Related Hedges:

	2019				2018			
	Electricity Hedges	LGCs	Electricity Options	Total	Electricity Hedges	LGCs	Electricity Options	Total
Operating revenue	**(92)**	**29**	**–**	**(63)**	(41)	35	–	(6)
Operating expenses	**176**	**(12)**	**18**	**182**	27	(12)	6	21
Total settlements in EBITDAF	**84**	**17**	**18**	**119**	**(14)**	**23**	**6**	**15**

Movements in recalibration differences arising from electricity hedges and options	2019 $M	2018 $M
Opening difference	**5**	6
Initial differences on new hedges and options	**(7)**	–
Volumes expired and amortised	**(1)**	(1)
Recalibration for future price estimates and time	**–**	–
Closing difference	**(3)**	**5**

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.

Fair value technique and key inputs
In estimating the fair value of an asset or liability, Meridian uses market-observable data to the extent that it is available. The Audit and Risk Committee of Meridian determines the overall appropriateness of key valuation techniques and inputs for fair value measurement. The Chief Financial Officer explains fair value movements in his report to the Board.

Where the fair value of a financial instrument is calculated as the present value of the estimated future cash flows of the instrument (DCFs), a number of inputs and assumptions are used by the valuation technique. These are:

- forward price curves referenced to the ASX for electricity, published market 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;
- calibration factor applied to forward price curves as a consequence of initial recognition differences;
- NZAS continues to operate; and
- contracts run their full term.

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 (i.e. for long-dated contracts), Meridian's best estimate of long-term forward wholesale electricity price is used. This is based on a fundamental analysis of expected demand and the cost of new supply and any other relevant wholesale market factors.	\$47/MWh to \$77/MWh (in real terms), excludes observable ASX prices.	An increase in the forward wholesale electricity price increases the fair value of buy hedges and decreases the fair value of sell hedges. A decrease in the forward wholesale electricity price has the opposite effect.
LGC Forward Contracts & Options valued using DCFs / Black Scholes	**Price**, based on a forward LGC price curve from a third party broker, and benchmarked against market spot prices. **Other factors**, include · Calibration factor applied to forward price curves as a consequence of initial recognition differences.	A\$11 to A\$43	An increase in the forward LGC price decreases the fair value of sell hedges and increases the fair value of buy hedges. A decrease in the forward LGC prices has the opposite effect.

D1 Financial risk management continued

Level 3 financial instrument analysis

The following provides a summary of the movements through EBITDAF and movements in the fair value of level three financial instruments:

Reconciliation of level 3 fair value movements $M	2019 Electricity Hedges	2019 Electricity Options	2019 Total	2018 Electricity Hedges	2018 Electricity Options	2018 Total
Electricity and other hedges settled in EBITDAF:						
Operating revenue	(65)	–	(65)	(18)	–	(18)
Operating expenses	182	18	200	53	6	59
Total settlements in EBITDAF	117	18	135	35	6	41
Net change in fair value of electricity and other hedges:						
Remeasurement	152	1	153	(16)	(5)	(21)
Hedges settled	(117)	(18)	(135)	(35)	(6)	(41)
Total realised and unrealised losses on electricity and other hedges	35	(17)	18	(51)	(11)	(62)
Balance at the beginning of the period	(39)	87	48	12	98	110
Fair value movements	35	(17)	18	(51)	(11)	(62)
Balance at the end of the year	(4)	70	66	(39)	87	48

Fair value movements of level 3 electricity hedges in 2019 which are held at balance date total $18 million (30 June 2018: $(44) million).

D1 Financial risk management continued

Hedge Accounting

Meridian makes limited use of hedge accounting, doing so only for USD borrowings and the CCIRS financial instruments that are used to economically hedge these exposures. Please refer to the start of the Risk Management section for a description of the key risks Meridian manages.

Meridian only designates hedge accounting relationships where the underlying exposure and the hedge are eligible for hedge accounting and are an economic match, where credit risk is not expected to dominate the fair value of the hedge, and where we expect the hedge relationship to remain effective over its life.

