Release

Stock exchange listings: NZX (MEL) ASX (MEZ)

Meridian Energy Limited 2016 Full Year Financial Results

24 August, 2016

Today Meridian Energy releases its full year results for the year ended 30 June 2016.

Included in this announcement is:

1. Media Announcement
2. NZX Appendix 1
3. Annual Report for the year ended 30 June 2016 (including audited financial statements)
4. NZX Appendix 7 detailing the ordinary dividend of NZD 8.40 cents per share (NZD)
5. NZX Appendix 7 detailing the special dividend of NZD 2.44 cents per share (NZD)
6. Investor presentation
7. Investor Letter
8. Financial Assistance Disclosure Notice

For the purposes of ASX Listing Rule 1.15.3 Meridian confirms that its primary listing is on the main board of the New Zealand Stock Exchange and therefore complies with the NZX Listing Rules.

ENDS

Jason Stein
General Counsel / Company Secretary
Meridian Energy Limited

For investor relations queries, please contact:
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Polly Atkins
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Stock exchange listings: NZX (MEL) ASX (MEZ)

Meridian delivers a fourth successive year of operating earnings growth and increased dividends

24 August 2016

Financial results

While net profit after tax was lower, operating earnings measured by EBITDAF[1] was $650 million, 5% higher than last year and the annual dividend was increased.

Meridian's Chief Executive Mark Binns said it was pleasing to deliver another year of growth, with aggregate demand in the core New Zealand market remaining flat.

While the headline net profit after tax number was down 25% on last year, this was heavily influenced by non-cash changes in the carrying values of treasury and electricity hedges. Removing the impact of these items has seen underlying net profit after tax[2] increase by 11% to $233 million.

The strong operational performance has been delivered by an improved retail performance in both New Zealand and Australia, higher generation prices in Australia and strong generation volumes in New Zealand resulting in higher wholesale sales and lower hedge costs.

"Meridian has delivered a highly credible result in two demanding retail markets and the continual focus on service levels and efficiency is delivering results," said Mr Binns.

The continuing strong levels of free cash flow has enabled the company to declare an annual dividend of 13.50 cents per share, nearly 5% up on the previous year. The final dividend, payable on 15 October, will be 8.40 cents per share and is imputed to 90%. As part of the company's capital management programme the directors have also declared a final special dividend of 2.44 cents per share that will be paid the same day as the final ordinary dividend.

Industry context

Meridian has seen progress on a number of issues affecting the New Zealand electricity market. The Electricity Authority has proposed a fairer, more durable option on transmission pricing that will underpin security for New Zealanders.

[1] Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items.
[2] Net profit after tax adjusted for the effects of non-cash fair value movements and one-off items.

While the market has experienced reduced supply as competitors retire thermal plant, Genesis Energy's decision to extend the operational life of the Huntly Rankine units will help provide future dry and peak period cover to the market.

Highlights

Meridian, Genesis Energy, Ngāi Tahu and irrigators agreed amendments to allocations and flow rates as part of the Waitaki Catchment Water Allocation Regional Plan.

"Changes agreed in the Waitaki are an exemplar of a collaborative approach to water allocation in one of New Zealand's most economically important catchments. This agreement represents a sustainable way forward as we move closer to reconsenting power stations in 2025," said Mr Binns.

Meridian's decision to franchise its Powershop systems and brand in the UK, after proving its platform works in Australia, has also been a focus.

Meridian has become one of only two companies in New Zealand to be on the Dow Jones Sustainability Asia Pacific Index.

"Considered one of the most credible indices internationally, this provides customers, shareholders and communities confidence that Meridian has the right focus across the economic, social and environmental aspects of our operations. A big part of this is our unremitting focus on preventing serious harm to our staff, contractors and customers," said Mr Binns.

ENDS

Mark Binns
Chief Executive
Meridian Energy Limited

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meridian

Appendix 1

Stock Exchange listings: NZX (MEL), ASX (MEZ)

1. Full year reporting periods

Reporting period:	twelve months to 30 June 2016
Previous reporting period:	twelve months to 30 June 2015

2. Results for announcement to the market

	Twelve months to 30 June 2016 (NZ$m)	**Percentage change**
Operational results		
Revenue from ordinary activities	2,375	-1%
Profit (loss) from ordinary activities after tax attributable to security holders	185	-25%
Net profit (loss) attributable to security holders	185	-25%
Energy Margin[1]	1,009	+6%
EBITDAF[2]	650	+5%
Underlying Net Profit after Tax[3]	233	+11%

[1]Energy Margin is a non-GAAP measure representing electricity sales to customers and electricity generation revenue, net of hedging less electricity expenses, net of hedging and electricity distribution expenses.

[2]EBITDAF is a non-GAAP financial measure, defined as earnings before interest, taxation, depreciation, amortisation, changes in fair value of hedges and other significant items.

[3]Underlying Net Profit after Tax is a non-GAAP measure representing Net Profit after Tax adjusted for the effects of non-cash fair value movements and other one-off items.

	Twelve months to 30 June 2016 (NZ$m)	Twelve months to 30 June 2015 (NZ$m)
Underlying NPAT Reconciliation		
Net Profit after Tax	**185**	**247**
Hedging instruments:		
Net Change in fair value of electricity and other hedges	15	1
Net Change in fair value of treasury instruments	68	32
Premiums Paid on Electricity Options (less interest)	(12)	(15)
Assets:		
Impairments of Assets	(4)	38
Gain on Sale of Assets	1	(19)
Total adjustments before tax	**68**	**37**
Taxation:		
Tax effect of above adjustments	(20)	(13)
Release of capital gains tax provision	-	(28)
Tax on depreciation of powerhouse structures	-	(34)
Underlying Net Profit after Tax	**233**	**209**

	Amount per security (NZ cents)	Imputed amount per security (NZ cents)
Interim ordinary dividend	5.10	1.69
Record Date	31 March 2016	
Payment Date	15 April 2016	
Interim special dividend	2.44	-
Record Date	31 March 2016	
Payment Date	15 April 2016	
Final ordinary dividend	8.40	2.94
Record Date	30 September 2016	
Payment Date	14 October 2016	
Special dividend	2.44	-
Record Date	30 September 2016	
Payment Date	14 October 2016	

For commentary on the operational results please refer to the media announcement and final results presentation. Appendix 1 should be read in conjunction with the attached Group Financial Statements for the year ended 30 June 2016.

3. Net tangible assets per security

	30 June 2016 (NZ cents)	30 June 2015 (NZ cents)
Net tangible asset per security	184	171

4. Control of entities gained or lost during the period

Name of Entity	Sold/Dissolved	Principal Activity	Interest Held by Parent
Nil			

5. Dividends

As per point 2 and NZX Appendix 7 attached

6. Dividend or distribution reinvestment plans

Nil

7. Associates and joint venture entities

Name of Entity	Country of Incorporation	Date	Principal Activity	Interest held by Group
EDDI Project JV	New Zealand	01/05/12	Dam Management Systems	50%

8. Accounting standards

The Group Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), as appropriate for a profit-orientated entity and are prepared in accordance with the requirements of the Financial Reporting Act 1993. A list of additional new Accounting Standards and amendments that became effective during the period is included in the attached Group Financial Statements for the year ended 30 June 2016.

9. Audit

This report is based on the audited Group Financial Statements. Deloitte has provided an Independent Audit Report on the Financial Statements, which is attached.

meridian

Powering today, protecting tomorrow

2016 | MERIDIAN ENERGY LIMITED | ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

MERIDIAN ENERGY LIMITED *Annual Report for the year ended 30 June 2016*

2016 highlights

$1.5M

GRANTED TOWARDS COMMUNITY PROJECTS AND SPONSORSHIP PARTNERS

Caring for our communities

Dow Jones Sustainability Indices

Building on our reputation

During the year we were included in the Dow Jones Sustainability Asia Pacific Index, identifying us as a sustainability leader in our industry. The Indices are recognised globally as a leading benchmark for sustainable business practices.

33%

TOTAL SHAREHOLDER RETURN[1]

Delivering returns to shareholders

We have declared 18.38 cents per share in dividends and delivered a 33% total shareholder return in the year to 30 June 2016 compared with 20% return in the NZX top 50 group of companies.

FRONT COVER – Rita Ngatai, Finlayson Park School, Manurewa at the Meridian Tamariki Surf Camp, Raglan 2016.

1 Movement in share price during the year plus total dividends declared.

2 Net profit after tax adjusted for the effects of non-cash fair value movements and one-off items.

Powershop launched in NSW

AND WE'RE NOW WORKING ON AN OPPORTUNITY IN THE UK

New markets

Powershop customer numbers continue to grow in both Victoria and New South Wales, with more than 78,000 customers now enjoying great service from Australia's greenest electricity retailer. And we've joined forces with npower, one of the largest electricity companies in the United Kingdom to franchise Powershop into Britain.

58%

INCREASE IN CUSTOMERS USING MyMeridian, OUR ONLINE ENERGY MANAGEMENT TOOL

Enhancing our digital capability

We're focused on enhancing our customers' experience online. We have experienced a 58% increase in customers using MyMeridian. We have also seen an 18% increase in customers receiving electronic bills this year and now 88% of our customers pay online.

5%

EBITDAF[3] GROWTH

EBITDAF, a key measure of profitability, was 5% higher this year, the fourth successive year of growth.

$650M

EBITDAF

IN THIS REPORT

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

Company overview

MERIDIAN ENERGY IS NEW ZEALAND'S LARGEST ELECTRICITY GENERATOR AND IS COMMITTED TO GENERATING ELECTRICITY FROM 100% RENEWABLE SOURCES – WIND AND WATER. MERIDIAN SUPPLIES ELECTRICITY TO POWER HOMES, BUSINESSES AND FARMS

Meridian is listed on the New Zealand Stock Exchange (NZX) and Australian Securities Exchange (ASX) and is 51% owned by the New Zealand Government.

Meridian generates more than 30% of New Zealand's electricity from its integrated chain of dams and power stations on the Waitaki River and from Manapōuri power station in Southland, the largest hydro power station in New Zealand, and from five wind farms around the country.

Through the Meridian and Powershop brands, Meridian retails electricity to almost 275,000 customer connections in New Zealand, including homes, farms and businesses nationally. Powershop has 78,000 residential and commercial customer connections in Australia. Our focus is on continuing to achieve high levels of service and delivering value to our customers.

Meridian owns and operates Mt Millar wind farm in South Australia and Mt Mercer wind farm in Victoria.

Meridian supports a number of environmental programmes, operates Community Funds associated with each of its assets and runs a national sponsorship programme that supports organisations that make a big difference to Kiwis, such as KidsCan, Kākāpō Recovery Programme and South Island Rowing.

The Meridian Group employs 866 permanent employees and has offices across New Zealand, including the company's head office in Wellington and an office in Melbourne, Australia.

RETAIL

TOTAL NEW ZEALAND

274,920

CUSTOMER CONNECTIONS[4]

AUSTRALIA

77,970

CUSTOMER CONNECTIONS[5]

HYDRO

TOTAL INSTALLED CAPACITY

2,338MW[6]

TOTAL GENERATION

12,251GWH[7]

WIND

TOTAL INSTALLED CAPACITY

617MW

TOTAL GENERATION

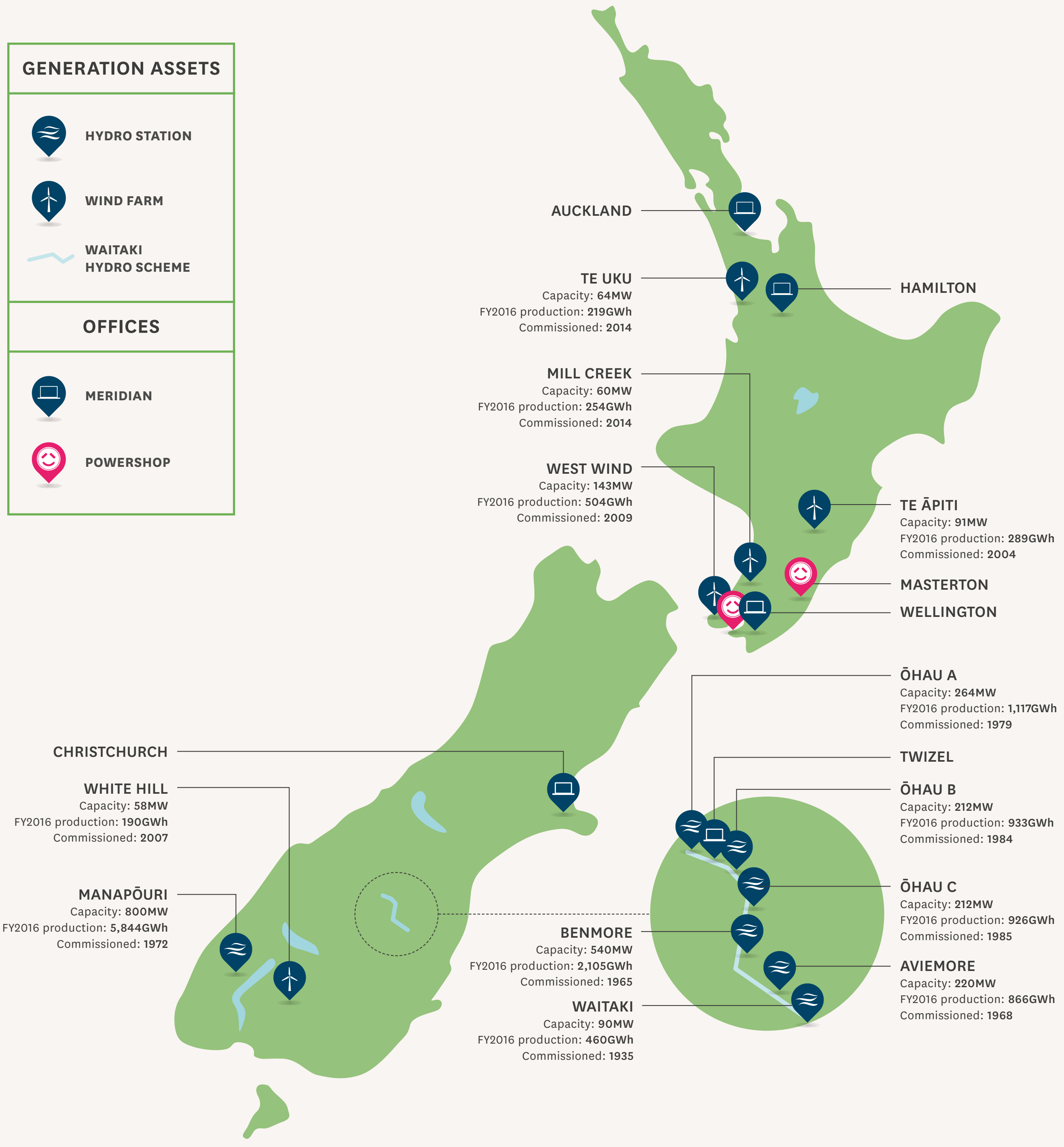
1,975GWH

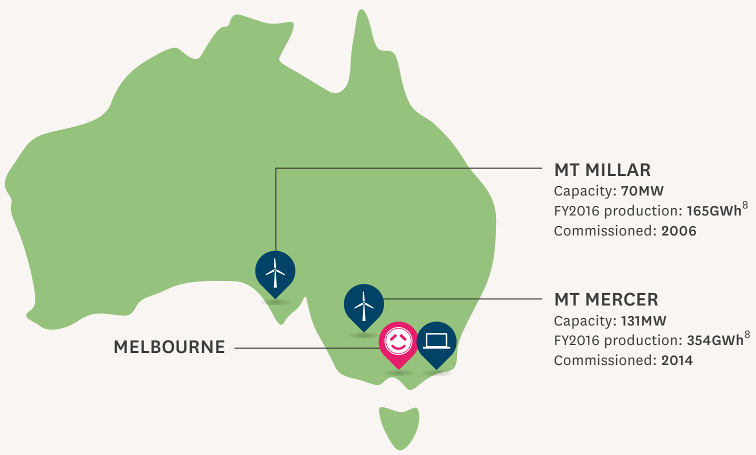
4 Installation control points (ICPs).

5 Financially responsible market participants.

6 Megawatts. One MW is enough to light 10,000 x 100-watt light bulbs.

7 Gigawatt hours. One GWh is equivalent to enough electricity for 125 average New Zealand homes for one year.





8 After the application of the marginal loss factor prescribed by the Australian Energy Market Operator.

Report from our Chair and Chief Executive

CHRIS MOLLER
Chair

MARK BINNS
Chief Executive

2015/16 HAS PROVED TO BE A VERY GOOD YEAR, WITH MERIDIAN GENERATING A RECORD LEVEL OF OPERATING CASH. EBITDAF AND UNDERLYING NET PROFIT BOTH IMPROVED FOR THE FOURTH YEAR IN A ROW. THIS RESULT IS DUE TO A NUMBER OF OPERATIONAL IMPROVEMENTS THAT STRENGTHENED OUR WHOLESALE TRADING POSITION, A WETTER, LATE SUMMER AND AUTUMN IN OUR HYDRO CATCHMENTS, AND IMPROVED PERFORMANCE FROM OUR RETAIL OPERATION

Overall, demand for electricity in New Zealand increased by 0.3% during the year with a very mild early winter, and Meridian produced around 32% of New Zealand's total electricity needs.

While overall market demand levels remained virtually static, supply reduced, with competitors closing thermal plants in the upper North Island, with an aggregate capacity of more than 800MW over the last year. Furthermore, Genesis Energy signalled its intention to close its remaining Rankine units at Huntly in December 2018. This additional reduction in capacity would have had a significant impact on the market during periods of peak demand and low lake levels. However, following an extensive period of negotiations Genesis was able to secure extended bilateral contracts with Meridian and other market participants to provide dry and peak period back-up to the market through to December 2022. In Meridian's view this is positive for Meridian, Genesis, the industry and consumers as a whole.

New Zealand is the envy of many countries, having the fourth-highest level of renewable generation in the OECD, yet access to additional capacity to meet any shortfall in supply, resulting from drought or peak winter demand remains essential. At this stage the need for occasional thermal back-up clearly remains the most economical option for our electricity system.

There are 31 retail brands in New Zealand. Competition is intense and we do not see the retail landscape changing. Customers have significant choice and Meridian will continue to focus on winning and retaining customers with fair pricing and excellent service.

The Electricity Authority's (EA's) review of transmission pricing moved one stage closer to completion with the issue of its final options paper in May this year. The direction in which the EA is heading looks to provide a far more equitable basis for allocating transmission costs. If the final determination maintains this course, Meridian will be able to contemplate a fairer transmission charging regime before 2020, with an associated reduction in the disproportionate level of transmission costs it currently has to absorb.

Financial performance and shareholder returns

Operating earnings for the year measured by EBITDAF were up 5% on the previous year. Retail contracted sales were higher in both New Zealand and Australia this year. Higher levels of water storage allowed Meridian to sell more generation and meant it cost the company less to purchase hedge cover to supplement its generation.

Net cash flow from operating activities at $452 million was up largely as a result of a better operating performance.

It was again pleasing to see a total shareholder return for the year of 33%, exceeding the NZX 50 average of 20%. The total shareholder return since listing has been 118%, and this is based on the assumption that the full $1.50 issue price was paid up front at the time of the Initial Public Offering.

Dividends and capital management

The Board has declared a final ordinary dividend of 8.40 cents per share (cps), which brings the total ordinary dividend declared for this financial year to 13.50 cps. This is nearly a 5% uplift on last year. Ordinary dividends declared in the three financial years since listing have increased by 2.49 cps or 23%.

Pursuant to Meridian's capital management programme, the Board again has considered the financial position of the company, trading prospects and alternative uses of any excess capital in determining whether to continue the programme. Meridian's strong financial position has allowed the Board to declare a final special dividend of 2.44 cps, bringing the amount paid via special dividends to $125 million for this financial year. In making this decision the Board did consider the possibility of a share buyback, the parameters within which a buyback could be executed, and fairness to shareholders wishing to sell or to hold shares.

Meridian has distributed $187.5 million since it began its capital management programme in August 2015. The balance sheet remains strong, with net borrowings after payment of the dividends in October projected to be $1.2 billion. This leaves the company with sufficient headroom to absorb any period of poor hydrology or pursue any growth opportunity should it arise.

Working safely

Meridian continues to build on its safety foundation with a strong focus on people and attitudes. Actively engaging staff to identify opportunities to enhance our safety processes and culture has been a continued commitment.

To ensure that senior management and the Board have a clear understanding of safety, the information we capture and report on has been adapted to ensure a focus on the lead indicators of and triggers for risk. This means the Board now has greater visibility of risks and mitigations in place and can provide strong governance to ensure the safety of all.

Owing to an increase in contractor engagement in our Retail business to support smart meter deployment, a dedicated safety support person has been embedded into the business unit to ensure health and safety is considered for all stakeholders involved in the process. This has resulted in improved reporting from our supply chain, with team members identifying incidents that have not always been previously captured and investigated. Sharing this information across all major electricity retailers will help make for a stronger industry safety performance.

Staylive, a generation-retailer safety forum, continues to work on a number of sector initiatives aiming to support consistency in high-risk areas such as work controls, and confined spaces and in the training and competence of contractors.

Building and maintaining a safe culture is ongoing and requires attention. This year's staff engagement survey results for the safety, health and wellbeing questions noted 91.8% of staff agreeing that Meridian takes safety and health seriously. This is an increase from the previous year's score.

Tiwai Point smelter

In last year's report we provided a history of negotiations with the smelter owner, New Zealand Aluminium Smelters Limited (NZAS). In the past year we have had numerous discussions with NZAS on the ongoing challenges the smelter faces with continued low aluminium prices and a persistently high New Zealand dollar. The next milestone of significance will be 1 January 2017, when NZAS obtains a perpetual right to provide 12 months' notice to terminate its Electricity Supply Agreement with Meridian. A price increase also becomes effective from this date. One area that may positively affect NZAS's cost base is the outcome of the Transmission Pricing Review by the EA. As noted, this long-running review moved a stage closer to conclusion this year. If the EA's decision is finalised by the end of the year it will provide NZAS with a path to lower transmission costs. However, until such time as we see a sustained recovery in aluminium prices and a reduction in the NZD/USD exchange rate, it is difficult to assume with confidence that the smelter's long-term future is secure.

Continued uncertainty around this agreement is something that the industry has come to manage.

Customers

The year saw aggregate customer load in New Zealand flat with higher mass market sales offset by a reduction in commercial and industrial sales. While load was flat, actual customer numbers measured by connection points declined by 1% to 274,920.

This decline in customer numbers was principally in the residential segment as competition became even more intense, with more electricity brands in the market and aggressive pricing by major players. Meridian's residential position was partially compensated for by an improvement in the small and medium business (SMB) segment, where customer numbers grew by 13%. It is also relevant to note that SMB customer connections tend to have an average annual usage two to three times that of residential customer connections.

A key focus has been the rollout of smart meters to our customers, with the goal of having 90% of customers on smart meters by March 2017. This infrastructure will both improve the customer experience and reduce cost. In conjunction with our online services, customers will be able to monitor usage patterns and amounts spent at daily and hourly levels and be alerted to changing consumption patterns. Meridian's internal processes will also be made more efficient with fewer bill estimations required, providing a more accurate service and allowing us to address customer issues remotely.

Meridian has launched a new online self-service tool that will help corporate customers better manage their electricity and access data from one place. We have 64,380 customers registered with MyMeridian and provide e-billing for 70% of customers.

During the year we announced a partnership with accounting software company Xero, allowing business customers to receive invoices directly into their Xero accounting systems.

New technologies continue to interest a number of customers and we have continued to see solar customers increase, to 3,856 at the end of the year, up 17% on last year. While the economics of household solar at this point are not compelling in New Zealand, we recognise and support customers who want to adopt this technology. Meridian's buyback offer for surplus energy produced by solar customers remains very competitive. The emergence of new battery solutions also provides longer-term opportunities for customers, but again New Zealand's industry structure and high rate of renewable electricity, combined with large-scale energy storage, mean that residential and commercial customers looking to adopt the technology will face challenging economics until battery prices reduce significantly. This reduction in cost will occur over time and we anticipate that network companies will be the first to make use of large-scale batteries to avoid costly capital expenditure to meet peak demand requirements.

Electric vehicles (EVs) will prove to be a very positive initiative in New Zealand. With over 80% of our electricity coming from renewable resources there is a real opportunity to help decarbonise the transport sector, which currently contributes approximately 20%[9] of New Zealand's carbon emissions. Meridian welcomed the Minister of Energy and Resources, Simon Bridges package of initiatives in April this year to aid the growth of EV market penetration. In Canterbury we are working closely with the Christchurch EV Forum to deploy public EV charging stations and, among other things, have partnered with Kiwi Property to deploy charging stations in four shopping malls around the country.

People

In June we received the results of the annual employee engagement survey, and it was exceptionally pleasing to see the results improve for the second year in a row to an overall score of 82%, significantly ahead of the energy sector benchmark of 74%, but with still some way to go to get to a top-10% rating. Another improving metric is the percentage of staff participating in the company's share ownership scheme, known as MyShare. This year over 48% of all eligible employees were enrolled in the scheme, which applies an elected amount from each employees' monthly salary to purchase Meridian shares. Having nearly half your employees as owners of the business, no matter how small that ownership may be, is very gratifying. Share ownership encourages Meridian staff to think like shareholders and supports us in increasing engagement.

During the year we had a number of movements in the Executive team, with the Chief Executive of Meridian Energy Australia, the General Manager, Information and Communications Technology (ICT) and the General Manager, Retail resigning. It is gratifying that two of these roles were replaced by executives from within the organisation who had been identified as potential replacements through Meridian's succession planning process.

Neal Barclay, Meridian's General Manager, Markets and Production, was appointed to the role of General Manager, Retail. Guy Waipara, Meridian's General Manager, External Relations, was appointed to the role of General Manager, Markets and Production. Ed McManus joined the Executive team as Chief Executive of Powershop Australia. It is satisfying that investment in our own people has given us the bench strength to fill these roles.

The only external appointment was Sandra Pickering, who assumed the General Manager, ICT role in July 2016. Sandra comes to us with a long career at Vodafone and her depth of experience will add considerable value to not only our ICT operations but to the wider team.

Ensuring that our people have a pleasant, healthy and safe working environment is important. In May we opened a new office building in Twizel. This building is significantly more user friendly than its predecessor, aiming to be approximately 40% more energy efficient with state-of-the-art heating and cooling systems. In Christchurch we are within weeks of moving to our new premises in Durham Street, back inside the CBD – some six years after the first Canterbury earthquakes. This move will mark a significant step up in space efficiency and layout compared with our existing Christchurch premises in Moorhouse Avenue, which provided a temporary base after the earthquakes. The resilience and adaptability of our Christchurch workforce in this post-earthquake journey needs to be acknowledged.

Staff turnover remains at a very low level and the total number of permanent employees in the Group at the end of June 2016 was 866.

Efforts to make gains in the area of diversity and inclusion (D&I) in our workforce have led to our achieving a steady shift towards some key goals to increase the number of senior women in our organisation and the ethnic diversity of our customer-facing roles. It is pleasing to see a sustained effort in this space, which is culmination of a number of activities across the organisation. See Our People section later in this report for more information on the work we are doing to improve our focus on D&I.

Sustainability

Meridian's commitment to generating electricity from only renewable resources is at the core of what makes us a sustainable business. As the largest electricity generator in New Zealand, Meridian is the most significant contributor to the Government's target of 90% renewable electricity generation by 2025. This year New Zealand has generated 82%[10] of its electricity through renewable sources.

Our business strategy identifies areas critical to our success and reflects a wide range of factors, including shareholder expectations, iwi and community interests in water rights and allocation, and our customers' energy needs. The sustainability framework we use helps us to measure and monitor our performance in this range of economic, environmental and social goals.

A continual focus on measuring and reducing emissions also remains a priority for Meridian. We measure emissions from our corporate activities (including car and air travel, waste and office electricity). We are on track to meet our target of reducing greenhouse gas emissions by 10% per full-time employee by 2018. This year our corporate emissions were 2,664 tonnes of CO_2 equivalent (tCO_2e).

This year we became one of two New Zealand

9 Ministry of Transport.

10 Ministry of Business, Innovation and Employment electricity statistics as at March 2016.

companies on the Dow Jones Sustainability Asia Pacific Index. The Dow Jones Sustainability Indices (DJSI) are considered to be among the most credible of the sustainability indices internationally. Joining the DJSI shows us that our sustainability framework has the right components across economic, environmental and social dimensions and provides customers, shareholders and communities with confidence that Meridian operates responsibly and consistently with our aim of being a high-performing and resilient business.

In Australia, Powershop customer numbers were almost 78,000, which is more than those of Powershop in New Zealand. Powershop Australia is carbon neutral (National Carbon Offset Standard Australia) and has earned the honour of most satisfied customers in Victoria (Canstar Blue) and Best Energy Company for Service (ServiceRage), and for the second year in a row was ranked by Greenpeace as Australia's greenest power company.

The external recognition we receive reflects our use of internationally agreed standards and reporting mechanisms consistent with good sustainability practice. This includes our continued use of the Global Reporting Initiative.

Growth and technology

Growth is a word that has been missing from the lexicon of most mainstream companies since the onset of the global financial crisis in 2008, as aggregate demand growth for most products and services has stalled, if not declined, exposing significant overcapacity in some industries and economies. The electricity industry in New Zealand has been no exception, but with demand growth averaging 1.4% in the past two years and the retirement of 825MW of thermal plants, the possibility of further generation being required earlier than previously thought has arisen. Our current forecasts are that, on the assumption the Tīwai Point smelter maintains production at current levels, new generation may be required by somewhere between 2019 and 2023. We believe this requirement will be met by incremental geothermal upgrades to existing plant, new wind farms and potentially some new gas peaking plant. The overhang from a potential Tīwai Point exit may discourage a major investment because of the high capital costs. Meridian expects at least one of its wind options to be close to the top of the merit order to meet New Zealand's new generation needs.

In Australia, the past year has seen lots of talk but little new renewable generation actually committed to. The ability of the industry to meet the Renewable Energy Target (RET) of 33,000GWh by 2020 hangs in the balance, with many now believing the reluctance to commit to projects will see a shortfall. Continued political uncertainty during the year has not helped, but hopefully it is clear to all, that if Australia is to make meaningful progress towards reducing carbon intensity in the electricity sector, bipartisan support must be maintained for the RET. That said, the results of the Australian federal election in July have not delivered a clear mandate to the Turnbull Government and further encouragement of the renewable industry through positive change to the RET scheme looks difficult at this point. This will be required if Australia is to meet COP21 commitments made in Paris.

During the year Meridian investigated an opportunity to participate in a utility-scale solar project that was part of the current round of ARENA (Australian Renewable Energy Agency) funding. This provided considerable learnings associated with solar opportunities in Australia, but the numbers did not justify our continued involvement. That said, the proposition for utility-scale solar in Australia is improving with the continued reduction in capital costs.

We are constantly reviewing how Meridian could participate directly in new technologies such as solar, energy storage and EVs, and we monitor overseas companies that are taking positions in these industries. With rapid changes in technology no overseas company seems to have established a sustainable business model at this point, other than some of the equipment manufacturers, and each country, including New Zealand, presents a unique set of market, regulatory and political dynamics that need to be taken into account when evaluating opportunities. To date we have not identified a significant opportunity that would warrant the commitment of shareholders' funds. We believe the better approach is to assist those customers who wish to adopt new technologies and to watch and wait for opportunities as they develop. We have promised to be judicious with shareholders' money and intend to maintain this discipline. We do not believe that we are suffering a competitive disadvantage as a result of this stance.

In November 2015 Meridian made the decision to franchise its Powershop systems and brand in the UK with npower, one of the UK's largest electricity retailers. While the opportunity was not without risk, it provided us with the right balance of potential benefit, relative to risk, to warrant investment. The team has already proved it can adapt the platform for

a new country entry with the commencement of Powershop in Australia in 2013, and the UK provides an opportunity of greater scale, with a partner that understands and will assume energy market risk. A market launch is anticipated in early 2017.

Environment

Water

Water is central to Meridian's generation business, and it is crucial to New Zealand's wellbeing now and in the future. Progress on better water management has been made across New Zealand, in part due to the National Policy Statement for Freshwater Management. Having now been in place since 2011, it was modified significantly in 2014 and is currently under an 'implementation review'. The establishment of water quality limits in catchments is a positive step towards better water quality and water management. There is still important work to be done to improve allocation and address iwi rights and interests in fresh water. These issues are linked and it will be important to New Zealand, Meridian and our partners to have a strong track record of working collaboratively.

In June Environment Canterbury released its decision on the changes to the Waitaki Catchment Water Allocation Regional Plan, which was a victory for a collaborative approach to allocation in one of New Zealand's most economically important catchments. Meridian, Genesis Energy, Ngāi Tahu and irrigators agreed amendments to allocations and flow rates that provide a sustainable way forward in the catchment and an easier path through the re-consenting of our power stations in 2025, when consents come up for renewal.

Communities

This year we spent a total of $1.5 million on sponsorships and community projects. Our major sponsorship is KidsCan, a charity that provides targeted support to help children succeed at school in the form of food, clothing and health programmes. This remains an important partnership and it's pleasing to see the association with this charity being well supported on the ground by staff and through donations from our customers. This year we worked with KidsCan and schools close to our wind farms and hydro stations to provide a unique opportunity for children at the Meridian Tamariki Surf Camp. You can discover more about this project later in this report.

Meridian has been searching for an environmental sponsorship, reflecting our commitment to sustainability. So it was with great satisfaction that in June this year we announced Meridian would become the principal sponsor of the Kākāpō Recovery Programme in partnership with the Department of Conservation. This partnership importantly provides another opportunity to work closely with Ngāi Tahu. Kākāpō are taonga and Ngāi Tahu plays a key role in the success of this important collaboration. Given Meridian is a guardian of some of New Zealand's most iconic assets, it makes sense that we put our efforts behind the ongoing conservation of this critically endangered species.

Outlook

Good inflows into our southern catchments during late summer and autumn meant that we commenced the new financial year in a strong hydro position, and at the end of July, Waitaki catchment storage was 155% of average for that time of the year. Accordingly our average market share of generation was strong through to the end of July at over 35%.

Retail markets on both sides of the Tasman will remain competitive, but we are anticipating retaining overall market share in mass market segments of residential and SMBs. We expect to see a continuing focus on our costs in New Zealand, countering any further price pressure.

As noted earlier, NZAS will, from 1 January 2017, have a perpetual right of termination that will be exercisable on 12 months' notice. It is impossible to predict with any certainty how this will play out, but our working assumption is that NZAS will not terminate the Electricity Agreement in the current financial year.

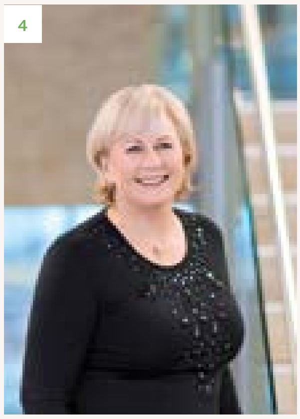
As noted in our introduction, the supply side of the industry has been in focus. The recent withdrawal of 825MW of gas thermal plants, some 8% of total capacity, will almost certainly lead to greater volatility in wholesale prices during periods of peak demand (usually winter) and periods of drought. In fact recently we have seen trading periods where a combination of factors have led to periods of high wholesale prices.

Most consumers are immune to spot market fluctuations as they have fixed-price plans with their retailers, but those who choose to buy directly from the market do so, accepting that this volatility can occur. Large generators, such as Meridian, have an obligation to operate responsibly and within the rules established by the market regulator. We accept that market volatility, which is a normal feature of a well functioning wholesale market, is going to occur on a more regular basis than has occurred in the recent past.

While having the EA reach a final decision on its Transmission Pricing Review will not have any impact on the 2016/17 results, the resolution of this long-running issue should provide certainty on future transmission costs for Meridian, which if the current direction of travel is maintained will have significant benefits for the company and, we hope, NZAS, our largest customer.

Again, in the past year our people have delivered a highly creditable result in two demanding markets. To our customers, suppliers and shareholders, thank you for your ongoing support.

Our Board



1. CHRIS MOLLER

Chair

CNZM, BCA, DIPLOMA OF ACCOUNTING, FCA (CAANZ)

Chris Moller has been on the Meridian Board since May 2009 and was appointed Chair in January 2011. Chris also serves on the Remuneration and Human Resources Committee. Chris has extensive experience in New Zealand and international business at both director and executive levels. He is the former Chief Executive Officer of the New Zealand Rugby Union and co-led New Zealand's successful bid to host the Rugby World Cup 2011. His 15-year career in the dairy industry included roles as Deputy Chief Executive of Fonterra and Chief Financial Officer of the New Zealand Dairy Board. Chris is currently Chair of the NZ Transport Agency and SKYCITY Entertainment Group Limited. He is also a director of Westpac New Zealand Limited. Previously he was a director of NZX Limited, Synlait Limited, the International Cricket Council, Cricket World Cup 2015 Limited, the International Rugby Board, Rugby New Zealand 2011 Limited (which entered into voluntary liquidation after meeting all of its debts following the conclusion of Rugby World Cup 2011) and National Foods (Pty) Limited.

2. PETER WILSON

Deputy Chair

MNZM, CA (CAANZ)

Peter Wilson joined the Meridian Board in May 2011. Peter is a Chartered Accountant and business consultant, and was formerly a partner of Ernst & Young and, until recently, Chairman of Westpac New Zealand Limited and was this year made a Member of the New Zealand Order of Merit for service to business. He has extensive experience in banking, business establishment, problem resolution, asset sales and management of change functions. Peter has been involved in companies undertaking capital-raising activities and has wide-ranging governance experience in the public market, in the private sector and with Crown-owned entities. Peter serves on the Safety and Sustainability Committee and Audit and Risk Committee. Peter is Chairman of Arvida Group Limited and is also a director of PF Olsen Limited and Farmlands Co-operative Society Limited. Past directorships include The Colonial Motor Company Limited, Westpac Banking Corporation and NZ Farming Systems Uruguay Limited.

3. MARK CAIRNS

Director

BE (HONS), BBS, MMGT, FIPENZ

Mark Cairns joined the Meridian Board in July 2012. He currently serves on the Audit and Risk Committee. Mark has extensive experience in port operations and transportation. He has been Chief Executive of NZX-listed Port of Tauranga Limited since 2005. Prior to joining Port of Tauranga Limited he was Chief Executive of C3 Limited (formerly Toll Owens Limited) for five years, following his role as General Manager (Central) at Fulton Hogan Limited. Mark is Chair of Quality Marshalling (Mount Maunganui) Limited and is a director of Northport Limited, CODA GP Limited and Port of Tauranga Trustee Company Limited. Mark has also previously held director roles in C3 Limited, Primeport Timaru Limited and Tapper Transport Limited.

4. JAN DAWSON

Director

CNZM, BCOM, FCA (CAANZ), FINSTD

Jan Dawson joined the Meridian Board in November 2012 and is Chair of the Audit and Risk Committee. Jan is Chair of Westpac New Zealand Limited, Deputy Chair of Air New Zealand Limited and a director of AIG Insurance New Zealand Limited and the Beca Group and was this year made a Companion of the New Zealand Order of Merit for services to governance. Jan is a professional independent director. She was previously Chair and Chief Executive of KPMG New Zealand, following a career spanning 30 years specialising in audit and accounting services in the UK, Canada and New Zealand. She was previously President of Yachting New Zealand and a director of Goodman Fielder Limited and Counties Manukau District Health Board.

5. MARY DEVINE

Director

ONZM, BCOM, MBA

Mary Devine became a director of Meridian in May 2010. Mary is Chair of the Remuneration and Human Resources Committee. She has had an extensive career in executive roles in private New Zealand companies. She is a former Chief Executive of Australasia's multi-channel retailer EziBuy and former Managing Director of department store J. Ballantyne & Co. Mary has particular expertise in corporate strategy, brand marketing and omni-channel retailing and, in 2015, was made an Officer of the New Zealand Order of Merit for services to business. She is currently a director of IAG New Zealand Limited, Top Retail Limited and Briscoe Group Limited.

6. SALLY FARRIER

Director

BE (HONS), MBA, GDIPAPPFIN

Sally Farrier was appointed a director of Meridian in July 2012 and serves on the Safety and Sustainability Committee. She is a professional non-executive director and corporate adviser specialising in the utilities and infrastructure sectors. In addition, she has an active interest in innovation and supporting women entrepreneurs in early-stage businesses. Having migrated from New Zealand to Australia in 1991, she has extensive experience in the Australian electricity industry; she is currently an independent director of AusNet Services, and was formerly a director of Hydro Tasmania and Western Power. She has held numerous expert roles in relation to water resources at Australian federal and state levels; she was an Australian National Water Commissioner, and is currently providing advice on the Victorian state water plan. Sally was formerly a director of Manidis Roberts Pty Limited and Farrier Swier Consulting Pty Limited.

7. ANAKE GOODALL

Director

BA, MBA, MPA

Anake Goodall joined the Meridian Board in May 2011 and serves on the Remuneration and Human Resources Committee. Anake has diverse management and governance experience, including being a union delegate in the meat industry and a founding director of the Makarewa Credit Union, holding various executive roles in community-based organisations, and being an adviser to the Government and iwi. In past executive roles he served as Chief Executive Officer of Te Rūnanga o Ngāi Tahu, and was before that responsible for managing all aspects of Ngāi Tahu's Treaty of Waitangi settlement process. Anake is currently Chair of the Ākina Foundation, the Hillary Institute of International Leadership and the Manawapōpore Trust. He is also a trustee of The Gift Trust and is an Adjunct Professor at the University of Canterbury. He has previously been a member of the Environmental Protection Authority and the Canterbury Earthquake Recovery Review Panel. Anake is a New Zealand Harkness Fellow.

8. STEPHEN REINDLER

Director

BE (HONS), AMP, FIPENZ

Steve Reindler joined the Meridian Board in September 2008 and is Chair of the Safety and Sustainability Committee. Steve is an engineer who has a background in large-scale infrastructure and heavy industry manufacturing. He has gained extensive experience through his previous executive roles at New Zealand Steel Limited and Auckland International Airport Limited, and through his industry position as inaugural Chairman of the Chartered Professional Engineers Council. He is currently Chair of Waste Disposal Services (an unincorporated joint venture between Auckland Council and Waste Management NZ Limited) and a director of Broome International Airport Group, Naylor Love Enterprises, Yachting New Zealand, and Resolve Group Limited, an independent adviser to AgResearch and an independent member of the Lincoln Hub Steering Committee. Steve was previously a director of Port of Napier Limited and Stevenson Group Limited and an advisory director of Glidepath Limited and Transfield Services Limited. He served as a Senior Office Holder on the board of the New Zealand Institution of Professional Engineers and was President of the institution in 2011.

Our Executive team

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1. MARK BINNS

Chief Executive
LLB

Mark Binns joined Meridian as Chief Executive in January 2012. Prior to this appointment Mark was Chief Executive of the Infrastructure Division of Fletcher Building Limited, the company's largest division. Mark worked at Fletcher Building and its predecessor, Fletcher Challenge Limited, for 22 years. During that period he was responsible for operations in Australia, South East Asia, India, South America, the United States and the South Pacific, as well as in New Zealand. Mark also held director roles in numerous subsidiary companies of the Fletcher Building group. His career has seen him closely involved in some of New Zealand's largest infrastructure projects, including the Auckland South Corrections Facility public-private partnership, the Waterview Connection, Eden Park, SKYCITY, the Museum of New Zealand Te Papa Tongarewa and the Manapōuri tunnel. By training Mark is a qualified lawyer and, prior to joining Fletcher Challenge, he was a partner at Simpson Grierson in Auckland.

2. PAUL CHAMBERS

Chief Financial Officer
BSC (HONS), FCA (ICAEW), CA (CAANZ)

Before taking up his role at Meridian in 2009, Paul Chambers was Chief Financial Officer of Transfield Services Limited. Paul has extensive senior finance experience in a variety of industries, including ports, manufacturing and retail, both in the UK and in France. Paul is a Chartered Accountant and is currently a director of the Meridian subsidiaries Powershop and Meridian Energy Australia. His team has responsibility for strategy coordination, performance measurement, external reporting, funding, risk management coordination, procurement and financial transaction services.

3. NEAL BARCLAY

General Manager, Retail
BCA, CA (CAANZ)

Neal Barclay took up the role of General Manager for Meridian's Retail business in April 2016, having previously been General Manager, Markets and Production since October 2009. Neal is responsible for leading the marketing, sales, service and operational support functions tasked with delivering an exceptional customer experience to Meridian's Retail customers. Neal has participated as a member of the EA's Wholesale Advisory Group since 2010 and he originally joined Meridian in 2008 as Chief Financial Officer. Prior to joining Meridian in 2008 Neal held a number of general manager roles in a 13-year career with Telecom NZ Limited.

4. JACQUI CLELAND

General Manager, Human Resources
BBS, MPHIL (PSYCH)

Jacqui Cleland joined Meridian as General Manager, Human Resources in September 2012. She has an extensive background in human resources and has held senior human resources management roles in New Zealand Post, New Zealand Inland Revenue and Fonterra. Jacqui also spent a number of years as a university lecturer, teaching and researching a wide range of business and human resources topics. Jacqui's team focuses on attracting, training and developing diverse talent, and building an inclusive and constructive workplace culture that drives higher levels of employee engagement and business performance.

5. ED MCMANUS

Chief Executive Meridian Energy Australia and Powershop Australia
BSC (FIRST CLASS HONS), PHD

Ed McManus is responsible for Meridian's Australian business, having joined Meridian as General Manager of Powershop Australia in October 2014 from realestate.com.au, where he was Group Manager, Marketing Operations. Prior to that he spent several years at GlaxoSmithKline and headed up its respiratory business, having started his career as a medical research scientist. Ed is responsible for energy markets and corporate functions in Meridian's Australian business, as well as Powershop retail operations, where he heads up a unique service that gives customers transparency and control over their energy bills as they've never had before.

6. SANDRA PICKERING

General Manager, ICT

Sandra Pickering joined Meridian in July 2016 from Vodafone New Zealand Limited, where she held the roles of Chief Technology Officer and Chief Information Officer for seven years. Sandra's responsibilities include ensuring that Meridian has an appropriate ICT strategy and plan to support the business's objectives now and into the future. Sandra has more than 30 years' experience in ICT, having worked in New Zealand and extensively overseas for IBM, Vodafone and now Meridian in senior management and executive roles in ICT. In 2012 Sandra was made a Fellow of the Institution of Engineering and Technology in the UK in recognition of her contribution to and experience in the technology industry. Sandra, as well as being on the Executive at Vodafone New Zealand, was also on the Vodafone New Zealand Foundation Board and a leader in driving D&I initiatives in the workplace, with a focus on gender and age diversity.

7. JASON STEIN

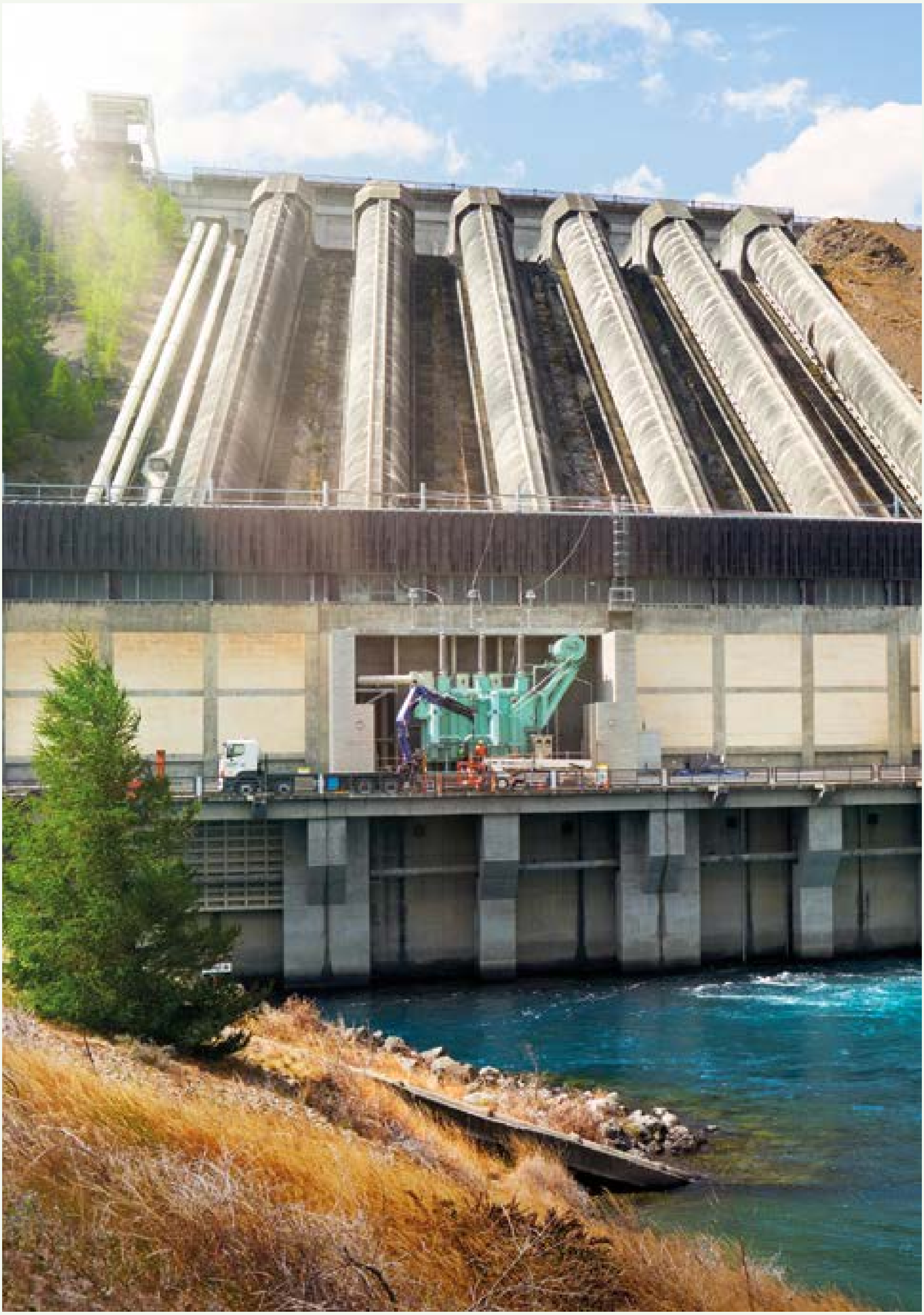
General Counsel and Company Secretary
LLB, BCA

Jason Stein joined Meridian in 2008 and is General Manager of the Office of the Chief Executive. As General Counsel and Company Secretary Jason manages a team with responsibility for the company's legal services and for managing Meridian's regulatory and government relations processes. In addition, his team provides corporate governance and company secretarial functions to the company, the Board and the management team. Jason has experience in governance roles in a number of former and current Meridian subsidiaries, including as the Meridian parent representative and as a director. Jason chairs Meridian's Diversity and Inclusion Committee.

8. GUY WAIPARA

General Manager, Markets and Production
BE (HONS), MBA

Guy Waipara (Rongowhakaata) was appointed General Manager, Markets and Production at Meridian in April 2016. Guy is responsible for the company's New Zealand and Australian generation asset portfolio, including seven hydro power stations and five wind farms that deliver about 30% of New Zealand's electricity generation, and two wind farms in Australia, and for the company's New Zealand wholesale trading and risk positions. Guy's role also involves managing renewable projects and renewable generation options. Guy was formerly General Manager, External Relations and has previously held roles at Meridian in offshore business development and setting company strategy. He has more than 25 years' experience in the electricity sector and previously worked at Transpower in roles responsible for transmission planning and network development.



Water: our most important natural resource

THE CAREFUL MANAGEMENT OF WATER IS ESSENTIAL TO THE SMOOTH OPERATION OF MERIDIAN'S HYDRO STATIONS

Twenty-four hours a day, seven days a week, our hydro stations are working to produce electricity for New Zealand. Using water from the South Island's lakes and rivers, we operate seven hydro stations generating enough electricity to power around 1.4 million homes each year.

As the guardian of these assets, Meridian is responsible for managing the water that flows through them. Local communities, iwi, councils and other stakeholders are also committed to ensuring our waterways are protected. While our individual interests in water may be unique, collectively we are committed to achieving the best outcome for New Zealand.

Meridian's hydro stations produce around 90% of our New Zealand generation, which means it's fair to say water is of critical importance to us. Lakes Te Ānau and Manapōuri in the Waiau catchment feed our largest hydro station – Manapōuri – which is located in Fiordland National Park.

Our six stations across the Waitaki catchment deliver more than half of our total generation and are fed from Lake Pūkaki, New Zealand's largest storage lake. We are fortunate that additional emergency storage can be accessed from the lake.

Meridian's Environmental Strategy Manager Jeff Page says a recent change to the Waitaki Catchment Water Allocation Regional Plan has allowed Meridian to apply for consent to manage Lake Pūkaki down to 515 metres when New Zealanders need it most. "This will significantly reduce New Zealand's exposure to renewable generation shortages in dry years," says Jeff.

Other changes to the water allocation regime have seen Lower Waitaki River flows agreed in the local plan ahead of Meridian renewing its resource consents in 2025. "We negotiated these flows in partnership with Ngāi Tahu, local irrigators, Environment Canterbury and other stakeholders, with an agreement that we will implement the changes prior to our re-consent taking place. A significant outcome is the provision of water for mahinga kai purposes, which Meridian actively supported during the plan change process."

In recognition of the cultural importance of careful water management to iwi, Meridian has resource consent conditions and stakeholder agreements in place to protect and enhance the populations of eels that live in the Waiau and Waitaki catchments – including the native longfin. Meridian's dams and lake control structures in these areas affect the migratory habits of the eels, but through a trap and transfer programme, involving tangata whenua, we can help ensure the safe passage of the eels through the catchments.

Meridian's Sustainability and Environment Manager Hamish Cuthbert says "In the Waiau, the adult longfin eel programme involves trapping female migrating longfin eels in Lake Manapōuri and transferring them to below the Manapōuri Lake Control structure – from there they have open travel downstream, enabling them to migrate successfully out to sea to the Tonga Trench for spawning".

Ngāi Tahu consider eels an important mahinga kai resource. Meridian works with Bubba Thompson's whānau to trap and then transfer the young elvers from the Manapōuri Lake Control structure into the lakes and rivers upstream in the National Park.
The whānau consider this active kaitiakitanga of a taonga species.

Bubba says "It's important to us that the tikanga is right, that we do everything possible to uphold tikanga and add to the knowledge our tīpuna left us. The whakataukī 'Ko au te awa, ko te awa ko au' ('I am the river, the river is me') helps explain what I mean. If the river is healthy then I am healthy. These cultural values are intertwined in our mahinga kai resources and are paramount for us.

Having our whānau involved in this kaupapa is important to us because we believe in what we are doing; enhancing this taonga on behalf of our iwi whānau whānui, Ngāi Tahu, and having up to date knowledge of the data collected. I am proud to have my whānau involved in this work and look forward to more successful seasons."

This year over 13 tonnes (an estimated 7,000 individuals) of adult migrating eels and approximately 380 kilograms (an estimated 85,000 elvers) were transferred. As with any fishing, catches vary from year to year. This year the adult migrant transfer has increased on last year and the elver transfer has reduced. Trends from the past seven years' data show increases in transfers of migrants and elvers.

Within the Waitaki catchment the programme operates in a similar way. We work with Arowhenua, Moeraki and Waihao rūnanga, which facilitate the movement of migrant adult longfin eels and oversee the annual elver trap and transfer activities. Numbers in this catchment are significantly lower than those in the Waiau, reflecting the general state of the eel population on the east coast of the South Island.

The adult female longfin migrant transfer programme in Manapōuri is being used as part of a study by Dr Mark Lokman from the University of Otago. Mark is carrying out research into the life history of the eels, specifically the stage at which they change from non-migrant to migrant eels. Mark says these changes typically occur in autumn, but migratory eels are being found in the catchments throughout the transfer season. He says determining the scenarios that may explain the presence of out-of-season migrants is important to understanding eel biology.

Ensuring the ongoing, sustainable management of our waterways is of critical importance to Meridian and we are committed to working with others who value water in order to achieve this.

Surfing was the glue that bound it all together. The camp itself was about community, whānau and sustainability and teaching the tamariki a few life skills. It was an amazing experience for us and for them.

GUY WAIPARA

Surf's up!

TWELVE KIDS + ONE WEEK IN RAGLAN = AN INSPIRING EXPERIENCE AT THE MERIDIAN TAMARIKI SURF CAMP 2016

This year we hosted the Meridian Tamariki Surf Camp 2016 in Raglan, home to our Te Uku wind farm. The camp gave a group of lucky children the chance to learn to surf while also learning about environmental sustainability. It was Meridian's way of saying thank you to the communities where our wind and hydro assets are located and showing our support for KidsCan at the same time.

Getting the camp off the ground required a lot of work from dedicated Meridian staff. The first step was to select 12 children from schools near our wind and hydro assets and schools supported by KidsCan, and let them know we were giving them an experience of a lifetime: learning to surf with champion New Zealand surfer Daniel Kereopa (DK).

Each year we invest around $700,000 into our asset communities through our Community Funds programme. We also have a corporate sponsorship in place with KidsCan, which allows Meridian to support tamariki in need across New Zealand.

The tamariki who took part in the camp were all chosen because of their future leadership potential. Close collaboration with the Raglan community was integral to the success of the camp. Karioi Lodge in Whale Bay was home-base for the week, with a group of Meridian buddies on hand to provide support to the tamariki and ensure that everything ran smoothly.

Each day was centred on surf lessons led by DK. Recognised as one of the best surfers New Zealand has ever produced, DK is an inspiration to everyone; showing how through hard work and self-belief anyone can achieve their dreams.

Patrick Tuilumu from Finlayson School in Auckland was one of the children who took part in the camp. He says he was very excited when he found out about the camp as he had never been surfing before. He certainly enjoyed his chance to learn to surf, saying surfing feels like you're flying on water.

Joining Patrick was Ariana Murphy from Naenae School in Lower Hutt. She says the surf camp was not really like other school camps as it makes you be more confident around people. Ariana says catching a big wave meant she gained confidence in herself and she was really proud.

As well as learning to surf, the tamariki engaged in a series of activities centred on environmental and cultural awareness. They visited our Te Uku wind farm, the Xtreme Waste community recycling centre and a local organic vegetable garden. They also learnt to fish, tried their hands at weaving and learned about the area's cultural history.

We captured the tamariki's journeys through a series of short films. In total the videos were viewed more than a million times.

"Surfing was the glue that bound it all together. The camp itself was about community, whānau and sustainability and teaching the kids a few life skills. It was an amazing experience for us and for them," says Meridian's General Manager, Markets and Production, Guy Waipara.

Feedback from whānau was resoundingly positive. One parent said seeing the relationships their son formed with other boys from different walks of life in such a short space of time, was really special. The camp put a human face to Meridian, and the company's interest in community development was a surprise. They said, "Meridian has a connectedness to New Zealand that we weren't expecting from a corporate."

The Meridian Tamariki Surf Camp 2016 allowed us to connect with our communities in a way we've never done before. Strong relationships with those located near our wind farms and hydro stations are essential to Meridian's continued operation. It was great to be able to recognise these communities and do something unique to thank them. The camp was an inspiring experience for all involved.

The next generation of wind

BY IN-SOURCING OUR WIND FARM MAINTENANCE, MERIDIAN HAS BECOME A CENTRE OF EXPERTISE FOR WIND TURBINE MAINTENANCE

Meridian has always been proud of its wind assets and of being a pioneer of wind development in New Zealand. As part of creating a better energy future we are always looking for ways to work smarter. This is why we have made the move to in-source the maintenance of our wind farms, allowing Meridian to share knowledge and work practices across multiple sites, deliver savings, standardise health and safety practices, and create jobs for Kiwis.

Meridian is New Zealand's largest operator of wind generation sources, owning five wind farms around the country: West Wind, Te Āpiti, Mill Creek, White Hill and Te Uku. The turbines that stand tall at these wind farms are produced overseas and are typically maintained by the manufacturers.

"Meridian wanted to change this approach and maintain our wind farms in-house, thereby having more control over asset management, developing our own intellectual property, and saving the margin that we would otherwise have to pay. However, we needed to balance that approach with the risks of securing parts and upskilling our staff appropriately," says Chris More, Meridian's Wind Maintenance and Development Manager.

After an end-of-warranty inspection, West Wind in Wellington was our first site to come in-house in 2011. Since then Te Āpiti in Manawatū and Te Uku in Raglan have also come in-house. We now employ 18 wind technicians across these three sites. The approach is working for us, and we are looking at bringing the remaining wind farms in-house later this year.

Making this change has meant we're creating skilled jobs in communities across New Zealand. Meridian is proud to contribute to the continued growth of our regional economies, with offices located in Christchurch and Twizel, as well as Auckland and Wellington. Our subsidiary Powershop New Zealand now employs 83 people at its call centre located in Masterton, servicing 78,000 Australian customers as well as its New Zealand customer base.

By bringing wind farm maintenance in-house we have also established a critical mass of skilled technicians, ensuring that we are able to have a sustainable wind generation business in New Zealand.

"Exciting developments in wind technology are likely to drive the cost of wind generation in New Zealand even lower. One such development is the ability to produce more energy per turbine with larger rotors and direct-drive technology, as recently installed at Brooklyn, which eliminates high-maintenance gearboxes," says Chris.

"We are also getting to the position where we are able to exchange some parts locally. Previously when a part needed replacing we would need to import the often large, and expensive, component for the turbines from Europe. Now we strip down the component, find out what needs replacing and either get parts made locally or import only what we need. This allows us a bit more flexibility and reduces costs – we're even exploring the possibility of 3D-printing parts."

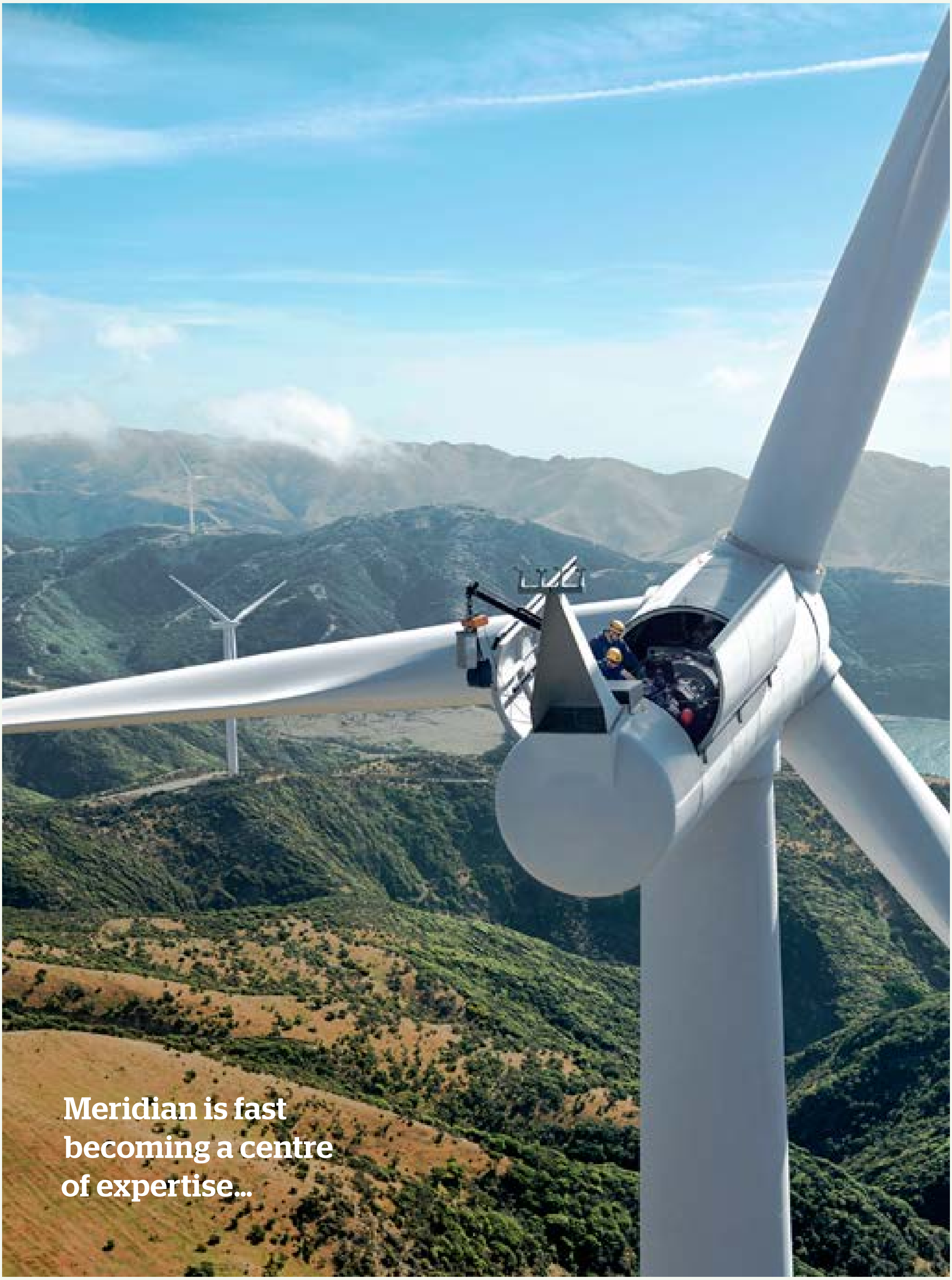
Driving down the cost of wind generation is good news for New Zealand's renewable energy profile. The Government has a goal of generating 90% of the country's electricity from renewable sources by 2025. Meridian makes a significant contribution to this goal by producing 100% of our electricity from renewable sources: wind and water. With the recent retirement of several thermal generation plants owned by other generators, renewable generators are being relied on more and more to supply homes and businesses across New Zealand.

With national electricity demand showing signs of increasing, it's likely that more generation capacity will have to be built in the future. For Meridian, any investment in new generation will be in renewables, and the most economical option is wind. We have several consented options available to us, with the most attractive being Maungaharuru in Hawke's Bay, followed by Central Wind between Waiōuru and Taihape.

"If we were to build a new wind farm the news would no doubt be welcomed by our wind technicians. They have developed a unique set of skills that's becoming more and more coveted," says Chris.

"Meridian has seen wind technicians sharing and applying their knowledge across wind farms, including more recently at our sites in Australia. We are currently integrating Mt Millar, located in South Australia, and Mt Mercer, located in Victoria, with our New Zealand operations."

Meridian is fast becoming a centre of expertise for wind farm maintenance in Australasia.


Meridian is fast
becoming a centre
of expertise...


Wellington,
THIS IS
YOUR
TURBINE
View our tribute to this Wellington icon at meridian.co.nz/brooklyn
meridian

Iconic Brooklyn turbine now bigger and better

THE BROOKLYN WIND TURBINE IS A WELLINGTON LANDMARK AND THIS YEAR IT RECEIVED AN UPGRADE

Meridian's Brooklyn wind turbine is a prominent feature of the Wellington skyline, standing tall on Polhill. But it was noticeably absent for a few months earlier this year when it received a timely upgrade.

In November 2009 the old turbine suffered damage to its yaw drive, which saw it out of action for six months. This led to a discussion about whether the turbine should be repaired, replaced or removed entirely.

Because the Brooklyn turbine, the first-ever commercial wind turbine in New Zealand, is such an iconic Wellington landmark, the decision on what to do with the old turbine was not Meridian's alone. Wellingtonians shared their views through a *Dominion Post* reader survey, with 85% of respondents telling us they wanted the turbine repaired or replaced.

With the turbine being at the end of its design and economic life, Meridian made the decision to replace it. A land-lease extension was finalised by Wellington City Council in 2013 and Meridian consulted the Brooklyn community about plans to commence the turbine upgrade. We were granted resource consent for the project in late June 2014. A new Enercon E44 turbine, which produces four times the amount of electricity as the old Brooklyn turbine, was then installed in April 2016.

To celebrate the new installation, Meridian ran a competition with local primary school students, who came up with inventions and visions to help create a better energy future. The entries were sealed inside a 'time capsule', which was placed in the basement of the turbine, to be revisited in 2036.

"The occasion was significant, not just for Meridian and the Brooklyn community but for New Zealand as well," says Carly Andersen, Meridian's Community Engagement Manager.

The original Brooklyn turbine was the country's first commercial wind turbine when it was installed in 1993, signalling the birth of wind energy in New Zealand. Meridian's Craig Brown was the project manager who oversaw the installation of the new turbine, and he says seeing it replaced demonstrates just how far wind energy has come.

"The original 45-metre-tall structure was designed to withstand gales of up to 216 kilometres an hour and it generated enough electricity to power 110 homes a year. The new turbine stands at 67 metres tall and can power almost 500 homes annually," says Craig.

"The Brooklyn turbine is also no longer alone; the New Zealand countryside is now dotted with wind farms producing around 5% of the nation's electricity.

"Brooklyn was where it all started and the Wellington community is proud of that. You don't need to look too far to see the image of a turbine as part of the city's identity, whether it's as a motif embedded into ceramic tiles on Brooklyn's footpaths or the fact that the Brooklyn turbine remains one of the city's most visited tourist sites."

Taking the time to listen to the communities where we operate is important to us, and we take the same approach with our customers. One way we do this is through the Power of Everyone, an online community we have developed and that we invite our customers to join. We regularly survey the total of 5,000 residential and SMB members of this community about their perceptions of Meridian and experiences with us.

This enables us to learn more about our customers and analyse market trends over time. For instance, we've recently asked customers about their bill experience, preferred rewards, whether they're interested in EVs and what we could offer to make moving house easier. We've been averaging a 43% response rate from the 4,200 residential customers involved.

We use this information to tailor our offers, help us make business decisions and provide a better customer experience. Being responsive is just one of the ways we are creating a better energy future for our customers.

Brooklyn was where it all started and the Wellington community is proud of that.

CRAIG BROWN


meridian

Our people

WE STRIVE TO BE A GREAT PLACE TO WORK AND GENUINELY CARE ABOUT OUR PEOPLE. THE RESULTS FROM OUR RECENT ENGAGEMENT SURVEY SHOW WE’RE MAKING SOME GOOD PROGRESS

"There are lots of great things about Meridian. I think the thing that makes the environment here unique (at least vs the other corporates I've worked at) is that we seem to have struck a really good mix between driving business objectives and looking after our people. This balance seems to be quite a rare thing in a large organisation and to me it feels like we have the best of both worlds – we're big enough to have access to some amazing resources, yet at the same time we act more like a small company in that people really matter here." Employee comment, 2016 engagement survey.

In the past few years we've put a lot of effort into building an inclusive and constructive culture, investing in employees' technical and professional development, and lifting engagement, as we know all of these features help drive business performance.

A particular focus in the past 12 months has been on strengthening our technical training, identifying core skills critical to providing quality sales and customer services and implementing a range of targeted learning solutions. Professional development programmes continue to focus on building constructive styles of thinking and behaving, as these contribute to better business outcomes and a more inclusive and engaged workplace.

We've seen a steady increase in our employee engagement levels, up to 82% this year. But what we are most proud of is our survey response rate of 95%. This means that our employees care enough to have their say and that our results are truly reflective of what the vast majority of Meridian people think and feel.

Our people's commitment to the organisation has also been reflected in a steady increase in the take-up of our employee share scheme – MyShare – since it was first offered in 2014/15. In the first year after listing, 38% of eligible employees opted to invest some of their hard-earned money in the company via MyShare. This increased to 43% in 2015/16 and is over 48%, nearly half of our employees, for 2016/17. Along with our engagement levels, this is a great indicator that our people are backing Meridian's success as an organisation.

Sound progress has been made on D&I. We see D&I as a long game, aspiring to have an inclusive, respectful and engaging culture and be representative of the society and communities in which we operate.

We sharpened our focus on D&I in 2013 when, recognising the need for concrete goals, two key objectives were set:

- to increase women in senior leadership roles to 30% by 2016
- to increase ethnic diversity in customer-facing roles by 15% by 2016.

We are proud to have achieved both these goals. As at 30 June 2016 the percentage of women in senior leadership roles was 30%[11], and the ethnic diversity in customer-facing roles had increased by 16.7%[12].

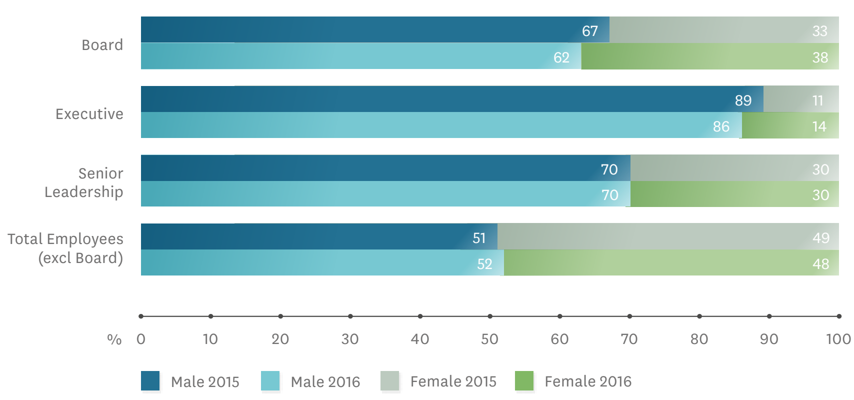
D&I initiatives have been implemented on a number of fronts. Our first employee D&I survey in 2014 established a feedback mechanism and provided baseline data. We established and formalised a Diversity and Inclusion committee and strengthened the remit of business unit working parties. Training in how to avoid unconscious bias was rolled out to support teams in selecting and retaining a diverse workforce, with an ongoing plan to refresh this training as employees join. Recognising the gender imbalance evident in some parts of our business, recruitment initiatives were introduced in 2014/15 to ensure gender-representative panels and that every shortlist, where possible, includes both genders. We recruit on merit, selecting the best person for the job, but we pay attention to any team where gender imbalance, male or female, might be apparent. As with last year, all interview panels this year were gender balanced for either the first or the second interview. While candidates continue to be predominantly male (69%), women made up 45% of those shortlisted and 50% of those selected.

In late 2015 we resurveyed our employees on D&I. Our efforts were recognised and appreciated by employees, but while we have made sound progress and raised awareness, there is still work to do. Flexible working options and cultural inclusivity came through strongly as important, and will form the basis of the D&I work programme. New initiatives for the coming year will target celebrating our rich cultural make-up, te reo Māori and tikanga Māori upskilling, and developing a better understanding of what flexibility means to our people and for our business.

We will continue with some important programmes that support us in building knowledge and advocacy for tikanga and te reo. Aoraki Bound, run by Outward Bound and Ngāi Tahu, continues to be a popular programme, with places being hotly contested by employees. A cultural and personal capability-building programme, Aoraki Bound presents a rewarding opportunity for selected participants to develop their leadership skills, challenge themselves physically and learn more about Ngāi Tahutanga.

We remain committed to 'staying the course' on D&I and aspire to increase further the number of women in people leadership and senior specialist positions to 40% by the fourth quarter in 2019/20. We will also continue our focus on increasing ethnic diversity across our workforce to be more representative of the New Zealand population.

DIVERSITY BY GENDER FOR MERIDIAN ENERGY



11 Senior leadership roles are defined by job size and represent the top three job bands below Executive level. Includes one medical retirement where notice period waived.

12 Targeting an increase in Asian, Māori and Pasifika ethnicities in order to be more reflective of our customer base. Numbers based on voluntary employee census data.

Remuneration report

Director and employee remuneration

Meridian is committed to fair, responsible and equitable remuneration and ensuring a clear relationship between performance and remuneration. More information regarding the Remuneration and Human Resources Committee is set out on page 44 of the Corporate governance statement.

Director remuneration – Meridian Energy Limited

Directors' fees

Directors' remuneration is only paid in the form of directors' fees. Additional fees are paid to the Chair and Deputy Chair and in respect of work carried out by individual directors on various Board committees to reflect the additional responsibilities of these positions. Directors are also entitled to be reimbursed for costs directly associated with carrying out their duties, including travel costs. Currently the aggregate pool for ordinary director fees is $986,000 and it is broken down as follows:

BOARD/COMMITTEE[13]	CHAIR	DEPUTY CHAIR	MEMBER
Board	$165,000	$114,000	$91,000
Audit and Risk Committee	$15,000	-	$7,500
Remuneration and Human Resources Committee	$12,500	-	$5,000
Safety and Sustainability Committee	$12,500	-	$5,000

Prior to listing, Meridian's shareholders approved the ordinary director fees and committee fees. These fees took effect from the date the company listed in 2013. The Board has decided the timing is now appropriate to review the current fee structure. If any increase is sought the Board will provide shareholders with all the relevant information in the Notice of Meeting to be released later this year.

Remuneration paid to non-executive directors in their capacity as directors of Meridian during the year ended 30 June 2016 was:

	BOARD FEES	COMMITTEE FEES	TOTAL FEES
Chris Moller (Chair[14])	$165,000	-	$165,000
Peter Wilson (Deputy Chair)	$114,000	$7,500	$121,500
John Bongard[15]	$31,405	$1,726	$33,131
Mark Cairns	$91,000	$7,500	$98,500
Jan Dawson	$91,000	$15,000	$106,000
Mary Devine	$91,000	$12,500	$103,500
Sally Farrier	$91,000	$5,000	$96,000
Anake Goodall	$91,000	$5,000	$96,000
Stephen Reindler	$91,000	$12,500	$103,500
Total	**$856,405**	**$66,726**	**$923,131**

Remuneration paid to non-executive directors in their capacity as directors of subsidiaries of Meridian during the year ended 30 June 2016 was:

Stanley Brogan (Damwatch Pty Limited)	AU$3,000
John Journee (Powershop New Zealand Limited)	NZ$50,000
Nicola Kennedy (Powershop New Zealand Limited)	NZ$15,000
Rowan Simpson (Powershop New Zealand Limited)	NZ$20,000

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

13 There are no fees payable to members of the Governance and Nominations Committee.

14 Committee membership fees are not payable to the Chair of the Board.

15 John Bongard resigned on 5 November 2015.

Remuneration policy

Meridian's remuneration policy aims to support the company to attract, retain and motivate high-calibre people at all levels of the business, while driving business performance and the creation of long-term shareholder value.

Remuneration includes a package of fixed remuneration and variable, performance-based incentives that align reward with company financial performance and the achievement of individual objectives based on business strategy and goals. The components, both cash and non-cash, are as follows.

- fixed remuneration, which includes base salary and employer KiwiSaver contributions, and relates to the base requirements of the role
- at-risk discretionary remuneration for individuals invited to participate in short-term incentive (STI) schemes, at the discretion of the Board, based on the achievement of predetermined company profit levels and individual performance targets
- at-risk discretionary remuneration for the Executive team entitled to participate in the Executive Long-Term Incentive (LTI) Plan
- a range of market-based cash benefits including life insurance and paid parental leave
- a range of non-cash benefits such as discounted banking services and medical insurance
- employees can elect to participate in an employee share ownership plan, MyShare.

Chief Executive remuneration

Employment agreement

Meridian has an employment agreement with Mark Binns in relation to his employment with Meridian as Chief Executive. The total remuneration package for Mr Binns comprises:

- fixed remuneration, including base salary, matched KiwiSaver contributions up to a maximum of 4%, plus other benefits (for example, life insurance premium)
- an STI nominally valued at 40% of his base salary, contingent on his achievement of both financial and non-financial performance hurdles
- participation in the Executive LTI Plan nominally valued at 40% of his base salary, contingent on his meeting absolute and relative total shareholder return performance hurdles at the conclusion of a three-year vesting period.

The STI is offered and payable at the discretion of the Board of Meridian. The amount of the STI payment will be based on the achievement by the Chief Executive of certain performance hurdles for the previous financial year, set by the Board at the start of that financial year. The performance hurdles for the STI comprise company financial performance (weighted at 60%) and individual non-financial performance targets (weighted at 40%).

Participation in the Executive LTI Plan is also offered to the Chief Executive at the discretion of the Board. This long-term performance incentive is designed to align employee remuneration with financial outcomes for shareholders for the longer term. Further details of the Executive LTI Plan are outlined on the following page.

The total remuneration of the Chief Executive may be reviewed each financial year at the discretion of the Board of Meridian. Mr Binns will be employed as Chief Executive until his employment is terminated in accordance with his employment agreement. Pursuant to the employment agreement, the Chief Executive and Meridian have mutual rights of termination on the provision of six months' written notice. Meridian may also terminate the Chief Executive's employment on the grounds of redundancy or serious misconduct or where an act of bankruptcy is committed. The Chief Executive will be entitled to receive certain termination payments following the termination of his employment.

Remuneration received

In the 2015/16 financial year, Mr Binns received:

- fixed remuneration in the form of an annual base salary of $1,152,855 gross, plus matched employer KiwiSaver contributions of $46,114 on his salary and $28,548 on his 2014/15 STI payment, and life insurance via a company -paid premium payment of $6,516.
- a performance-related STI payment of $713,693 gross, relating to the year ended 30 June 2015. The amount of this STI payment was determined by assessing the company's financial performance in the 2014/15 financial year and Mr Binns' achievements against a number of specific non-financial performance targets, set by the Board at the start of the 2014/15 financial year.

Following the end of the 2015/16 financial year, the Board approved for Mr Binns to receive a performance-related STI of $469,811 gross, relating to the year ended 30 June 2016, which will be paid in late August 2016. The amount of this STI payment was determined by assessing the company's financial performance for the year ended 30 June 2016 and Mr Binns' achievements against a number of specific non-financial performance targets, set by the Board at the start of the 2015/16 financial year. Non-financial performance measures reflected business priorities and included stretch objectives relating to health and safety, employee engagement, customer service and sales, and effective management of key regulatory and industry matters. Each objective had clearly defined targets and levels of achievement set by the Board.

In addition, under the first grant of the Executive LTI Plan, awarded to Mr Binns in October 2013, which was based on 40% of his applicable base salary ($440,000), 100% of the purchased shares will vest as the performance hurdles were met as at 30 June 2016. The table below outlines the granting and vesting of shares to the Chief Executive under the Executive LTI Plan.

DATE OF GRANT	SHARES GRANTED	VESTING DATE	SHARES VESTED	SHARES FORFEITED
October 2013	293,333	30 June 2016	293,333	-
September 2014	237,460	30 June 2017		
September 2015	210,567	30 June 2018		

Executive remuneration

Meridian has written agreements with executives setting out the terms of their employment. The level and mix of executive remuneration reflects their roles and accountabilities within the company and is designed to motivate and reward executives, while appropriately aligning with the interests of shareholders. Executives may be offered an STI at the discretion of the Board. Performance is reviewed against company financial performance hurdles and individual strategic objectives cascaded from the business plan, which are set and then reviewed by the Board on an annual basis. Executives may also be offered an LTI at the discretion of the Board. Further details about the Executive LTI Plan are outlined below.

Executive LTI Plan

Under the Executive LTI Plan, executives purchase Meridian shares funded by an interest-free loan from the company, with the shares held on trust by the trustee of the Executive LTI Plan. The award of these shares is then subject to the following performance hurdles, which must be achieved in a three-year period:

- the company's absolute total shareholder return must be positive
- the company's total shareholder return relative to a benchmark peer group.

To the extent the performance hurdles are achieved, the following progressive vesting scale is applied to determine the vesting proportion for each participant:

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

Once the vesting proportion has been determined, the relevant executive is entitled to a cash amount that, after the deduction of tax (but before other applicable salary deductions), is equal to the vesting proportion of their original loan. That cash amount is applied towards the repayment of their outstanding loan balance.

In line with the process described above and in the case of the first offer under the Executive LTI Plan, which vested at the conclusion of the 2016 financial year, Goldman Sachs (as independent calculation agent) has measured the total shareholder return of Meridian and the peer group of companies along with the position on the progressive vesting scale, and determined 100% vesting. Deloitte reviewed the process and outcomes and provided assurance to the Board. Therefore, the total amount of the interest-free loans ($1,362,249) that were granted by the company to Executive LTI Plan participants in 2013 has now been repaid and a total amount of 798,166 shares has been transferred to the eligible participants.

In the event that the total shareholder return performance in absolute terms is less than zero, or in relative terms does not meet the peer group relative total shareholder return hurdle (being the 50th percentile total shareholder return of the benchmark group), the shares are forfeited to the trustee and the relevant executive receives no benefits under the plan. Where the total shareholder return exceeds the 50th percentile of the benchmark peer group but is below the 75th percentile, those shares that have not vested are forfeited to the trustee without compensation.

Meridian has a policy to ensure that the participants in 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.

Further financial details relating to the Executive LTI Plan can be found in note F1 Share-Based Payments in the financial statements on page 86.

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 2016 received cash remuneration and other benefits (including at-risk performance incentives, KiwiSaver contributions, and redundancy compensation) exceeding $100,000 is outlined as follows:

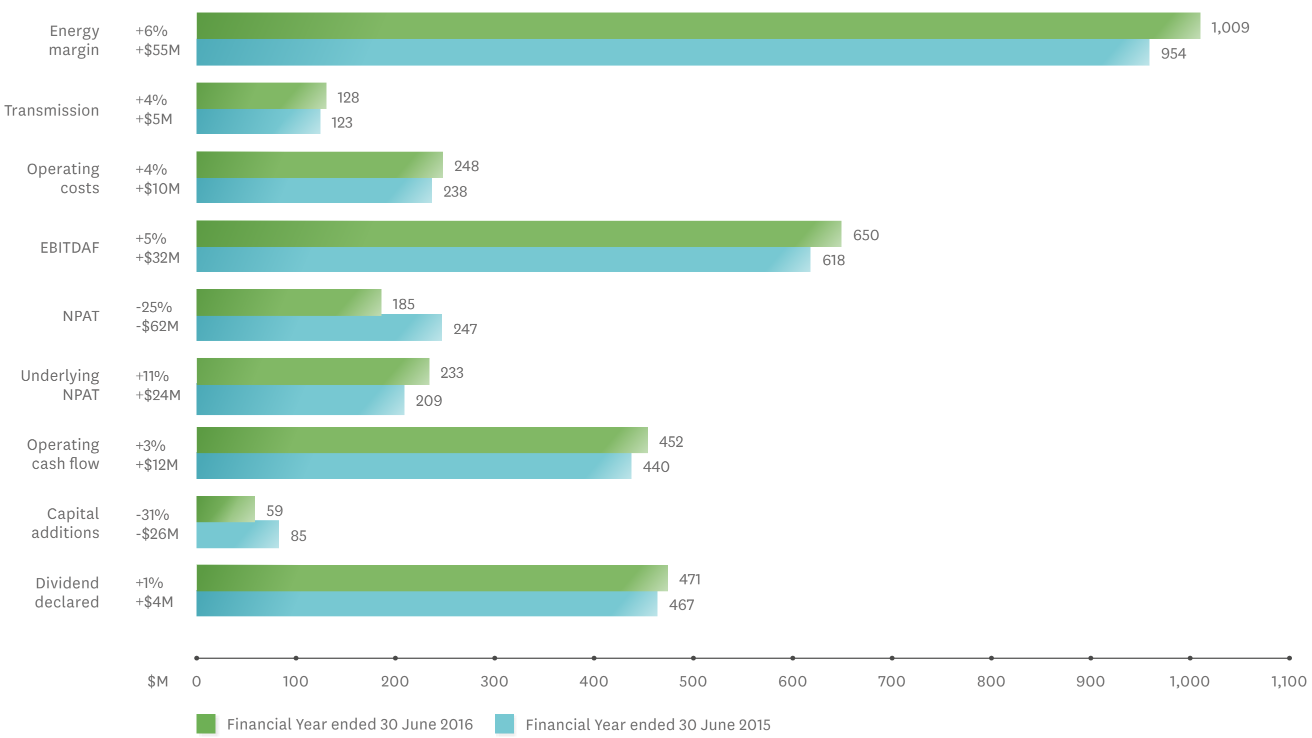
REMUNERATION BAND	NUMBER OF EMPLOYEES
100,000–109,999	55
110,000–119,999	58
120,000–129,999	50
130,000–139,999	36
140,000–149,999	31
150,000–159,999	20
160,000–169,999	22
170,000–179,999	12
180,000–189,999	2
190,000–199,999	13
200,000–209,999	13
210,000–219,999	11
220,000–229,999	8
230,000–239,999	4
240,000–249,999	3
250,000–259,999	2
260,000–269,999	1
270,000–279,999	2
280,000–289,999	1
290,000–299,999	3
300,000–309,999	3
310,000–319,999	3
330,000–339,999	1
340,000–349,999	2
350,000–359,999	2
380,000–389,999	1
450,000–459,999	1
480,000–489,999	1
490,000–499,999	3
510,000–519,999	2
560,000–569,999	1
580,000–589,999	1
790,000–799,999	1
820,000–829,999	1
850,000–859,999	1
1,940,000–1,949,999	1
Total number of employees	**372***

* This includes 38 employees who are no longer employed by Meridian Energy Limited and its subsidiaries.