The USD borrowings (hedged items) and the CCIRS (hedging instruments) present Meridian with risks which we account for in the following ways:

Interest Rate Risk

The USD borrowings are fixed rate liabilities and thus present interest rate risk, should benchmark interest rates change. This risk is neutralised by receiving the same fixed rate on the USD leg of the matching CCIRS. Meridian designates the interest rate risk on USD borrowings in fair value hedge accounting relationships.

This means that:

- the carrying value of the USD borrowings are adjusted for changes in the fair value of the hedged risk – noted as "hedge accounting adjustments" in Note C7
- the CCIRS are revalued to the income statement for this same risk

As long as the hedge accounting relationships remain effective, the revaluations of both the hedged item and hedging instrument should net to a minimal amount in the income statement. This residual difference is referred to as hedge ineffectiveness.

Note that the accumulated life to date hedge accounting adjustments on the USD borrowing total $34m (2018: $3m).

Basis and Margin Risk

The combination of USD borrowings and CCIRS economically results in Meridian having floating rate NZD borrowings. This presents a risk of variability in future cash flows. As such, Meridian designates basis risk (excluding FX) and margin risk into cash flow hedge relationships.

This means that:

- the CCIRS are revalued to the income statement for basis risk and margin risk
- the effective portions of the hedge are moved from the income statement to the Cash Flow Hedge Reserve within Equity

As noted earlier, there may be small differences between the above entries which result in hedge ineffectiveness in the income statement.

Please refer to:

- Note C7 Borrowings for the carrying value of the hedged items (USD borrowings)
- Note D1 Treasury Hedges for further information on the hedging instruments (CCIRS), including notionals and changes in fair value during the period
- the Statement of Changes in Equity for the balance of the Cash Flow Hedge Reserve and movements during the period

Note that on the balance sheet, USD borrowings are included within Term Borrowings and CCIRS are included within Financial Instruments.

Hedge Ineffectiveness

The below table summarises hedge ineffectiveness. This is included within "Net change in fair value of Treasury Hedges" in the income statement.

Impact on income statement

	2019 $M	2018 $M
Hedge Ineffectiveness	1	–

Ineffectiveness is primarily caused by credit counterparty risk on CCIRS. This risk is part of the CCIRS fair value but is not included in the hedge accounting entries.

Hedge ineffectiveness will net to zero over the life of the hedge relationships.

Hedge ineffectiveness is higher this period than it has been in previous years. This is due to the issue of new USD borrowings in the current financial year.

Ineffectiveness has increased due to the long term nature (10, 12 and 15 year borrowings) and size of the new liabilities (NZ$438m equivalent).

D1 Financial risk management continued

Future Cash Flows

The below table estimates the contractual undiscounted future cash flows that we expect on both the USD borrowings and the hedging CCIRS. Amounts noted include coupons and repayment/exchange of notionals on maturity.

	2019 $M				2018 $M			
Currency as indicated below	Due within 1 year	Due within 1–2 years	Due within 2–5 years	Due after 5 years	Due within 1 year	Due within 1–2 years	Due within 2–5 years	Due after 5 years
USD Borrowings (shown in USD)	(17)	(17)	(87)	(486)	(201)	(5)	(53)	(112)
CCIRS								
– USD leg (coupons and maturity flow – shown in USD)	17	17	87	486	201	5	53	112
– Functional currency leg (coupons and maturity flow – shown in NZD)	(19)	(19)	(96)	(671)	(284)	(6)	(63)	(136)

Functional currency coupons are set quarterly based on NZ and AU benchmark rates. They are shown in this table based on market forward interest rates and translated to NZD equivalent using spot AUD/NZD exchange rates at reporting date.

Financial instruments which are offset

In certain circumstances Meridian offsets the fair value of financial instruments where it has legal agreements in place that permit netting of positions and net settlement.