Summary of Group performance

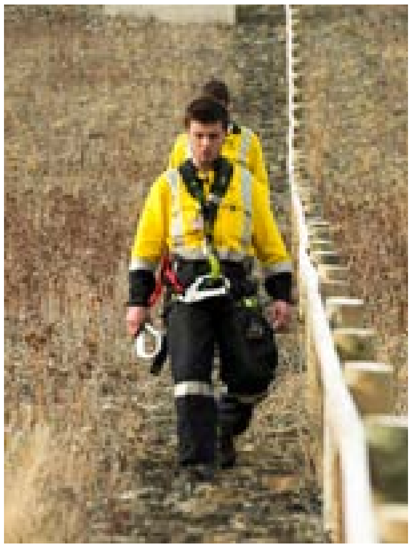
WE ARE PLEASED TO REPORT RECORD OPERATING CASH FLOWS AND A FOURTH SUCCESSIVE YEAR OF EBITDAF AND UNDERLYING NPAT GROWTH

FINANCIAL PERFORMANCE AGAINST PRIOR YEAR



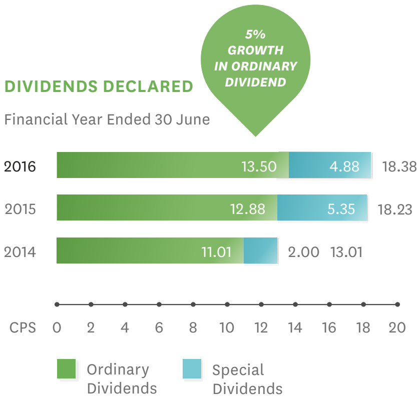
SUMMARY GROUP INCOME STATEMENT	FINANCIAL YEAR ENDED 30 JUNE 2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
New Zealand energy margin	939	900	891	865	740
International energy margin	70	54	33	51	23
Other revenue	17	25	27	30	27
Energy transmission expense	(128)	(123)	(129)	(115)	(86)
Employee and other operating expenses	(248)	(238)	(237)	(246)	(227)
EBITDAF	**650**	**618**	**585**	**585**	**477**
Depreciation and amortisation	(236)	(239)	(220)	(220)	(225)
Impairment of assets	4	(38)	-	(25)	(60)
Gain/(loss) on sale of assets	(1)	19	7	107	(2)
Equity accounted earnings of joint ventures	-	-	-	-	(3)
Net change in fair value of electricity hedges	(15)	(1)	(9)	51	122
Net finance costs	(78)	(78)	(73)	(114)	(83)
Net change in fair value of treasury instruments	(68)	(32)	27	43	(68)
Net profit before tax	**256**	**249**	**317**	**427**	**158**
Income tax expense	(71)	(2)	(87)	(132)	(83)
Net profit after tax	**185**	**247**	**230**	**295**	**75**

UNDERLYING NPAT RECONCILIATION	FINANCIAL YEAR ENDED 30 JUNE 2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Net profit after tax	**185**	**247**	**230**	**295**	**75**
Underlying adjustments					
Hedging instruments					
Net change in fair value of electricity and other hedges	15	1	9	(51)	(122)
Net change in fair value of treasury instruments	68	32	(27)	(43)	68
Premiums paid on electricity options	(12)	(15)	(20)	(18)	(15)
Assets					
(Gain)/loss on sale of assets	1	(19)	(7)	(107)	2
Impairment of assets	(4)	38	-	25	60
Total adjustments before tax	**68**	**37**	**(45)**	**(194)**	**(7)**
Taxation					
Tax effect of above adjustments	(20)	(13)	10	62	13
Release of capital gains tax provision	-	(28)	-	-	-
Tax on depreciation of powerhouse structures	-	(34)	-	-	24
Impact of tax rate changes	-	-	-	-	1
Underlying net profit after tax	**233**	**209**	**195**	**163**	**106**



DIVIDENDS DECLARED

Financial Year Ended 30 June



DIVIDENDS DECLARED	AMOUNT CPS	IMPUTATION %
FY2016		
Ordinary dividends	13.50	88%
Capital management special dividends	4.88	0%
Total	**18.38**	
FY2015		
Ordinary dividends	12.88	72%
Capital management special dividends	2.44	0%
Other special dividends	2.91	48%
Total	**18.23**	

Dividend

Meridian has declared a final ordinary dividend of 8.40 cents per share for FY2016[16], imputed to 90% of the corporate tax rate. This dividend brings the FY2016 full-year ordinary dividend to 13.50 cents per share, 5% higher than in FY2015[17].

Meridian has also declared a final special dividend of 2.44 cents per share ($62.5 million) under the company's five-year capital management programme to return $625 million to shareholders. This brings the capital management special dividend declared in FY2016 to 4.88 cents per share, with $187.5 million now distributed since the capital management programme commenced in August 2015. To date this has been paid as unimputed special dividends; however a buyback remains a consideration.

16 FY2016, the financial year ended 30 June 2016.

17 FY2015, the financial year ended 30 June 2015.

EBITDAF

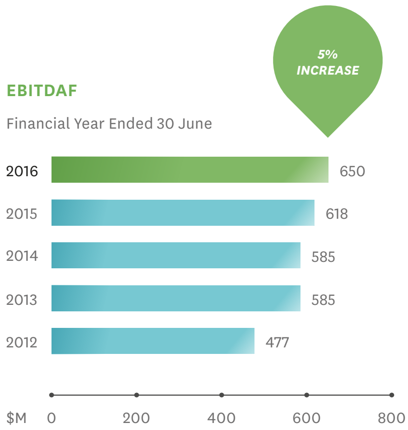
EBITDAF was $650 million in FY2016, $32 million (+5%) higher than in the same period last year. FY2016 EBITDAF was the company's second-highest level of reported earnings, bettered only by the 2011 financial year, which included the contribution of the Tekapo power stations, sold to Genesis Energy in June 2011.

New Zealand energy margin was $39 million (+4%) higher than in the same period last year; this is explained in more detail below.

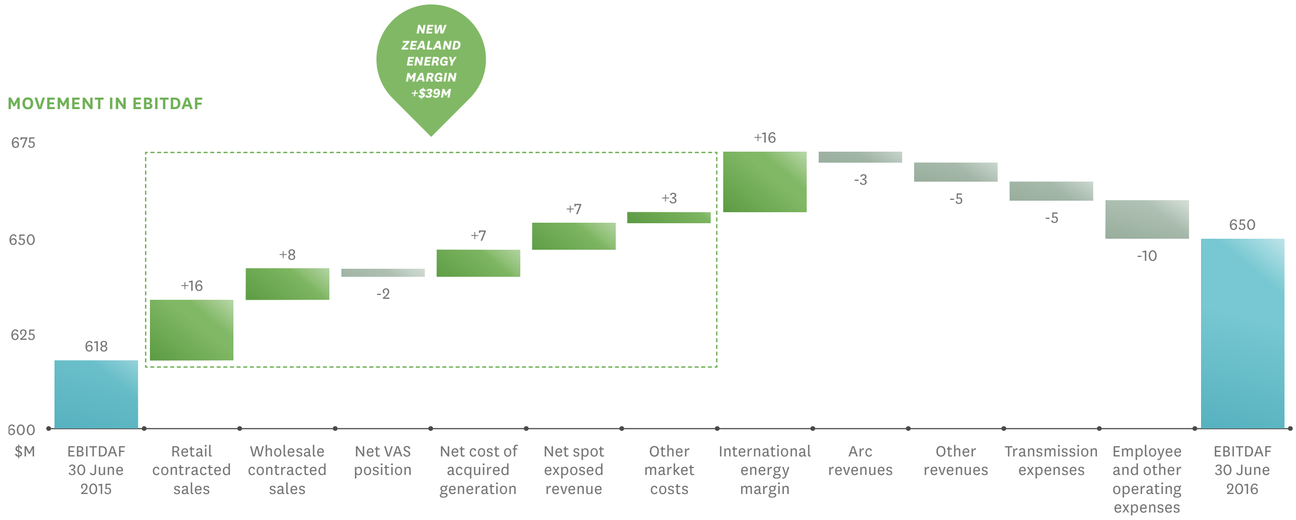
International energy margin was $16 million (+30%) higher than in the same period last year, with Powershop Australia's retail sales volumes (345GWh in total) 179GWh (+107%) higher than the same period last year. By 30 June 2016 Powershop Australia's customer numbers were 78,000, growing almost 30,000 (+62%) in FY2016. Australian wholesale and Large-scale Generation Certificate (LGC) prices firmed during FY2016, while wind generation (519GWh in total) was the same as in FY2015, despite some modest wind months and a number of turbines at Mt Mercer being non-operational while a safety issue with transformers was worked through.

Transmission costs were $128 million in FY2016, $5 million (+4%) higher than in the same period last year, from higher Transpower charges on the New Zealand inter-island electricity transmission link.

Employee and other operating costs were $248 million in FY2016, $10 million (+4%) higher than in the same period last year. This is included growth investment supporting the expansion of the Powershop Australia and UK businesses. Despite continued customer acquisition pressure from the highly competitive New Zealand market, operating costs outside the international segment were largely flat.



MOVEMENT IN EBITDAF



New Zealand energy margin

New Zealand energy margin consists of:

- revenue received from sales to retail customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers), sales to large industrial customers and fixed-price revenue from derivatives sold (contracted sales revenue: $949 million in FY2016, $925 million in FY2015)
- revenue from the volume of electricity that Meridian generates that is in excess of the volume required to cover contracted customer sales (spot exposed revenues: +$12 million in FY2016, +$5 million in FY2015)
- the cost of derivatives acquired to supplement generation and manage spot price risks, net of spot revenue received for generation acquired from those derivatives (net cost of acquired generation: costs of $24 million in FY2016, $31 million in FY2015)
- the net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mercury (net VAS revenue: $8 million in FY2016, $10 million in FY2015)
- other associated market revenue and costs including EA levies and ancillary generation revenue such as frequency keeping (costs of $6 million in FY2016, $9 million in FY2015).

New Zealand energy margin was $939 million in FY2016, $39 million (+4%) higher than in the same period last year, with retail contracted sales revenue $16 million (+3%) higher. Meridian's New Zealand customer numbers reduced slightly (-1%) during FY2016, with aggressive competition in the New Zealand residential market now a permanent feature of the sector.

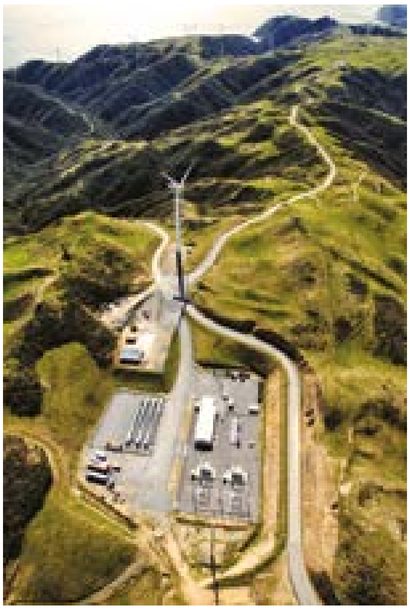
Residential, SMB and agri sales volumes together increased by 2% in FY2016, which included further movement into the SMB segment and higher irrigation load. Typically, irrigation is lower-priced summer load; however, despite this overall average residential, SMB and agri prices increased by 3%.

Corporate and industrial sales volumes decreased by 4% in FY2016 as Meridian experienced churn in time-of-use customers, while average sales price increased by 1%, broadly in line with movements in the forward market.

Wholesale contracted sales revenue was $8 million (+3%) higher in FY2016. Wholesale derivative sales volumes were 16% higher at higher average prices than in the same period last year. Sales volumes to the NZAS were slightly higher than in the same period last year.

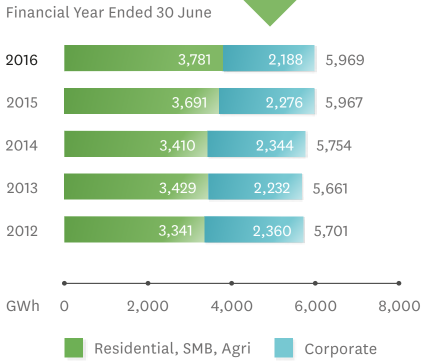
The net cost of acquired generation was $7 million (-23%) lower in FY2016 from a lower average net price, partly offset by higher acquired generation volumes (+7%) compared with the same period last year.

Spot exposed revenue was $7 million (+140%) higher in FY2016 than in FY2015. Generation volumes were at a record level[18] and 3% higher than last year, while average generation prices were 17% lower than last year. While overall generation revenue was 14% lower than in the same period last year, the lower wholesale market prices in FY2016 meant Meridian paid lower average prices to supply contracted sales, 16% lower than in the same period last year. Purchase volumes were 1% higher in the same period last year and the lower overall cost to supply contracted sales in FY2016 (15% lower than in the same period last year) more than offset lower generation revenue.



RETAIL SALES VOLUMES

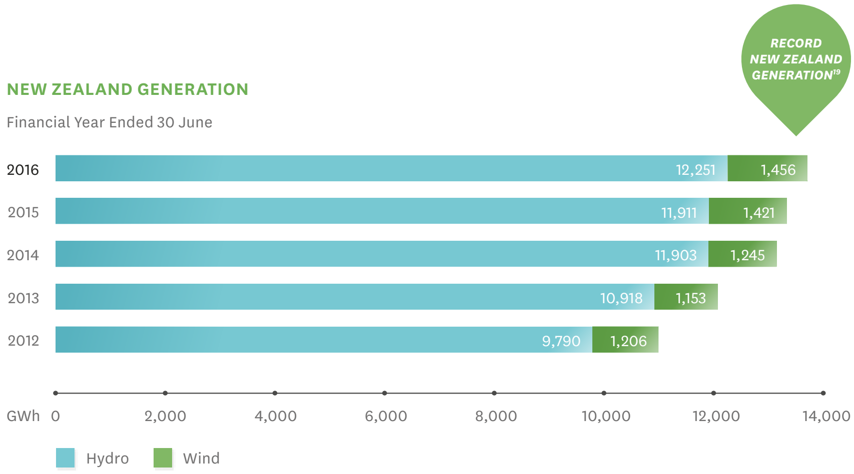
Financial Year Ended 30 June



18 Excluding generation from the Tekapo power stations for the financial years ending 30 June 2011 and earlier.

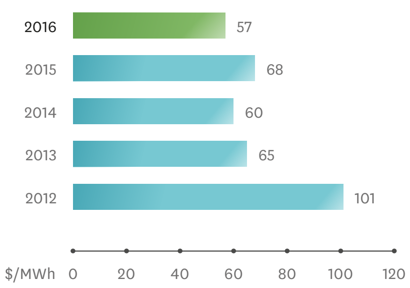
NEW ZEALAND GENERATION

Financial Year Ended 30 June



NEW ZEALAND AVERAGE GENERATION PRICE

Financial Year Ended 30 June



Net Profit after Tax

NPAT was $185 million in FY2016, $62 million (-25%) lower than in the same period last year. Higher EBITDAF were offset by higher income tax expenses and changes in the fair value of electricity and other hedges and treasury instruments.

Fair value movements in electricity hedges and treasury instruments reduced net profit before tax by $83 million in FY2016, compared with a $33 million reduction last year. Typically, these movements relate to non-cash changes in the carrying value of derivative instruments and are influenced by changes in forward prices and rates on these derivative instruments.

During FY2016 Meridian made changes to the treatment of Australian LGCs and associated forward sales used to cover some of the company's future LGC production. Rising LGC prices following the renegotiation of the RET in FY2016 gave rise to unrealised fair value losses on some forward contracts.

Forward interest rate curves declined during FY2016, affecting the fair value of treasury instruments. The lower interest rate environment helped offset the impact of higher borrowings on net financing costs, which were at the same level as last year. Meridian maintained its BBB+ (stable outlook) credit rating from Standard & Poor's.

Meridian recognised a $1 million loss on the sale assets in FY2016, compared with FY2015, where $19 million of gains were recognised from the sale of the company's metering business and farm assets.

In FY2016, Meridian also recognised $6 million of impairments related to the sale of the Hunter Downs Development Company and a $10 million partial reversal of impairments previously taken on the revaluation of Australian generation assets. This compares with $38 million of impairments recognised in FY2015, largely relating to the revaluation of these Australian generation assets.

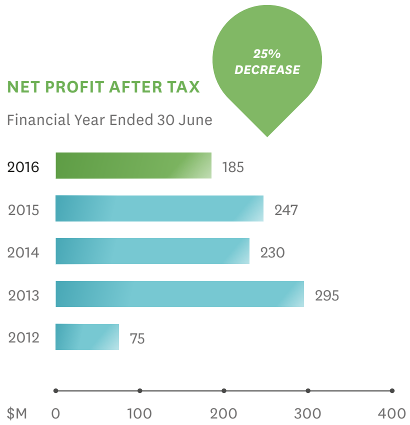
Income tax expense in FY2016 was significantly higher than in the same period last year. Income tax expense in FY2015 saw a $34 million reduction in accounting tax from the successful resolution of a dispute with Inland Revenue relating to the deductibility of depreciation on powerhouse structures. Income tax expense in FY2015 was also affected by the release of a provision for a potential capital gains tax liability relating to the sale of the Macarthur wind farm in 2013. While this liability remains unlikely to crystallise, it is still subject to a bank guarantee of $28 million in favour of the financiers of the purchasers of the Macarthur wind farm.

After removing the impact of fair value movements and other one-off or infrequently occurring events, underlying NPAT (reconciliation on page 32) was $233 million in FY2016. This was $24 million (+11%) higher than in the same period last year, reflecting higher EBITDAF, lower premiums paid on electricity options, partly offset by the higher income tax expense.

FY2016 was the company's fourth successive year of underlying NPAT growth and overall was the second highest level of underlying NPAT, bettered only in the 2010 financial year, which included the contribution of the Tekapo power stations, sold to Genesis Energy in June 2011.

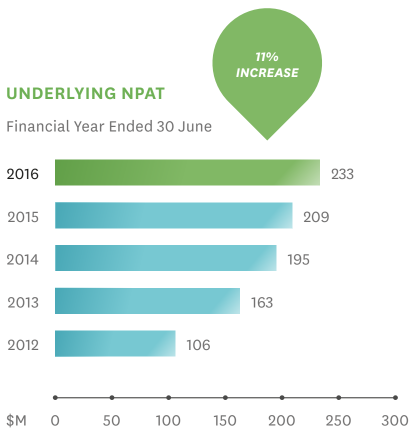
NET PROFIT AFTER TAX

Financial Year Ended 30 June

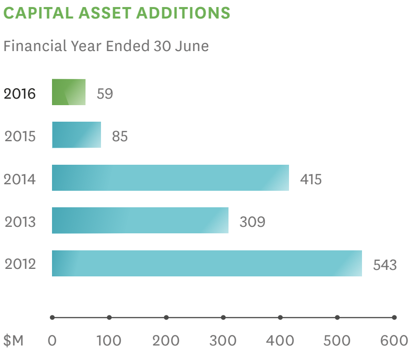


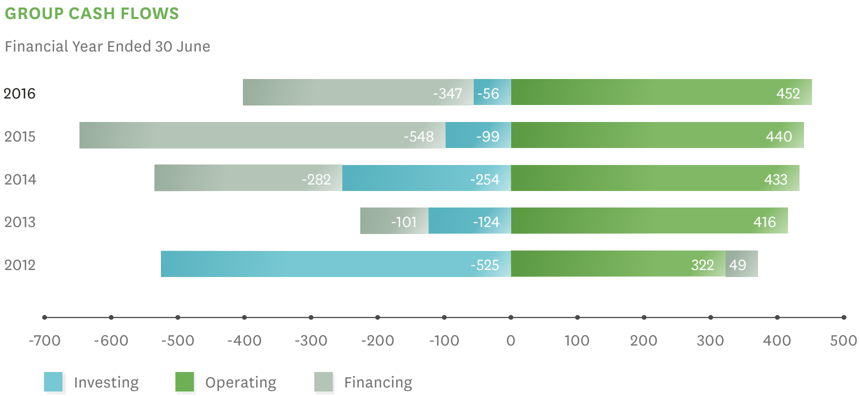
UNDERLYING NPAT

Financial Year Ended 30 June



19 Excluding generation from the Tekapo power stations for the financial years ending 30 June 2011 and earlier.





Cash Flows

Operating cash flows were $452 million for FY2016, $12 million (+3%) higher than in the same period last year, mainly through the impacts of higher EBITDAF. FY2016 operating cash flows were at a record level.

Directors' statement

MERIDIAN'S APPROACH TO CORPORATE GOVERNANCE IS SIMPLE: HAVE THE RIGHT STRUCTURE, PRACTICES, PROCESSES AND POLICIES IN PLACE TO SUPPORT THE CREATION OF SHAREHOLDER VALUE

While delivering on this overarching objective, the Meridian Board also aims to ensure that Meridian is acting transparently and in a social and environmentally responsible manner to benefit its wider stakeholder community.

To get the desired outcomes, the Board regularly implements and reviews Meridian's corporate governance practices, processes and policies with regard to Meridian's constitution. The Board also reviews the legal and regulatory environment in which Meridian operates, and adopts best-practice corporate governance principles including those set by the NZX and Financial Markets Authority (FMA). This report contains a snapshot of these practices, processes and policies.

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

We hope you are able to attend the 2016 annual shareholder meeting in person, but for those of you who cannot a link will be provided on Meridian's website to a live webcast.

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

CHRIS MOLLER
Chair

PETER WILSON
Deputy Chair

Corporate governance statement

Principle 1: Ethical Standards

Meridian's Code of Conduct is approved and reviewed by the Board annually and made available on Meridian's website. It has been developed with the aim of reinforcing the company's purpose and values and to support its culture. It clarifies the internal standards that Meridian employees are expected to uphold to strengthen the company's operations, meet commitments to stakeholders and safeguard Meridian's reputation for responsible conduct.

The primary objective is not to hold employees accountable for breaches but to help employees understand the behaviours that Meridian expects of its employees and help identify any questions, issues or challenges they may face.

Every employee is given a copy of the code as part of the induction process and they must provide acknowledgement that they have both read and understood the content. The code is high level in nature (as the underlying policies are more detailed) and it addresses a range of issues including:

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

Continual communications and training in each of these areas are provided to employees in a variety of ways; for example, training is provided in anti-money laundering and fair trading to Meridian's credit managers, privacy workshops are held for customer-facing roles and training on how to avoid unconscious bias is rolled out company-wide.

If an employee is found to have breached the code, there is a series of steps that are followed that may also be reported through to the Remuneration and Human Resources Committee or directly to the Board depending on the circumstances. During the period there were no breaches reported to the Board or the Remuneration and Human Resources Committee. Other key practices and policies related to ethics are as follows:

The Meridian Way (values): One Meridian, Safety is for keeps, Working like we own the company, Customer champions, Be sustainable.

Whistleblowing: The purpose of the policy is to help employees, directors, contractors and secondees feel confident about raising concerns regarding actual, suspected or anticipated wrongdoings within Meridian and its subsidiaries, by offering a reporting and investigation mechanism that protects a person making a disclosure from reprisal or disadvantage.

Health and safety: The purpose of the policy is to ensure that in Meridian health and safety is effectively managed. It provides a framework for a company culture that demonstrates world-class health and safety performance. Everyone should go home each day safe and well.

Everyone has a responsibility to work safely, challenge unsafe behaviour and stop work if they do not believe this to be safe. Everyone must consult, cooperate and coordinate with, and care for each other on health and safety matters to ensure the safety and wellbeing of everyone (including staff, contractors, visitors, customers and the public and their property).

Diversity and Inclusion: Meridian's D&I Policy provides a framework to embed and support effectively a diverse workforce together with inclusive workplace for all employees of Meridian Energy Limited and its subsidiaries.

Trading in Meridian securities: This policy relates to dealings in Meridian securities and other financial products. It sets out the responsibilities of Meridian directors, employees and contractors, and secondees to Meridian.

Market disclosure: Meridian is committed to promoting investor confidence by providing timely and balanced disclosures of all material matters relating to the company. Meridian believes that high standards of reporting and disclosure are essential for proper accountability between Meridian and its investors, employees and stakeholders.

Legal compliance: Meridian always aims to comply with the law. To assist this, Meridian operates an active programme to ensure ongoing compliance with the terms of all material contracts, resource consents, legislation (including the Electricity Industry Participation Code) and internal policies.

Conflicts of interest: Meridian's approach to assessing and disclosing any conflicts of interest is outlined in the Code of Conduct. Additionally, the Board is conscious of its obligation to ensure that directors avoid conflicts of interest (both real and apparent) between their duties to Meridian and their other interests. Directors are required to ensure that they advise the Board immediately of any new or changed relationships. These are then recorded in the Board's interests register, which is a standing item at each scheduled meeting of the Board.

Visit **meridian.co.nz/investors/governance** for further information on the Board's responsibilities and Meridian's key corporate governance policies.

Principle 2: Board composition and performance

Meridian's directors are listed on page 10 of this report. John Bongard resigned with effect from 5 November 2015.

Board Charter

The Board Charter sets out, in detail, the composition, responsibilities and roles of the Board and directors. This can be found on Meridian's website **meridianenergy.co.nz/investors/governance/charters**

Board diversity

The Board believes that in aligning the Board diversity processes with those that exist within the company (see page 24), the Board is formally reinforcing the need to have diverse views and approaches throughout the company. It is the Board's view that this ensures better discussions on issues involving stakeholders and the best decisions for the company.

The Board is committed to having a range of experiences and perspectives around the Board table, which is highlighted in each of the directors' biographies on page 11 of this report and the directors' skills matrix below. As reported in the 2015 annual report the Board has adopted its own processes and targets to align with the practices required of management as follows:

Processes

- All efforts are made to ensure that long lists for potential new directors have at least one person of each gender.
- Any future director replacements are interviewed by an initial panel with at least one person of each gender.

Targets

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

These targets and processes are designed to ensure that the Board has a diversity of background, gender, age, experience and thought. The Board confirms that it currently meets these targets and has confirmed that it will incorporate the above processes for future director appointments.

Current Board and Executive team gender composition

In accordance with NZX's Listing Rule requirements, the gender breakdown of Meridian's Board of Directors and Officers as at 30 June 2016 is:

	2015/16		2014/15	
	FEMALE	MALE	FEMALE	MALE
Number of directors	3	5	3	6
Percentage of directors	37.5%	62.5%	33%	67%
Number of officers	1	7	1	8
Percentage of officers	14%	86%	11%	89%

Board skills, size and composition

To support the Board's approach to diversity, the Board has identified the areas of expertise and experience considered by the Board as being relevant to achieving the Board's objectives. The Board then considers whether the Board's current mix of skills, size and composition meets these criteria.

Based on these criteria, the Board considers it has the depth of expertise, understanding and experience necessary to govern Meridian. In particular, the current Board comprises individuals with expertise and experience in the specific areas listed below.

AREAS OF EXPERTISE AND EXPERIENCE	CRITERION
Large-scale business experience and understanding	✓
Listed company experience	✓
Experience and knowledge of the New Zealand electricity industry	✓
Financial and investment expertise	✓
Trading knowledge	✓
General engineering skills	✓
Marketing skills	✓
Government and public relations experience	✓
ICT knowledge (projects and systems)	✓
Tikanga Māori understanding	✓
Knowledge of the Australian electricity industry	✓
Understanding of health and safety practices and law	✓
Human resources practice and understanding	✓
Commercial exposure to legal framework	✓

Director independence

Each director is required to provide the Board with all relevant information to enable it to make an annual assessment of the independence of each director. The Board can confirm this has been undertaken, and all directors on the Board meet the formal criteria for 'independent directors' in line with the NZX rules.

Board performance evaluation

As reported to shareholders in the last annual report, the Board determined in 2015 that it was appropriate for a thorough, independent, facilitated evaluation process to be undertaken by an international facilitator with significant experience in board evaluations. The review identified that Meridian's Board `was performing well on each of the key areas of focus, with a high degree of alignment and collaboration.

The key areas of focus were:

- ensuring alignment on Meridian's strategic agenda
- working with management
- Board teamwork/dynamics
- Board structure and composition
- committee effectiveness.

The goal of the review was to be forward looking, yet challenging and self-reflective where it could provide a basis for improvement in the future.

The Board has determined that it is appropriate that this type of 'deep dive' evaluation take place every third year.
In the interim the Chair discusses individual performance with directors and the Board and Board sub-committee's self-evaluate their performance against their Charter responsibilities and are always committed to identifying any areas of improvement that may arise.

Future director appointments

On appointment all new directors receive a written letter from the Chair outlining the expectations of directors.

Prior to the director's first meeting that director will be taken through Meridian's director induction process, which includes:

- meeting the Chief Executive, who will present an overview of the company including:
  - the company structure, including the roles and responsibilities of senior management
  - the company's financial, strategic, operational and risk management positions
  - the culture and values of the company, including health and safety
- meeting general managers, which will cover, in more detail:
  - the current and future priorities of their respective business units and how they are tracking against both the business plan and the company strategy
  - the business units' operational and risk management positions
  - any upcoming Board interactions
- meeting the Company Secretary to discuss:
  - the rights, duties and responsibilities of the directors
  - the role of Board committees
  - Board administrative processes
  - director interactions with senior executives and other stakeholders.

It is also a requirement that all incoming directors attend the NZX Understanding Electricity Markets course. Opportunities will also arise for the director to visit Meridian's operational assets.

Principle 3: Board committees

The Board has established four standing committees and has approved committee Charters that set out the detailed delegations and responsibilities of each of the committees. These Charters can be viewed at **meridianenergy.co.nz/investors/governance/charters**. Each of the FMA principles reported against in this directors' report may contain elements that also fall under the respective committees' responsibilities.

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

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

This committee meets at least four times per year. Agenda items generally include information relating to the following:

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

In relation to risk management, this committee regularly reviews the Meridian Group's key risks (below) and risk management framework, which includes policies and procedures to identify, treat and monitor principal business risks effectively. The committee also undertakes an annual business continuity review.

Remuneration and Human Resources Committee: Mary Devine (Chair), Anake Goodall and Chris Moller

This committee comprises a minimum of three directors. Its primary objective is to assist the Board in fulfilling its responsibilities in all matters related to remuneration and human resources.

This committee meets at least four times per year. Agenda items generally include information relating to the following.

- human resources
- remuneration
- D&I
- Chief Executive objectives and performance evaluation
- Executive team objectives and performance evaluation.

In regards to the Chief Executive objectives and performance, the outcomes of this review are approved by the Board. Performance is measured against targets set by the Board, which include business performance, the accomplishment of key business requirements, operational performance and a number of non-quantitative objectives that are agreed at the commencement of the financial year. The last Chief Executive evaluation was undertaken in July 2016, relating to the year ended 30 June 2016.

The performance of the Executive team (direct reports to the Chief Executive) is reviewed using a similar approach. All executives have agreed objectives that are set at the commencement of each financial year. They are agreed by the Chief Executive after they have been reviewed with the Remuneration and Human Resources Committee. These objectives generally link to the Chief Executive's objectives and include a mix of business performance, operational and non-quantitative measures that reflect the success of implementing Meridian's strategy. The last Executive team evaluation was undertaken in July 2016, relating to the year ended 30 June 2016.

Safety and Sustainability Committee: Stephen Reindler (Chair), Sally Farrier and Peter Wilson

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

This committee meets at least four times a year, which include at least three meetings and an operational site visit. Agenda items relating to safety generally include the following information.

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

In December 2015 members of the Board Safety and Sustainability Committee, the Chief Executive and the General Manager, Markets and Production visited the Te Āpiti wind farm to observe the blade bearing and hub refurbishment programme relating to six of the Te Āpiti wind turbines. The project was considered particularly high risk. The visit was extremely fruitful for all and most importantly the full project was completed safely and no serious safety injuries or incidents occurred.

In April 2016 directors took the opportunity to visit the Waitaki Dam while significant work relating to powerhouse seismic enhancements, dam uplift drainage enhancements and dam safety upgrades was taking place. The directors were able to see in practice how Meridian's employees and contractors were operating and the safety processes and procedures in place.

Agenda items relating to sustainability generally include the following information:

- water stewardship
- community engagement
- renewable energy
- energy services
- working sustainably.

Meridian values our relationship with Ngāi Tahu and works with both Te Rūnanga o Ngāi Tahu and its Papatipu Rūnanga in our asset regions.

Meridian's Sustainability and Environment team, which reports to this committee, works closely with a group of Papatipu Rūnanga representatives in the Waitaki catchment. It was the Board's privilege to meet with representatives from local rūnanga and visit the Te Ana Māori Rock Art Centre in Timaru during the year. Te Ana celebrates Ngāi Tahu rock art and provides tours to local rock art sites. It is a must-see if you are in Timaru.

Governance and Nominations Committee: Full Board

This committee comprises a minimum of three directors. Its primary objective is to monitor the overall governance of the company, Board (and committee) composition and performance (including Board diversity), director independence and conflicts of interest.

The Governance and Nominations Committee is responsible for making recommendations to the Board regarding the Board's size and composition. It also reviews the criteria for the selection of directors to ensure that the Board comprises the right mix of skills, diversity and experience to meet the needs of Meridian. The outcomes are more fully reported under Principle 2: Board composition and performance.

Board and committee meeting attendance

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

BOARD MEETING ATTENDANCE

	BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND HUMAN RESOURCES COMMITTEE	SAFETY AND SUSTAINABILITY COMMITTEE	GOVERNANCE AND NOMINATIONS COMMITTEE
No. of meetings	**10**	**5**	**4**	**3**	**0**[20]
Chris Moller	10	-	4	-	
Peter Wilson	10	5	-	1	
John Bongard[21]	4	-	-	2	
Mark Cairns	9	5	-	-	
Jan Dawson	10	5	-	-	
Mary Devine	10	-	4	-	
Sally Farrier	10	-	-	3	
Anake Goodall	10	-	4	-	
Steve Reindler	10	-	-	3	

20 In FY2016 the responsibilities of this committee were met by the full Board.

21 Resigned 5 November 2015.

Principle 4: Reporting and disclosure

Market disclosure – timely and balanced

Meridian's Market Disclosure Policy can be found at **meridianenergy.co.nz/investors/governance/policies**

This policy outlines the process and procedure for determining whether information is material and should be disclosed.

Included within the policy is the requirement for the Board to also consider at each Board meeting whether any information considered by the Board may require disclosure.

In addition, the Board is committed to delivering to its shareholders its full annual report, which includes reports related to Meridian's financial, environmental and social performance, as soon as possible after it has been approved by the Board.

In 2015 the layout of the financial statements in the annual report was reformatted from previous years with the aim of being clearer, concise and effective while meeting financial reporting standards and requirements. The Board received feedback from shareholders that this was appreciated and therefore we have opted for the same approach this year.

This *2016 Annual Report*

This *2016 Annual Report* includes all information required to be disclosed under the Companies Act 1993 and by NZX and FMA.

The Chief Executive and the Chief Financial Officer (CFO) are required to provide a letter of representation to the Board each year, confirming a number of matters including that:

- management has fulfilled its responsibilities for preparing and presenting the financial statements as required by law and, in particular, that:
  - the financial records have been properly maintained
  - the financial statements comply with generally accepted accounting principles in New Zealand
  - the financial statements give a true and fair view of the financial position of the Group and of the results of their operations and cash flows for the year then ended
  - all transactions have been recorded in the accounting records and are reflected in the financial statements
  - the financial statements are free of material misstatements, including omissions
- there is a sound system of risk management and internal control and that the system was and continues to be operating effectively in all material respects in relation to financial reporting risks.

All of these matters have also been monitored throughout the year by the Audit and Risk Committee.

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 30 June 2016 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed. The directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

On 29 October 2015 Meridian was granted ASX Foreign Exempt Listing status. ASX Foreign Exempt Listed companies are not required to comply with the full suite of ASX Listing Rules. The ASX Listing Rules take a 'substituted compliance' approach to ASX Foreign Exempt Listings, which means there is a reliance on the company complying with the listing rules of NZX.

As an ASX Foreign Exempt Listing, Meridian is not required to disclose the extent to which Meridian has followed the ASX Corporate Governance Council recommendations. The directors have therefore followed the corporate governance principles set out in the NZX Corporate Governance Best Practice Code, the FMA and the G4 Sustainability Reporting Guidelines.

Principle 5: Remuneration

The Board (on the recommendation of the Remuneration and Human Resources Committee) sets Meridian's remuneration policy and framework, which supports the company to attract, retain and motivate high-calibre people to achieve the company's business objectives and create shareholder value.

The remuneration policy provides the principles for remuneration decision-making, ensuring overall alignment with business needs.

Meridian's remuneration policy is guided by the principles that remuneration practice should:

- be clearly aligned with Meridian's values, culture and corporate strategy
- support the attraction, retention and engagement of employees
- be understood by employees
- be equitable and flexible
- appropriately reflect market conditions and organisational context
- recognise individual performance and competency, rewarding individuals for achieving high performance
- recognise team and company performance and the creation of shareholder value.

This applies to all Meridian employees (including senior management).

Detailed information on director, Chief Executive and senior management remuneration can be found in the remuneration report on page 26.

Meridian's subsidiaries' remuneration frameworks are also reviewed annually by the Remuneration and Human Resources Committee.

Principle 6: Risk management

Approach to risk management

Meridian operates an active programme to ensure ongoing risk management across the Group. The Risk Management Policy has been developed to meet the New Zealand Standard: AS/NZS ISO 31000 Risk Management – Principles and Guidelines.

The purpose of the Risk Management Policy is to embed within Meridian a Group-wide capability in risk management. That capability provides a consistent method of identifying, assessing, controlling, monitoring and reporting on the key risks that may affect the company's ability to achieve its objectives and/or protect its people, assets and reputation.

Risk management responsibilities

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

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

In respect of all treasury activities to be undertaken by Meridian and its subsidiaries, the Board has approved policies and procedures to ensure that Meridian's treasury operations are conducted in a risk-averse, non-speculative manner. This includes measuring, monitoring, controlling and, where relevant, reducing all financial risks within the Meridian Group, including but not limited to funding, interest rate, currency and liquidity risks.

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

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

During the period the Meridian Audit and Risk Committee reviewed Meridian's Risk Management Policy and risk management framework and is satisfied that they continue to be sound. Meridian operates an active programme to ensure ongoing risk management across the Group. Key risks include the following:

Tīwai

If NZAS closes its Tīwai Point aluminium smelter or significantly reduces its electricity consumption (whether or not it also terminates or breaches its agreement with Meridian), Meridian may be adversely affected. This is because such a closure or reduction is likely to result, in the near term, in a reduction in Meridian's revenue, largely caused by a decrease in both wholesale and retail electricity prices.

The size of any such reductions in Meridian's revenue and associated losses, and therefore the severity of the impact on Meridian, would depend on a number of variables, including the volume of NZAS's reduction, the period over which NZAS's 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 elect to mothball or retire their plant, which could have the effect of reducing the supply of electricity and may moderate any reduction in wholesale electricity prices. In some circumstances the impacts on Meridian may be severe.

Adverse hydrological conditions

Meridian's hydro generation (comprising approximately 90% of its New Zealand generation) is dependent on 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 the catchment area of the Waitaki or Manapōuri hydro systems, may reduce water levels and significantly affect Meridian's generation capability. Low levels of storage as a result of low inflows often coincide with high wholesale market prices. If that occurs, Meridian may be forced to purchase electricity from the wholesale market at those high prices to meet its customer commitments at a time when it is generating less electricity to sell into the wholesale market. The financial consequences of the low inflows experienced in 2012 in the Waitaki catchment are an example of this risk.

Catastrophic events

Meridian's ability to generate electricity is dependent on the continued efficient operation of its power stations. A catastrophic event such as a major earthquake, landslide, fire, flood, cyclone, explosion, act of terrorism, cyber attack or other disaster could adversely affect or cause a failure of any or all of Meridian's power stations or other operations, or a failure of the national high-voltage transmission grid. Such an event could also affect major consumers of electricity (including Meridian customers), which could have an adverse effect on the markets in which Meridian operates and third-party property owners. Meridian currently insures for material damage and business interruption losses up to $935 million. It is possible that the insurance portfolio will not provide sufficient cover in situations where a single catastrophic event occurs or multiple catastrophic events occur in succession or where insurers contest or delay paying insurance claims.

Plant failure

Meridian relies on various pieces of equipment and technology at each of its power stations. If any pieces of material equipment or technology, including, for example, turbines, control gates and canal civil structures, suffer failures requiring unplanned power station outages, replacement or repair, Meridian's generation production may be reduced. Wind farms generally use the same plant throughout one site and consequently serial defects may therefore have an adverse effect on the operation of a particular wind farm to the extent that they are not covered by warranties or other remediation.

Health and safety

There is a risk that an incident will lead to the fatality of or serious injury to a staff member, a contractor, a customer or a member of the public. Meridian operates in a technically challenging environment, with extremely large electrical and mechanical assets, including underground, inside large structures, on tall wind and hydro structures and in close proximity to large volumes of water. Staff are exposed to hazards on operating assets, on construction sites, in remote locations requiring a lot of on-road and off-road driving, and at customer sites when connecting and disconnecting power.

Use of and access to water

The Government, local councils and other regulatory bodies may impose restrictions, conditions and additional costs on the ability of Meridian to access or use hydro sources. Examples include imposing limits on minimum flows or maximum nutrient levels in rivers that have hydro generation and imposing charges or royalty payments on users of water. Future plan changes may also adversely affect activities that are currently permitted without resource consents. National and regional water policies could be changed to allocate more water to agricultural users or to meet specified iwi interests or for other purposes, reducing the available flow from the Waitaki or Manapōuri catchments for Meridian. The company could be adversely affected by such restrictions, conditions or additional costs to the extent that it is not able to pass on these costs to customers.

Legislative and regulatory risks

Meridian is subject to the risk that changes to legislation or regulation in either New Zealand or Australia (including electricity regulation, changes in policies to support renewable energy and new or changed environmental regulation) will adversely affect its sales, costs, relative competitive position, development initiatives or other aspects of its financial and operational performance, or force other undesirable changes to its business model.

Competitor behaviour

Competitor behaviour, such as aggressive pricing campaigns and the entry of new competitors, may put downward pressure on retail electricity prices and may also reduce Meridian's market share or require Meridian to increase its sales and marketing costs in order to maintain sales volumes. Competitor behaviour can also be affected by changes in customer behaviour, including reductions in demand (for example, a reduction in consumption by the Tīwai Point aluminium smelter), the displacement of demand by technology change, and large business customers choosing to buy electricity directly on the wholesale spot market rather than enter into fixed contracts. In recent years the retail market has seen an increase in competition, which has resulted in higher switching rates. High levels of customer switching affect the cost of acquiring and maintaining Meridian's customer base.

Information technology security

There is a risk that the security of critical information technology systems will be compromised. If this did occur it could interrupt or disable critical systems. Meridian could incur costs to stop the attack, repair the systems and manage any subsequent business interruption. Meridian's reputation would likely suffer due to reduced service, potential environmental damage, potential risks to public safety and perceptions of poor security, and the company could be exposed to subsequent fines and penalties.

Customer demand

The level of customer demand relative to supply from generators is a key determinant of electricity prices for the longer 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 levels of activity in the industrial sector, 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) and weather. All of these could affect electricity prices.

Financial risks

Meridian's approach to managing its financial risks and the financial instruments used to manage these risks can be found in section D of the financial statements.

Principle 7: Auditors

External audit independence

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

The external auditor's firm cannot perform any non-audit work that could be reasonably regarded as compromising the independence of the external auditor. All non-audit work must be pre-approved by the Chief Financial Officer (CFO) up to a fee limit of $100,000 or by the Audit and Risk Committee above that limit. The CFO will notify the Board through the CFO report of any approved engagements.