	2019 $M			2018 $M		
	Gross Value	Value Offset	Carrying Value	Gross Value	Value Offset	Carrying Value
Financial instrument assets						
– Electricity and other hedges	253	(58)	195	197	(45)	152
– Treasury hedges	114	–	114	61	–	61
Total financial instrument assets	367	(58)	309	258	(45)	213
Financial instrument liabilities						
– Electricity and other hedges	(119)	58	(61)	(112)	45	(67)
– Treasury hedges	(184)	–	(184)	(114)	–	(114)
Total financial instrument liabilities	(303)	58	(245)	(226)	45	(181)
Net financial instruments	64	–	64	32	–	32

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 opposite.

They all have share capital consisting solely of ordinary shares that the Group holds directly, and the proportion of ownership interests held equals the Group's voting rights.

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

On 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 front-line customer and back office services to Powershop Australia Pty Limited.

Name of entity	Principal activity	Functional Currency	Interest held by the group 2019	Interest held by the group 2018
Meridian Energy Limited[66]				
Powershop New Zealand Limited	Electricity retailing	New Zealand dollar	100%	100%
Flux Federation Limited	Software development	New Zealand dollar	100%	100%
Flux-UK Limited[65]	Licence holder	British pounds	100%	100%
Three River Holdings No. 1 Limited[66]	Holding company	New Zealand dollar	100%	100%
Three River Holdings No. 2 Limited[66]	Holding company	New Zealand dollar	100%	100%
Meridian Energy Australia Pty Limited[66]	Management services	Australian dollar	100%	100%
GSP Energy Pty Limited	Electricity generation	Australian dollar	100%	100%
Meridian Finco Pty Limited[66]	Financing	Australian dollar	100%	100%
Meridian Energy Markets Pty Limited[66]	Non-trading entity	Australian dollar	100%	100%
Meridian Wind Monaro Range Holdings Pty Limited[66]	Holding company	Australian dollar	100%	100%
Meridian Wind Monaro Range Pty Limited[66]	Holding company	Australian dollar	100%	100%
Mt Millar Wind Farm Pty Limited[66]	Electricity generation	Australian dollar	100%	100%
Meridian Australia Holdings Pty Limited[66]	Holding company	Australian dollar	100%	100%
Meridian Wind Australia Holdings Pty Limited[66]	Holding company	Australian dollar	100%	100%
Mt Mercer Windfarm Pty Limited[66]	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%

65 On 4 June 2018, Powershop UK Limited changed its name to Flux-UK Limited.
66 Members of guaranteeing group.

F
Other

In this section.
This section includes the remaining information relating to Meridian's financial statements which is required to comply with financial reporting standards.

F1 Share-based payments

Long term incentive (LTI)

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

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

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

Once the vesting level has been confirmed, a cash amount (after the deduction of tax), but before other applicable salary deductions, is used to repay the executive's outstanding loan balance.

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

For the LTI plan that vested at the end of 2019, the level of vesting was 100%. Therefore, the outstanding balance of the interest free loans at 30 June 2019 of $0.6m has now been repaid. A total amount of 223,623 shares have been transferred to the eligible participants, and 70,051 (30 June 2018: 10,011) shares forfeited are now held in trust by Meridian LTI Trustee Limited until reallocation.

F

F1 Share-based payments continued

Movement in zero-priced share options

			Number of options				
Grant date	Vesting date	Weighted average fair value of option	Balance at start of the year	Granted during the year	Vested during the year	Forfeited during the year	Balance at the end of the year
2019							
22/08/2018	30/06/2021	**$1.78**	**–**	**334,897**	**–**	**–**	**334,897**
07/09/2017	30/06/2020	**$1.61**	**302,533**	**–**	**–**	**(35,611)**	**266,922**
04/08/2016	30/06/2019	**$1.63**	**258,063**	**–**	**(223,623)**	**(34,440)**	**–**
Total			**560,596**	**334,897**	**(223,623)**	**(70,051)**	**601,819**
2018							
07/09/2017	30/06/2020	$1.61	–	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**

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	
	2019 $M	2018 $M
Directors' Fees	**1**	1
Chief executive officer, senior management team and subsidiary chief executives		
Salaries and short-term benefits	**7**	7
Post-employment benefits	**–**	–
Redundancy benefits	**–**	–
Long-term benefits	**1**	1
	8	**8**