The Audit and Risk Committee is responsible for making recommendations to the Board concerning the appointment of Meridian's external auditor and their terms of engagement. Under section 29B of the Public Finance Act 1989, the Auditor-General has appointed Trevor Deed of Deloitte to audit Meridian. The external auditor meets with the Audit and Risk Committee on a regular basis without management present.

Principle 8: Shareholder relations

Meridian's Shareholder Communications Policy is designed to ensure that communication with Meridian's shareholders and the wider investment community is effective and consistent and adheres to the principles of continuous disclosure.

The Board annually reviews the Shareholder Communications Policy (a copy of the policy can be found at **meridianenergy.co.nz/investors/governance/policies**). As a result of the Board's 2016 review of this policy minor updates were made to reflect the following:

- more prominence in the policy on how shareholders have access to directors, management and company information
- a greater emphasis on Meridian's website as the primary source of information about the company
- more information on annual shareholder meetings and how shareholders can participate at such meetings.

In addition, the investor relations programme was reviewed to ensure full, fair and timely disclosure of relevant information to Meridian's shareholders and the investment community on a broad, non-exclusive basis.

The primary aim of the investor relations programme is to allow financial market participants to support their understanding of the company's business, governance, financial performance and prospects.

On 31 May 2016 Meridian held an investor day for a group of fund managers and sector analysts. The Chair and Chief Executive, along with other members of management, presented on matters of interest. We do this to give investors the chance to learn more about our business and current developments in more detail. The full presentation can be found at **meridianenergy.co.nz/investors/reports-and-presentations/investor-presentations**

Principle 9: Stakeholder interests

As a listed company Meridian has many stakeholders who contribute in varying ways – for example employees, customers, suppliers, the community and others. Meridian's approach to sustainability gives us a long-term focus – working to create a better energy future for us all. (For more information, refer to the stakeholder table on page 100.)

Meridian has developed a sustainability framework to help us focus on areas where our core business activities affect the external world, and where we can positively influence outcomes. The Safety and Sustainability Committee is provided with reports that show how management is meeting the following principles.

- **Renewable energy:** Meridian is committed to meeting future energy needs with renewable energy and helping to minimise the electricity industry's contribution to climate change.
- **Working sustainably:** Meridian incorporates sustainability in our culture, policies, processes and systems and engages our people on sustainability issues.
- **Water stewardship:** Meridian collaborates with stakeholders to manage water catchments effectively.
- **Engaged communities:** Meridian supports and connects with the communities in which we operate and interact. Community benefits are considered from the construction through to operation phases.
- **Energy solutions:** Meridian provides customers with good service, value for money and the opportunity to lower their environmental impacts.
- **Financial returns:** Meridian regularly reports on our financial and sustainability performance.

Further disclosures required by the NZX Listing Rules and the Companies Act 1993

Meridian subsidiaries

The following tables outline subsidiaries of Meridian Energy Limited during the accounting period and any changes to those subsidiaries and persons who held office as directors. Alternate directors are indicated with an (A).

NEW ZEALAND SUBSIDIARIES

COMPANY NAME	DIRECTORS	FURTHER INFORMATION
Damwatch Engineering Limited	Neal Barclay, Peter Amos	
Damwatch Projects Limited	Peter Amos	
MEL Solar Holdings	Mark Binns, Paul Chambers	Amalgamated to become Meridian Energy International Limited on 28/06/16
Meridian Energy Captive Insurance Limited	Mark Binns, Paul Chambers, Jason Stein (A)	
Meridian Energy International Limited	Mark Binns, Paul Chambers, Jason Stein (A)	
Meridian Limited	Mark Binns, Paul Chambers, Jason Stein (A)	
Meridian LTI Trustee Limited	Mary Devine, Anake Goodall	John Bongard (resigned 05/11/15)
Powershop New Zealand Limited	John Journee, Nicola Kennedy (appointed 15/03/16), Paul Chambers, Gillian Blythe (A)	Rowan Simpson (resigned 18/12/15)
Three River Holdings No. 1 Limited	Mark Binns, Paul Chambers, Jason Stein (A), Kelvin Mason (A)	
Three River Holdings No. 2 Limited	Mark Binns, Paul Chambers, Jason Stein (A), Kelvin Mason (A)	

AUSTRALIAN SUBSIDIARIES

COMPANY NAME	DIRECTORS	FURTHER INFORMATION
Damwatch Pty Limited	Stanley Brogan, Peter Amos	
Meridian Australia Holdings Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Meridian Energy Australia Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Meridian Energy Markets Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Meridian Finco Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Meridian Wind Australia Holdings Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Meridian Wind Monaro Range Holdings Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Meridian Wind Monaro Range Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Mt Millar Wind Farm Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Mt Mercer Windfarm Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)
Powershop Australia Pty Limited	Mark Binns, Paul Chambers, Ed McManus (appointed 29/01/16)	Ben Burge (resigned 29/01/16)

UK SUBSIDIARIES

COMPANY NAME	DIRECTORS	FURTHER INFORMATION
Powershop UK Limited	Mark Binns, Paul Chambers, Ari Sargent, Jim Barrett	Established 13/10/15

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

Meridian Energy Limited's full interests register is available for inspection on request by a shareholder.

Pursuant to sections 140 and 211(e) of the Companies Act 1993, the general disclosures of interest made during the accounting period 1 July 2015 to 30 June 2016 by directors of Meridian Energy Limited and its subsidiaries are listed below.

NAME	POSITION	DISCLOSURES
Mark Cairns	Director, Meridian Energy Limited	Prime Port Timaru, director (cessation)
Sally Farrier	Director, Meridian Energy Limited	Farrier Swier Consulting Pty Limited, director (cessation)
Anake Goodall	Director, Meridian Energy Limited, Meridian LTI Limited	Contact Energy, shareholder
		General Electric, shareholder (cessation)
		PledgeMe Limited, director (cessation)
		SolarCity (SCTY.US), shareholder (cessation)
		Tesla (TSLA.US), shareholder (cessation)
		Vector, bondholder (cessation)
Nicola Kennedy	Director, Powershop New Zealand Limited	PricewaterhouseCoopers, employee
		Pushpay, shareholder
		Vend Limited, shareholder
		Xero Limited, shareholder and subsequent cessation
Chris Moller	Director, Meridian Energy Limited	Rio Tinto, shareholder (cessation)
Peter Wilson	Director, Meridian Energy Limited	Augusta Capital Limited (previously Kermadec Property Fund Limited), Chair (cessation)
		Contact, shareholder
		Genesis Energy, capital bondholder
Paul Chambers	Director, Powershop New Zealand Limited	MEL Solar Holdings, director (cessation)

As at 30 June 2016 Meridian Energy Limited directors disclosed the following acquisitions and disposals of relevant interests in Meridian Energy Limited securities during the financial year pursuant to section 148 of the Companies Act 1993.

NATURE OF RELEVANT INTEREST	DATE	ACQUISITION/DISPOSAL	CLASS	NUMBER ACQUIRED OR (DISPOSED)	CONSIDERATION PAID OR RECEIVED PER SHARE
Jan Dawson					
Indirectly owned – Cosmos Trust	14/03/16	Acquisition	MEL030 Bonds	20,000	$1
Mary Devine					
Legal	05/11/15	Acquisition	Ordinary shares	300	$2.205
Chris Moller					
Legal and beneficial	30/10/15	Off-market transfer of shares related to a personal reorganisation	Ordinary shares	92,880	N/A

Donations

The Meridian Energy Group made a $1,000 donation during the period to The Rising Foundation. 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 as auditor of the company. Trevor Deed commenced being auditor of the company in this financial year. The amount payable by Meridian and its subsidiaries to Deloitte as audit fees in respect of 2016 was $0.6 million (2015: $0.6 million).

Other services undertaken by Deloitte during the year totalled $0.1 million (2015: $0.1 million). These related to other assurance activities including reviews of carbon emissions, securities registers, vesting of the executive long-term incentive plan and solvency return of Meridian's captive insurance company.

Directors' equity holdings

As at 30 June 2016 Meridian Energy Limited directors had relevant interests in Meridian Energy Limited equity securities pursuant to NZX Listing Rule 10.4.5(a):

DIRECTOR	NUMBER OF SHARES
Mark Cairns	174,480
Jan Dawson	51,300
Mary Devine	51,510
Sally Farrier	54,000
Anake Goodall	62,500
Chris Moller	92,880
Stephen Reindler	51,300
Peter Wilson	74,170

Twenty largest registered quoted equity security holders as at the balance date

The table below sets out the company's registered shareholders as at 30 June 2016.

NAMES	NUMBER OF SHARES	% OF ISSUED SHARES
Her Majesty the Queen in Right of New Zealand	1,307,586,374	51.02%
National Nominees New Zealand Limited*	125,272,468	4.89%
HSBC Nominees (New Zealand) Limited*	88,010,608	3.43%
HSBC Nominees (New Zealand) Limited*	72,692,537	2.84%
Citibank Nominees (New Zealand) Limited*	70,293,055	2.74%
JPMorgan Chase Bank NA NZ Branch*	65,994,829	2.58%
Accident Compensation Corporation*	53,835,327	2.10%
New Zealand Superannuation Fund Nominees Limited*	34,742,283	1.36%
Custodial Services Limited	31,432,726	1.23%
Tea Custodians Limited Client Property Trust Account*	28,368,771	1.11%
Forsyth Barr Custodians Limited	28,196,345	1.10%
BNP Paribas Nominees (NZ) Limited*	16,491,597	0.64%
ANZ Wholesale Australasian Share Fund*	13,980,182	0.55%
Investment Custodial Services Limited	13,357,147	0.52%
Custodial Services Limited	13,282,232	0.52%
Custodial Services Limited	11,030,851	0.43%
FNZ Custodians Limited	10,926,781	0.43%
BNP Paribas Nominees (NZ) Limited*	10,609,977	0.41%
Guardian Nominees*	9,159,073	0.36%
HSBC Custody Nominees (Australia) Limited*	8,996,411	0.35%

* Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members. As at 30 June 2016, 617,926,245 Meridian ordinary shares (or 24.10% of the ordinary shares on issue) were held through NZCSD.

Substantial security holders

The following information is provided in compliance with the Financial Markets Conduct Act. As at 30 June 2016 the total number of voting securities of Meridian Energy Limited at that date was 2,563,000,000.

NAME	RELEVANT INTEREST IN NUMBER OF SHARES	% OF SHARES HELD AT THE DATE OF NOTICE	DATE OF NOTICE
Her Majesty the Queen in the Right of New Zealand	1,307,586,374	51.02%	21 May 2015

Distribution of security holders and holdings as at 30 June 2016

The table below sets out the distribution of security holders and holdings as at 30 June 2016.

SIZE OF HOLDING	NUMBER OF SECURITY HOLDERS	% OF SECURITY HOLDERS	NUMBER OF SHARES	HOLDING QUANTITY %
1–1,000	7,114	14.50%	6,812,862	0.27%
1,001–5,000	23,433	47.78%	69,657,051	2.71%
5,001–10,000	9,705	19.79%	77,315,246	3.02%
10,001–50,000	7,830	15.96%	162,795,544	6.35%
50,001–100,000	614	1.25%	44,470,723	1.74%
100,001–500,000	270	0.55%	51,838,367	2.02%
500,001 and over	83	0.17%	2,150,110,207	83.89%
Total	**49,049**	**100.00%**	**2,563,000,000**	**100.00%**

Distribution of bondholders and holdings as at 30 June 2016

The table below sets out the retail fixed-rate bonds (MEL020) as at 30 June 2016.

SIZE OF HOLDING	NUMBER OF BONDHOLDERS	% OF BONDHOLDERS	NUMBER OF BONDS	% OF BONDS
1,001–5,000	49	6.64%	245,000	0.33%
5,001–10,000	125	16.93%	1,189,000	1.59%
10,001–50,000	419	56.78%	12,336,000	16.45%
50,001–100,000	69	9.35%	5,508,000	7.34%
100,001–500,000	51	6.91%	11,642,000	15.52%
500,001 and over	25	3.39%	44,080,000	58.77%
Total	**738**	**100.00%**	**75,000,000**	**100.00%**

The table below sets out the retail fixed-rate bonds (MEL030) as at 30 June 2016.

SIZE OF HOLDING	NUMBER OF BONDHOLDERS	% OF BONDHOLDERS	NUMBER OF BONDS	% OF BONDS
1,001–5,000	89	10.00%	445,000	0.30%
5,001–10,000	204	22.92%	1,942,000	1.29%
10,001–50,000	456	51.24%	12,421,000	8.28%
50,001–100,000	59	6.63%	4,810,000	3.21%
100,001–500,000	51	5.73%	10,821,000	7.21%
500,001 and over	31	3.48%	119,561,000	79.71%
Total	**890**	**100.00%**	**150,000,000**	**100.00%**

Waivers from the NZX and ASX (NZX Listing Rule 10.4.5(f))

There were no waivers granted and published by NZX within or relied upon by Meridian Energy Limited in the 12 months.

Non-standard designation

In New Zealand the company is listed with a 'non-standard' (NS) designation on the NZX Main Board. This is due to particular provisions of the constitution, including the requirements regulating the ownership and transfer of Meridian securities.
The designation is also required as a condition of previous NZX waivers which can be found in Meridian's overview on the NZX website.

Credit rating as at 30 June 2016

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

Registration as foreign company

Meridian has registered with the Australian Securities and Investments Commission as a foreign company. Meridian 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 would 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'[22] 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.

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.

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

Kauri Flat
Raglan Harbour
(Whaingaroa)
Te Kaha Point
(Mussel Rocks)
Raglan
Rangitoto Point
Three Streams
Te Uku
Landing
Te Uku
Kauroa
Te Hutewai
Woody Head
Papanui Point
Te Mata
Ruapuke
Matawhe Point

The numbers

MERIDIAN ENERGY LIMITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Group financial statements

Notes to the Group financial statements

Signed report

KEY

SUBSEQUENT EVENT

KEY JUDGEMENTS AND ESTIMATES

RISKS

Income Statement *For the year ended 30 June 2016*

	NOTE	GROUP 2016 $M	GROUP 2015 $M
Operating revenue	A2	**2,375**	2,403
Operating expenses	A3	**(1,725)**	(1,785)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**650**	618
Depreciation and amortisation	A3	**(236)**	(239)
Impairment of assets	A3	**4**	(38)
Gain/(loss) on sale of assets	A2	**(1)**	19
Net change in fair value of electricity and other hedges	D2	**(15)**	(1)
Operating profit		**402**	359
Finance costs	A3	**(80)**	(86)
Interest income	A2	**2**	8
Net change in fair value of treasury instruments	D2	**(68)**	(32)
Net profit before tax		**256**	249
Income tax expense	A4	**(71)**	(2)
Net profit after tax attributed to the shareholders of the parent company		**185**	**247**

Earnings per share (EPS) attributed to ordinary equity holders of the parent		**Cents**	Cents
Basic and diluted earnings per share	C3	**7.2**	9.6

Comprehensive Income Statement *For the year ended 30 June 2016*

	NOTE	GROUP 2016 $M	GROUP 2015 $M
Net profit after tax		**185**	247
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Asset revaluation	B1	**889**	329
Deferred tax on the above item	A4	**(248)**	(92)
		641	237
Items that may be reclassified to profit or loss:			
Net gain/(loss) on cash flow hedges		**-**	(2)
Reclassify foreign currency translation reserve		**-**	(2)
Exchange differences arising from translation of foreign operations		**(23)**	20
		(23)	16
Other comprehensive income for the year, net of tax		**618**	253
Total comprehensive income for the year, net of tax attributed to shareholders of the parent company		**803**	**500**

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

Balance Sheet *As at 30 June 2016*

	NOTE	GROUP 2016 $M	GROUP 2015 $M
Current assets			
Cash and cash equivalents	C5	**118**	69
Trade receivables	C6	**194**	191
Financial instruments	D2	**71**	48
Other assets		**23**	26
Total current assets		**406**	334
Non-current assets			
Property, plant and equipment	B1	**7,771**	7,097
Intangible assets	B2	**47**	47
Deferred tax	A4	**40**	36
Financial instruments	D2	**274**	147
Total non-current assets		**8,132**	7,327
Total assets		**8,538**	7,661
Current liabilities			
Payables and accruals		**205**	192
Employee entitlements		**15**	16
Current portion of term borrowings	C7	**214**	213
Finance lease payable	C8	**1**	1
Financial instruments	D2	**48**	34
Current tax payable		**30**	22
Total current liabilities		**513**	478
Non-current liabilities			
Term borrowings	C7	**1,000**	863
Deferred tax	A4	**1,617**	1,400
Provisions		**8**	8
Finance lease payables	C8	**47**	51
Financial instruments	D2	**203**	101
Term payables		**100**	12
Total non-current liabilities		**2,975**	2,435
Total liabilities		**3,488**	2,913
Net assets		**5,050**	**4,748**
Shareholders' equity			
Share capital	C2	**1,597**	1,597
Reserves		**3,453**	3,151
Total shareholders' equity		**5,050**	**4,748**

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 23 August 2016,

CHRIS MOLLER, *Chair, 23 August 2016*

JAN DAWSON, *Chair, Audit and Risk Committee, 23 August 2016*

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

Statement of Changes in Equity *For the year ended 30 June 2016*

	NOTE	GROUP $M SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 1 July 2014		**1,599**	**-**	**3,074**	**(23)**	**(1)**	**(15)**	**4,634**
Net profit for the 2015 financial year		-	-	-	-	-	247	**247**
Other comprehensive income								
Asset revaluation	B1	-	-	329	-	-	-	**329**
Net loss on cash flow hedges	D2	-	-	-	-	(2)	-	**(2)**
Reclassify foreign currency translation reserve		-	-	-	(2)	-	-	**(2)**
Exchange differences from translation of foreign operations		-	-	-	20	-	-	**20**
Income tax relating to other comprehensive income	A4	-	-	(92)	-	-	-	**(92)**
Total other comprehensive income, net of tax		**-**	**-**	**237**	**18**	**(2)**	**-**	**253**
Total comprehensive income for the year, net of tax		**-**	**-**	**237**	**18**	**(2)**	**247**	**500**
Share-based transactions	C2,F1	(2)	1	-	-	-	-	**(1)**
Dividends paid	C4	-	-	-	-	-	(385)	**(385)**
Balance at 30 June 2015 and 1 July 2015		**1,597**	**1**	**3,311**	**(5)**	**(3)**	**(153)**	**4,748**
Net profit for the 2016 financial year		-	-	-	-	-	185	**185**
Other comprehensive income								
Asset revaluation	B1	-	-	889	-	-	-	**889**
Transferred to retained earnings on disposal		-	-	(11)	-	-	11	**-**
Exchange differences from translation of foreign operations		-	-	-	(23)	-	-	**(23)**
Income tax relating to other comprehensive income	A4	-	-	(248)	-	-	-	**(248)**
Total other comprehensive income, net of tax		**-**	**-**	**630**	**(23)**	**-**	**11**	**618**
Total comprehensive income for the year, net of tax		**-**	**-**	**630**	**(23)**	**-**	**196**	**803**
Dividends paid	C4	-	-	-	-	-	(501)	**(501)**
Balance at 30 June 2016		**1,597**	**1**	**3,941**	**(28)**	**(3)**	**(458)**	**5,050**

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

Cash Flow *For the year ended 30 June 2016*

	NOTE	GROUP 2016 $M	GROUP 2015 $M
Operating activities			
Receipts from customers		**2,348**	2,348
Interest received		**2**	8
Payments to suppliers and employees		**(1,723)**	(1,742)
Interest paid		**(75)**	(78)
Income tax paid		**(100)**	(96)
Operating cash flows	C5	**452**	440
Investment activities			
Sale of property, plant and equipment		**-**	19
Sale of other assets		**5**	29
Purchase of property, plant and equipment		**(42)**	(131)
Purchase of intangible assets		**(18)**	(15)
Purchase of investments		**(1)**	(1)
Investing cash flows		**(56)**	(99)
Financing activities			
Term borrowings		**634**	366
Term borrowings repaid		**(478)**	(527)
Finance lease paid		**(1)**	-
Dividends paid		**(501)**	(385)
Shares purchased for long-term incentive		**(1)**	(2)
Financing cash flows		**(347)**	(548)
Net increase/(decrease) in cash and cash equivalents		**49**	(207)
Cash and cash equivalents at beginning of year		**69**	276
Cash and cash equivalents at end of year		**118**	**69**

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 that is considered relevant and material to assist the reader in understanding changes in Meridian's financial position or performance. Information is considered relevant and material if:

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

Meridian Energy Limited is a for-profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. Meridian's core business activities are the generation, trading and retailing of electricity and the sale of complementary products and services. The registered office of Meridian is 33 Customhouse Quay, Wellington. Meridian Energy Limited is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). As a Mixed Ownership Company, majority owned by Her Majesty the Queen in Right of New Zealand, it is bound by the requirements of the Public Finance Act 1989.

These financial statements have been prepared:

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

Key judgements and estimates

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

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

Note A2:	Income	Page 63
Note A4:	Taxation	Page 65
Note B1:	Property, Plant and Equipment	Page 66
Note B2:	Intangible Assets	Page 69
Note D2:	Financial Instruments	Page 78
Note F1:	Share-Based Payments	Page 86
Note F4:	Commitments	Page 88

Other accounting policies

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Basis of consolidation

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

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

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

Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rates at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the rate prevailing at balance date 30 June 2016.

The assets and liabilities of international subsidiaries are translated to New Zealand dollars 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.

Exchange differences arising on the translation of subsidiary financial statements are recorded in the foreign currency translation reserve (equity). Cumulative translation differences are recognised in the income statement in the period in which any international subsidiary is disposed of.

The principal functional currency of international subsidiaries is Australian dollars; the closing rate at 30 June 2016 was 0.9577 (30 June 2015: 0.8774). A full list of international subsidiary functional currencies is 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.

Electricity supply agreement with NZAS

On 31 July 2015, Meridian and its largest customer, New Zealand Aluminium Smelters (NZAS), agreed new terms for the supply of 572MW of electricity. The agreement is for the period up to 31 December 2030, with termination rights (requiring 12 months' notice) from 1 January 2017. The revised terms are significantly different from the 2013 agreement, therefore for accounting purposes that agreement is extinguished and the 2015 agreement is recognised as a new agreement.

The 2015 agreement has been recognised in these financial statements in a manner consistent with fixed price supply agreements with other industrial customers. Revenue is recognised as electricity sales revenue in the income statement and the estimated future cash flows are included in the fair value of generation structures and plant assets on the balance sheet. This recognition reflects the fact that a number of variables within the agreement are consistent with a supply agreement and are not features of an electricity financial contract or other forms of financial contract.

The recognition of this new agreement has no financial impact on the reported results for the period.

Large scale generation certificates (LGCs)

In Australia Meridian earns LGCs from electricity generated at its Mt Millar and Mt Mercer wind farms. LGCs are sold to retailers to settle their surrender obligations in January of each year. Meridian uses forward contracts and options to firm the price they receive for LGCs and consequently the profitability of each wind farm.

At the time of generation, LGCs are recognised as income in energy margin at the prevailing spot price. The accumulation of LGC holdings, forward contracts and options are all recognised as financial instruments on the balance sheet at their fair value. Any change in this fair value is recognised in net change in fair value of electricity and other hedges in the income statement.

In the year ended 30 June 2016, the market price for LGCs strengthened following the Australian Government's review and confirmation of policy settings. This resulted in unrealised fair value losses of $40 million being recognised in the income statement.

For more information, refer to section D Financial instruments used to manage risk on page 75.

Interest rate curves

Forward interest rates in New Zealand and Australia continued to decline during the financial year. Meridian manages its funding cost risks through interest rate hedging, consequently downward movements in the forward curves have resulted in unrealised fair value movements of $68 million.

For more information, refer to section D Financial instruments used to manage risk on page 75.

Disclosure of electricity hedge settlements in the income statement

Meridian has previously recognised electricity hedge settlements on a gross basis in the income statement, aligning with Meridian's internal reporting and as allowed by current financial reporting standards. Following discussions with Meridian's auditor, it was decided to move to the more commonly seen net disclosure in order to assist with future decisions on the application of NZ IFRS 9: Financial Instruments (effective 1 January 2019). The recognition of electricity hedge settlements is on a net settled basis, rather than the previous recognition of the underlying transactions that make up the net settlement.

Electricity hedges are recognised as follows:

- sell-side electricity hedges: Net settlements are recognised in Electricity generation, net of hedging in Operating Revenue
- buy-side electricity hedges: Net settlements are recognised in Electricity expenses, net of hedging in Operating Expenses.

This change has no impact on the net profit after taxation nor on the non-GAAP measures Underlying net profit after tax, EBITDAF and energy margin. The prior year comparatives are aligned with this disclosure.

Significant matters in the financial year *continued*

Generation structures and plant revaluation

At 30 June 2016 Meridian revalued its generation structures and plant assets. 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 incorporating capitalisation of earnings and discounted cash flow techniques.

The valuation has resulted in a net increase of $696 million from 30 June 2015 after adjusting for depreciation recognised in the year. Key factors that influenced the valuation were:

- higher market multiple 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 on page 66.

Electricity swaption with Genesis

On 27 April 2016, a new electricity swaption with Genesis Energy Limited was entered into for the period from 1 January 2019 to 31 December 2022. This hedge protects Meridian from periods of high North Island wholesale electricity market prices.

As with previous swaptions, the hedge is valued at its transaction price, being the discounted cash flows of the future premium payments. At inception, this results in equal and opposite entries on the balance sheet in Financial instruments (the swaption) and Term payables (the premiums payable). Over time, the swaption is updated to reflect fair value (based on market pricing), whilst the premiums payable reduce as premium payments are made.

Non-GAAP measures

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

EBITDAF

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

EBITDAF is reported in the income statement allowing the evaluation of Meridian's operating performance without the non-cash impacts of depreciation, amortisation, fair value movements of hedging instruments and other one-off and/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 impacts of the wholesale prices on the cost of Meridian's retail electricity purchases and revenue from generation. Meridian uses the measure of energy margin within its segmental financial performance in note A1 Segment performance on page 61.

Net debt

Net debt is a metric commonly used by investors as a measure of Meridian's indebtedness that takes account of liquid financial assets. Meridian uses this measure within its capital management and this is outlined in note C1 Capital management on page 70.

A. Financial performance

IN THIS SECTION

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

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

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

A1 Segment performance

Meridian's operating segments have been determined according to the nature of the products and services and the locations where they are sold. 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 from the perspective of three operating segments: Wholesale, Retail and International.

The financial performance of the operating segments is assessed using energy margin and EBITDAF (see page 60 for a definition of these measures) before unallocated central corporate expenses. Balance sheet items are not reported to the Chief Executive at an operating segment level.

The accounting policies of the Group have been consistently applied to the operating segments.

A description of operating segments follows.

Wholesale segment

Includes activity associated with Meridian's New Zealand:

- generation of electricity and its sale into the wholesale electricity market;
- purchase of electricity from the wholesale electricity market and its sale to the Retail segment and to large industrial customers, including NZAS representing the equivalent of 37% (30 June 2015: 38%) of Meridian's New Zealand generation production; and
- development of renewable electricity generation opportunities.

Retail segment

Includes activity associated with retailing of electricity and complementary products through its 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 $67-$73 per 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. The transfer price is set in a similar manner to transactions with third parties.

International segment

Includes activity associated with Meridian's:

- generation of electricity and sale into the wholesale electricity market;
- retailing of electricity through the Powershop brand in Australia;
- development of renewable electricity generation options in Australia; and
- licensing of the Powershop platform in the United Kingdom.

Unallocated

Includes activities and centrally based costs that are not directly allocated to other segments.

A1 Segment performance *continued*

	WHOLESALE		RETAIL		INTERNATIONAL		UNALLOCATED		INTER-SEGMENT		GROUP	
	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
Contracted sales net of distribution costs	**319**	311	**630**	614	**42**	20	**-**	-	**-**	-	**991**	945
Virtual asset swap margins	**8**	10	**-**	-	**-**	-	**-**	-	**-**	-	**8**	10
Net cost of acquired generation	**(24)**	(31)	**-**	-	**-**	-	**-**	-	**-**	-	**(24)**	(31)
Generation spot revenue	**779**	908	**-**	-	**55**	44	**-**	-	**-**	-	**834**	952
Inter-segment electricity sales	**527**	509	**-**	-	**-**	-	**-**	-	**(527)**	(509)	**-**	-
Cost to supply contracted sales	**(815)**	(934)	**(479)**	(478)	**(27)**	(10)	**-**	-	**527**	509	**(794)**	(913)
Other market revenue/(costs)	**(8)**	(8)	**2**	(1)	**-**	-	**-**	-	**-**	-	**(6)**	(9)
Energy margin	**786**	**765**	**153**	**135**	**70**	**54**	**-**	**-**	**-**	**-**	**1,009**	**954**
Other revenue	**6**	7	**7**	11	**3**	-	**22**	32	**(21)**	(25)	**17**	25
Energy transmission expense	**(124)**	(120)	**-**	-	**(4)**	(3)	**-**	-	**-**	-	**(128)**	(123)
Gross margin	**668**	**652**	**160**	**146**	**69**	**51**	**22**	**32**	**(21)**	**(25)**	**898**	**856**
Employee expenses	**(29)**	(27)	**(30)**	(32)	**(11)**	(7)	**(22)**	(22)	**-**	-	**(92)**	(88)
Electricity metering expenses	**-**	-	**(30)**	(26)	**-**	-	**-**	-	**-**	-	**(30)**	(26)
Other operating expenses	**(51)**	(52)	**(31)**	(32)	**(24)**	(18)	**(20)**	(22)	**-**	-	**(126)**	(124)
EBITDAF	**588**	**573**	**69**	**56**	**34**	**26**	**(20)**	**(12)**	**(21)**	**(25)**	**650**	**618**
Depreciation and amortisation											**(236)**	(239)
Impairment of assets											**4**	(38)
Gain/(loss) on sale of assets											**(1)**	19
Net change in fair value of electricity and other hedges											**(15)**	(1)
Operating profit											**402**	**359**
Finance costs											**(80)**	(86)
Interest income											**2**	8
Net change in fair value of treasury instruments											**(68)**	(32)
Net profit before tax											**256**	**249**
Income tax expense											**(71)**	(2)
Net profit after tax											**185**	**247**
Reconciliation of energy margin												
Electricity sales revenue	**1,572**	1,669	**1,163**	1,129	**150**	89	**-**	-	**(527)**	(509)	**2,358**	2,378
Electricity expenses, net of hedging	**(786)**	(904)	**(545)**	(530)	**(40)**	(18)	**-**	-	**527**	509	**(844)**	(943)
Electricity distribution expenses	**-**	-	**(465)**	(464)	**(40)**	(17)	**-**	-	**-**	-	**(505)**	(481)
Energy margin	**786**	**765**	**153**	**135**	**70**	**54**	**-**	**-**	**-**	**-**	**1,009**	**954**

A2 Income

OPERATING REVENUE	GROUP 2016 $M	GROUP 2015 $M
Electricity sales to customers	**1,500**	1,416
Electricity generation, net of hedging	**858**	962
Electricity-related services revenue	**11**	14
Other revenue	**6**	11
	2,375	**2,403**

TOTAL REVENUE BY GEOGRAPHIC AREA	GROUP 2016 $M	GROUP 2015 $M
New Zealand	**2,222**	2,314
Australia	**150**	89
United Kingdom	**3**	-
Total operating revenue	**2,375**	**2,403**

GAIN ON SALE OF ASSETS	NOTE	GROUP 2016 $M	GROUP 2015 $M
Gain/(loss) on sale of property, plant and equipment		**(1)**	3
Gain on sale of subsidiaries	E1	**-**	15
Gain on sale of investments		**-**	1
		(1)	**19**

	GROUP 2016 $M	GROUP 2015 $M
Interest income	**2**	**8**

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 and is recognised at the time of supply.

Electricity generation, net of hedging

Revenue received from:

- electricity generated and sold into the wholesale markets; and
- the 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.

Electricity-related services revenue

Revenue received or receivable from the sale of complementary products and services to retail customers and the provision of dam maintenance services.

Other revenue

Includes revenue from non-core activities such as Powershop platform licensing, finance leases, land leases and farming.

Key judgements and estimates

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

Interest income

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

A3 Expenses

OPERATING EXPENSES	GROUP 2016 $M	GROUP 2015 $M
Electricity expenses, net of hedging	**844**	943
Electricity distribution expenses	**505**	481
Electricity transmission expenses	**128**	123
Employee expenses	**92**	88
Electricity metering expense	**30**	26
Other expenses	**126**	124
	1,725	**1,785**

DEPRECIATION AND AMORTISATION	NOTE	GROUP 2016 $M	GROUP 2015 $M
Depreciation	B1	**217**	218
Amortisation of intangibles	B2	**19**	21
		236	**239**

FINANCE COSTS	NOTE	GROUP 2016 $M	GROUP 2015 $M
Interest on borrowings		**72**	79
Interest on electricity option premium		**2**	1
Interest on finance lease payable	C8	**6**	6
		80	**86**

IMPAIRMENT OF ASSETS	NOTE	GROUP 2016 $M	GROUP 2015 $M
Impairment property, plant and equipment	B1	**6**	33
Reversal of previous impairment property, plant and equipment	B1	**(10)**	-
Intangible assets	B2	**-**	2
Other assets		**-**	3
		(4)	**38**

Operating expenses

Electricity expenses, net of hedging

The cost of:

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

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

Electricity distribution expenses

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

Electricity transmission expenses

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

Employee expenses

Provision is 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 $3 million in FY2016 (FY2015: $3 million).

Electricity metering expenses

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

Impairment of non-financial assets

Meridian reviews the recoverable amount of its tangible and intangible assets at each balance date. If the carrying value of an asset exceeds the recoverable amount, an impairment expense is recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment is treated as a revaluation decrease in equity. Any reversal of previous losses is recognised immediately in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase in equity.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of future cash flows expected to be generated by the asset (value in use).

In 2016 Meridian sold its investment in Hunter Downs Development Company. Following this sale, the water use consent held was impaired by $6 million. The reversal of previous impairment relates to the revaluation of generation structures and plant reversing the impairment recorded in the income statement in FY2015 (for further details of the revaluation of the generation structures and plant, refer to note B1 Property, plant and equipment).

A4 Taxation

INCOME TAX EXPENSE	GROUP 2016 $M	GROUP 2015 $M
Current income tax charge	**108**	60
Deferred tax	**(37)**	(58)
Total income tax	**71**	**2**
Reconciliation to profit before tax		
Profit before tax	**256**	**249**
Income tax at applicable rates	**71**	68
Expenditure not deductible for tax	**-**	2
Income not subject to tax	**-**	(6)
Capital gains tax liability provision movement	**-**	(28)
Reinstated building tax depreciation	**-**	(34)
Income tax expense	**71**	**2**

DEFERRED TAX	GROUP 2016 $M	GROUP 2015 $M
Balance at beginning of year	**1,364**	**1,329**
Temporary differences in income statement:		
Depreciation/amortisation	**(13)**	(8)
Term payables	**4**	5
Financial instruments	**(23)**	(9)
Carried forward unused tax losses	**(6)**	(14)
Building tax depreciation change	**-**	(34)
Other	**1**	2
	(37)	**(58)**
Temporary differences in other comprehensive income:		
Revaluation reserve movements	**248**	92
	248	**92**
Effect of retranslating foreign currencies	**3**	(1)
Effect of sale of subsidiaries	**-**	4
Other	**(1)**	(2)
Balance at end of year	**1,577**	**1,364**
Made up of:		
Asset revaluation	**1,227**	1,034
Depreciation/amortisation	**438**	395
Term payables	**(24)**	(1)
Financial instruments	**(19)**	(23)
Other	**(5)**	(5)
Deferred tax liability	**1,617**	**1,400**
Carried forward unused tax losses	**(40)**	(36)
Deferred tax asset	**(40)**	**(36)**
Total deferred tax	**1,577**	**1,364**

Current income tax expense

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 that have been enacted at balance date, being 28% for New Zealand and 30% for Australia.

Income tax expense components are current income tax and deferred tax.

Upon selling Meridian Wind Macarthur Holdings Limited in June 2013 for a gain of $101 million, a provision for a potential Australian capital gains tax of $28 million (A$26 million) was recognised. The likelihood that this liability will eventuate no longer meets the threshold for it to be held as a liability.

Following the successful resolution of the dispute with Inland Revenue relating to the deductibility of depreciation on hydro powerhouse structures in 2015, $34 million was reinstated to deferred tax.

Deferred tax assets and liabilities

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

- from goodwill; 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.

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

Unused tax losses

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

Offsetting deferred tax balances

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

Key judgements and estimates

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

B. Assets used to generate and sell electricity

IN THIS SECTION

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

a) property, plant and equipment.

b) intangible assets.

B1 Property, plant and equipment

GROUP ($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	6,766	37	147	242	**7,192**
Less accumulated depreciation	(184)	(2)	(77)	-	**(263)**
Net book value at 30 June 2014	**6,582**	**35**	**70**	**242**	**6,929**
Additions	-	-	-	75	**75**
Transfers - work in progress	193	3	29	(225)	**-**
Transfers - intangible assets	-	-	-	(6)	**(6)**
Disposals	(2)	(5)	1	-	**(6)**
Transfers - held-for-sale assets and liabilities	-	(7)	4	-	**(3)**
Foreign currency exchange rate movements[23]	27	-	3	-	**30**
Generation structures and plant revaluation:					
Increase taken to revaluation reserve	329	-	-	-	**329**
Decrease taken to income statement	(33)	-	-	-	**(33)**
Depreciation expense	(200)	(1)	(17)	-	**(218)**
Net book value at 30 June 2015	**6,896**	**25**	**90**	**86**	**7,097**
Cost or fair value	6,896	28	159	86	**7,169**
Less accumulated depreciation	-	(3)	(69)	-	**(72)**
Net book value at 30 June 2015	**6,896**	**25**	**90**	**86**	**7,097**
Additions	-	-	-	42	**42**
Transfers - work in progress	14	8	9	(31)	**-**
Transfers - intangible assets	-	-	(2)	-	**(2)**
Disposals	(2)	-	-	-	**(2)**
Impairment	-	-	-	(6)	**(6)**
Foreign currency exchange rate movements[23]	(38)	-	(2)	-	**(40)**
Generation structures and plant revaluation:					
Increase taken to revaluation reserve	889	-	-	-	**889**
Increase taken to income statement	10	-	-	-	**10**
Depreciation expense	(203)	(1)	(13)	-	**(217)**
Net book value at 30 June 2016	**7,566**	**32**	**82**	**91**	**7,771**
Cost or fair value	7,566	36	164	91	**7,857**
Less accumulated depreciation[24]	-	(4)	(82)	-	**(86)**
Net book value at 30 June 2016	**7,566**	**32**	**82**	**91**	**7,771**

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

At 30 June 2016, 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 $2.7 billion (2015: $2.8 billion).

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 the balance date.

Meridian uses an independent valuer, who uses an income valuation approach assessing both the capitalisation of earnings and 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 which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged to the income statement to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

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

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

Revaluation of generation structures and plant

Meridian revalued its generation structures and plant assets at 30 June 2016. An independent valuer assessed values using capitalisation of earnings and DCFs when determining a valuation range. The final valuation range aligned closely with the outcome of the capitalisation of earnings calculation.

This revaluation resulted in a net increase of $696 million (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 $641 million (net of deferred tax) in the revaluation reserve and as a $10 million reversal of a previous 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.

Generation structures and plant valuation technique and key inputs

The Meridian Board uses its judgement to decide on the appropriateness of key valuation techniques and inputs for fair value measurement. Judgement is also used in determining the estimated remaining useful lives of assets.

As the valuation of generation structures and plant does not fully use observable market data, it continues to be classified as a level 3 fair value (a definition of the other levels is included in D2 Financial instruments).

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

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

KEY INPUT TO MEASURE FAIR VALUE	DESCRIPTION	RANGE OF UNOBSERVABLE INPUTS	SENSITIVITY	IMPACT ON VALUATION
Future NZ wholesale electricity prices	The price received for NZ generation	$62MWh to $78MWh (in real terms)	+ $3MWh	$419M
			- $3MWh	($419M)
Future Australia wholesale electricity prices	The price received for Australian generation, inclusive of LGCs	A$104MWh to A$143MWh by 2035 (in real terms)	+ 5%	A$25M
			- 5%	(A$25M)
NZ generation volume	Annual generation production	13,033GWh p.a. to 13,386GWh p.a.	+ 250GWh	$124M
			- 250GWh	($124M)
Australian generation volume	Annual generation production	579GWh p.a.	+ 5%	A$24M
			- 5%	(A$24M)
Operating expenditure	Meridian's cost of operations, including transmission expenses	$256M p.a. (in real terms)	+ $10M	($144M)
			- $10M	$144M
EBITDAF earnings multiple	Valuation multiple (including control premium of 20%) derived from earnings and valuations of comparable companies	12.0 X EBITDAF	+ 0.5x	$382M
			- 0.5x	($382M)

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

B1 Property, plant and equipment *continued*

Depreciation

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

Key judgements and estimates – useful lives

Meridian makes estimates of the remaining useful lives of assets, which are as follows:

- generation structures and plant – up to 80 years
- buildings – up to 67 years
- 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. In FY2016, $11 million was transferred from the revaluation reserve to retained earnings.

B2 Intangible assets

GROUP ($M)	SOFTWARE
Cost or fair value	154
Less accumulated amortisation	(100)
Net book value at 30 June 2014	**54**
Additions	10
Impairment	(2)
Transfers - property, plant and equipment	6
Amortisation expenses	(21)
Net book value at 30 June 2015	**47**
Cost or fair value	168
Less accumulated amortisation	(121)
Net book value at 30 June 2015	**47**
Additions	17
Transfers - property, plant and equipment	2
Amortisation expenses	(19)
Net book value at 30 June 2016	**47**
Cost or fair value	181
Less accumulated amortisation	(134)
Net book value at 30 June 2016	**47**

Software

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

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

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

Key judgements and estimates – useful lives

Meridian uses its judgement in determining the remaining useful lives and residual values of intangible assets. These are reviewed, and, if appropriate, adjusted at each balance date.

Software assets' useful lives are estimated to be up to 10 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; and

c) receivables and payables.

C1 Capital management

Capital risk management objectives

Meridian's objectives when managing capital are 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 that consider debt facility financial covenants and credit ratings. The key measures being 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	GROUP 2016 $M	GROUP 2015 $M
Share capital		**1,597**	1,597
Retained earnings		**(458)**	(153)
Other reserves		**3,911**	3,304
		5,050	**4,748**
Drawn borrowings	C7	**1,136**	991
Finance lease payable	C8	**48**	52
Less: cash and cash equivalents	C5	**(118)**	(69)
		1,066	**974**
Capital		**6,116**	**5,722**

NET DEBT TO EBITDAF	NOTE	GROUP 2016 $M	GROUP 2015 $M
Drawn borrowings	C7	**1,136**	991
Finance lease payable	C8	**48**	52
Operating lease commitments	F4	**59**	37
Less: cash and cash equivalents	C5	**(118)**	(69)
Add back: restricted cash	C5	**18**	22
Add back: cash buffer[1]		**25**	12
Net debt (A)		**1,168**	**1,045**
EBITDAF (B)		**650**	**618**
Net debt to EBITDAF (times) (A/B)		**1.8**	**1.7**

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

EBITDAF INTEREST COVER	NOTE	GROUP 2016 $M	GROUP 2015 $M
EBITDAF (B)		**650**	**618**
Interest on borrowings	A3	**72**	79
Interest on finance lease	A3	**6**	6
Interest (C)		**78**	**85**
EBITDAF interest cover (times) (B/C)		**8.3**	**7.3**

Standard & Poor's rating	**BBB+**	**BBB+**

C2 Share capital

SHARE CAPITAL	GROUP 2016 SHARES	GROUP 2016 $M	GROUP 2015 SHARES	GROUP 2015 $M
Shares issued	2,563,000,000	1,600	2,563,000,000	1,600
Treasury shares held	(1,569,279)	(3)	(1,708,270)	(3)
Share capital	**2,561,430,721**	**1,597**	**2,561,291,730**	**1,597**

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 vesting of shares 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

EARNINGS PER SHARE (EPS)	GROUP 2016	GROUP 2015
Profit after tax attributable to shareholders of the parent company ($M)	**185**	247
Weighted average number of shares used in the calculation of EPS	**2,563,000,000**	2,563,000,000
Basic and Diluted EPS (cents per share)	**7.2**	9.6

C4 Dividends

DIVIDENDS DECLARED AND PAID	GROUP 2016 $M	GROUP 2015 $M
Interim ordinary and special dividend 2016: 7.54cps (2015: 6.20cps)	**193**	159
Final ordinary and special dividend 2015: 12.03cps (2014: 8.80cps)	**308**	226
Total dividends paid	**501**	**385**

DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY	GROUP 2016 $M	GROUP 2015 $M
Final ordinary dividend 2016: 8.40cps (2015: 8.08cps)	**215**	207
Special dividend 2016: 2.44cps (2015: 3.95cps)	**63**	101

IMPUTATION CREDIT BALANCE	GROUP 2016 $M	GROUP 2015 $M
Imputation credits available for future use	**44**	24

Dividend policy

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

Subsequent event – dividend declared

On 23 August 2016 the Board declared a partially imputed final ordinary dividend of 8.40 cents per share. Additionally the Board declared an unimputed special dividend of 2.44 cents per share.