F3 Auditors remuneration

Auditors remuneration to Deloitte Limited for:	Group 2019 $M	Group 2018 $M
Audit and review of New Zealand-based companies' financial statements	**0.6**	0.5
Audit of overseas-based companies' financial statements	**0.2**	0.2
Total audit fees	**0.8**	0.7
Other assurance fees	**0.1**	0.1
Total auditor remuneration	**0.9**	**0.8**

The Board has adopted a policy to maintain the independence of the Company's external auditor, including a review of all other services performed by Deloitte Limited and recommending to the Office of the Auditor-General that there be lead partner rotation after a maximum of five years. The Auditor-General has appointed Trevor Deed of Deloitte Limited as auditor of the company. He has been auditor of the company since 2016.

The audit fee includes Office of the Auditor-General overhead contribution of $30,500 (30 June 2018: $29,500).

Other services undertaken by Deloitte Limited during the year included other assurance activities including reviews of greenhouse gas inventory and sustainability reporting assurance, review of the interim financial statements, audit of the securities register, vesting of the executive long-term incentive plan, the solvency return of Meridian Energy Captive Insurance Limited and supervisor reporting.

F4 Contingent assets and liabilities

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 potential underpayment ranging between $3m and $4m.

Other than those referred to above, there were no other contingent assets or liabilities at 30 June 2019 (30 June 2018: nil).

F5 Subsequent events

There are no subsequent events other than dividends declared on 23 August 2019 (refer to note C4 Dividends for further details).

F6 Changes in financial reporting standards

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

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

The Group has chosen not to early adopt NZ IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019).

NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise material assets and liabilities for all leases with a term of more than 12 months. Accounting by lessors is unchanged under NZ IFRS 16. When adopted, NZ IFRS 16 will impact the Group's financial statements.

Based on leases held at 30 June 2019, it is estimated to:

- increase property, plant & equipment by $69m
- increase lease liabilities by $69m

In addition, the Group estimates that in the FY20 period, adoption will:

- decrease operating expenses by $6m
- increase finance costs by $2m
- increase depreciation expense by $5m
- decrease net profit before tax by $1m

Deloitte.

Independent auditor's report

To the shareholders of Meridian Energy Limited for the year ended 30 June 2019

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 on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 105 to 146, that comprise the consolidated balance sheet as at 30 June 2019, the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for our opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We 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 Energy 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 consolidated financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group consolidated financial statements as a whole to be $18 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Valuation of Generation Structures and Plant As explained in note B1 in the Group financial statements, generation structures and plant are carried at fair value less any subsequent accumulated depreciation and impairment losses at balance sheet date. The net book value of generation structures and plant as reflected in note B1 is $8,654 million (2018: $7,776 million). The Group obtains an independent valuation every year to ensure that the carrying value does not differ significantly from the fair value at balance date. As a result of this independent valuation, generation structures and plant have been revalued this year as at 30 June 2019 and have increased in value by $1,134 million. The impact of the revaluation is recognised as an increase of $1,139 million in the revaluation reserve and $5 million impairment in the income statement. No revaluation was recorded during the year ended 30 June 2018. The valuation methodology determines an enterprise value range by reference to capitalisation multiples as well as the Group's historical and forecasted future maintainable earnings before interest, tax, depreciation, amortisation, changes in fair value of financial instruments, impairments, gains or losses on sale of assets and joint venture equity accounted earnings ('EBITDAF'). These inputs do not fully use observable market data and require significant judgement and estimates to be made by the valuer. We include valuation of generation structures and plant as a key audit matter because of the inherent technical and judgemental complexity associated with determining the fair value. Specifically, the determination of the forecasted future maintainable earnings and earnings multiple, and the forecast cash flows and discount rates.	Our audit procedures focused on: · The reasonableness of the earnings multiple used and the adjustments for non observable information considered relevant; · The reasonableness of the forecasted future maintainable earnings; 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 the reasonableness of the valuation range determined by the independent valuer.
Valuation of Level 3 Electricity Derivatives As explained in note D1, the Group's activities expose it to commodity price, foreign exchange and interest rate risks which are managed using derivative financial instruments. These instruments are carried at their fair value as at 30 June 2019. At 30 June 2019, level 3 electricity derivative assets totalled $121 million (2018: $100 million) and level 3 electricity derivative liabilities were $58 million (2018: $52 million). We include valuation of level 3 electricity derivatives as a key audit matter for the following reasons: · The price used in the valuation of electricity hedges is based on the Group's best estimate of the long-term forward wholesale electricity price, which involves significant judgement and estimates regarding discount factors, expected demand, cost of new supply, and other relevant market factors; and · The complexity and judgement involved in the valuation techniques and the judgement involved in evaluating the long-term expected call volumes and discount factor used to determine the fair value of electricity options and swaps.	Our audit procedures focused on: · The appropriateness of the valuation techniques; · The reasonableness of the wholesale electricity price path; and · The reasonableness of the underlying assumptions and inputs in the valuation models. Our procedures included: · In conjunction with our internal experts, evaluating the appropriateness of the methodology applied in the valuation models for these electricity hedges, options and swaps and ensuring that the methodology has been consistently applied with the prior year where appropriate; · Challenging the key assumptions applied, including the long-term forward wholesale electricity price, long-term expected call volumes, day one adjustments and discount rates; and · Agreeing underlying data to contract terms, specifically the contract term, price and volumes.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 104, and 153 to 157, but does not include the consolidated financial statements, and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and in doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of shareholders taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.
We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Trevor Deed, Partner

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

23 August 2019

Deloitte.

Independent accountant's assurance report
To the directors of Meridian Energy Limited

Report on sustainability content within the 2019 Integrated Report

Meridian Energy Limited's Integrated Report for the year ended 30 June 2019 (the 'Integrated Report') contains sustainability information which includes information that is prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (the 'GRI Standards'): Core option. The specific GRI Standards reported against are set out in the Global Reporting Initiative Index (the 'GRI Index') on pages 153 to 156.

The subject of our limited assurance engagement is the 'sustainability content' which consists of the disclosures and indicators listed in the GRI Index and included on pages 4 to 74, 101 and 153 to 157 of the Integrated Report but does not cover forward looking statements or online supplements.

Conclusion

This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Based on the evidence obtained from the procedures we have performed, nothing has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option for the year ended 30 June 2019.

Basis for Conclusion

Our engagement has been conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000 (Revised)') issued by the New Zealand Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Board of Directors' Responsibility

The Board of Directors is responsible for:

- determining Meridian Energy Limited's objectives in respect of sustainability reporting;
- selecting the material topics;
- ensuring that the sustainability content is prepared in accordance with the GRI Standards: Core option and specifically those GRI Standards set out in the GRI Index;
- establishing and maintaining appropriate performance management and internal control systems in order to derive the selected sustainability information.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Other than this engagement and our role as auditor of the statutory financial statements on behalf of the Auditor-General, our firm carries out other assignments for the Meridian Energy Group in the areas of greenhouse gas inventory assurance, review of the interim financial statements, audit of the securities registers, vesting of the executive long-term incentive plan, the solvency return of Meridian Captive Insurance Limited and supervisory reporting, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with the Meridian Energy Group on arm's length terms within the ordinary course of trading activities of the Meridian Energy Group. These services have not impaired our independence for the purposes of this engagement. Other than these engagements and arm's length transactions, we have no relationship with, or interests in, the Meridian Energy Group.

The firm applies Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements,* *and Other Assurance Engagements* issued by the New Zealand Auditing and Assurance Standards Board, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Accountant's Responsibility

Our responsibility is to conduct a limited assurance engagement in order to express an opinion whether, based on the procedures performed, anything has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option.

We did not evaluate the security and controls over the electronic publication of the Integrated Report.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with the GRI Standards is likely to arise.

Our procedures included:

- Obtaining an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- A review of the materiality process followed to determine the material topics chosen for inclusion in the Integrated 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 option;
- Evaluating whether the information presented is consistent with our overall knowledge and experience of sustainability reporting processes at Meridian Energy Limited.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether Meridian Energy Limited's Integrated Report has been prepared, in all material respects, in accordance with the GRI Standards: Core option.