Imputation credit balance

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

The imputation credits available for future use reflect the balance available on 23 August 2016, therefore recognising any tax payments between balance date and 23 August 2016.

C5 Cash and cash equivalents

CASH AND CASH EQUIVALENTS	GROUP 2016 $M	GROUP 2015 $M
Current account	**58**	51
Money market account	**60**	18
Cash and cash equivalents	**118**	**69**

Cash and cash equivalents, is 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.

All cash and cash equivalents are invested with Meridian's banks or held as collateral by J.P. Morgan.

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 are pledged as margin, which varies depending on market movements and contracts held. At 30 June 2016, this collateral was $18 million (30 June 2015: $22 million).

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

RECONCILIATION OF NPAT TO CASH FLOWS FROM OPERATING ACTIVITIES	GROUP 2016 $M	GROUP 2015 $M
Net profit after tax	**185**	**247**
Adjustments for operating activities non-cash items:		
Depreciation and amortisation	**236**	239
Movement in deferred tax	**(37)**	(58)
Net change in fair value of financial instruments	**83**	33
Electricity option premiums	**(16)**	(16)
Share-based payments	**1**	1
	267	**199**
Items classified as investing activities:		
Impairment of assets	**(4)**	35
(Gain)/loss on sale of assets	**1**	(19)
	(3)	**16**
Items classified as financing activities:		
Amortisation of prepaid debt facility fees	**1**	1
	1	**1**
Changes in working capital items:		
(Increase) in accounts receivable	**(3)**	(8)
Decrease/(increase) in other assets	**3**	(2)
Increase/(decrease) in payables and accruals	**12**	(29)
Increase/(decrease) in current tax payable	**8**	(35)
Working capital items in investing activities	**3**	61
Working capital items in financing activities and other non-cash items	**(21)**	(10)
	2	**(23)**
Cash flow from operating activities	**452**	**440**

C6 Trade receivables

TRADE RECEIVABLES	GROUP 2016 $M	GROUP 2015 $M
Current billed and accrued receivables	**188**	185
Past due 1 to 30 days	**7**	6
Past due 31 to 60 days	**2**	1
Past due 61 to 90 days	**1**	2
Past due greater than 90 days	**1**	2
Less: Provision for doubtful debts	**(5)**	(5)
Total trade receivables	**194**	**191**
Accounts receivable past due but not impaired	**6**	6

MOVEMENT IN PROVISION FOR DOUBTFUL DEBTS	2016	2015
Opening provision	**(5)**	(3)
Provision created in the year	**(5)**	(7)
Provision used in the year	**5**	5
Closing provision for doubtful debts	**(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. Allowances are made for estimated unrecoverable amounts (provision for doubtful debts), and these are recognised in the income statement. The provision for doubtful debts is measured as the difference between the trade receivables carrying amount and expected future cash flows, which has considered customer credit history and historical recovery performance and trends.

Trade receivables written off during the year were $5 million (30 June 2015: $5 million).

C7 Borrowings

GROUP (NZ$M)	CURRENCY BORROWED IN	GROUP 2016				GROUP 2015			
		DRAWN FACILITY AMOUNT	TRANSAC-TION COSTS PAID	FAIR VALUE ADJUSTMENT	CARRYING AMOUNT	DRAWN FACILITY AMOUNT	TRANSAC-TION COSTS PAID	FAIR VALUE ADJUSTMENT	CARRYING AMOUNT
Current borrowings									
Unsecured borrowings	NZD	**215**	**(1)**	**-**	**214**	60	(1)	-	59
Unsecured borrowings	USD	**-**	**-**	**-**	**-**	146	-	8	154
Total current borrowings		**215**	**(1)**	**-**	**214**	**206**	**(1)**	**8**	**213**
Non-current borrowings									
Unsecured borrowings	NZD	**490**	**(1)**	**-**	**489**	339	(1)	-	338
Unsecured borrowings	USD	**431**	**(1)**	**81**	**511**	446	(1)	80	525
Total non-current borrowings		**921**	**(2)**	**81**	**1,000**	**785**	**(2)**	**80**	**863**
Total borrowings		**1,136**	**(3)**	**81**	**1,214**	**991**	**(3)**	**88**	**1,076**

Borrowings, measurement and recognition

Borrowings are recognised initially at the fair value of the drawn facility amount, net of transaction costs paid. Borrowings are subsequently stated at amortised cost using the effective interest method. Any borrowings that have been designated as hedged items (USD borrowings) are carried at amortised cost plus a fair value adjustment under hedge accounting requirements. Any borrowings denominated in a foreign currency are retranslated to the functional currency at each reporting date. Any retranslation effect is included in the "Fair value adjustment" column in the table.

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

Fair value of items held at amortised cost

GROUP (NZ$M)	CARRYING VALUE 2016 $M	CARRYING VALUE 2015 $M	FAIR VALUE 2016 $M	FAIR VALUE 2015 $M
Renewable energy bonds	**75**	75	**79**	81
Retail bonds	**150**	-	**159**	-

Cash and cash equivalents, trade receivables, payables and accruals and finance lease payables are carried at amortised cost on the balance sheet and their carrying value approximates fair value.

Term borrowings are also held at amortised cost. Within term borrowings, there are longer dated, fixed interest rate instruments that are not in hedge accounting relationships. The carrying values and estimated fair values of these instruments are noted in the table above.

Fair value is calculated by reference to quoted prices on the NZX. In terms of the fair value hierarchy, these are classified as level 2 instruments (a lack of liquidity on the NZX precludes them from being classified as level 1). A definition of levels is included in D2 Financial instruments.

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

C7 Borrowings *continued*

FUNDING FACILITIES - GROUP (NZ$M)	CURRENCY BORROWED IN	GROUP 2016			GROUP 2015		
		FACILITY AMOUNT	DRAWN FACILITY AMOUNT	UNDRAWN FACILITY AMOUNT	FACILITY AMOUNT	DRAWN FACILITY AMOUNT	UNDRAWN FACILITY AMOUNT
Bank facilities							
New Zealand bank funding[25]	NZD	**525**	**150**	**375**	525	65	460
EKF funding[26]	NZD	**100**	**100**	**-**	110	110	-
Bank facilities		**625**	**250**	**375**	**635**	**175**	**460**
Other sources of borrowing							
Renewable energy bonds[27]	NZD	**75**	**75**	**-**	75	75	-
Retail bonds[28]	NZD	**150**	**150**	**-**	-	-	-
Floating rate notes[25]	NZD	**100**	**100**	**-**	100	100	-
Fixed rate bonds[29]	USD	**431**	**431**	**-**	591	591	-
Commercial paper[30]	NZD	**130**	**130**	**-**	50	50	-
Total other sources of borrowing		**886**	**886**	**-**	**816**	**816**	**-**
Total facilities		**1,511**	**1,136**	**375**	**1,451**	**991**	**460**

25 Funding bears interest at the relevant market floating rate plus a margin.
26 EKF facility is an unsecured 10-year amortising term loan, provided by the official export credit agency of Denmark, for the construction of Te Uku wind farm.
27 Renewable energy bonds are senior unsecured retail bonds bearing an interest rate of 7.55% p.a.
28 Retail bonds are senior unsecured retail bonds bearing an interest rate of 4.61% p.a.
29 US Dollar fixed rate bonds are unsecured fixed rate bonds issued in the US Private Placement Market.
30 New Zealand dollar commercial paper are senior unsecured short-term debt obligations paying a fixed rate of return over a set period of time.

C8 Finance lease payable

FINANCE LEASE PAYABLE ANALYSIS	GROUP 2016 $M	GROUP 2015 $M
Minimum lease payments		
Not later than 1 year	**7**	7
Later than 1 year and not later than 3 years	**7**	7
Later than 3 years and not later than 5 years	**20**	23
Later than 5 years	**105**	120
Gross investment in finance lease	**139**	**157**
Less future finance costs	**(91)**	(105)
Present value of minimum lease payments	**48**	**52**
Analysed as:		
Not later than 1 year	**1**	1
Later than 1 year and not later than 3 years	**1**	1
Later than 3 years and not later than 5 years	**2**	2
Later than 5 years	**44**	48
Gross investment in finance lease	**48**	**52**
Comprising:		
Current	**1**	1
Non-current	**47**	51
	48	**52**

Finance lease payable, measurement and recognition

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Meridian recognises liabilities under finance lease arrangements as a payable at an amount equal to the present value of the minimum lease payments. Finance lease payments are apportioned between principal repayments, relating to the lease payable, 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 entered into a finance lease for the Mill Creek transmission line with Wellington Electricity. The lease is for a period of 25 years from commencement in 2014.

Mt Mercer Windfarm Pty Limited entered into finance leases with SP Ausnet and Transmission Operations Australia (TOA) for transmission connection assets at the Elaine Terminal Station for the Mt Mercer wind farm. SP Ausnet constructed the interface to provide transmission services, while TOA was engaged to construct the Elaine Terminal Station. The term of the lease agreements is 25 years from the connection commencement date, being 10 November 2014.

Meridian reported a finance lease interest expense of $6 million (30 June 2015: $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 $44 million (30 June 2015: $49 million). All assets are classified as other plant and equipment.

D. Financial instruments used to manage risk

IN THIS SECTION

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

a) outlining Meridian's approach to financial risk management.

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

D1 Financial risk management

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

Financial instrument recognition

Meridian designates or classifies financial hedging instruments as:

- ***fair value 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.

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

Fair value hedge

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

Cash flow hedge

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

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

Held for trading

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

D1 Financial risk management *continued*

Management of Meridian's key financial risks

Credit risk

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

Management monitors the size and nature of retail customer exposure and acts to mitigate the risk deemed to exceed acceptable levels.

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

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

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

Liquidity risk

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

Meridian maintains flexibility in funding by keeping committed surplus credit lines available of at least $200 million, which ensures it has sufficient headroom under normal and abnormal conditions.

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements that provide credit support of $77 million for the collateral requirements of Meridian's trading business (30 June 2015: $99 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.

Foreign exchange risk

Meridian is exposed to foreign currency risk arising from sales and the procurement of goods and services denominated in foreign currencies (primarily the British pound and Australian dollar).

The exposure is managed with foreign exchange contracts that hedge the known material foreign currency exposure. All committed foreign currency exposures of greater than NZD equivalent $0.1 million are hedged.

Where capital expenditure qualifies as a highly probable transaction or firm commitment, Meridian establishes a combination of both cash flow and fair value hedges. When these hedges are effective, the gain or loss on the derivative is included as a component of the cost of the capital item.

Where hedge accounting is not applied, foreign exchange contracts are classified as held for trading and changes in fair value are recognised in the income statement in Net change in fair value of treasury instruments.

Electricity price and volume risk

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

D1 Financial risk management *continued*

In order to firm up the prices received from or paid to the wholesale markets Meridian uses hedge contracts within approved Board parameters. Hedges are traded either on the ASX or directly with other generators, retailers and customers. The hedging strategy focuses on the net exposure by estimating both expected generation and electricity purchases required to support contracted sales. In addition, Meridian's Australian wind farms earn Renewable Energy Certificates (in the form of LGCs). LGC options and forward contracts are used to hedge this price risk.

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

	NET FAIR VALUE ON THE BALANCE SHEET		FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT		OUTSTANDING AGGREGATE NOTIONAL VOLUMES	
ACCOUNTING TREATMENT	2016 $M	2015 $M	2016 $M	2015 $M	2016	2015
Electricity hedges, LGC forward contracts, options and holdings						
Electricity hedges	**69**	34	**33**	4	34,510GWh	31,362GWh
Electricity options	**120**	27	**(8)**	(2)	14,544GWh	1,724GWh
LGC forward contracts, options and holdings	**(22)**	-	**(40)**	(3)	2.6 million	1.2 million

Funding risks

Meridian is exposed to foreign exchange changes on borrowings made in currencies that differ from the reporting currency and interest rate changes on floating rate borrowings.

Meridian uses CCIRS to manage changes in foreign currency, which swap all foreign-currency-denominated interest and principal repayments to the reporting currency of the borrowing entity. The combination of the foreign-denominated debt and CCIRS results in floating rate borrowings in the entity's reporting currency. Meridian manages interest rate changes on floating rate borrowings by using interest rate swaps (IRS), which swap interest rates between floating and fixed.

	NET FAIR VALUE ON THE BALANCE SHEET		FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT		OUTSTANDING AGGREGATE NOTIONAL PRINCIPALS[31]	
ACCOUNTING TREATMENT	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
CCIRS (Cross Currency Interest Rate Swaps)	**77**	84	**(1)**	-	**431**	593
Designated as a combination of fair value and cash flow hedges.						
CCIRS – fair value hedge	**81**	88	**(1)**	-		
Converts fixed-interest borrowings to floating in the originating currency, with changes in the fair value recorded in the income statement in Net change in fair value of treasury instruments, together with any changes in the fair value of the hedged borrowings. See note C7 Borrowings.						
CCIRS – cash flow hedge	**(4)**	(4)	**-**	-		
Converts floating interest in the originating borrowing currency to the reporting currency of the borrowing entity with a credit margin. Changes in fair value relating to the effective hedge portion are recognised in other comprehensive income, with any ineffective portion recognised in the income statement in Net change in fair value of treasury instruments.						
IRS (Interest Rate Swaps)	**(151)**	(85)	**(67)**	(32)	**2,091**	2,234
Classified as held for trading, with changes in fair value recognised in the income statement in Net change in fair value of treasury instruments.						

31 These cover multiple legs including offsetting legs and maturities out to 2030.

D2 Financial instruments

Fair value of hedging financial instruments

The recognition and measurement of hedging financial instruments require management estimation and judgement (see the following page for further details). These estimates can have a significant risk of material adjustment in future periods. The table below shows the fair value of financial instrument assets and liabilities, grouped within a three-level fair value hierarchy based on the observability of valuation inputs. There have been no transfers between levels in respect of these assets and liabilities.

	GROUP $M							
	2016				2015			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial instruments - assets								
Held for trading:								
Electricity hedges	16	-	98	**114**	14	-	61	75
LGC forward contracts, options and holdings	16	-	1	**17**	-	-	1	1
Electricity options	-	-	121	**121**	-	-	27	27
IRS	-	15	-	**15**	-	8	-	8
Foreign exchange contracts	-	1	-	**1**	-	-	-	-
Cash flow hedges:								
CCIRS	-	(4)	-	**(4)**	-	(4)	-	(4)
Fair value hedges:								
CCIRS	-	81	-	**81**	-	88	-	88
Total assets	**32**	**93**	**220**	**345**	**14**	**92**	**89**	**195**
Current				**71**				48
Non-current				**274**				147
Financial instruments - liabilities								
Held for trading:								
Electricity hedges	10	-	35	**45**	13	-	28	41
LGC forward contracts, options and holdings	-	-	39	**39**	-	-	1	1
Electricity options	-	-	1	**1**	-	-	-	-
IRS	-	166	-	**166**	-	93	-	93
Total liabilities	**10**	**166**	**75**	**251**	**13**	**93**	**29**	**135**
Current				**48**				34
Non-current				**203**				101

- **Level 1 inputs:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Electricity hedges traded on the ASX, as well as LGCs traded on the open LGC market, are classified as level 1.
- **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. IRS, CCIRS and foreign exchange contracts have level 2 inputs and are valued using a DCF valuation technique.
- **Level 3 inputs:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

D2 Financial instruments *continued*

The table below provides a summary of the movements in the fair value of level 3 financial instruments:

RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS	GROUP							
	2016				2015			
	ELECTRICITY HEDGES	LGC FORWARDS OPTIONS AND HEDGES	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGC FORWARDS OPTIONS AND HEDGES	ELECTRICITY OPTIONS	TOTAL
Opening balance	**33**	**-**	**27**	**60**	**24**	**3**	**-**	**27**
Hedges acquired	-	1	103	**104**	-	-	29	**29**
Hedges sold	-	-	(2)	**(2)**	-	-	-	**-**
Re-measurement (including FX)	25	(39)	(8)	**(22)**	5	2	(2)	**5**
Settlements	5	-	-	**5**	4	(5)	-	**(1)**
Closing balance	**63**	**(38)**	**120**	**145**	**33**	**-**	**27**	**60**

Fair value technique and key inputs

In estimating the fair value of an asset or liability, Meridian uses market-observable data to the extent 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), key 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;
- discount rates based on the forward IRS curve adjusted for counterparty risk; and
- contracts run their full term.

The table below describes the additional key inputs and techniques used in the valuation of level 3 financial instruments:

FINANCIAL ASSET OR LIABILITY	DESCRIPTION OF INPUT	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP OF INPUT TO FAIR VALUE
Electricity hedges and options, 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 prices is used. This is based on a fundamental analysis of expected demand and the cost of new supply.	$89MWh to $111MWh (in real terms), excludes observable ASX prices.	An increase in forward wholesale electricity price increases the fair value of buy hedges and decreases the fair value of sell hedges. A decrease in forward wholesale electricity price has the opposite effect.
LGC forward contracts and options, valued using DCFs/Black-Scholes	***Price,*** based on a forward LGC price curve from a third-party broker and benchmarked against market spot prices.	$84-$86	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 forward LGC prices has the opposite effect.
	Other factors, include: • a calibration factor applied to forward price curves as a consequence of initial recognition differences.		

D2 Financial instruments *continued*

Sensitivity analysis

The table below summarises the impact that significant inputs will have on the valuation of hedging financial instruments and therefore on Meridian's profit and equity. The sensitivity analysis assumes all other variables are held constant.

		IMPACT ON AFTER-TAX PROFIT		IMPACT ON EQUITY	
GROUP ($M)	SENSITIVITY	2016	2015	2016	2015
Interest rates					
New Zealand benchmark bill rate	-100 bps	**(47)**	(28)	**(47)**	(28)
	+100 bps	**42**	26	**42**	26
Australian benchmark bill rate	-100 bps	**(5)**	(6)	**(5)**	(6)
	+100 bps	**4**	6	**4**	6
Electricity hedges[32]					
Electricity prices	-10%	**(45)**	(27)	**(45)**	(27)
	+10%	**45**	29	**45**	29
Discount rates	-100 bps	**2**	1	**2**	1
	+100 bps	**(2)**	(1)	**(2)**	(1)
LGC forward contracts, options and holdings[32]					
LGC prices	-10%	**8**	-	**8**	-
	+10%	**(8)**	-	**(8)**	-
Electricity options[32]					
Electricity prices	-10%	**(29)**	(6)	**(29)**	(6)
	+10%	**43**	8	**43**	8
Discount rates	-100 bps	**3**	-	**3**	-
	+100 bps	**(3)**	-	**(3)**	-
NZU prices[33]	-10%	**2**	-	**2**	-
	+10%	**(2)**	-	**(2)**	-

32 The majority of impacts on after-tax profit and equity result from level 3 electricity hedges.

33 NZU (New Zealand Unit): domestically traded NZ carbon emission units.

D2 Financial instruments *continued*

Financial Instrument recognition in the income statement

This table reflects the different aspects of treasury and electricity hedge recognition in the income statement.

INCOME STATEMENT	GROUP 2016 ALL HEDGES $M	GROUP 2016 LEVEL 3 HEDGES $M	GROUP 2015 ALL HEDGES $M	GROUP 2015 LEVEL 3 HEDGES $M
Electricity hedge settlements within operating revenue:				
Electricity hedges	**13**	**16**	7	10
LGC forward contracts, options and holdings	**35**	**-**	4	5
Electricity hedge settlements within operating expenses:				
Electricity hedges	**(38)**	**(21)**	(38)	(14)
LGC forward contracts, options and holdings	**(7)**	**-**	-	-
Total settlements included in EBITDAF	**3**	**(5)**	**(27)**	**1**
Net change in fair value of electricity and other hedges:				
Electricity hedges	**33**	**30**	4	9
LGC forward contracts, options and holdings	**(40)**	**(41)**	(3)	(3)
Electricity options	**(8)**	**(8)**	(2)	(2)
Total net change in fair value of electricity and other hedges	**(15)**	**(19)**	**(1)**	**4**
Net change in fair value of treasury instruments:				
CCIRS	**(2)**	**-**	(138)	-
Borrowings – fair value of hedged risk	**1**	**-**	138	-
Fair value hedges	**(1)**	**-**	-	-
IRS	**(67)**		(32)	
Held for trading - interest rate swaps	**(67)**	**-**	(32)	-
Total net change in fair value of treasury instruments	**(68)**	**-**	**(32)**	**-**

The fair value movements of level 3 electricity hedges in FY2016 that are held at balance date total $(17) million (2015: nil).

MOVEMENTS IN RECALIBRATION DIFFERENCES ARISING FROM ELECTRICITY HEDGING	GROUP 2016 $M	GROUP 2015 $M
Opening difference	**(964)**	**(912)**
Initial differences on new hedges	**359**	(15)
Volumes expired and amortised	**905**	65
Recalibration for future price estimates and time	**(16)**	(102)
Closing difference	**284**	**(964)**

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.

As discussed on page 59, Significant matters in the financial year, the revised contractual terms with NZAS resulted in the 2013 agreement being extinguished and the 2015 agreement being treated as a physical supply contract. This resulted in $889 million reversing from recalibration differences (included in Volumes expired and amortised).

D2 Financial instruments *continued*

Financial instruments that are offset

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

Of the $345 million in financial instrument assets (30 June 2015: $195 million), $210 million (30 June 2015: $88 million) represents electricity hedges that have been offset by $144 million (30 June 2015: $153 million) reflecting a gross value of $353 million (30 June 2015: $241 million), and $42 million represents electricity hedges that are not offset (30 June 2015: $15 million). The remaining $93 million (30 June 2015: $92 million) covers treasury financial instruments that are not offset.

Of the $251 million in financial instrument liabilities (30 June 2015: $135 million), $71 million (30 June 2015: $42 million) represents electricity hedges that have been offset by $144 million (30 June 2015: $153 million), reflecting a gross value of $215 million (30 June 2015: $195 million). The remaining $166 million (30 June 2015: $93 million) covers treasury financial instruments that are not offset.

Movements in cash flow hedge reserve

The table below shows the movements in the cash flow hedge reserve. There has been no ineffectiveness recognised in the income statement from the cash flow hedges.

	GROUP $M			
	FOREIGN EXCHANGE CONTRACTS	CCIRS	TAX	TOTAL
Balance at 1 July 2014	**-**	**(2)**	**1**	**(1)**
Re-measurement	(54)	(2)	16	**(40)**
Applied to the cost of the hedged item	54	-	(16)	**38**
Balance at 30 June 2015 and 1 July 2015	**-**	**(4)**	**1**	**(3)**
Re-measurement	-	-	-	**-**
Applied to the cost of the hedged item	-	-	-	**-**
Balance at 30 June 2016	**-**	**(4)**	**1**	**(3)**

Gross amounts held in cash flow hedge reserve

The table below shows when the gross amounts held in the cash flow hedge reserve are expected to impact the income statement. The cash flows are aligned with those of the underlying hedged item.

	2016 GROUP $M					2015 GROUP $M				
	DUE WITHIN 1 YEAR	DUE IN 1 TO 2 YEARS	DUE IN 3 TO 5 YEARS	DUE AFTER 5 YEARS	TOTAL	DUE WITHIN 1 YEAR	DUE IN 1 TO 2 YEARS	DUE IN 3 TO 5 YEARS	DUE AFTER 5 YEARS	TOTAL
CCIRS	**-**	**-**	**-**	**(4)**	**(4)**	-	-	-	(4)	(4)
Total	**-**	**-**	**-**	**(4)**	**(4)**	**-**	**-**	**-**	**(4)**	**(4)**

D2 Financial instruments *continued*

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.

	2016 GROUP $M							
	DUE WITHIN 1 YEAR	DUE IN 1 TO 2 YEARS	DUE IN 3 TO 5 YEARS	DUE AFTER 5 YEARS	TOTAL UN-DISCOUNTED CASH FLOWS	IMPACT OF OTHER NON-CASH ITEMS	IMPACT OF INTEREST/FX DISCOUNTING	2016 CARRYING VALUE
Borrowings	(252)	(40)	(571)	(499)	**(1,362)**	4	144	**(1,214)**
Finance leases	(7)	(7)	(20)	(105)	**(139)**	-	91	**(48)**
Payables, accruals, provisions and option premiums	(224)	(15)	(61)	(39)	**(339)**	-	11	**(328)**
IRS	(25)	(29)	(65)	(62)	**(181)**	-	15	**(166)**
Electricity-related hedges[34]	5	10	16	(20)	**11**	(57)	1	**(45)**
LGC forward contracts, options and holdings	(17)	(15)	(9)	-	**(41)**	1	1	**(39)**
Electricity options	(1)	-	-	-	**(1)**	-	-	**(1)**
	(521)	**(96)**	**(710)**	**(725)**	**(2,052)**	**(52)**	**263**	**(1,841)**

34 Includes hedges with expected positive cash flows which have been recalibrated to zero at inception given an initial transaction price of nil, but which are now classified as liabilities due to subsequent price path movements.

	2015 GROUP $M							
	DUE WITHIN 1 YEAR	DUE IN 1 TO 2 YEARS	DUE IN 3 TO 5 YEARS	DUE AFTER 5 YEARS	TOTAL UN-DISCOUNTED CASH FLOWS	IMPACT OF OTHER NON-CASH ITEMS	IMPACT OF INTEREST/FX DISCOUNTING	2016 CARRYING VALUE
Borrowings	(247)	(184)	(425)	(376)	**(1,232)**	3	153	**(1,076)**
Finance leases	(7)	(7)	(23)	(120)	**(157)**	-	105	**(52)**
Payables, accruals, provisions and option premiums	(209)	(20)	-	-	**(229)**	-	1	**(228)**
IRS	(26)	(23)	(36)	(23)	**(108)**	-	15	**(93)**
Electricity hedges	(78)	(29)	(64)	(1,089)	**(1,260)**	910	308	**(42)**
	(567)	**(263)**	**(548)**	**(1,608)**	**(2,986)**	**913**	**582**	**(1,491)**

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:

a) subsidiaries.

b) investments in joint ventures.

E1 Subsidiaries

The consolidated financial statements include the financial statements of Meridian Energy Limited and the subsidiaries listed below. They all have share capital consisting solely of ordinary shares that the Group holds directly, and the proportion of ownership interests held equals the Group's voting rights. Meridian Energy Limited provides support to its subsidiaries where necessary in order to ensure they meet their obligations as they fall due.

NAME OF ENTITY	PRINCIPAL ACTIVITY	FUNCTIONAL CURRENCY	INTEREST HELD BY THE GROUP 2016	INTEREST HELD BY THE GROUP 2015
Meridian Energy Limited[35]				
Powershop New Zealand Limited	Electricity retailing	New Zealand dollar	100%	100%
Powershop UK Limited	Licence holder	British pounds	100%	0%
Three River Holdings No.1 Limited[35]	Holding company	New Zealand dollar	100%	100%
Three River Holdings No.2 Limited[35]	Holding company	New Zealand dollar	100%	100%
Meridian Energy Australia Pty Limited[35]	Management services	Australian dollar	100%	100%
Meridian Energy Markets Pty Limited[35]	Non-trading entity	Australian dollar	100%	100%
Meridian Finco Pty Limited[35]	Financing	Australian dollar	100%	100%
Meridian Wind Monaro Range Holdings Pty Limited[35]	Holding company	Australian dollar	100%	100%
Meridian Wind Monaro Range Pty Limited[35]	Holding company	Australian dollar	100%	100%
Mt Millar Wind Farm Pty Limited[35]	Electricity generation	Australian dollar	100%	100%
Meridian Australia Holdings Pty Limited[35]	Holding company	Australian dollar	100%	100%
Meridian Wind Australia Holdings Pty Limited[35]	Holding company	Australian dollar	100%	100%
Mt Mercer Windfarm Pty Limited[35]	Electricity generation	Australian dollar	100%	100%
Powershop Australia Pty Limited	Electricity retailing	Australian dollar	100%	100%
Damwatch Engineering Limited	Professional services	New Zealand dollar	100%	100%
Damwatch Projects Limited	Professional services	New Zealand dollar	100%	100%
Damwatch Pty Limited	Professional services	Australian 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%

35 Members of guaranteeing group.

On 28 June 2016 Meridian's 100%-owned subsidiary MEL Solar Holdings Limited was amalgamated into Meridian Energy International Limited.

During the year ending 30 June 2015 Meridian realised net gains on the disposal of subsidiaries totalling $15 million, made up as follows:

- on 1 December 2014 Meridian sold its entire interest in Arc Innovations Limited - $8 million gain
- a refund of stamp duty relating to the 2013 sale of Meridian Wind Macarthur Holdings Pty Limited - $5 million gain
- dissolving Meridian Energy USA Incorporated - $2 million gain.

E2 Joint ventures

NAME OF ENTITY	COUNTRY AND DATE OF INCORPORATION	PRINCIPAL ACTIVITY	GROUP VOTING RIGHTS 2016	GROUP VOTING RIGHTS 2015	GROUP INTEREST HELD 2016	GROUP INTEREST HELD 2015	GROUP CARRYING VALUE 2016	GROUP CARRYING VALUE 2015
EDDI Project JV	New Zealand, 01/05/12	Dam management systems	50%	50%	50%	50%	-	-
Hunter Downs Development Company	New Zealand, 01/07/13	Irrigation development	0%	50%	0%	65%	-	-

Meridian sold its shares in Hunter Downs Development Company on 17 April 2016.

E GROUP STRUCTURE

F. Other

IN THIS SECTION

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

F1 Share-based payments

Long term incentive (LTI)

In 2014, Meridian implemented a long-term, equity-settled incentive plan for certain New Zealand-based senior executives, the first tranche of which vested at 30 June 2016.

Under the plan, executives purchase Meridian shares at market value funded by an interest-free loans granted by Meridian (for accounting purposes these are considered to be zero-priced options). The shares purchased are held by a trustee company with the executives entitled to exercise the voting rights attached to the shares and receive dividends, the proceeds of which are used to repay the interest-free loans.

At the end of each vesting period (three years), Meridian pays a bonus to each executive - to the extent their performance targets have been met - which is sufficient, after tax, to repay the initial loan associated with the shares that vest. The shares upon which performance targets have been met then fully vest to the executive. The loan owing on shares that do not vest (the forfeited shares) are novated from the plan members to the trustee company and fully repaid by the transfer of forfeited shares.

The performance targets relate to Meridian achieving a positive total shareholder return over the vesting period and, the company's performance relative to the benchmark peer group (being a number of NZX and ASX listed electricity generators and energy retailers).

Share-based payments, measurement and recognition

The fair value (determined using peer group performance probability weightings) of equity-settled options at the grant date is recognised as an expense, together with a corresponding increase to the share option reserve within equity, over the vesting period in which the performance and/or service conditions are fulfilled. The total amount to be expensed is based on the initial fair value of each option along with the best estimate of the number of equity instruments that will ultimately vest, which includes an assessment of the likelihood that service conditions will be met.

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as below:

	GROUP	
	2016 $M	2015 $M
Expense for equity-settled share-based payment transactions	**1.4**	0.9

Movement in zero-priced share options

			NUMBER OF SHARES				
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
Group - 2016							
3/09/2015	30/06/2018	$1.20	-	659,175	-	(114,327)	544,848
17/09/2014	30/06/2017	$1.04	743,254	-	-	(128,929)	614,325
29/10/2013	30/06/2016	$0.83	908,166	-	(798,166)	(110,000)	-
Total		-	**1,651,420**	**659,175**	**(798,166)**	**(353,256)**	**1,159,173**
Group - 2015							
17/09/2014	30/06/2017	$1.04	-	743,254	-	-	743,254
29/10/2013	30/06/2016	$0.83	908,166	-	-	-	908,166
Total		-	**908,166**	**743,254**	**-**	**-**	**1,651,420**

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.

Some directors of the Group may be directors or officers of other companies or organisations with which members of the Group may transact. Such transactions are all carried out independently on an arm's-length basis.

All transactions between companies within the Group are carried out on a commercial and arm's-length basis.

Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the year was as follows:

	GROUP	
	2016 $M	2015 $M
Directors' Fees	**1.0**	1.1
Chief Executive Officer, Senior Management Team and Subsidiary Chief Executives		
Salaries and short-term benefits	**7.3**	7.9
Long-term benefits	**1.7**	1.0
	9.0	**8.9**

F3 Auditors remuneration

	GROUP	
AUDITOR'S REMUNERATION TO DELOITTE FOR:	2016 $M	2015 $M
Audit and review of New Zealand-based company's financial statements	**0.5**	0.5
Audit of overseas-based company's financial statements	**0.1**	0.1
Total audit fees	**0.6**	**0.6**
Other assurance fees	**0.1**	0.1
Total auditor remuneration	**0.7**	**0.7**

The Board has adopted a policy to maintain the independence of the company's external auditor, including a review of all other services performed by Deloitte 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 as auditor of the company during the current financial year.

The audit fee includes Office of the Auditor-General overhead contribution of $25,000 (2015: $27,000).

Other services undertaken by Deloitte during the year included other assurance activities including reviews of carbon emissions, securities registers, vesting of the executive long-term incentive plan, solvency return of Meridian captive insurance company and trustee reporting.

F4 Commitments

NON-CANCELLABLE OPERATING LEASE COMMITMENTS ARE AS FOLLOWS:	GROUP 2016 $M	GROUP 2015 $M
Less than 1 year	**6**	6
Later than 1 year and not later than 3 years	**12**	10
Later than 3 years and not later than 5 years	**6**	6
More than 5 years	**35**	15
Total operating lease commitments	**59**	**37**

CAPITAL EXPENDITURE COMMITMENTS	GROUP 2016 $M	GROUP 2015 $M
Property, plant and equipment	**1**	7
Software	**2**	-
Total capital expenditure commitments	**3**	**7**

Operating leases, measurement and recognition

Operating leases are leases where the lessors effectively retain 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 $5.1 million in 2016 (30 June 2015: $5.1 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 one to 12 years, with options to extend up to 12 years. Lease contracts contain rent review clauses including CPI increases and market rental reviews in the event Meridian exercises its options to renew.

Guarantees

Meridian Energy Limited provided a bank guarantee of A$38 million (30 June 2015: A$38 million) to the financiers of the purchaser of the Macarthur wind farm, guaranteeing that it will comply with its various obligations under the Refinancing Coordination Deed.

Meridian Energy Limited has provided parent guarantees for various construction and grid connection obligations of Mt Mercer wind farm Pty Limited. The maximum liability under these guarantees is $43 million (30 June 2015: $46 million).

Meridian Energy Limited signed a Parent Company Guarantee (PCG) on 30 April 2014 for the benefit of CalRENEW-1 Holdings LLC (holding company of SunEdison Inc). The PCG related to the sale of CalRENEW-1 LLC pursuant to a Unit Purchase Agreement (UPA). Under the PCG, the parent guarantees obligations in the UPA, which include historical payment obligations and some representations and warranties. The PCG expires on 30 April 2017.

F5 Contingent assets and liabilities

Other than the guarantees referred to above, there were no other contingent assets or liabilities at 30 June 2016 (30 June 2015: nil).

F6 Subsequent events

There are no subsequent events other than dividends declared on 23 August 2016. Refer to note C4 Dividends for further details.

F7 Changes in financial reporting standards

In the current year, Meridian has adopted all mandatory new and amended Standards. The application of these new and amended standards has had no material impact on the amounts recognised or disclosed in the financial statements.

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. Meridian intends to adopt when they become mandatory.

NZ IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018). NZ IFRS 15 will be effective in Meridian's 2019 financial year. The full impact of this standard has not yet been determined.

NZ IFRS 9 Financial Instruments (effective 1 January 2018). NZ IFRS 9 will be effective in Meridian's 2019 financial year. This standard requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. The standard also broadens the eligibility for hedge accounting as it introduces an objectives-based test that focuses on the economic relationship between hedged items and hedging instruments. The full impact of this standard has not yet been determined.

NZ IFRS 16 Leases (effective 1 January 2019). NZ IFRS 16 will be effective in Meridian's 2020 financial year. The full impact of this standard has not yet been determined.

Deloitte.

Independent Auditor's Report

TO THE SHAREHOLDERS OF MERIDIAN ENERGY LIMITED GROUP

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Meridian Energy Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Trevor Deed, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Group on her behalf.

Opinion

We have audited the financial statements of the Group on pages 54 to 88, that comprise the balance sheet as at 30 June 2016, the income statement, comprehensive income statement, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, its financial position as at 30 June 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 23 August 2016. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence shareholders' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand (being in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards).

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, our firm carries out other assurance assignments for the Group in the areas of carbon emissions audit, review of the interim financial statements, audit of the securities registers, vesting of the executive long term incentive plan, solvency return of Meridian captive insurance company and trustee 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.

TREVOR DEED
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand

Other disclosures

THE MERIDIAN BOARD AIMS TO ENSURE THAT MERIDIAN IS ACTING TRANSPARENTLY AND IN A SOCIAL AND ENVIRONMENTALLY RESPONSIBLE MANNER TO BENEFIT ITS WIDER STAKEHOLDER COMMUNITY

1. Economic

Economic performance

Meridian operates as a vertically integrated electricity generator and retailer with two retail brands, Meridian and Powershop in New Zealand and Powershop in Australia. The company has sophisticated risk management systems and the generation and retail portfolio is managed to reduce the earnings volatility that can arise from adverse hydrological conditions and wholesale electricity prices.

Meridian's 2013 prospectus comprehensively outlined its business risks and opportunities and financial information.[36] Meridian reports on its economic performance through half-year and annual reports. The company's continuous disclosure policy requires ad-hoc announcements when necessary.

Meridian's strategy sets the direction of the company while the business plan outlines the initiatives the company will undertake to execute the strategy. The Meridian Management System is a formal process followed to link the strategy with operations through the development of a business plan and to embed processes to measure execution.

The Meridian Board approves the business plan and reviews progress when it meets during the year.

2. Environmental

Meridian's 100% commitment to renewable electricity generation continues to make a positive contribution towards New Zealand's energy strategy target of 90% of electricity generation from renewable sources by 2025.

Meridian's Sustainability Policy articulates the company's intent regarding environmental matters, such as collaborating with stakeholders to manage water catchments effectively and helping to minimise the electricity industry's contribution to climate change. The full policy can be viewed at **meridianenergy.co.nz/investors/governance/policies**

Water

By New Zealand standards Meridian's hydro operations are large scale. Meridian operates hydro power stations in two main geographical areas in New Zealand: Manapōuri in Fiordland and Waitaki in South Canterbury. These catchments are the focal points of our operations and our environmental commitments.

Meridian's generation assets have direct impacts on local environments and communities. Hydro dams and canals have diverted water, inundated land and modified water bodies, resulting in changes to ecology and biodiversity. There are also increased recreational and tourism opportunities, including employment, for local communities.

Meridian views effective water management as a balance of achieving renewable electricity generation, maintaining environmental conditions and engaging with stakeholders on the issues that matter to them the most. Meridian's hydro generation assets are all situated within the Ngāi Tahu takiwā (tribal area), with the majority on the Waitaki River. This river is referred to as representing the tears of Aoraki, Ngāi Tahu's ancestral mountain, which spill into Lake Pūkaki and eventually make their way south along the river to the coast. As such, the river is an essential element of the identity of Ngāi Tahu as an iwi, and Ngāi Tahu and Meridian work together to maintain a healthy river, particularly in regards to water quality and access to mahinga kai.

The company manages environmental effects through a comprehensive regulatory compliance system developed to meet a suite of legislative and regulatory requirements, including the Resource Management Act 1991 (RMA), and a number of stakeholder agreements. These requirements cover all of our operations and include river flows, lake levels and our impacts on flora and fauna. Our approach to operations and environmental management includes the precautionary approach of the RMA. We work closely with others to achieve these requirements. Environmental effects are regularly monitored, managed and reported under the compliance regime administered by local government.

This year we had 7 non-compliance events under the RMA across all of our generation assets and development sites. All non-compliant events were addressed thoroughly and reported to the Meridian Board.

Biodiversity

Meridian's overarching approach to biodiversity is contained in the company's Sustainability Policy and includes a company commitment to caring for habitats and areas of biodiversity affected by Meridian's generation assets.

Meridian seeks to understand the effects the company has as an electricity generator, to monitor change and work with stakeholders on initiatives to mitigate these impacts. Impacts are identified and assessed at the planning stages of developments (through initial environmental impact assessments) and monitored throughout the construction phases and the lifetimes of the assets through the regulatory compliance system obligations and direct agreements with stakeholders.

Impacts mainly relate to effects on water-based species resulting from inundation, dry river beds and changes in habitat or habitat loss. For example, the Waiau and the Waitaki catchments are the natural habitats of thousands of native eels, and building and operating dams in these areas has had an impact on their migratory habits. Meridian and Ngāi Tahu consider that the eel population is a key indicator of the quality of these waterways and work together to ensure the protection of the species and ensure the taonga is preserved for generations to come.

Protecting biodiversity is particularly important at Manapōuri, which is located in a national park and UNESCO World Heritage Area. Our monitoring in this area is extensive and includes lake, river and marine environments such as lake shore, river biology and geomorphology and biological and physical characteristics (temperature, salinity and fauna) in Deep Cove, Fiordland. This information is provided to Environment Southland annually as part of our resource consent requirements. Further details of these and other initiatives are available on Meridian's website.[37]

36 meridianenergy.co.nz/Investors/Reports-and-presentations/Share-offer-documents.

37 meridianenergy.co.nz/about-us/sustainability.

Greenhouse gas emissions

Meridian measures and manages its greenhouse gas (GHG) emissions with the objective of understanding, transparently disclosing and reducing the emission intensity of its operations. Meridian has calculated its GHG emissions since 2001. Meridian has Greenhouse Gas Measurement and Management Guidelines that include the following:

- the objectives of GHG emission measurement and management
- what is to be measured and managed
- how frequently it will be measured
- responsibilities for measurement and management
- processes and procedures for collating data, including measurement tools.

Meridian produces an annual GHG inventory report. Meridian's reporting processes and emission classifications are consistent with international protocols and standards and reports are prepared in accordance with Part 7.3.1 of the requirements of the International Organization for Standardization ISO 14064-1[38] and in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). Meridian's CFO is responsible for the contents of the inventory, which is audited by Deloitte, a third-party, independent assurance provider. A reasonable level of assurance is achieved over the assertions and quantifications included in the GHG inventory report.