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 GRI Standards: Core option 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.

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 who have been engaged to state in this assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors of Meridian Energy Limited for our work, for this assurance report, or for the conclusions we have reached.

Deloitte Limited

Chartered Accountants

23 August 2019
Auckland, New Zealand

GRI Standards Content Index

This report has been prepared in accordance with the GRI Standards: Core option. The specific GRI Standards reported against are in italics below.

GRI 101: Foundation 2016

General disclosures		Pg #	Comment
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of organisation	Front cover	
102-2	Activities, brands, products, and services	4-11	
102-3	Location of headquarters	157	
102-4	Location of operations	4-6	
102-5	Ownership and legal form	13	
102-6	Markets served	5	
102-7	Scale of the organisation	4–6, 13, 36, 59	
102-8	Information on employees and other workers	9, 10, 101	
102-9	Supply chain	9, 10	
102-10	Significant changes		No significant changes
102-11	Precautionary principle or approach		Relevant legislation takes a precautionary-principle-based approach
102-12	External initiatives		Zero Harm pledge. Climate Leaders Coalition.
102-13	Memberships of associations	101	
EU1[65]	Installed capacity	59	
EU2	Net energy output	59	
EU3	Number of customer accounts	36	
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	21–33	

General disclosures		Pg #	Comment
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	18, 24	
Governance			
102-18	Governance structure	16–18	
Stakeholder Engagements			
102-40	List of stakeholder groups	8–11	
102-41	Collective bargaining agreements	101	
102-42	Identifying and selecting stakeholders	15	
102-43	Approach to stakeholder engagement	13, 26, 47, 48, 51, 68, 69	
102-44	Key topics and concerns raised	13, 26, 47, 48, 51, 68, 69	
Reporting practice			
102-45	Entities included in the consolidated financial statements	142	
102-46	Defining report content and topic Boundaries	15	
102-47	List of material topics		Refer to this GRI Content Index
102-48	Restatements of information		Discussed throughout the report where relevant
102-49	Changes in reporting		None
102-50	Reporting period	14	
102-51	Date of most recent report	14	21 August 2018
102-52	Reporting cycle	14	Annual
102-53	Contact point for questions regarding the report	20	
102-54	Claims of reporting in accordance with the GRI Standards	153	
102-55	GRI content index	153	
102-56	External assurance policy	14	

Material topics and associated disclosures		Pg #	Comment
Economic			
Financial performance[67]			
GRI 103: Management Approach 2016[68]		27–32	
Non-GRI[67]	Various financial measures	31–32	
Financial impacts of hydrology[67]			
GRI 103: Management Approach 2016		59–63	
Non-GRI	Financial implications of variability in hydrology	59–63	
Financial impacts of climate change			
GRI 103: Management Approach 2016		8	Throughout the report. Also refer to our Taskforce for Climate-related Financial Disclosures (TCFD) Report at www.meridianenergy.co.nz/assets/Sustainability/e93f942ead/Meridian-Climate-Disclosures-TCFD-Report-FY19.pdf
GRI 201: Economic Performance 2016			
201-2	Financial implications and other risks and opportunities due to climate change	8	
Pipeline of generation options[67]			
GRI 103: Management Approach 2016		73	
EU10	Planned capacity against demand	73	
Environmental			
Action on climate change[67]			
GRI 103: Management Approach 2016		29	
Non-GRI	Proportion of Meridian Group generation from renewable resources	29	
Non-GRI	Support for customers' climate change mitigation actions	53–56	
Non-GRI	Funds raised for community energy projects in Australia	55	

Material topics and associated disclosures		Pg #	Comment
Operational carbon emissions			
GRI 103: Management Approach 2016		28	
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	28	Also see our Meridian Group Greenhouse Gas Inventory Report FY19 on our website: www.meridianenergy.co.nz/about-us/sustainability/green-house-gas-emissions-reports
305-2	Energy indirect (Scope 2) GHG emissions	28	
305-3	Other indirect (Scope 3) GHG emissions	28	
Impact on water			
GRI 103: Management Approach 2016		66–68	
GRI 303: Water and Effluents 2018			
303-1	Interactions with water as a shared resource	66–68	
303-2	Management of water discharge-related impacts	66–68	
303-3	Water withdrawal	66	
303-4	Water discharge	66	
303-5	Water consumption	66	
Impact on biodiversity			
GRI 103: Management Approach 2016		66–68	
GRI 304: Biodiversity 2016			
304-2	Significant impacts of activities, products, and services on biodiversity	66–68	
Environmental compliance			
GRI 103: Management Approach 2016		68	
GRI 307: Environmental Compliance 2016			
307-1	Non-compliance with environmental laws and regulations	68	

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

68 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 accordance with GRI 103: Management Approach 2016.

Material topics and associated disclosures		Pg #	Comment
Labour Practices			
Employee engagement[67]			
GRI 103: Management Approach 2016		26	
Non-GRI	Employee engagement surveys	26	
Occupational health and safety			
GRI 103: Management Approach 2016		26, 70–71	
GRI 403: Occupational Health and Safety 2018			
403-1	Occupational health and safety management system	70–71	
403-2	Hazard identification, risk assessment, and incident investigation	70–71	
403-3	Occupational health services	70–71	
403-4	Worker participation, consultation, and communication on occupational health and safety	70–71	
403-5	Worker training on occupational health and safety	70–71	
403-6	Promotion of worker health	70–71	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	70–71	
403-8	Workers covered by an occupational health and safety management system	70–71	
403-9	Work-related injuries	70	
Non-GRI	Total recordable injury frequency rate (TRIFR)	70	
Diversity and equal opportunity			
GRI 103: Management Approach 2016		44–47	
GRI 405: Diversity and Equal Opportunity 2016			
405-1	Diversity of governance bodies and employees	45, 46	
405-2	Ratio of basic salary and remuneration of women to men	45	

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Material topics and associated disclosures		Pg #	Comment
Non-GRI	Women in people leadership and senior specialist positions	46	
Retaining expertise[67]			
GRI 103: Management Approach 2016		71	
EU15	Tenure by age	71	
Society			
Access to water[67]			
GRI 103: Management Approach 2016		68–69	
Non-GRI	Strength of relationships with stakeholders interested in water	68–69	
Contribution to local communities			
GRI 103: Management Approach 2016		69	
GRI 413: Local Communities 2016			
413-1	Operations with local community engagement, impact assessments, and development programs		13 out of our 17 power stations have local community engagement programmes (Mt Millar and our Australian hydro power stations don't) – 95% of MW capacity
Non-GRI	Contribution to local communities in New Zealand	69	
Non-GRI	Number of community fund grants in New Zealand	69	
Contribution to public policy			
GRI 103: Management Approach 2016		32, 51–52	
GRI 415: Public Policy 2016			
415-1	Political contributions	91	Meridian does not donate to any political parties (as specified in our Code of Conduct)
Non-GRI	Expenditure on "lobbying" organisations such as trade associations	101	

Material topics and associated disclosures		Pg #	Comment
Non-GRI	Key regulatory issues	32, 51–52	
Product Responsibility			
Customer satisfaction[67]			
GRI 103: Management Approach 2016		25, 48	
Non-GRI	Level of customer satisfaction	25, 48	
Non-GRI	Customer retention rates	39	
Electricity pricing[67]			
GRI 103: Management Approach 2016		27, 37–40	
Non-GRI	Price of electricity in AU and NZ compared to other OECD countries	37	
Support for vulnerable customers			
GRI 103: Management Approach 2016		40–41	
EU27	Disconnections[67]	41	
Plant performance[67]			
GRI 103: Management Approach 2016		65	
EU30	Plant availability factor	65	
Process safety[67]			
GRI 103: Management Approach 2016		64	
Non-GRI	Actions to improve process safety	64	

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Integrated Report
for the year ended
30 June 2019.