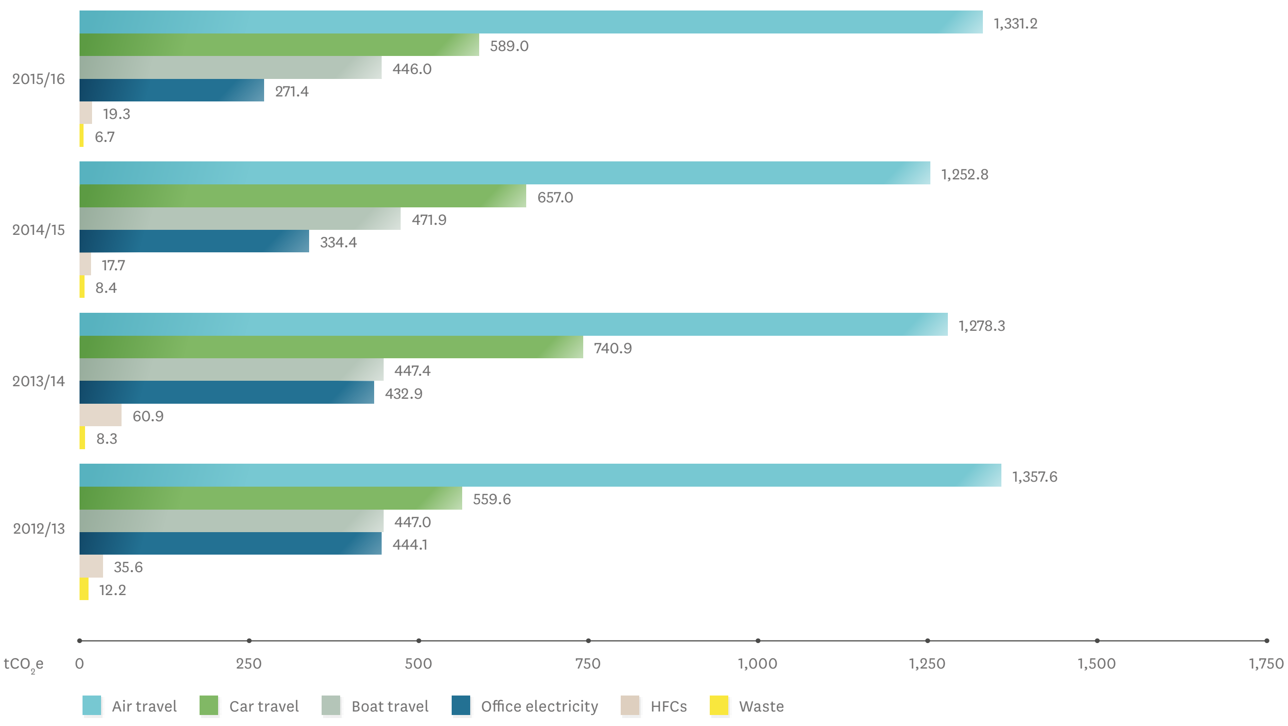
Meridian's annual GHG inventory report for 2016 including Deloitte's reasonable assurance statement, can be found on Meridian's website at **meridianenergy.co.nz/about-us/sustainability/green-house-gas-emissions-reports**

The organisational boundary encompasses companies and sites under the operational control of Meridian, its subsidiaries, associate companies and joint ventures in the Meridian Group. Meridian applies an operational control approach, allowing the company to focus on those emission sources over which we have control and in relation to which we can therefore implement management actions, consistent with Meridian's corporate responsibility objectives.

The following information pertains to Meridian Energy (the parent company) only.

Meridian has committed to reducing the emission intensity of its operations and has a five-year emission management plan with targets. Emission measurement results and progress against targets are reported to senior management and Board committees quarterly.

CORPORATE EMISSIONS



	2016	2015	2014	2013
Direct emissions (Scope 1)	936	1,040	1,546	964
Indirect emissions (Scope 2)	1,528	1,611	2,040	2,408
Indirect emissions (Scope 3)	2,422	2,699	30,572	7,759
Total emissions (Scope 1, 2 and 3)	**4,886**	**5,350**	**34,158**	**11,131**

38 International Organization for Standardization: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals, Reference number ISO 14064-1:2006 (E).

FY2016 emissions

Meridian's electricity generation from the renewable sources of wind and water does not produce GHG emissions. Meridian's total GHG emissions this year were 4,886tCO_2e. Using thermal fuel such as coal or gas to produce a similar amount of electricity would result in millions of tCO_2e.

Our performance

Meridian focuses on reducing the corporate GHG emissions resulting from activities over which the company has the most control. These include business travel (air, car and boat), waste and office electricity. The corporate emissions portion of our overall footprint of 4,886tCO_2e this year was 2,664tCO_2e. Relative to the number of full-time employees, this is a 7.5% decrease from last year. This decrease was primarily due to reduced car travel and office electricity.

Continuing reductions

Meridian has developed a five-year emission reduction plan, which has an overall target of reducing corporate GHG emissions per full-time staff member by 10%. We are on track to meet this target. Air travel reductions are an ongoing challenge.

Efficiencies will be gained through a range of initiatives, including the new Twizel office built this year and air, car and taxi travel reductions. Employee engagement is key and initiatives such as featuring staff with sustainability stories on our internal website encourage employees to think about sustainability in the workplace. In our 2016 employee engagement survey, 82% of our staff agreed that sustainability is important to Meridian and our people act accordingly. In addition, 84% reported that they take sustainability into account where it is relevant to their jobs. This has increased slightly from last year when the figures were 80% and 83% respectively.

Emissions for Scopes 1, 2 and Scope 3 categories have been quantified using a calculation method based on activity data multiplied by GHG emission factors. Emission factors have been primarily sourced from the New Zealand Ministry for the Environment, or where these were not available from the UK Department for Environment, Food and Rural Affairs.

To minimise uncertainties in accuracy, data has been sourced from verifiable sources wherever possible. Detailed GHG emission information is provided at **meridianenergy.co.nz/about-us/sustainability/green-house-gas-emissions-reports**

3. Social

Employment

We recognise that a diverse workforce and inclusive workplace culture are strategic assets that will support enhanced relationships with stakeholders, better customer service, improved business performance and a stronger corporate reputation and enable us to access a broader talent pool.

Our commitment to D&I extends to all people-related activities, including attraction, selection and retention, performance management and remuneration, employment provisions, capability development, talent management and succession planning.

The current composition of the workforce by employment status, region of work, age and gender is as illustrated. The company has set diversity objectives in relation to gender and ethnicity and progress is reported on page 24.

We also offer a suite of employee benefits, including health and wellbeing benefits, extra leave and opportunities to invest in the company through our employee share scheme.

MERIDIAN GROUP WORKFORCE

	FEMALE	MALE	TOTAL
Permanent employees	384	482	**866**
Full time	361	477	**838**
Part time	23	5	**28**
Temp/Fixed term employees	33	35	**68**
Contractors			
Professional contractors	16	79	**95**
Vendor services	126	307	**433**
Total	**559**	**903**	**1,462**

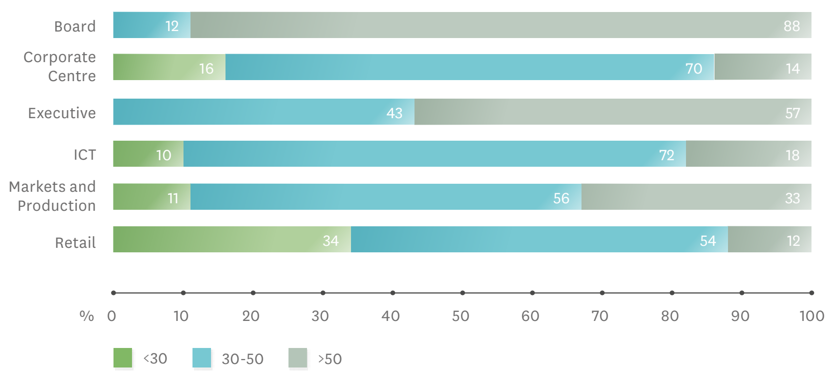
MERIDIAN GROUP – REGION OF WORK

	FEMALE	MALE	TOTAL
Australia	18	39	**57**[39]
New Zealand	439	600	**1,039**
UK	1	0	**1**
Offsite[40]	101	264	**365**
Total	**559**	**903**	**1,462**

39 10.6% of these staff are covered by collective bargaining agreements.

40 Includes two contractors not based in either NZ or Aus (1 x Denmark, 1 x Tonga).

DIVERSITY BY AGE FOR MERIDIAN ENERGY



Health and safety

Meridian considers the safety and health of our staff one of our top priorities. The Meridian Board has established a committee to assist the Board in fulfilling its responsibilities and objectives in all matters related to safety and sustainability. The committee drives initiatives including the Fatal Risk Programme and the development of the company's safety framework document, while continually reviewing reported data to ensure that the company is operating in the safest manner possible.

Meridian's corporate Safety and Health Policy underpins core values and behaviour. It applies to all Meridian sites, operations and subsidiaries.

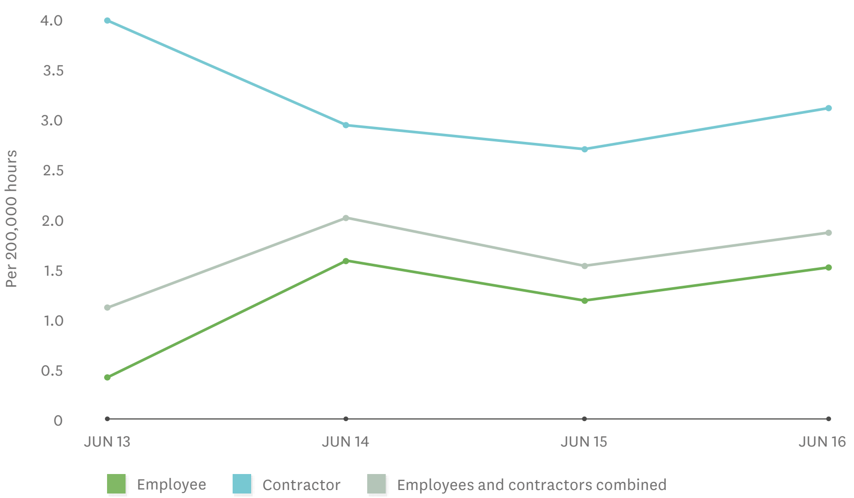
The company has a number of initiatives in place to ensure staff safety and health, including an employee-driven safety culture initiative and a company-wide process for recording health and safety incidents, including near-misses, improving awareness of site hazards and safety audits. Meridian also supports StayLive, a generator-retailer safety forum. StayLive committed as a group to provide comparable safety statistics in the form of the Total Recordable Injury Frequency Rate (TRIFR) which measures the combined total of all Lost Time Injuries, Medical Treatment Injuries and Restricted work injuries.

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

Recent changes to NZS 7901:2014 – Electricity and gas industries – Safety management systems for public safety requires Meridian to have a safety management system (SMS) in place to ensure that Meridian's assets and the use of them do not pose a significant risk to the public or their property. The SMS must be internally and externally audited annually and achieve recertification through a comprehensive external audit every 5 years. Meridian is compliant in all aspects of NZS 7901:2014 and now operates in a continuous improvement environment.

Meridian takes the wellbeing of our staff seriously. The company offers staff free consultations with an external agent for behavioural health services, to help staff through difficult issues including with non-work-related advice and support.

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR) FOR MERIDIAN EMPLOYEES AND CONTRACTORS



TRIFR for offsite contractors is 5.07 per 200,000 hours.

Local communities

Building strong community relationships is essential to Meridian's long-term licence to operate as an electricity generator. With generation assets located in communities around the country, it is important that Meridian maintains good community relationships from the planning stages of building a new development project and throughout the life of the asset.

Building a new generation asset is a large development project that has impacts on the environment and local communities. While each development project is unique, Meridian's approach is based on working with communities on planning and construction issues. Meridian takes its responsibilities seriously and works with the relevant authorities on monitoring and meeting standards and extensive resource consent conditions during and post construction. The most common issues that the company monitors and manages involve landscape and visual amenity, noise, health, ecology, traffic and roading.

Detailed expert assessments of and evidence on these issues are made publicly available as part of the decision-making processes by local councils and the Environment Court. Meridian considers public feedback and makes appropriate changes and modifications during and post construction. This includes, for example, creating a website to enable community input online and establishing a community liaison group, led by an independent chair and made up of representatives from the community, local government and Meridian.

Meridian has dedicated community liaison roles working with the communities, and the people in these roles take a consultative and inclusive approach to ensure that Meridian remains a good neighbour for the lives of the assets and that we contribute to the communities in meaningful ways. This involves supporting and funding community projects and initiatives, ongoing liaison and being open to feedback.

This year we replaced the iconic Wellington Brooklyn turbine. This turbine is an integral part of the community's identity. See the story on page 21.

Local community funds

Meridian's Community Funds programme supports community projects located near its generation assets. Funding allocations are managed by a panel of community representatives and Meridian staff to ensure that Meridian supports projects that meet genuine community needs. A 2013 survey of residents in the Waitaki Community Fund area revealed that 86% of respondents felt that the right projects were being supported by Meridian.

In FY2016 Meridian invested a total of $1.5 million in community projects and sponsor partners. We sponsor a range of national and local sporting, environmental and community projects through financial support and staff voluntary work. This provides us with an opportunity to engage with our customers and local communities. Sponsorship is an important part of growing our brand awareness, but all of the activities and initiatives that we support are closely linked to our values and principles. Our largest partnership is with KidsCan, a charity that offers practical, hands-on assistance to thousands of children in schools throughout New Zealand. This year we hosted the Tamariki Surf Camp in Raglan and began a new sponsorship with the Kākāpō Recovery Programme. We also continued to support Sustainable Coastlines to clean up marine debris, South Island Rowing with the Meridian Rowing Centre at Lake Ruataniwha and the Southern Regional Performance Centre.

COMMUNITY FUND ALLOCATIONS 2016

Manapōuri	$165,586
Mill Creek	$28,000
Te Āpiti	$34,361
Te Uku	$39,321
Waitaki	$448,101
West Wind	$23,600
White Hill	$24,272
Total	**$763,241**

Supply chain

In FY2016 the Meridian Group had direct orders with around 5000 vendors from more than 50 countries, which included non-buying services (paying local authorities and landowners, for example).

As a vertically integrated generator and retailer of electricity, Meridian manages its supply chain within the context that it produces and retails its core product. Meridian sources products and services to build and maintain generation assets and to run the retailing and corporate business functions.

This year we developed a procurement policy to ensure that Meridian has a framework within which all procurement and purchasing activity is undertaken. The policy encompasses the principles of best-practice procurement while meeting the needs of a flexible growth organisation. Detailed principles, rules and guidelines contribute to the framework's effectiveness when purchasing goods and services.

The most material inputs to our supply chain are the goods and services supporting our generation facilities, in particular the following projects either initiated or completed in FY16:

- four main unit transformers for Manapōuri sourced from the Wilson Transformer Company in Australia
- replacement Brooklyn wind turbine supplied (and installed) from ENERCON GmbH in Germany
- two gas insulated local service transformers for Manapōuri supplied via Mitsubishi Electric Australia Pty Ltd from Mitsubishi Electric in Japan
- generation excitation equipment for the Ōhau A power station supplied from Andritz Hydro in Austria
- firewalls separating main unit transformers at the Ōhau A power station with construction materials sourced and constructed by Tasman Design and Civil

- Aviemore local service generator from FG Wilson (UK) and Advanced Fuel Tanks (NZ) supplied from via AllightSykes
- replacement main unit transformer heat exchangers for Aviemore sourced from Tada (Japan) via Hyosung of Korea
- a continued emphasis on a wind farm component replacement and refurbishment programme. We are primarily focused on building a knowledge base of turbine construction and failure, and building local capabilities for the replacement and refurbishment of turbine components and maintenance practices. This has reduced the supply chain risk, the cost of components and freight, and the subsequent GHG emissions while maintaining or uplifting asset performance and revenue.

Carbon trading

As a renewable electricity generator Meridian has very limited obligations under the New Zealand Emissions Trading Scheme (ETS) for fossil fuel generation. Sulphur hexafluoride obligations are included in our GHG inventory report. We report holdings and losses annually under the ETS and surrender New Zealand Units as required for the previous calendar year. Our 2016 losses were 83tCO_2e.

Meridian received 13,135 New Zealand Units this year under the ETS relating to the Rototuna Forest in Northland.

Memberships and commitments

MEMBERSHIP ORGANISATION
Australian Securities Exchange User Group
Business New Zealand
Electricity Authority Wholesale Advisory Group
Electricity Authority Security and Reliability Council
Electricity Authority Reserves and Frequency Management Group
Electricity and Gas Complaints Commissioner Scheme
New Zealand Business and Parliament Trust
StayLive (safety forum)
Sustainable Business Council

COMMITMENTS
Zero Harm Pledge

Relationships

Meridian recognises the value of positive and proactive relationships with iwi, particularly with Ngāi Tahu, as Meridian's hydro operations are situated within the Ngāi Tahu takiwā. Meridian has established relationships with Te Rūnanga o Ngāi Tahu and its constituent Papatipu Rūnanga and subsidiary companies. Areas of shared interest and discussion range from strategic board of directors' issues to commercial joint ventures and operational on-the-ground support. Rūnanga members are involved in a range of activities arising from their kaitiaki responsibilities, often focused on mahinga kai. We have recently engaged with the rūnanga in our main hydro catchments to design and implement a programme to achieve targeted, tangible environmental outcomes. We are contributing new resources to these programmes and will report on our progress in the next year.

Our relationships with iwi in our wind farm asset areas are not as active. This is primarily attributable to the scale and impacts of our operations, and structures typically being located on privately held land.

Sustainability framework

Meridian's sustainability framework highlights the things that matter most to us and our stakeholders. We set targets and monitor and report on our progress across a range of economic, social and environmental goals.

Performance against the key framework indicators is reported throughout the relevant sections of this report. This table provides a summary of our performance for FY2012–2016.

KEY AREA	OVERALL GOAL	KEY INDICATOR
Water stewardship	To collaborate with stakeholders to manage water catchments effectively	Collaboration with stakeholders on water use
Renewable energy	To maintain and develop renewable energy assets, and help minimise the electricity industry's contribution to climate change	Habitat enhancement and restoration Net energy output
Energy services	To provide our customers with good service, value for money and the opportunity to lower their impacts on the environment	Sustainable offering uptake
Engaged communities	To support and connect with the communities in which we operate and interact	Community funding and sponsorships
Working sustainably	To incorporate sustainability in our culture, policies, processes and systems, and engage our people in sustainability issues, supporting them to make business decisions with a long-term view	Lost-time injuries (2012-2015) TRIFR (2016-)[41] Employee engagement Corporate GHG emissions
Financial return	To provide shareholders with a financial return that meets their expectations, given the risks associated with its business	Total shareholder return

41 From 2016 this number is the Total Recordable Injury Frequency Rate (TRIFR) which measures the combined total of all Lost Time Injuries, Medical Treatment Injuries and Restricted Work Injuries.

2016 PERFORMANCE

- Worked with others to complete the fourth report of the Land and Water Forum, including recommendations on stock exclusion, economic value and iwi rights and interests
- Environment Canterbury (ECan) decision on the Waitaki Catchment Water Allocation Regional Plan Change 3 confirmed the approach developed by the Lower Waitaki – South Coastal Canterbury Zone Committee and supported by submissions from Meridian, Ngāi Tahu and irrigation users.
- Submitted supporting ECan Land and Water Plan Change 5, setting water quality limits for Waitaki catchment

Project River Recovery, Waiau River Restoration, Te Uku Wetlands, Waiau Ngāi Tahu Elver Trap and Transfer

PERFORMANCE				
2012	2013	2014	2015	2016
10,996GWh	12,071GWh Mill Creek underway	13,431GWh Mill Creek first power	13,851GWh Benmore 50th and Waitaki refurbishment	14,226GWh Manapōuri Ventilation Upgrade and Waitaki refurbishment
66,000 customers taking up at least one sustainable offering	131,000 customers taking up at least one sustainable offering	155,000 customers taking up at least one sustainable offering	178,000 customers taking up at least one sustainable offering	70% customers receive ebills 88% customers paying online
$1.96 million	$1.25 million granted to community organisations and sponsorship partners including KidsCan sponsorship	$1.42 million granted to community organisations and sponsorship partners including KidsCan sponsorship	$1.5 million granted to community organisations and sponsorship partners including KidsCan sponsorship	$1.5 million granted to community organisations and sponsorship partners including KidsCan sponsorship
2	0	1	3	1.86
76%	79%	76%	81%	82%
3,227tCO_2e	2,856tCO_2e	2,969tCO_2e	2,742tCO_2e	2,664tCO_2e
N/A	N/A	28%	37%	33%

Stakeholders

Meridian undertakes comprehensive strategy development and implementation planning to enable us to identify, understand and engage effectively with our stakeholders. We recognise that effective relationship management is a core component of success for any organisation. We identify stakeholders that can influence our success and work to develop and manage those relationships at a corporate level and through community and stakeholder engagement. Stakeholder relationships are the responsibility of staff across the organisation and recognised as an essential part of our business. The diverse nature of our business as both an electricity generator and a retailer means our stakeholders are also diverse. We engage with different stakeholders as required depending on current work programmes and stakeholder need. For example, during the construction of a wind farm we have intense engagement with the local community; during a statutory plan development process we engage widely with stakeholders; and if making changes to residential tariffs or billing we focus on residential customer communications.

Meridian makes millions of transactions a year and strives to get things right to ensure that customers are satisfied and receive good service. The company is improving customer interactions, particularly through online and self-service and the deployment of smart meters to all customers.

In order to understand our customers and what's important to them, we have developed 'The Power of Everyone', an online community that we invite our customers to join. See the Brooklyn story on page 21. Any complaints are viewed as an opportunity to improve and staff work with customers to reach resolutions to any issues.

We also ask our employees to tell us how we're doing at achieving our purpose of creating a better energy future, what else we could do, what they're most proud of and what they want to learn more about. We have gained some great insights into our people through this. As a result we have introduced a speaker series to discuss some of the topics our people want to talk about, including emerging technologies, energy efficiency and our environmental work.

The stakeholder table below outlines our key stakeholders and how we interact with them. Examples of specific contact we've had this year are included throughout the report. No specific external engagement was undertaken to prepare this report.

STAKEHOLDER	KEY INTERESTS AND CONCERNS	MERIDIAN'S RESPONSE	ENGAGEMENT METHOD
Generation communities	• Honest and open communication and engagement • Consequences of our role as a generator – environmental, commercial, social and cultural	• Ongoing participation in the community where appropriate • Early engagement and consultation • Compliance with resource consent conditions • Community Funds • Project websites	• Newsletters • Community meetings • Open days and drop-in hubs • Community liaison groups • Dedicated community liaison staff • Participation in community events • Community surveys • Asset-based event sponsorship e.g. White Hill Classic
Iwi	• Tangata whenua – guardians of the natural resources within their rohe • Consequences of the company's role as a generator – environmental, commercial, social and cultural • Honest and open communication • Strategic engagement • Commercial partnership opportunities	• Partnership approaches that recognise iwi aspirations • Sponsorship opportunities • Capability building • Working groups for management of natural resources • Memoranda of understanding • Mitigation responses	• Iwi engagement • Participation in iwi events • Regular meetings/hui • Event hosting
Customers	• Affordable power • Customer service • Accurate billing • Access to data to help understand energy use • Security of supply • Energy efficiency and sustainability	• Assistance to customers during state of emergency • Unbundling of network and energy costs in billing • Improved disconnection process • Smart meters and regular meter reads • Energy efficiency advice and sustainability offerings	• Customer contact centre and account managers • Newsletters • Website and customer portal • Customer satisfaction surveys • Direct mail and email • Sponsorship
Employees	• An employment experience that meets expectations • An employer who genuinely cares for the wellbeing of staff • An employer who is well respected in the community	• Focus on leadership, capability development and performance • Management development programme • Graduate and apprenticeship programmes • Health and safety at work focus, including wellness programme • Recognition of staff requirements during uncertain times • Credible approach to sustainability	• Employee engagement surveys • Intranet • Senior management updates to staff • Staff events • Competency-based learning modules • Leadership and capability development programmes • Individual development plans for employees • One-on-one performance reviews and feedback

STAKEHOLDER	KEY INTERESTS AND CONCERNS	MERIDIAN'S RESPONSE	ENGAGEMENT METHOD

Shareholders	• Commercial performance
	• Efficient delivery of services, transparency on drivers of performance and profit
	• Responsible employer
		• Sound business planning based on long-term financial objectives
		• Improved reporting including quarterly operational reports and material disclosures
		• Commitment to health and safety and corporate social responsibility
			• Consistent communications that adhere to the principles of continuous disclosure and include:
			  • material market updates
			  • annual shareholder meetings
			  • annual and half-year reports
			  • earnings and dividend announcements
			  • monthly operating reports
			  • investor presentations

Government and electricity sectors	• Contribution to economic growth through development • Efficient use of resources • Environmental responsibility • Competitive market outcomes	• Engagement with the Government electricity regulator and electricity sector on key energy policy issues • Development of cost-competitive renewable energy generation • Commitment to sustainability and environmental stewardship • Submissions supporting competitive and rational market outcomes	• Policy submissions • Open engagement • Participation in appropriate forums
Suppliers and contractors	• Insights into timing and certainty of future work programmes and initiatives • Accurate and timely service request data • Fair and open procurement	• Promotion of early notification of significant work programmes • Active application of supplier relationship management practices • Fair, open, transparent and reasonable market engagement processes • Development of clear and well defined requirements • Encouragement of local business participation wherever possible	• Market engagement documentation • Contract negotiations • Supplier meetings to discuss ongoing relationships • Supplier briefings • Conferences/speaking engagements
General community	• Security of supply • Leader in sustainability and renewable generation • Contributor to communities from social, economic and environmental perspectives	• Management of water resources • Development of cost-competitive renewable energy generation • Commitment to renewable energy generation, sustainability and corporate social responsibility • Sustainable procurement policy	• Brand advertising campaigns • Website • Sponsorship • Annual Report • Media releases • Educational material • Public meetings
Local government	• Responsible developer of infrastructure • Security of supply • Contribution to the local economy • Sustainably manage resources	• Participation in processes to support best practice • Commitment to sustainability and environmental stewardship	• Meetings • Submissions • Hearing presentations • Working group and committee participation
Non-governmental organisations	• Impacts on natural resources and local community initiatives • Open and honest communication	• Engagement and consultation as appropriate • Support for projects as appropriate • Sustainability framework to reduce impacts of operations	• Meetings • Correspondence • Joint memberships of forums • Presentations • Membership of organisations • Responses to information requests
Investors (lenders)	• Profitable, good employer • Socially and fiscally responsible • Return on investment • Ability to meet interest and principal obligations on debt • Open and honest communication	• Sound business planning based on long-term financial objectives • Clear and regular operation reports and material disclosures	• Regular meetings and open engagement • Asset tours • Prospectus • Investment statement • Rating reports • Investor briefings • Clear and regular operation reports and material disclosures

Global Reporting Initiative Index

Meridian considers that this report has been prepared in accordance with the core option of the Global Reporting Initiative (GRI) G4 guidelines. The principles of the GRI G4 Reporting Guidelines and AA1000 have been followed in determining the content of this report. Meridian has not sought external assurance for this report.

G4	GENERAL STANDARD DISCLOSURE	PAGE
Strategy and analysis		
G4-1	CEO statement regarding sustainability	7-8
Organisational profile		
G4-3	Name of reporting organisation	front cover
G4-4	Primary brands, products and/or services	2
G4-5	Location of the organisation's headquarters	2
G4-6	Countries in which the organisation operates	2
G4-7	Nature of ownership and legal form	2
G4-8	Nature of markets served	2, 6–8
G4-9	Scale of the reporting organisation	2
G4-10	Employee statistics	7, 24, 94
G4-11	Percentage of total employees covered by collective bargaining agreements	94
G4-12	The organisation's supply chain	96-97
G4-13	Significant changes in size, structure or ownership	no significant changes
G4-14	Precautionary approach or principle	92
G4-15	External charters, principles and initiatives	97
G4-16	Association or advocacy organisation memberships	97
Identified material aspects and boundaries		
G4-17	Entities included in financial statements and this report	47
G4-18	Defining report content and implementing reporting principles	100, 103-104
G4-19	Listing material aspects	index
G4-20	Aspect boundaries within the organisation	103
G4-21	Aspect boundaries outside the organisation	103
G4-22	Report the effects of any restatements	no restatements to report
G4-23	Report any significant changes in scope and aspect boundaries	no significant changes to report
Stakeholder engagement		
G4-24	List stakeholder groups	100-101
G4-25	Basis for identification and selection of stakeholders	100-101
G4-26	Organisation's approach to stakeholder engagement	100-101
G4-27	Key stakeholder topics and concerns and the organisation's responses	100-101
Report profile		
G4-28	Reporting period	front cover, 104
G4-29	Date of most recent report	104
G4-30	Reporting cycle (annual, biennial etc)	annual reporting, 104
G4-31	Contact point for questions regarding the report	back cover
G4-32	GRI content index and 'in accordance' option	102–103
G4-33	External assurance policy and practice	102 – external assurance has not been sought for this report
Governance		
G4-34	Governance structure of the organisation	39-46
Ethics and integrity		
G4-56	Description of the organisation's values, principles, standards and norms of behaviour	40
Electric utilities sector disclosures		
EU1	Installed capacity	2
EU2	Net energy output	2-3
EU3		2
EU4	Length of transmission and distribution lines	length insignificant
EU5	Allocation of CO_2 emission allowances	97

SPECIFIC STANDARD DISCLOSURES

MATERIAL ASPECTS	DMA AND INDICATORS	INDICATOR DETAIL	PAGE/LINK
Category: Economic			
Economic performance	G4-EC1	Direct economic value generated and distributed	financial section
Category: Environmental performance			
Water	G4-EN9	Water sources significantly affected by withdrawal of water	15, 92
Biodiversity	G4-EN12	Significant impacts on biodiversity	15, 92
	EU13	Biodiversity of offset habitats	92
Emissions	G4-EN15	Direct GHG emissions (Scope 1)	93 – a comprehensive emissions inventory can be found at www.meridian.co.nz/ghg
	G4-EN16	Energy indirect GHG emissions (Scope 2)	93
	G4-EN17	Other indirect GHG emissions (Scope 3)	93
	G4-EN19	Reduction of GHG emissions	7, 94
Category: Social			
Occupational health and safety	G4-LA5	Percentage of total workforce represented in formal Health and Safety Committees	95
Diversity and equal opportunity	G4-LA12	Breakdown of governance bodies and employees by diversity indicators	24, 94
Local communities	G4-SO1	Operations with local community engagement, impact assessments and development programmes	15-17, 21, 96
	EU22	People physically or economically displaced and compensation	no displacement occurred
Energy service – Customers		Key issues from customers, media and industry	6, 8, 21

MERIDIAN MATERIAL ISSUE	G4 CATEGORY AND ASPECTS	MATERIAL WITHIN THE ORGANISATION	MATERIAL EXTERNAL TO THE ORGANISATION	RELEVANCE OUTSIDE THE ORGANISATION
Financial return	Economic – economic performance	✓	✓	Stakeholders are interested in wealth creation
Water stewardship	Environmental – water	✓	✓	Collaboration with stakeholders to manage water catchment effectively
Renewable energy	Environmental – biodiversity		✓	Habitat enhancement and restoration
Energy service – Customers	Meridian selected	✓	✓	This is important to our customers and those seeking to understand the industry
Engaged communities	Society – local communities	✓	✓	Our community funding and support in the local communities where our assets are located is important to the communities and the staff who live in them
Working sustainably	Social – employment	✓		
	Social – occupational health and safety	✓		
	Environmental – emissions	✓	✓	Reducing GHGs is an important contribution to global climate change mitigation

About this report

THIS ANNUAL REPORT IS A REVIEW OF MERIDIAN'S PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

Last year Meridian produced a similar combined report for financial and non-financial performance. For the financial year the Meridian Group included the parent company Meridian Energy Limited and its operational subsidiaries Damwatch, Powershop and Meridian Australia. Unless otherwise stated, statements of non-financial information refer to Meridian Energy Limited, the parent company, only.

Care has been taken to ensure that all data in this report is as accurate as possible. Where assumptions have been made they are clearly stated and explained. Included in this report is a summary of the Meridian Energy Limited GHG accounts, part of a more detailed Meridian Group Inventory (audited by Deloitte) and a Global Reporting Initiative (GRI) index of reporting components covered.

Meridian considers that this report has been prepared in accordance with the core option of the GRI G4 Sustainability Reporting Guidelines. The principles of the GRI G4 Sustainability Reporting Guidelines and AA1000 have been followed in determining the content of this report. Meridian has not sought external assurance for this report.

The issues discussed in this report reflect our most significant impacts and the key concerns and expectations of our stakeholders. They include economic, environmental and social issues. The issues have been gathered over the year from stakeholders, the Meridian Safety and Sustainability Committee, senior executives, employees, Ngāi Tahu and media, industry and sector commentary. The issues have then been analysed, prioritised and aligned with our key strategic themes and the G4 material aspects and standard disclosures.

More information on key stakeholders, their interests and Meridian's response can be found in the stakeholder analysis table on pages 100 and 101.

Directory

Registered office

Meridian Energy Limited
33 Customhouse Quay
Wellington Central
Wellington 6011
New Zealand

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Wellington 6143
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New Zealand

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Auckland Airport
Auckland 2150
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New Zealand

PO Box 2146
Christchurch 8140
New Zealand

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Melbourne VIC 3000
Australia

T +61 3 8370 2100
F +61 3 9620 5235

Share Registrar New Zealand

Computershare
Investor Services Ltd
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622

Private Bag 92119
Victoria Street West
Auckland 1142

T +64 9 488 8777
F +64 9 488 8787

enquiry@computershare.co.nz

www.investorcentre.com/nz

Share Registrar Australia

Computershare
Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3037

GPO Box 3329
Melbourne, VIC 3001
Australia

T 1800 501 366 *(within Australia)*
T +61 3 9415 4083 *(outside Australia)*
F +61 3 9473 2500

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Auditor

Trevor Deed
On behalf of the Office of the Auditor-General

Deloitte
PO Box 1990
Wellington 6140
New Zealand

Banker

Westpac Wellington
New Zealand

Directors

Chris Moller, *Chair*
Peter Wilson, *Deputy Chair*
Mark Cairns
Jan Dawson
Mary Devine
Sally Farrier
Anake Goodall
Stephen Reindler

Management team

Mark Binns, *Chief Executive*
Paul Chambers
Neal Barclay
Jacqui Cleland
Ed McManus
Sandra Pickering
Jason Stein
Guy Waipara

If you have any questions or would like to comment on Meridian's Annual Report, please email investors@meridianenergy.co.nz

meridian

meridian.co.nz

ISSN 1173-6305

APPENDIX 7 – NZSX Listing Rules

EMAIL: announce@nzx.com

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one (Please provide any other relevant details on additional pages): 1

Full name of Issuer	Meridian Energy Limited
Name of officer authorised to make this notice	Jason Stein
Authority for event, e.g. Directors' resolution	Directors' resolution
Contact phone number	+64 4 381 1200
Contact fax number	
Date	24 / 8 / 2016

Nature of event
Tick as appropriate

Bonus Issue	☐
If ticked, state whether: Taxable	☐
/ Non Taxable	☐
Conversion	☐
Interest	☐
Rights Issue Renouncable	☐
Rights Issue non-renouncable	☐
Capital change	☐
Call	☐
Dividend	☑
If ticked, state whether: Interim	☐
Full Year	☑
Special	☐
DRP Applies	☐

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	Ordinary Shares
ISIN	NZMELE0002S7

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities	
ISIN (*If unknown, contact NZX*)	
Number of Securities to be issued following event	
Minimum Entitlement	
Ratio, e.g ① for ②	for
Conversion, Maturity, Call Payable or Exercise Date (*Enter N/A if not applicable*)	
Treatment of Fractions	
Tick if pari passu	☐
OR provide an explanation of the ranking	
Strike price per security for any issue in lieu or date Strike Price available.	

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security (does not include any excluded income)	$0.0840
Excluded income per security (only applicable to listed PIEs)	
Currency	NZ Dollars
Total monies	$215,292,000
Source of Payment	Retained Earnings

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	$0.0133
Date Payable	14 October, 2016

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	$
Resident Withholding Tax	$0.0080
Imputation Credits (Give details)	$0.0294
Foreign Withholding Tax	
FDP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	30 September, 2016
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.*	14 October, 2016
Notice Date *Entitlement letters, call notices, conversion notices mailed*	
Allotment Date *For the issue of new securities. Must be within 5 business days of application closing date.*	

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

APPENDIX 7 – NZSX Listing Rules

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Number of pages including this one (Please provide any other relevant details on additional pages): 1

Full name of Issuer	Meridian Energy Limited
Name of officer authorised to make this notice	Jason Stein
Authority for event, e.g. Directors' resolution	Directors' resolution
Contact phone number	+64 4 381 1200
Contact fax number	
Date	24 / 8 / 2016

Nature of event
Tick as appropriate

Bonus Issue	☐
If ticked, state whether: Taxable	☐
/ Non Taxable	☐
Conversion	☐
Interest	☐
Rights Issue Renouncable	☐
Rights Issue non-renouncable	☐
Capital change	☐
Call	☐
Dividend	☑
If ticked, state whether: Interim	☐
Full Year	☐
Special	☑
DRP Applies	☐

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	Ordinary Shares
ISIN	NZMELE0002S7

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities	
ISIN (*If unknown, contact NZX*)	
Number of Securities to be issued following event	
Minimum Entitlement	
Ratio, e.g ① for ②	for
Conversion, Maturity, Call Payable or Exercise Date (*Enter N/A if not applicable*)	
Treatment of Fractions	
Tick if pari passu	☐
OR provide an explanation of the ranking	
Strike price per security for any issue in lieu or date Strike Price available.	

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security (does not include any excluded income)	$0.0244
Source of Payment	Retained Earnings
Excluded income per security (only applicable to listed PIEs)	
Currency	NZ Dollars
Total monies	$62,537,200

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	$0.0000
Date Payable	14 October, 2016

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	$
Resident Withholding Tax	$0.0081
Imputation Credits (Give details)	$0.0000
Foreign Withholding Tax	
FDP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	30 September, 2016
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.*	14 October, 2016
Notice Date *Entitlement letters, call notices, conversion notices mailed*	
Allotment Date *For the issue of new securities. Must be within 5 business days of application closing date.*	

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

NZX

Powering today, protecting tomorrow

meridian

MERIDIAN ENERGY LIMITED annual results presentation for the year ended 30 June 2016

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Disclaimer

The information in this presentation was prepared by Meridian Energy with due care and attention. However, the information is supplied in summary form and is therefore not necessarily complete, and no representation is made as to the accuracy, completeness or reliability of the information. In addition, neither the company nor any of its directors, employees, shareholders nor any other person shall have liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation may contain forward-looking statements and projections. These reflect Meridian's current expectations, based on what it thinks are reasonable assumptions. Meridian gives no warranty or representation as to its future financial performance or any future matter. Except as required by law or NZX or ASX listing rules, Meridian is not obliged to update this presentation after its release, even if things change materially.

This presentation does not constitute financial advice. Further, this presentation is not and should not be construed as an offer to sell or a solicitation of an offer to buy Meridian Energy securities and may not be relied upon in connection with any purchase of Meridian Energy securities.

This presentation contains a number of non-GAAP financial measures, including Energy Margin, EBITDAF, Underlying NPAT and gearing. Because they are not defined by GAAP or IFRS, Meridian's calculation of these measures may differ from similarly titled measures presented by other companies and they should not be considered in isolation from, or construed as an alternative to, other financial measures determined in accordance with GAAP. Although Meridian believes they provide useful information in measuring the financial performance and condition of Meridian's business, readers are cautioned not to place undue reliance on these non-GAAP financial measures.

The information contained in this presentation should be considered in conjunction with the company's financial statements, which are included in Meridian's annual report for the year ended 30 June 2016 and is available at:

www.meridianenergy.co.nz/investors/

All currency amounts are in New Zealand dollars unless stated otherwise.

Highlights

33%

TOTAL SHAREHOLDER RETURN

Delivering returns to shareholders

We have declared 18.38 cents per share in dividends and delivered a 33% total shareholder return[1] in the year to 30 June 2016 compared with 20% return in the NZX top 50 group of companies.

5%

EBITDAF[1] GROWTH

EBITDAF, key measure of profitability, is 5% higher this year, the fourth successive year of growth.

$650M

EBITDAF

58%

INCREASE IN CUSTOMERS USING MyMeridian, OUR ONLINE ENERGY MANAGEMENT TOOL

Enhancing our digital capability

We're focused on enhancing our customers' experience online.
We have experienced a 58% increase in our customers using MyMeridian. We have also seen an 18% increase in customers receiving electronic bills this year and now have 88% of customers paying online.

[1]Earnings before interest, taxation, depreciation, amortisation, changes in fair value of hedges and other significant items
[2]Net profit after tax adjusted for the effects of non cash fair value movements and one-off items

Progress on strategy

Maintaining an open market in which we can compete effectively

- TPM 2nd issues paper confirms beneficiaries pay
- NZ political focus on practical consumer issues
- 31 retail brands make up a competitive NZ market
- Firming RET position, some doubts target will be met by 2020

Developing opportunities for earnings growth

- Consents & land agreements extended on NZ options to meet expected new supply needs after 2019
- Economics of best wind options improving
- Powershop Australia and UK tracking well
- Grid-scale solar economics improving in Australia

Progress on strategy

Protecting and maximising our generation asset and wholesale position

- Lower Waitaki allocation plan amendments agreed
- Exposure to NZAS reduced through back-to-back arrangements with other generators
- Genesis swaption extension provides greater flexibility and improves security of supply

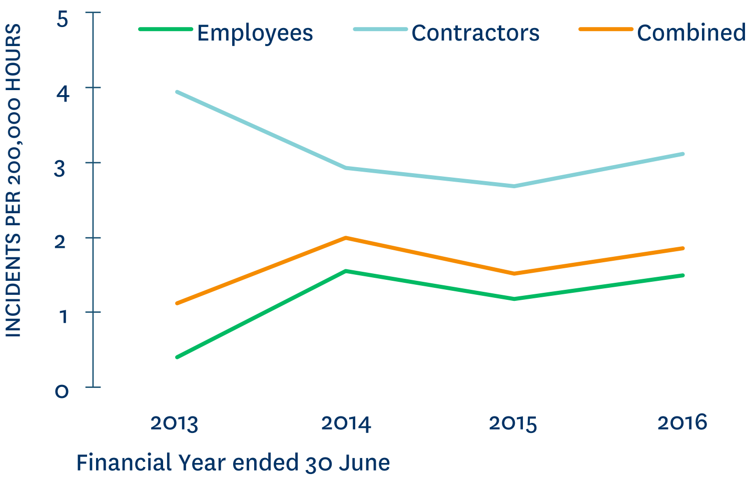
Growing retail value by making things easy for our customers and optimising our operations

- Comparative improvement with segment EBITDAF growth of +23%
- Continued improvement in retail metrics
- Higher online penetration and quality of service is reducing customer effort

Health and safety

- Focus on preventing serious harm to our staff, contractors and customers
- A safe workplace matters - engagement survey indicates 92% of staff agree Meridian takes health and safety seriously
- Employee total recordable injury frequency rate of 1.49. Contractor rate remains higher
- Customer safety matters - safety focus lifted in our smart meter deployment
- Industry safety matters - through Staylive focus on high risk areas such as work controls, confined spaces and contractor training

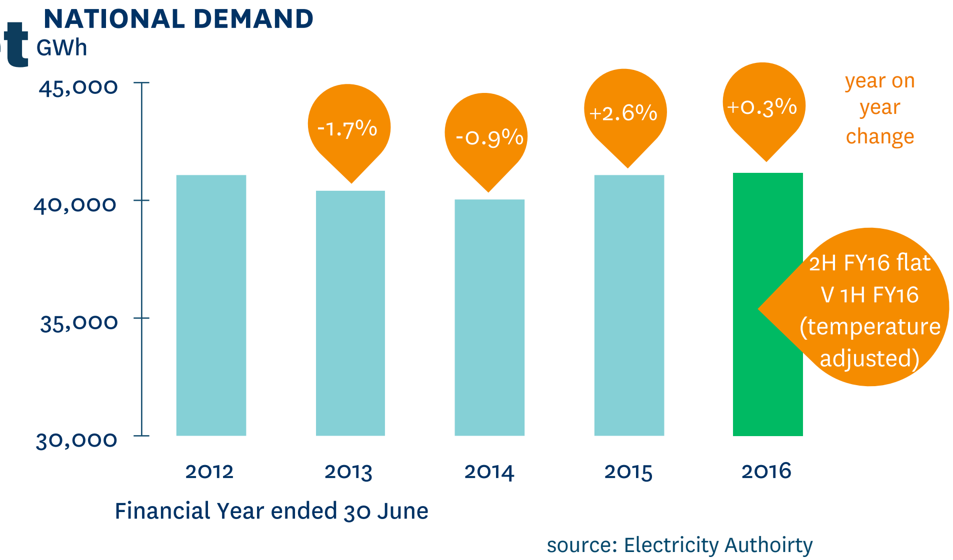
TOTAL RECORDABLE INJURY FREQUENCY RATE[1]

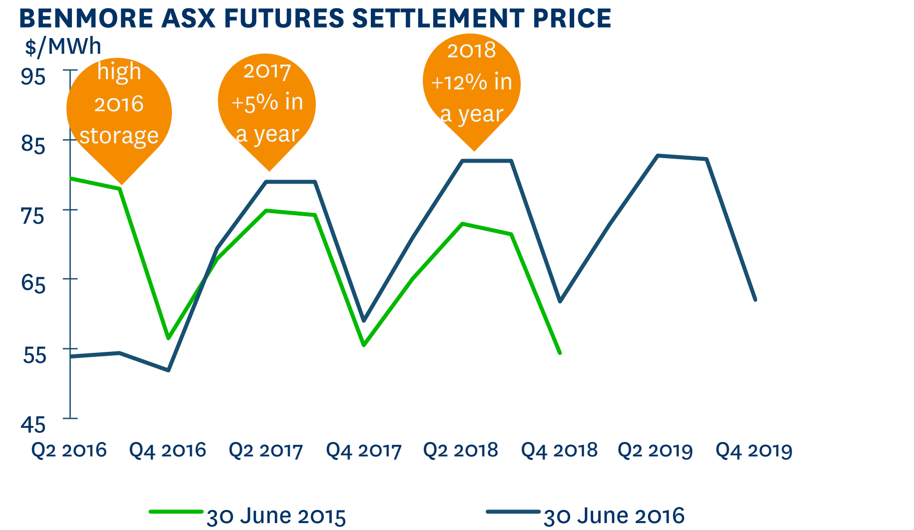


[1]Total recordable injury frequency rate – the number of incidents per 200,000 hours worked

The New Zealand market

- Unseasonal warm autumn and winter temperatures have slowed demand growth
- Growth remains correlated to increasing population and positive economic sentiment
- 825MW of thermal plant closure has occurred in the last year (Huntly, Southdown, Otahuhu)
- 2017 and 2018 ASX prices have lifted during the 2016 financial year
- Extension of Huntly Rankine units gives greater security of supply
- Seems likely future wholesale prices will be more volatile in peak and dry periods
- High retail competition now has to be seen as a permanent feature
- Premises moves still dominate switching



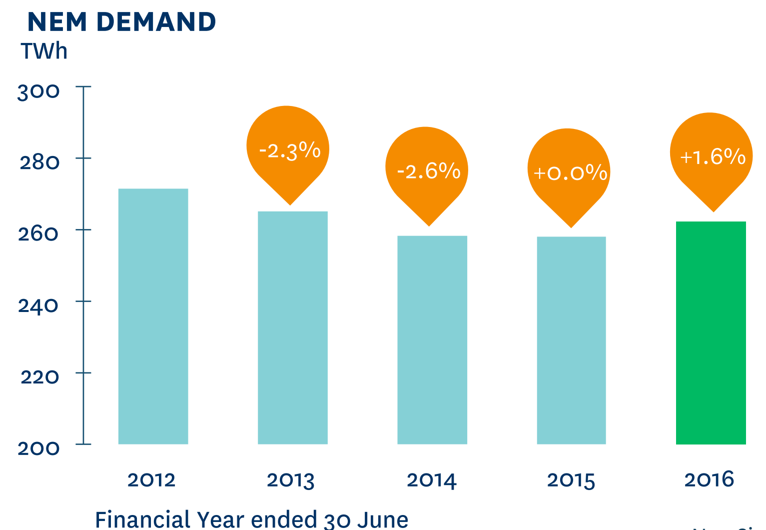


Transmission pricing

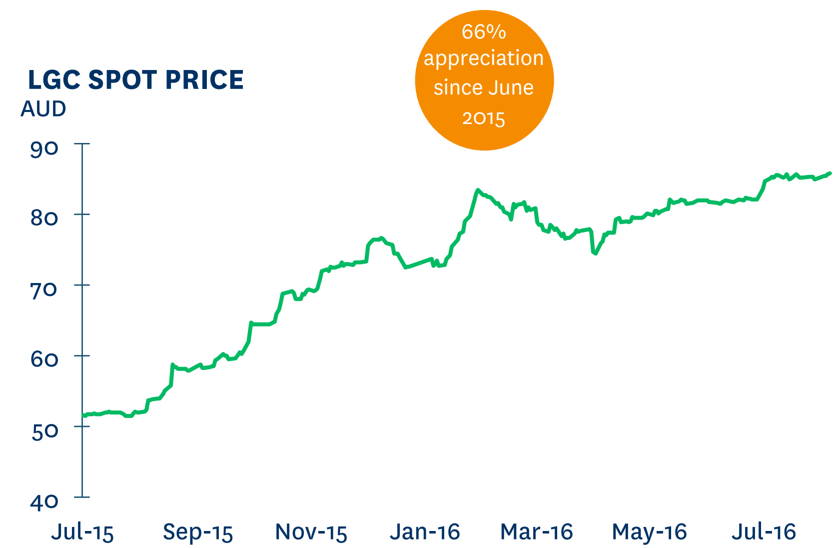
- Meridian's submission on transmission pricing methodology (TPM) proposal is strongly supportive of what is a more durable and fairer approach
- As expected there are divergent views; generally those in the upper NI will see price increases, rest of the country will see price reductions
- Most controversial issue is removal of ACOT payments for distributed generators. EA estimates these payments cost consumers $25m-$35m and provide zero benefit in deferring transmission investment
- Overall the EA's data suggests 60% of households will see a decrease in their bill
- Trustpower (largest ACOT payment recipient) have applied to the High Court for a review of the EA's consultation process
- Meridian is confident the EA will deliver a fairer pricing structure, underpinning security for New Zealand

The Australian market

- Modest demand growth in FY2016 largely driven by new LNG production
- AEMO forecasts suggest flat consumption over the next 20 years
- Market is still reluctant to commit to new renewables despite the lift in LGC prices and political changes
- Grid-scale solar is an improving proposition with continued reduction in capital costs



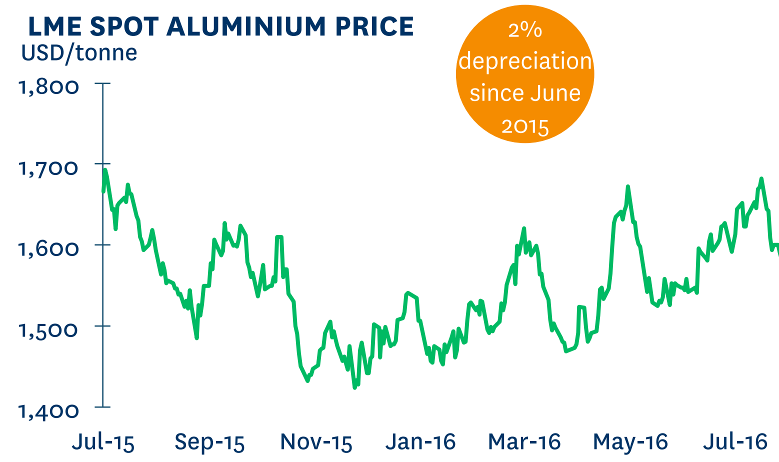
source: NemSight



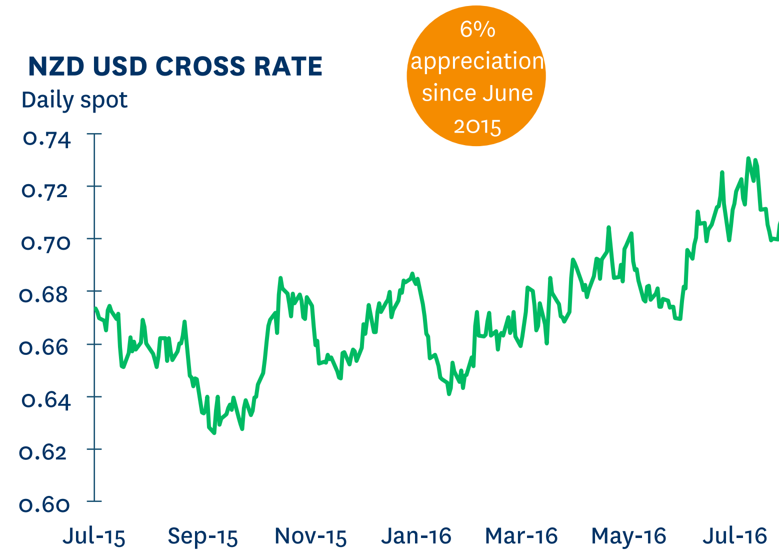
source: Bloomberg

Tiwai Point smelter

- Trading environment for the aluminium industry remains difficult
- Chinese capacity curtailments have not been sufficient to fully compensate for the slowdown in demand growth
- Further global demand growth is forecast, but outstripped by capacity ramp-ups and current near all-time high inventories
- USD aluminium prices have risen 8% since December 2015
- Price premia have stabilised from declines in the first half of 2015
- Appreciating NZD USD cross rate up 5% since December 2015
- Potential cost improvement for NZAS from TPM



source: London Metal Exchange



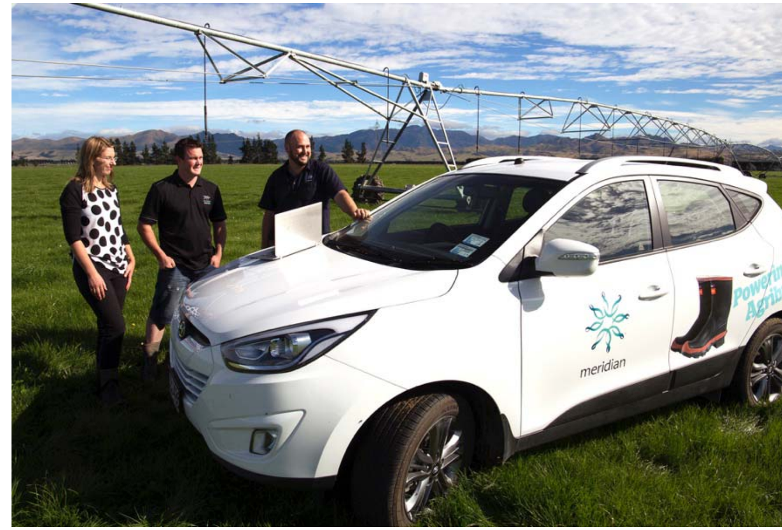
source: Reuters

Wholesale and generation

- Stay in business capital spend inside the annual $65m envelope
- Consent extensions gained for Central Wind and Maungaharuru wind options
- Record level of total New Zealand generation (Tekapo adjusted)
- Generation from both the Manapōuri station and the total wind portfolio were at record levels
- FY2016 inflows were 108% of average
- Has led to higher derivative sales
- Meridian's July 2016 monthly inflows were 168% of historical average
- Meridian's Waitaki catchment storage sat at 155% of historical average at the end of July 2016

Retail

- Segment EBITDAF up +$13m (+23%) in FY2016
- Growth in Meridian residential, SMB and agri sales volumes (+2%) and average price (+3%)
- Growth in Powershop sales volumes (+3%)
- Decline in Meridian corporate and industrial sales volumes from time-of-use churn
- Customer acquisition pressure managed within flat segment operating costs in FY2016
- Continued improvement in retail metrics

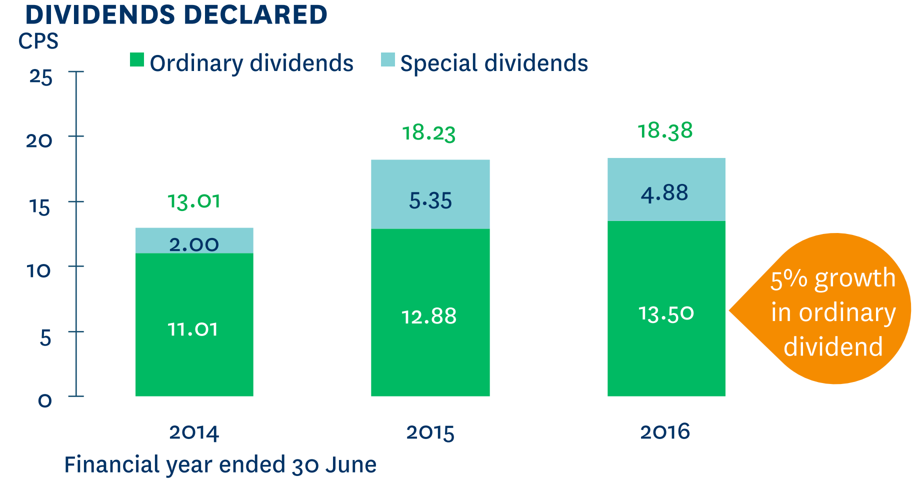


MERIDIAN RETAIL METRICS		FY2016	FY2015
Time to answer	12 month avg	33 sec	66 sec
New customer retention[1]	12 month avg	84%	81%
Cost to serve per customer[2]	12 month cost	$260	$265
Overdue debt > 30 days	at 30 June	$2.1m	$2.4m
Non payment disconnections	12 month total	1,234	2,391
E-billing takeup	at 30 June	70%	52%
Customers paying online	at 30 June	88%	86%
MyMeridian customers	at 30 June	64k	41k

[1]First six months of customer life
[2]Excluding metering costs and including allocation of corporate costs

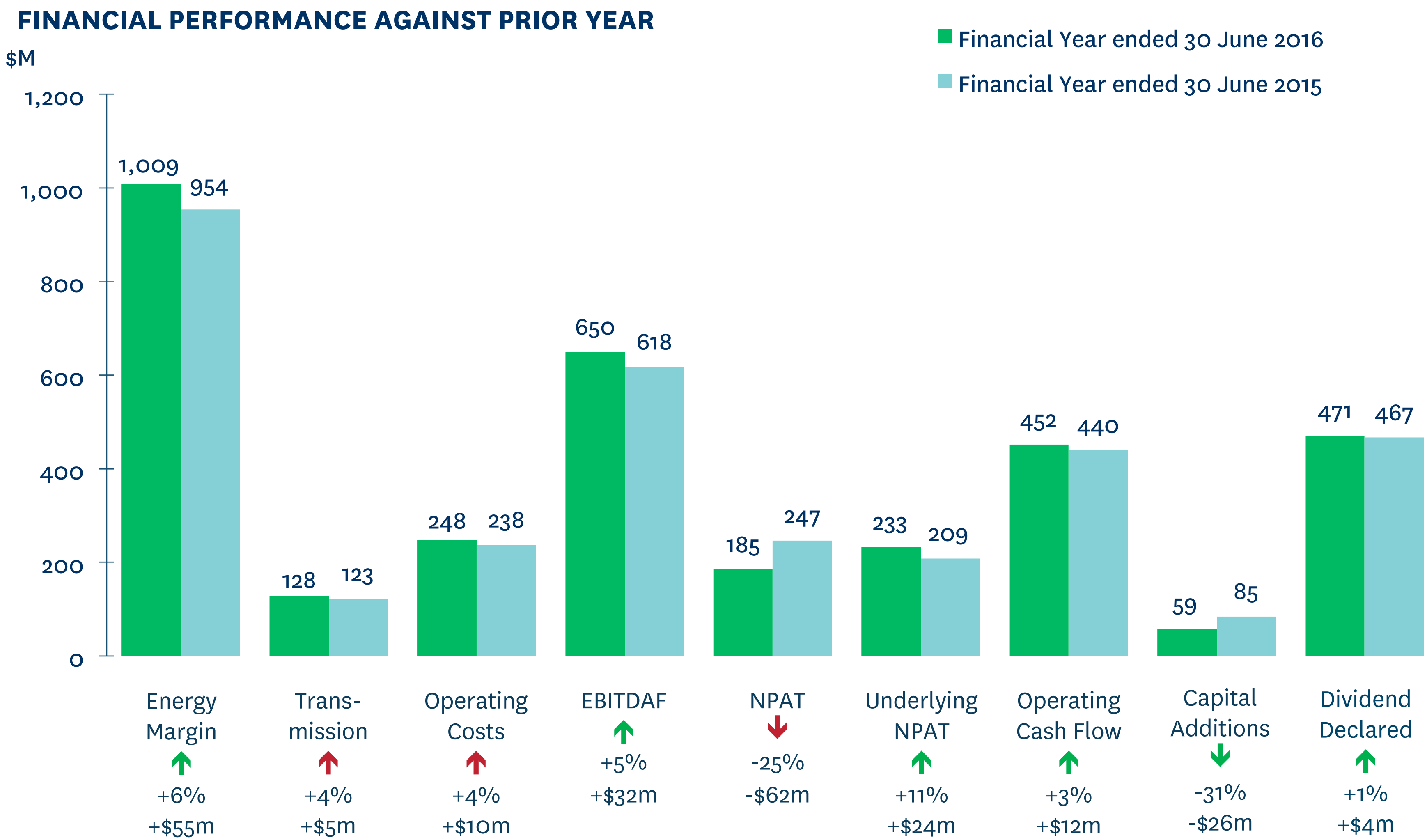
Dividends

- Final ordinary dividend of 8.40 cps, 90% imputed
- Brings FY2016 full year ordinary dividend to 13.50 cps, 88% imputed
- Represents 83.1% payout of free cash flow
- Capital management final special dividend of 2.44 cps, unimputed
- Brings capital management distributions to $187.5m since the programme commenced in August 2015
- To date, this has been paid as unimputed special dividends, buyback remains a consideration



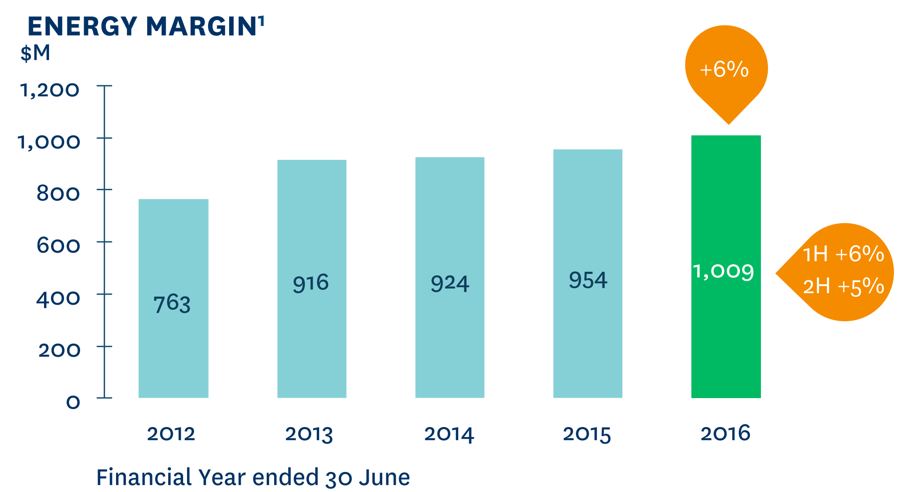
DIVIDENDS DECLARED	AMOUNT CPS	IMPUTATION %
FY2016		
Ordinary dividends	13.50	88%
Capital management special dividends	4.88	0%
Total	**18.38**	
FY2015		
Ordinary dividends	12.88	72%
Capital management special dividends	2.44	0%
Other special dividends	2.91	48%
Total	**18.23**	

Financial performance

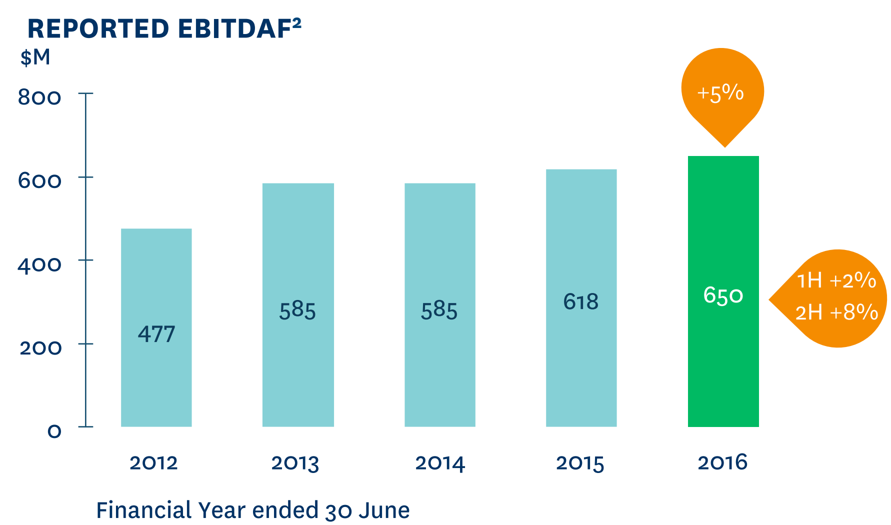


Earnings

- 'Like for like' EBITDAF (excluding $5m FY2015 insurance proceeds) increase of +$37m (+6%) in FY2016 from:
  - \+ Higher residential/SMB/agri sales volumes and average prices in NZ +$16m
  - \+ Powershop growth and higher generation prices in Australia +$16m
  - \+ Strong generation volumes backing higher wholesale sales and lower hedge costs in NZ +$21m
  - – Reduced non-core revenues following disposals -$3m
  - – Higher HVDC charges and market costs -$3m
  - – Costs of expansion in international segment -$10m

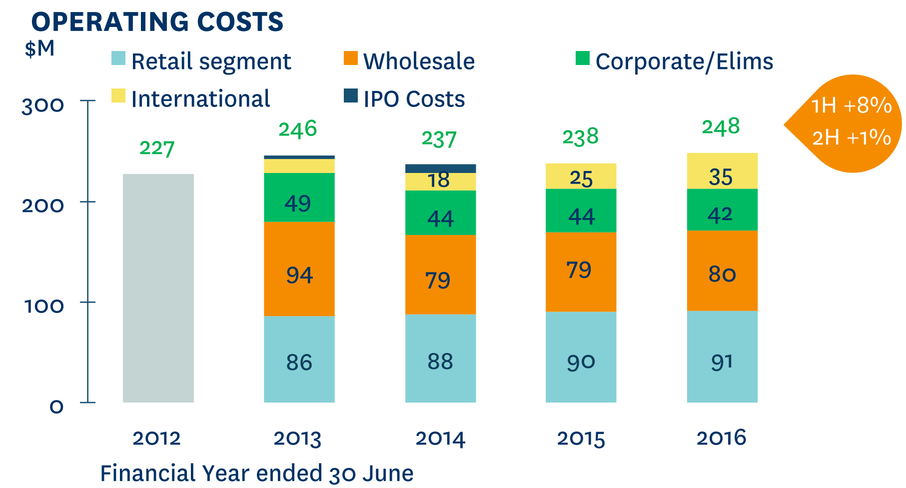


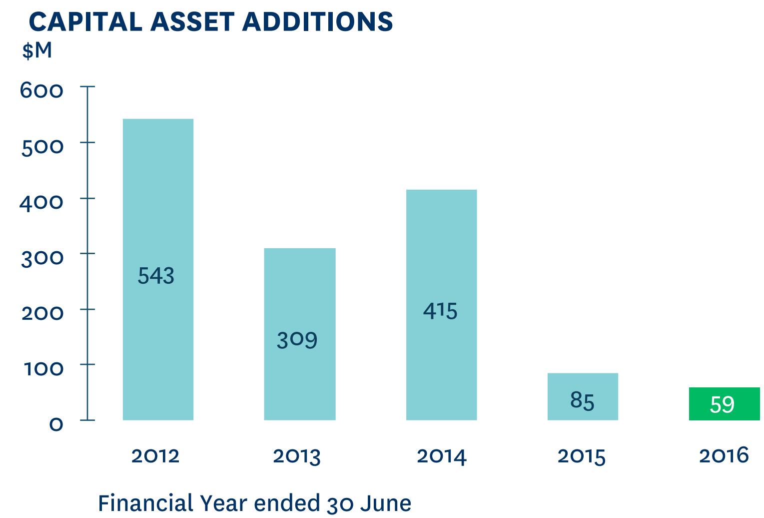
[1]See pg 27 for a definition of energy margin
[2]Earnings before interest, taxation, depreciation, amortisation, changes in fair value of hedges and other significant items



Costs

- Operating costs have increased +$10m (+4%) in FY2016
- 1H FY2016 +$9m, 2H FY2016 +$1m against prior year
- Growth was all investment to support Powershop expansion offshore
- Continued customer acquisition pressure in NZ is being absorbed
- Despite change in treatment of $2m of costs with Arc sale (now included in operating costs rather than energy margin)
- Stay in business capital expenditure is within the $65m annual envelope

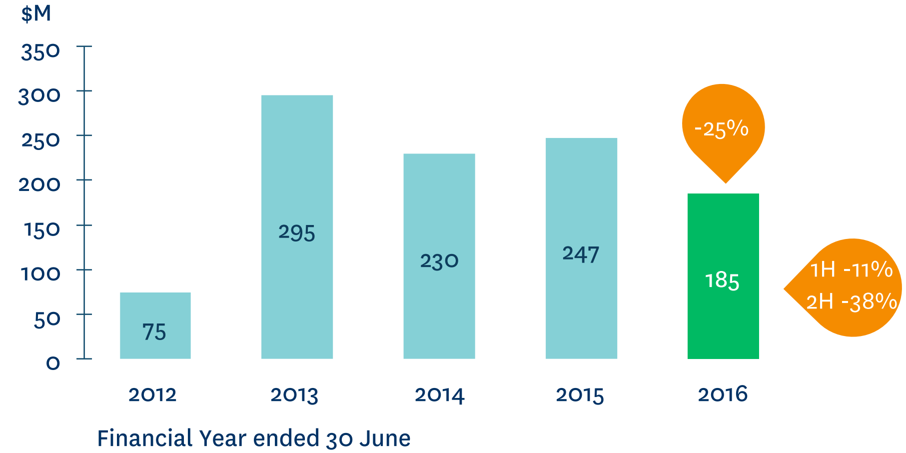




Below EBITDAF

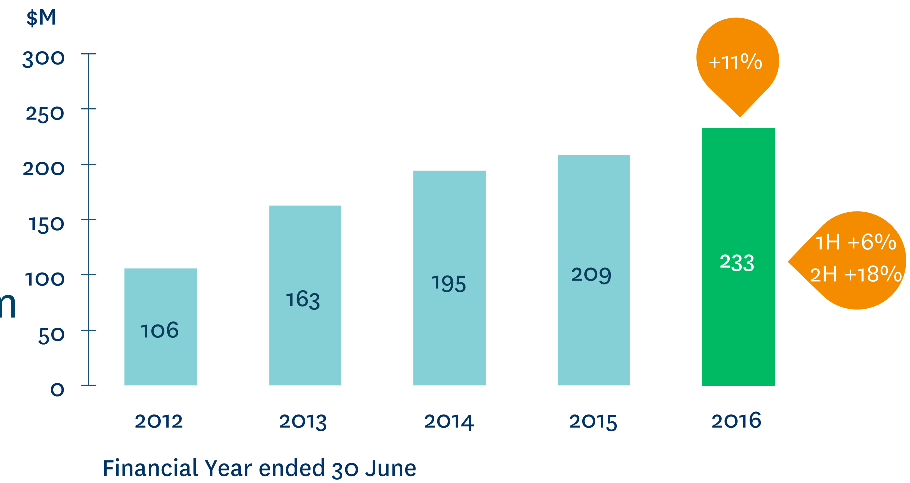
- Net finance costs flat as higher floating rate borrowings were offset by post hedging interest rates
- Negative change in fair value of treasury instruments reflecting declining forward interest rates curves in FY2016
- Negative change in fair value of electricity hedges
  - Rising LGC prices in 1H FY2016 have given rise to unrealised fair value losses on forward contracts
  - Offset by gains on NZ hedge book
- Partial reversal of Australian impairments
- FY2015 tax expense affected by $28m CGT provision release and $34m reduction from resolution of powerhouse deductibility
- Trustpower Supreme Court judgement creates future tax uncertainty for infrastructure providers

NET PROFIT AFTER TAX



[1]Net profit after tax adjusted for the effects of non cash fair value movements and one-off items. A reconciliation between net profit after tax and underlying net profit after tax is on p36

UNDERLYING NPAT[1]



Concluding remarks

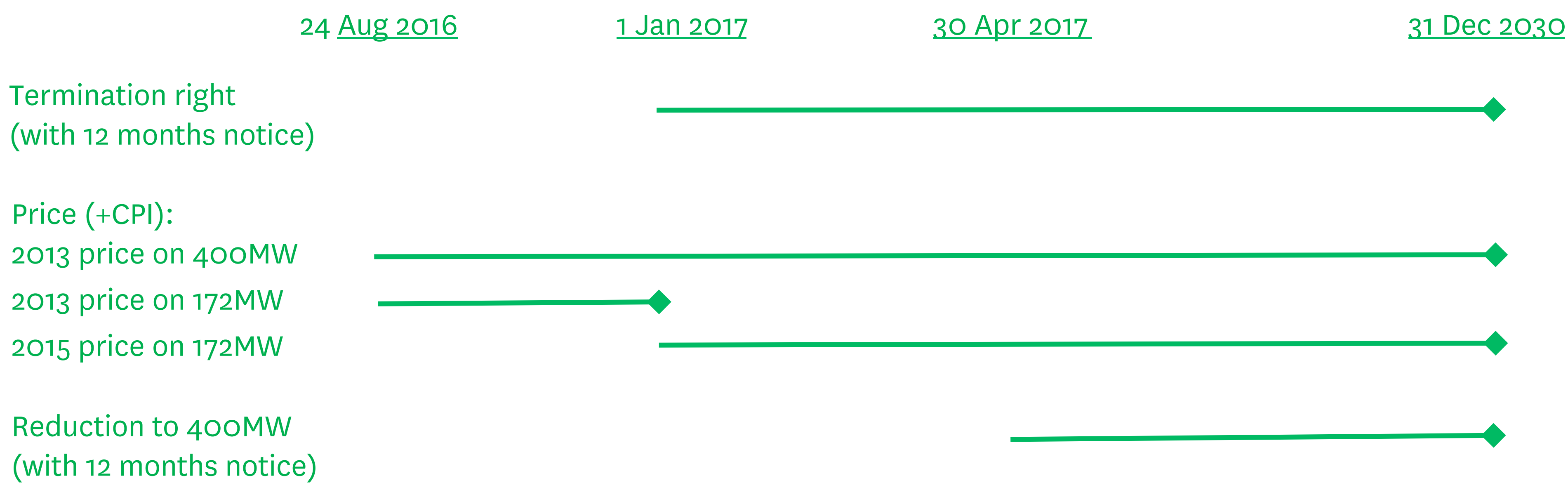
- Started FY2017 with high storage and strong July generation
- Expect greater volatility in wholesale prices during peak and dry periods
- Delivering on Powershop UK initiative
- NZAS price increase from 1 January 2017 and perpetual right of termination commences (with 12-months notice)
- Resolution of TPM review will bring certainty on future transmission costs

Questions

Additional information

Tiwai Point smelter contract

- Contract terms (other than price) similar to those previously agreed
- Price on 400MW unchanged from 2013 variation, higher price on 172MW from 1 January 2017
- Window to give 12 months notice to reduce to 400MW extended to 1 April 2016, then any time after 30 April 2017
- Other generators provided back to back cover of varying quantity and tenure



New Zealand retail

Customer connections

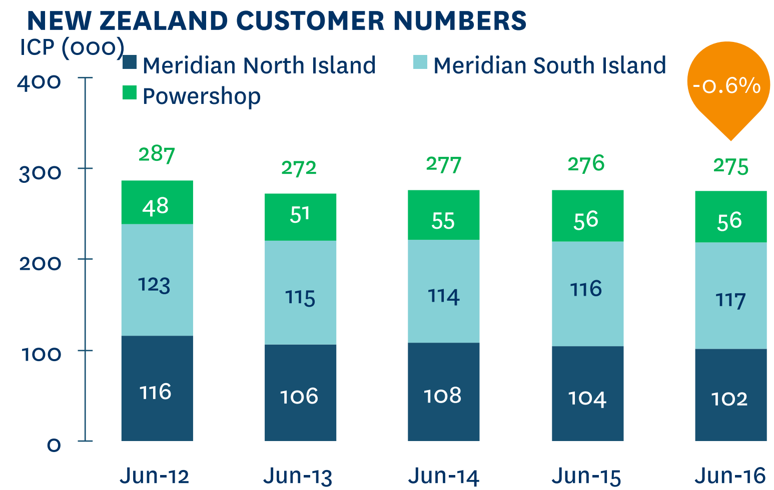
- -0.6% decline in ICP numbers since June 2015, reflecting aggressive residential sales activity and greater SMB focus

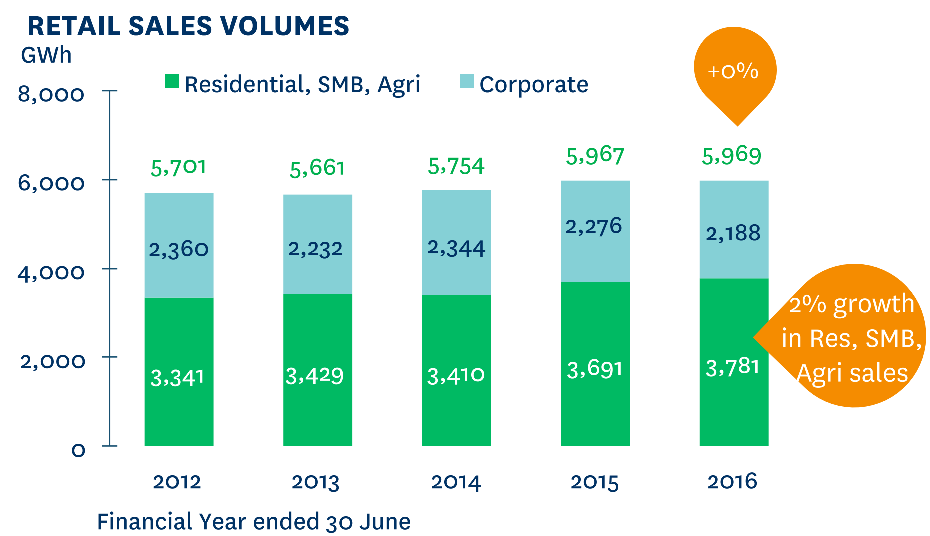
Residential, SMB, Agri segment

- +2% increase in volumes
- +3% increase in average price with inflation based price changes for some networks

Corporate segment

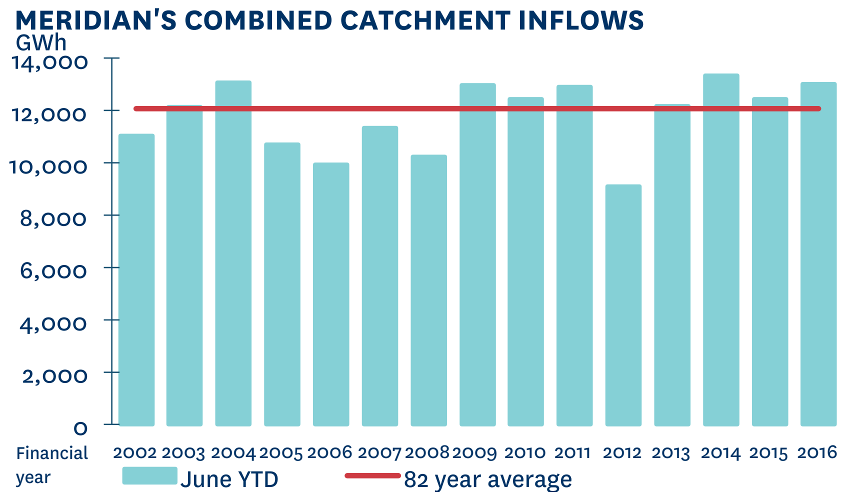
- -4% decrease in volumes
- +1% increase in average price broadly in line with movements in the forward market

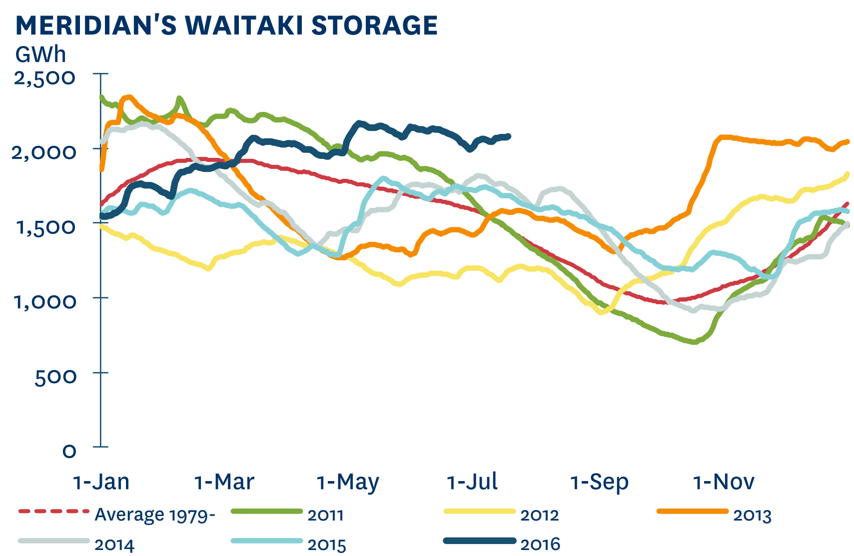




Hydrology

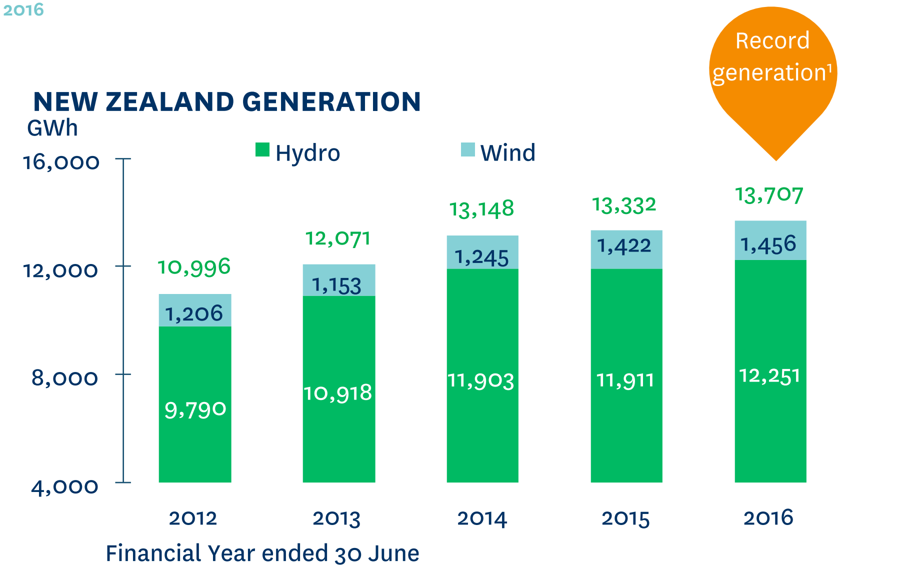
- Inflows for the year ended June 2016 were 108% of historical average
- July 2016 inflows were 168% of historical average
- Meridian's Waitaki catchment storage at 30 June 2016 was 133% of historical average
- By 31 July 2016, this storage position was 155% of historical average

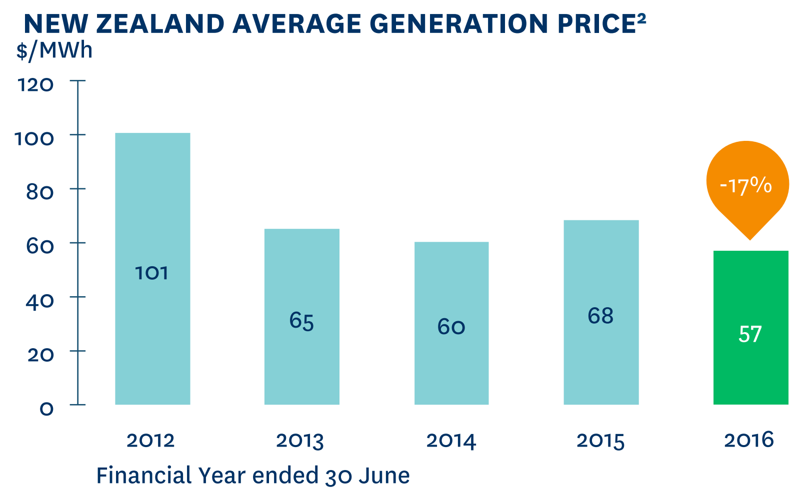




New Zealand generation

- For the year ended 30 June 2016, Meridian's New Zealand generation was 3% higher than the same period last year
- Record level of total New Zealand generation (Tekapo adjusted)
- Generation from both the Manapōuri station and the total wind portfolio were at record levels
- For the year ended 30 June 2016, the average price Meridian received for its generation was 17% lower than the same period last year
- Similarly, the price Meridian paid to supply contracted sales for the year ended 30 June 2016 was 16% lower than last year



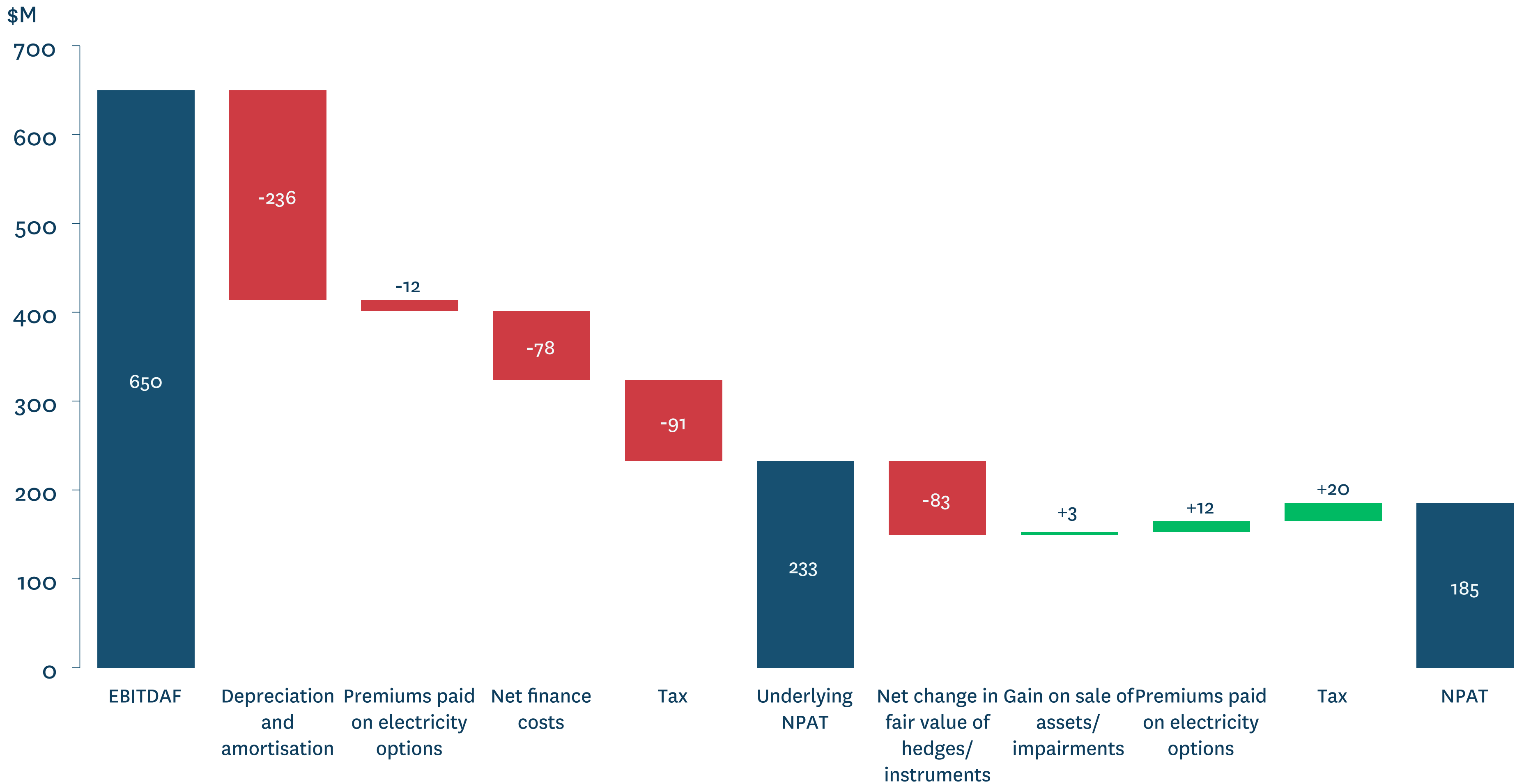


[1]Excluding generation from the Tekapo power stations for the years ended 2011 and earlier
[2]Price received for Meridian's physical New Zealand generation

Movement in EBITDAF FY2015 to FY2016

EBITDAF and net profit after tax

FY2016 EBITDAF TO NPAT RECONCILIATION



New Zealand energy margin

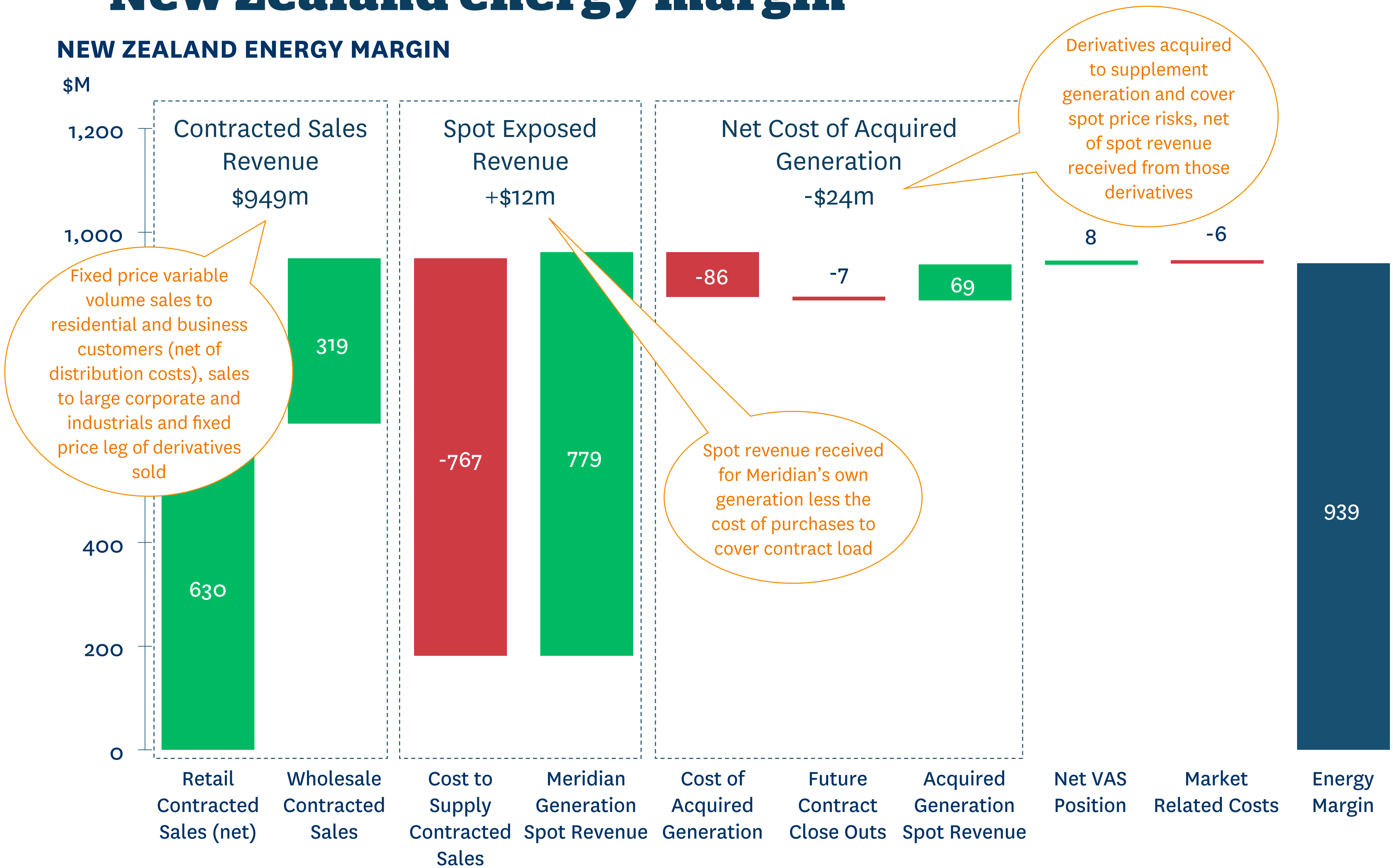
- Energy margin is a non-GAAP financial measure representing Energy Sales Revenue less Energy Related Expenses and Energy Distribution Expenses
- Energy margin is used to measure the vertically integrated performance of the retail and wholesale businesses. This measure is used in place of statutory reporting which requires gross sales and costs to be reported separately, therefore not accounting for the variability of the wholesale spot market and the broadly offsetting impact of wholesale prices on the cost of retail electricity purchases
- Energy margin is defined as:
  - \+ revenues received from sales to customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers), sales to large industrial customers and fixed price revenues from derivatives sold (Contract sales revenue)
  - ± the net position of virtual assets swaps with Genesis Energy and Mercury
  - − the cost of fixed cost of derivatives acquired to supplement generation and manage spot price risks, net of spot revenue received for generation acquired from those derivatives (Net cost of acquired generation)
  - ± revenue from the volume of electricity that Meridian generates that is in excess of volumes required to cover contracted customer sales (Spot exposed revenues)
  - ± other associated market revenues and costs including Electricity Authority levies and ancillary generation revenues (i.e. frequency keeping)

New Zealand energy margin

NEW ZEALAND ENERGY MARGIN	FY2016 VOLUME GWh	FY2016 VWAP $/MWh	FY2016 $M	FY2015 VOLUME GWh	FY2015 VWAP $/MWh	FY2015 $M
Residential/SME contracted sales	3,781			3,691		
Corporate and industrial contracted sales	2,188			2,276		
Retail contracted sales	5,969	$105.7	$630	5,967	$102.9	$614
NZAS aluminium sales	5,024			5,011		
Sell side CFDs	1,280			1,100		
Wholesale contracted sales	6,304	$50.6	$319	6,111	$51.0	$311
Net VAS position	1,152		$8	1,148		$10
Acquired generation revenue	1,130	$61.0	$69	1,054	$64.9	$68
Cost of acquired generation	1,130	($75.8)	($86)	1,054	($80.2)	($84)
Future contract close outs			($7)			($15)
Net cost of acquired generation			($24)			($31)
Generation revenue	13,707	$56.9	$779	13,322	$68.2	$908
Costs to supply retail sales	6,251			6,309		
Costs to supply wholesale sales	6,304			6,111		
Cost to supply contracted sales	12,555	($61.0)	($767)	12,420	($72.8)	($903)
Net spot exposed revenue			$12			$5
Other market revenue/(costs)			($6)			($9)
Energy Margin			**$939**			**$900**
LWAP:GWAP[1]			1.10			1.10

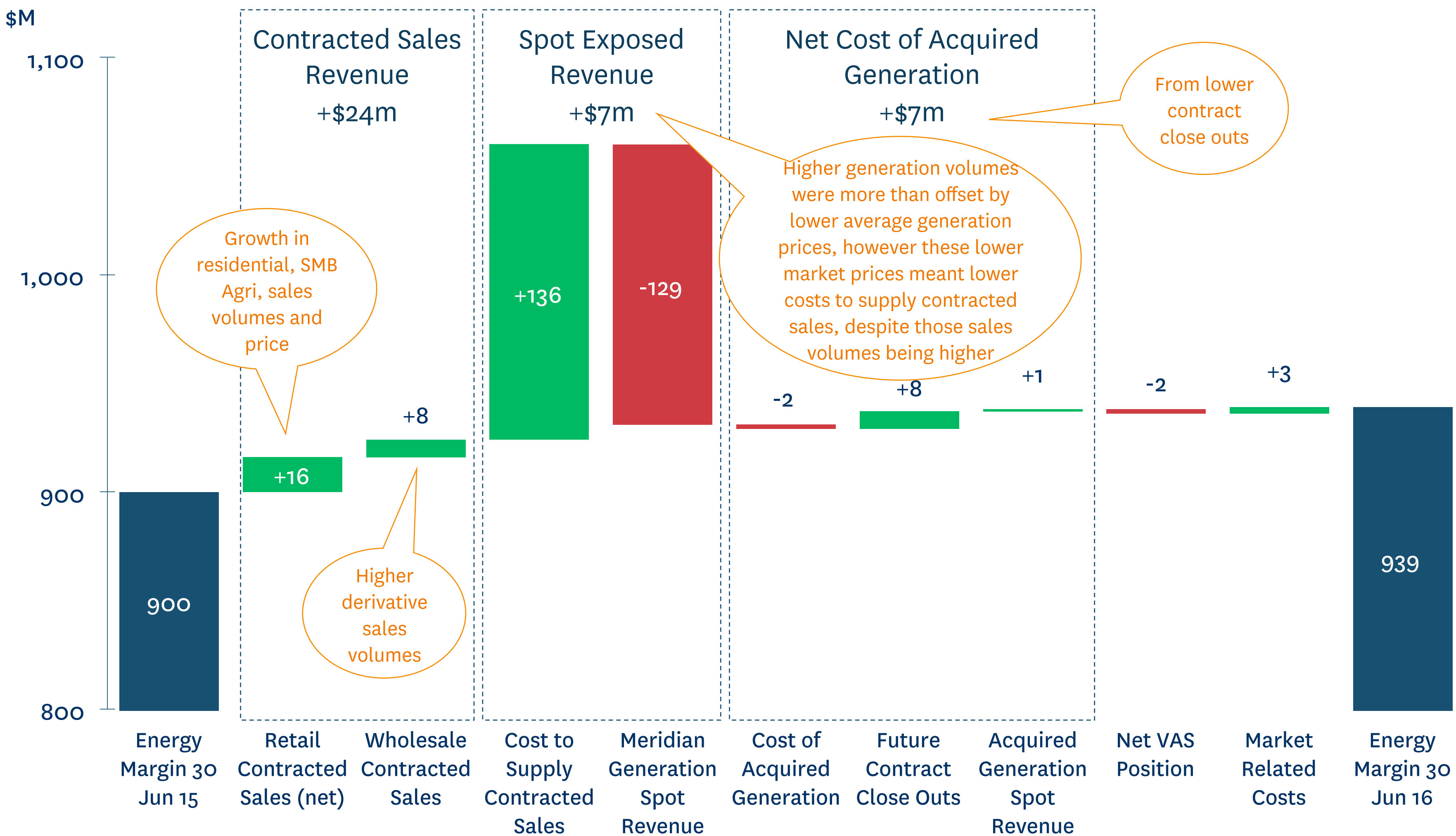
[1]Ratio between the price per unit received for Meridian's physical generation and the price paid to supply each unit of contracted sales, inclusive of line losses

New Zealand energy margin



Movement in energy margin FY2015 to FY2016

NEW ZEALAND ENERGY MARGIN



Other revenue

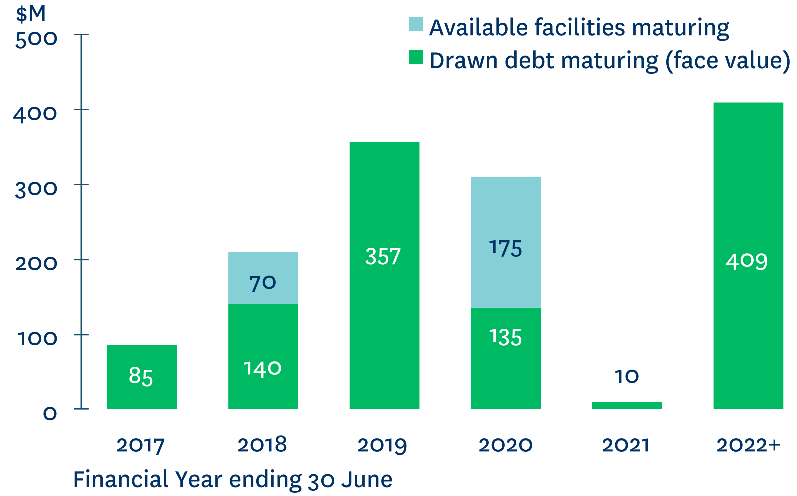
SUMMARY OF OTHER REVENUE	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
	FINANCIAL YEAR ENDED 30 JUNE				
Retail service revenue (field services etc)	6	8	10	8	7
Arc Innovations	-	3	6	6	5
Damwatch	5	5	5	5	4
Energy for Industry	-	-	-	0	0
Miscellaneous[1]	5	7	2	4	5
Farming	-	1	3	2	2
Lease income	1	1	1	2	2
Carbon credits	0	0	0	3	2
Total other revenue	**17**	**25**	**27**	**30**	**27**

[1]Includes settlement of insurance proceeds in the year ended 30 June 2015

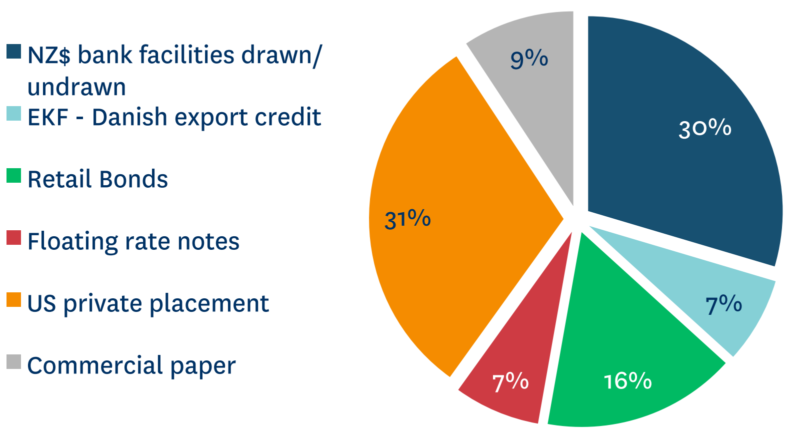
Funding

- Total borrowings as at 30 June 2016 of $1,214m, up $138m from 30 June 2015
- Net debt[1] as at 30 June 2016 of $1,168m, up +$123m (+12%) from 30 June 2015
- Committed bank facilities of $1,511m as at 30 June 2016, of which $375m were undrawn
- Net finance costs flat as higher floating rate borrowings were offset by post hedging interest rates

DEBT MATURITY PROFILE AS AT 30 JUNE 2016



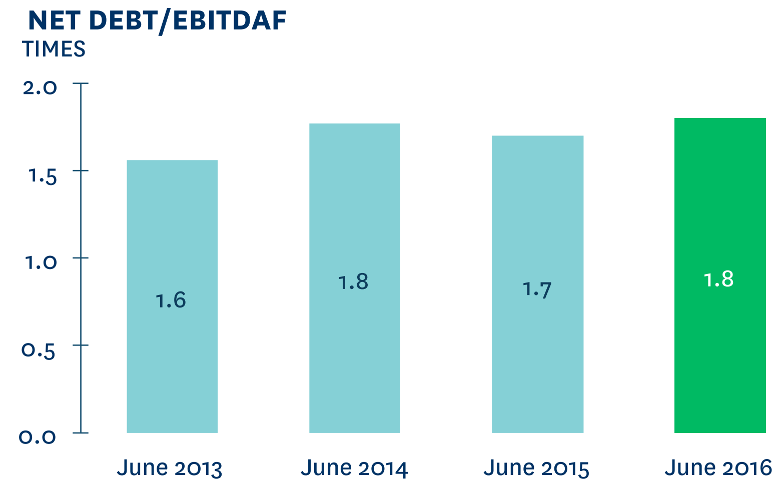
SOURCES OF FUNDING AS AT 30 JUNE 2016



[1]As defined by Standard and Poor's. Refer to page 33 for a breakdown of net debt

Funding metrics

- Net debt/EBITDAF is the principal metric underpinning S&P credit rating
- S&P calculation of Net debt/ EBITDAF includes numerous adjustments to reported numbers
  - Borrowings are adjusted for the impact of finance and operating leases
  - Cash balances are adjusted for restricted cash
  - Includes a cash buffer at 25% of unrestricted cash and cash equivalents

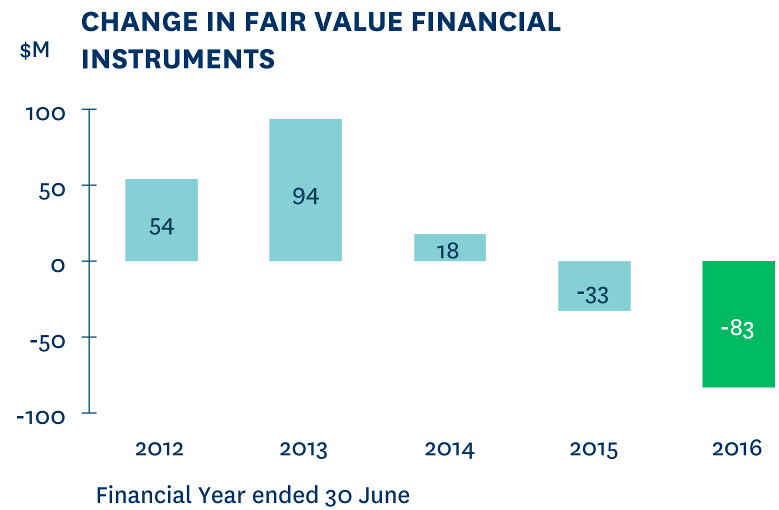


NET DEBT TO EBITDAF	FINANCIAL YEAR ENDED 30 JUNE 2016 $M	2015 $M	2014 $M
Drawn borrowings	1,136	991	1,146
Finance lease payable	48	52	49
Operating lease commitments	59	37	42
Less: cash and cash equivalents	(118)	(69)	(276)
Add back: restricted cash	18	22	7
Add back: cash buffer[1]	25	12	67
Net debt (A)	**1,168**	**1,045**	**1,035**
EBITDAF (B)	**650**	**618**	**585**
Net debt to EBITDAF (times) (A/B)	**1.8**	**1.7**	**1.8**

[1]Calculated as 25% of unrestricted cash and cash equivalents

Fair value movements

- Meridian uses derivative instruments to manage interest rate and foreign exchange risk
- As forward prices and rates on these instruments move, non cash changes to their carrying values are reflected in NPAT
- Accounting standards only allow hedge accounting if specific conditions are met, which creates NPAT volatility
- Negative change in fair value of treasury instruments reflecting declining forward interest rates curves in FY2016
- Negative change in fair value of electricity hedges
  - Rising LGC prices in 1H FY2016 have given rise to unrealised fair value losses on forward contracts
  - Offset by gains on NZ hedge book



Group income statement

SUMMARY GROUP INCOME STATEMENT	FINANCIAL YEAR ENDED 30 JUNE 2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
New Zealand energy margin	939	900	891	865	740
International energy margin	70	54	33	51	23
Other revenue	17	25	27	30	27
Energy transmission expense	(128)	(123)	(129)	(115)	(86)
Employee and other operating expenses	(248)	(238)	(237)	(246)	(227)
EBITDAF	**650**	**618**	**585**	**585**	**477**
Depreciation and amortisation	(236)	(239)	(220)	(220)	(225)
Impairment of assets	4	(38)	-	(25)	(60)
Gain/(loss) on sale of assets	(1)	19	7	107	(2)
Equity accounted earnings of joint ventures	-	-	-	-	(3)
Net change in fair value of electricity and other hedges	(15)	(1)	(9)	51	122
Net finance costs	(78)	(78)	(73)	(114)	(83)
Net change in fair value of treasury instruments	(68)	(32)	27	43	(68)
Net Profit before tax	**256**	**249**	**317**	**427**	**158**
Income tax expense	(71)	(2)	(87)	(132)	(83)
Net Profit after tax	**185**	**247**	**230**	**295**	**75**

Group underlying NPAT

UNDERLYING NPAT RECONCILIATION	FINANCIAL YEAR ENDED 30 JUNE 2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Net profit after tax	**185**	**247**	**230**	**295**	**75**
Underlying adjustments					
Hedging instruments					
Net change in fair value of electricity and other hedges	15	1	9	(51)	(122)
Net change in fair value of treasury instruments	68	32	(27)	(43)	68
Premiums paid on electricity options	(12)	(15)	(20)	(18)	(15)
Assets					
Gain/(loss) on sale of assets	1	(19)	(7)	(107)	2
Impairment of assets	(4)	38	-	25	60
Total adjustments before tax	**68**	**37**	**(45)**	**(194)**	**(7)**
Taxation					
Tax effect of above adjustments	(20)	(13)	10	62	13
Release of capital gains tax provision	-	(28)	-	-	-
Tax depreciation on powerhouse structures	-	(34)	-	-	24
Impact of tax rate changes	-	-	-	-	1
Underlying net profit after tax	**233**	**209**	**195**	**163**	**106**

Group cash flow statement

SUMMARY GROUP CASH FLOW STATEMENT	FINANCIAL YEAR ENDED 30 JUNE				
	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Receipts from customers	2,348	2,348	2,083	2,390	2,515
Interest and dividends received	2	8	9	2	8
Payments to suppliers and employees	(1,723)	(1,742)	(1,480)	(1,812)	(2,049)
Interest and Income Tax Paid	(175)	(174)	(179)	(162)	(152)
Operating cash flows	**452**	**440**	**433**	**416**	**322**
Sale of property, plant and equipment	-	19	41	1	3
Sale of other assets	5	29	21	152	-
Finance Lease Receivable/Payable (net)	-	-	-	-	1
Purchase of property, plant and equipment	(42)	(131)	(284)	(245)	(510)
Capitalised Interest	-	-	(9)	(6)	(7)
Purchase of intangible assets and investments	(19)	(16)	(23)	(26)	(12)
Investing cash flows	**(56)**	**(99)**	**(254)**	**(124)**	**(525)**
Proceeds from borrowings	634	366	134	1,116	944
Shares purchased for long term incentive	(1)	(2)	(1)	-	-
Dividends and finance lease paid	(502)	(385)	(261)	(100)	(141)
Term borrowings	(478)	(527)	(154)	(1,117)	(754)
Financing cash flows	**(347)**	**(548)**	**(282)**	**(101)**	**49**

Group balance sheet

SUMMARY GROUP BALANCE SHEET	FINANCIAL YEAR ENDED 30 JUNE				
	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Cash and cash equivalents	118	69	276	383	214
Trade receivables	194	191	183	262	298
Other current assets	94	74	64	121	59
Total current assets	**406**	**334**	**523**	**766**	**571**
Property, plant and equipment	7,771	7,097	6,929	6,769	7,964
Intangible assets	47	47	54	55	27
Other non-current assets	314	183	84	147	131
Total non-current assets	**8,132**	**7,327**	**7,067**	**6,971**	**8,122**
Payables, accruals and employee entitlements	220	208	236	275	286
Current portion of term borrowings	214	213	133	147	248
Other	79	57	97	98	59
Total current liabilities	**513**	**478**	**466**	**520**	**593**
Term borrowings	1,000	863	959	1,034	1,578
Deferred tax	1,617	1,400	1,350	1,364	1,444
Other	358	172	181	131	252
Total non-current liabilities	**2,975**	**2,435**	**2,490**	**2,529**	**3,274**
Net assets	**5,050**	**4,748**	**4,634**	**4,688**	**4,826**

Glossary

Acquired generation volumes	buy-side electricity derivatives excluding the buy-side of virtual asset swaps
Average generation price	the volume weighted average price received for Meridian's physical generation
Average retail contracted sales price	volume weighted average electricity price received from retail customers, less distribution costs
Average wholesale contracted sales price	volume weighted average electricity price received from wholesale customers, including NZAS
Combined catchment inflows	combined water inflows into Meridian's Waitaki and Waiau hydro storage lakes
Cost of acquired generation	volume weighted average price Meridian pays for derivatives acquired to supplement generation
Cost to supply contracted sales	volume weighted average price Meridian pays to supply contracted customer sales
Contracts for Difference (CFDs)	an agreement between parties to pay the difference between the wholesale electricity price and an agreed fixed price for a specified volume of electricity. CFDs do not result in the physical supply of electricity
Customer connections (NZ)	number of installation control points, excluding vacants
FRMP	financially responsible market participant
GWh	gigawatt hour. Enough electricity for 125 average New Zealand households for one year
Historic average inflows	the historic average combined water inflows into Meridian's Waitaki and Waiau hydro storage lakes over the last 81 years
Historic average storage	the historic average level of storage in Meridian's Waitaki catchment since 1979
HVDC	high voltage direct current link between the North and South Islands of New Zealand
ICP	New Zealand installation control points, excluding vacants
ICP switching	the number of installation control points changing retailer supplier in New Zealand, recorded in the month the switch was initiated
MWh	megawatt hour. Enough electricity for one average New Zealand household for 46 days
National demand	Electricity Authority's reconciled grid demand www.emi.ea.govt.nz
NZAS	New Zealand Aluminium Smelters Limited
Retail sales volumes	contract sales volumes to retail customers, including both non half hourly and half hourly metered customers
Sell side derivatives	sell-side electricity derivatives excluding the sell-side of virtual asset swaps
Virtual Asset Swaps (VAS)	CFDs Meridian has with Genesis Energy and Mightly River Power. They do not result in the physical supply of electricity

meridian

Powering today, protecting tomorrow

Dear Investor

Our results for the year ended 30 June 2016 are now available.

2016 HIGHLIGHTS

Delivering returns to shareholders 33% TOTAL SHAREHOLDER RETURN[1]	***EBITDAF[2] GROWTH*** 5%	***Building on our reputation*** Dow Jones Sustainability Indices
Caring for our communities $1.5M GRANTED TOWARDS COMMUNITY PROJECTS AND SPONSORSHIP PARTNERS	***New markets*** Powershop launched in NSW	***Enhancing our digital capability*** 58% INCREASE IN CUSTOMERS USING MyMeridian, OUR ONLINE ENERGY MANAGEMENT TOOL

1 Movement in share price plus total dividends declared.

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

Report from our Chair and Chief Executive

2015/16 HAS PROVED TO BE A VERY GOOD YEAR, WITH MERIDIAN GENERATING A RECORD LEVEL OF OPERATING CASH. EBITDAF AND UNDERLYING NET PROFIT BOTH IMPROVED FOR THE FOURTH YEAR IN A ROW. THIS RESULT IS DUE TO A NUMBER OF OPERATIONAL IMPROVEMENTS THAT STRENGTHENED OUR WHOLESALE TRADING POSITION, A WETTER, LATE SUMMER AND AUTUMN IN OUR HYDRO CATCHMENTS, AND IMPROVED PERFORMANCE FROM OUR RETAIL OPERATION

CHRIS MOLLER
Chair

MARK BINNS
Chief Executive

Overall, demand for electricity in New Zealand increased by 0.3% during the year with a very mild early winter, and Meridian produced around 32% of New Zealand's total electricity needs.

While overall market demand levels remained virtually static, supply reduced, with competitors closing thermal plants in the upper North Island, with an aggregate capacity of more than 800MW over the last year. Furthermore, Genesis Energy signalled its intention to close its remaining Rankine units at Huntly in December 2018. This additional reduction in capacity would have had a significant impact on the market during periods of peak demand and low lake levels. However, following an extensive period of negotiations Genesis was able to secure extended bilateral contracts with Meridian and other market participants to provide dry and peak period back-up to the market through to December 2022. In Meridian's view this is positive for Meridian, Genesis, the industry and consumers as a whole.

New Zealand is the envy of many countries, having the fourth-highest level of renewable generation in the OECD, yet access to additional capacity to meet any shortfall in supply, resulting from drought or peak winter demand remains essential. At this stage the need for occasional thermal back-up clearly remains the most economical option for our electricity system.

There are 31 retail brands in New Zealand. Competition is intense and we do not see the retail landscape changing. Customers have significant choice and Meridian will continue to focus on winning and retaining customers with fair pricing and excellent service.

The Electricity Authority's (EA's) review of transmission pricing moved one stage closer to completion with the issue of its final options paper in May this year. The direction in which the EA is heading looks to provide a far more equitable basis for allocating transmission costs. If the final determination maintains this course, Meridian will be able to contemplate a fairer transmission charging regime before 2020, with an associated reduction in the disproportionate level of transmission costs it currently has to absorb.

Financial performance and shareholder returns

Operating earnings for the year measured by EBITDAF were up 5% on the previous year. Retail contracted sales were higher in both New Zealand and Australia this year. Higher levels of water storage allowed Meridian to sell more generation and meant it cost the company less to purchase hedge cover to supplement its generation.

Net cash flow from operating activities at $452 million was up largely as a result of a better operating performance.

It was again pleasing to see a total shareholder return for the year of 33%, exceeding the NZX 50 average of 20%. The total shareholder return since listing has been 118%, and this is based on the assumption that the full $1.50 issue price was paid up front at the time of the Initial Public Offering.

Dividends and capital management

The Board has declared a final ordinary dividend of 8.40 cents per share (cps), which brings the total ordinary dividend declared for this financial year to 13.50 cps. This is nearly a 5% uplift on last year. Ordinary dividends declared in the three financial years since listing have increased by 2.49 cps or 23%.

Pursuant to Meridian's capital management programme, the Board again has considered the financial position of the company, trading prospects and alternative uses of any excess capital in determining whether to continue the programme. Meridian's strong financial position has allowed the Board to declare a final special dividend of 2.44 cps, bringing the amount paid via special dividends to $125 million for this financial year. In making this decision the Board did consider the possibility of a share buyback, the parameters within which a buyback could be executed, and fairness to shareholders wishing to sell or to hold shares.

Meridian has distributed $187.5 million since it began its capital management programme in August 2015. The balance sheet remains strong, with net borrowings after payment of the dividends in October projected to be $1.2 billion. This leaves the company with sufficient headroom to absorb any period of poor hydrology or pursue any growth opportunity should it arise.

Working safely

Meridian continues to build on its safety foundation with a strong focus on people and attitudes. Actively engaging staff to identify opportunities to enhance our safety processes and culture has been a continued commitment.

To ensure that senior management and the Board have a clear understanding of safety, the information we capture and report on has been adapted to ensure a focus on the lead indicators of and triggers for risk. This means the Board now has greater visibility of risks and mitigations in place and can provide strong governance to ensure the safety of all.

Owing to an increase in contractor engagement in our Retail business to support smart meter deployment, a dedicated safety support person has been embedded into the business unit to ensure health and safety is considered for all stakeholders involved in the process. This has resulted in improved reporting from our supply chain, with team members identifying incidents that have not always been previously captured and investigated. Sharing this information across all major electricity retailers will help make for a stronger industry safety performance.

Staylive, a generation-retailer safety forum, continues to work on a number of sector initiatives aiming to support consistency in high-risk areas such as work controls and confined spaces and in the training and competence of contractors.

Building and maintaining a safe culture is ongoing and requires attention. This year's staff engagement survey results for the safety, health and wellbeing questions noted 91.8% of staff agreeing that Meridian takes safety and health seriously. This is an increase from the previous year's score.

Tīwai Point smelter

In last year's report we provided a history of negotiations with the smelter owner, New Zealand Aluminium Smelters Limited (NZAS). In the past year we have had numerous discussions with NZAS on the ongoing challenges the smelter faces with continued low aluminium prices and a persistently high New Zealand dollar. The next milestone of significance will be 1 January 2017, when NZAS obtains a perpetual right to provide 12 months' notice to terminate its Electricity Supply Agreement with Meridian. A price increase also becomes effective from this date. One area that may positively affect NZAS's cost base is the outcome of the Transmission Pricing Review by the EA. As noted, this long-running review moved a stage closer to conclusion this year. If the EA's decision is finalised by the end of the year it will provide NZAS with a path to lower transmission costs. However, until such time as we see a sustained recovery in aluminium prices and a reduction in the NZD/USD exchange rate, it is difficult to assume with confidence that the smelter's long-term future is secure.

Continued uncertainty around this agreement is something that the industry has come to manage.

Customers

The year saw aggregate customer load in New Zealand flat with higher mass market sales offset by a reduction in commercial and industrial sales. While load was flat, actual customer numbers measured by connection points declined by 1% to 274,920.

This decline in customer numbers was principally in the residential segment as competition became even more intense, with more electricity brands in the market and aggressive pricing by major players. Meridian's residential position was partially compensated for by an improvement in the small and medium business (SMB), segment where customer numbers grew by 13%. It is also relevant to note that SMB customer connections tend to have an average annual usage two to three times that of residential customer connections.

A key focus has been the rollout of smart meters to our customers, with the goal of having 90% of customers on smart meters by March 2017. This infrastructure will both improve the customer experience and reduce cost. In conjunction with our online services, customers will be able to monitor usage patterns and amounts spent at daily and hourly levels and be alerted to changing consumption patterns. Meridian's internal processes will also be made more efficient with fewer bill estimations required, providing a more accurate service and allowing us to address customer issues remotely.

Meridian has launched a new online self-service tool that will help corporate customers better manage their electricity and access data from one place. We have 64,380 customers registered with MyMeridian and provide e-billing for 70% of customers.

During the year we announced a partnership with accounting software company Xero, allowing business customers to receive invoices directly into their Xero accounting systems.

New technologies continue to interest a number of customers and we have continued to see solar customers increase, to 3,856 at the end of the year, up 17% on last year. While the economics of household solar at this point are not compelling in New Zealand, we recognise and support customers who want to adopt this technology. Meridian's buyback offer for surplus energy produced by solar customers remains very competitive. The emergence of new battery solutions also provides longer-term opportunities for customers, but again New Zealand's industry structure and high rate of renewable electricity, combined with large-scale energy storage, mean that residential and commercial customers looking to adopt the technology will face challenging economics until battery prices reduce significantly. This reduction in cost will occur over time and we anticipate that network companies will be the first to make use of large-scale batteries to avoid costly capital expenditure to meet peak demand requirements.

Electric vehicles (EVs) will prove to be a very positive initiative in New Zealand. With over 80% of our electricity coming from renewable resources there is a real opportunity to help decarbonise the transport sector, which currently contributes approximately 20%[3] of New Zealand's carbon emissions. Meridian welcomed the Minister of Energy and Resources, Simon Bridges package of initiatives in April this year to aid the growth of EV market penetration. In Canterbury we are working closely with the Christchurch EV Forum to deploy public EV charging stations and, among other things, have partnered with Kiwi Property to deploy charging stations in four shopping malls around the country.

3 Ministry of Transport.

People

In June we received the results of the annual employee engagement survey, and it was exceptionally pleasing to see the results improve for the second year in a row to an overall score of 82%, significantly ahead of the energy sector benchmark of 74%, but with still some way to go to get to a top-10% rating. Another improving metric is the percentage of staff participating in the company's share ownership scheme, known as MyShare. This year over 48% of all eligible employees were enrolled in the scheme, which applies an elected amount from each employees' monthly salary to purchase Meridian shares. Having nearly half your employees as owners of the business, no matter how small that ownership may be, is very gratifying. Share ownership encourages Meridian staff to think like shareholders and supports us in increasing engagement.

During the year we had a number of movements in the Executive team, with the Chief Executive of Meridian Energy Australia, the General Manager, Information and Communications Technology (ICT) and the General Manager, Retail resigning. It is gratifying that two of these roles were replaced by executives from within the organisation who had been identified as potential replacements through Meridian's succession planning process.

Neal Barclay, Meridian's General Manager, Markets and Production, was appointed to the role of General Manager, Retail. Guy Waipara, Meridian's General Manager, External Relations, was appointed to the role of General Manager, Markets and Production. Ed McManus joined the Executive team as Chief Executive of Powershop Australia. It is satisfying that investment in our own people has given us the bench strength to fill these roles.

The only external appointment was Sandra Pickering, who assumed the General Manager, ICT role in July 2016. Sandra comes to us with a long career at Vodafone and her depth of experience will add considerable value to not only our ICT operations but to the wider team.

Ensuring that our people have a pleasant, healthy and safe working environment is important. In May we opened a new office building in Twizel. This building is significantly more user friendly than its predecessor, aiming to be approximately 40% more energy efficient with state-of-the-art heating and cooling systems. In Christchurch we are within weeks of moving to our new premises in Durham Street, back inside the CBD – some six years after the first Canterbury earthquakes. This move will mark a significant step up in space efficiency and layout compared with our existing Christchurch premises in Moorhouse Avenue, which provided a temporary base after the earthquakes. The resilience and adaptability of our Christchurch workforce in this post-earthquake journey needs to be acknowledged.

Staff turnover remains at a very low level and the total number of permanent employees in the Group at the end of June 2016 was 866.

Efforts to make gains in the area of diversity and inclusion (D&I) in our workforce have led to our achieving a steady shift towards some key goals to increase the number of senior women in our organisation and the ethnic diversity of our customer-facing roles. It is pleasing to see a sustained effort in this space, which is culmination of a number of activities across the organisation. See Our People section later in this report for more information on the work we are doing to improve our focus on D&I.

Sustainability

Meridian's commitment to generating electricity from only renewable resources is at the core of what makes us a sustainable business. As the largest electricity generator in New Zealand, Meridian is the most significant contributor to the Government's target of 90% renewable electricity generation by 2025. This year New Zealand has generated 82%[4] of its electricity through renewable sources.

Our business strategy identifies areas critical to our success and reflects a wide range of factors, including shareholder expectations, iwi and community interests in water rights and allocation, and our customers' energy needs. The sustainability framework we use helps us to measure and monitor our performance in this range of economic, environmental and social goals.

A continual focus on measuring and reducing emissions also remains a priority for Meridian. We measure emissions from our corporate activities (including car and air travel, waste and office electricity). We are on track to meet our target of reducing greenhouse gas emissions by 10% per full-time employee by 2018. This year our corporate emissions were 2,664 tonnes of CO_2 equivalent (tCO_2e).

This year we became one of two New Zealand companies on the Dow Jones Sustainability Asia Pacific Index. The Dow Jones Sustainability Indices (DJSI) are considered to be among the most credible of the sustainability indices internationally. Joining the DJSI shows us that our sustainability framework has the right components across economic, environmental and social dimensions and provides customers, shareholders and communities with confidence that Meridian operates responsibly and consistently with our aim of being a high-performing and resilient business.

In Australia, Powershop customer numbers were almost 78,000, which is more than those of Powershop in New Zealand. Powershop Australia is carbon neutral (National Carbon Offset Standard Australia) and has earned the honour of most satisfied customers in Victoria (Canstar Blue) and Best Energy Company for Service (ServiceRage), and for the second year in a row was ranked by Greenpeace as Australia's greenest power company.

The external recognition we receive reflects our use of internationally agreed standards and reporting mechanisms consistent with good sustainability practice. This includes our continued use of the Global Reporting Initiative.

Growth and technology

Growth is a word that has been missing from the lexicon of most mainstream companies since the onset of the global financial crisis in 2008, as aggregate demand growth for most products and services has stalled, if not declined, exposing significant overcapacity in some industries and economies. The electricity industry in New Zealand has been no exception, but with demand growth averaging 1.4% in the past two years and the retirement of 825MW of thermal plants, the possibility of further generation being required earlier than previously thought has arisen. Our current forecasts are that, on the assumption the Tīwai Point smelter maintains production at current levels, new generation may be required by somewhere between 2019 and 2023. We believe this requirement will be met by incremental geothermal upgrades to existing plant, new wind farms and potentially some new gas peaking plant. The overhang from a potential Tīwai Point exit may discourage a major investment because of the high capital costs. Meridian expects at least one of its wind options to be close to the top of the merit order to meet New Zealand's new generation needs.

In Australia, the past year has seen lots of talk but little new renewable generation actually committed to. The ability of the industry to meet the Renewable Energy Target (RET) of 33,000GWh by 2020 hangs in the balance, with many now believing the reluctance to commit to projects will see a shortfall. Continued political uncertainty during the year has not helped, but hopefully it is clear to all, that if Australia is to make meaningful progress towards reducing carbon intensity in the electricity sector, bipartisan support must be maintained for the RET. That said, the results of the Australian federal election in July have not delivered a clear mandate to the Turnbull Government and further encouragement of the renewable industry through positive change to the RET scheme looks difficult at this point. This will be required if Australia is to meet COP21 commitments made in Paris.

4 Ministry of Business, Innovation and Employment electricity statistics as at March 2016.

During the year Meridian investigated an opportunity to participate in a utility-scale solar project that was part of the current round of ARENA (Australian Renewable Energy Agency) funding. This provided considerable learnings associated with solar opportunities in Australia, but the numbers did not justify our continued involvement. That said, the proposition for utility-scale solar in Australia is improving with the continued reduction in capital costs.

We are constantly reviewing how Meridian could participate directly in new technologies such as solar, energy storage and EVs, and we monitor overseas companies that are taking positions in these industries. With rapid changes in technology no overseas company seems to have established a sustainable business model at this point, other than some of the equipment manufacturers, and each country, including New Zealand, presents a unique set of market, regulatory and political dynamics that need to be taken into account when evaluating opportunities. To date we have not identified a significant opportunity that would warrant the commitment of shareholders' funds. We believe the better approach is to assist those customers who wish to adopt new technologies and to watch and wait for opportunities as they develop. We have promised to be judicious with shareholders' money and intend to maintain this discipline. We do not believe that we are suffering a competitive disadvantage as a result of this stance.

In November 2015 Meridian made the decision to franchise its Powershop systems and brand in the UK with npower, one of the UK's largest electricity retailers. While the opportunity was not without risk, it provided us with the right balance of potential benefit, relative to risk, to warrant investment. The team has already proved it can adapt the platform for a new country entry with the commencement of Powershop in Australia in 2013, and the UK provides an opportunity of greater scale, with a partner that understands and will assume energy market risk. A market launch is anticipated in early 2017.

Environment

Water

Water is central to Meridian's generation business, and it is crucial to New Zealand's wellbeing now and in the future. Progress on better water management has been made across New Zealand, in part due to the National Policy Statement for Freshwater Management. Having now been in place since 2011, it was modified significantly in 2014 and is currently under an 'implementation review'. The establishment of water quality limits in catchments is a positive step towards better water quality and water management. There is still important work to be done to improve allocation and address iwi rights and interests in fresh water. These issues are linked and it will be important to New Zealand, Meridian and our partners to have a strong track record of working collaboratively.

In June Environment Canterbury released its decision on the changes to the Waitaki Catchment Water Allocation Regional Plan, which was a victory for a collaborative approach to allocation in one of New Zealand's most economically important catchments. Meridian, Genesis Energy, Ngāi Tahu and irrigators agreed amendments to allocations and flow rates that provide a sustainable way forward in the catchment and an easier path through the re-consenting of our power stations in 2025, when consents come up for renewal.

Communities

This year we spent a total of $1.5 million on sponsorships and community projects. Our major sponsorship is KidsCan, a charity that provides targeted support to help children succeed at school in the form of food, clothing and health programmes. This remains an important partnership and it's pleasing to see the association with this charity being well supported on the ground by staff and through donations from our customers. This year we worked with KidsCan and schools close to our wind farms and hydro stations to provide a unique opportunity for children at the Meridian Tamariki Surf Camp. You can discover more about this project later in this report.

Meridian has been searching for an environmental sponsorship, reflecting our commitment to

sustainability. So it was with great satisfaction that in June this year we announced Meridian would become the principal sponsor of the Kākāpō Recovery Programme in partnership with the Department of Conservation. This partnership importantly provides another opportunity to work closely with Ngāi Tahu. Kākāpō are taonga and Ngāi Tahu plays a key role in the success of this important collaboration. Given Meridian is a guardian of some of New Zealand's most iconic assets, it makes sense that we put our efforts behind the ongoing conservation of this critically endangered species.

Outlook

Good inflows into our southern catchments during late summer and autumn meant that we commenced the new financial year in a strong hydro position, and at the end of July Waitaki catchment storage was 155% of average for that time of the year. Accordingly our average market share of generation was strong through to the end of July at over 35%.

Retail markets on both sides of the Tasman will remain competitive, but we are anticipating retaining overall market share in mass market segments of residential and SMBs. We expect to see a continuing focus on our costs in New Zealand, countering any further price pressure.

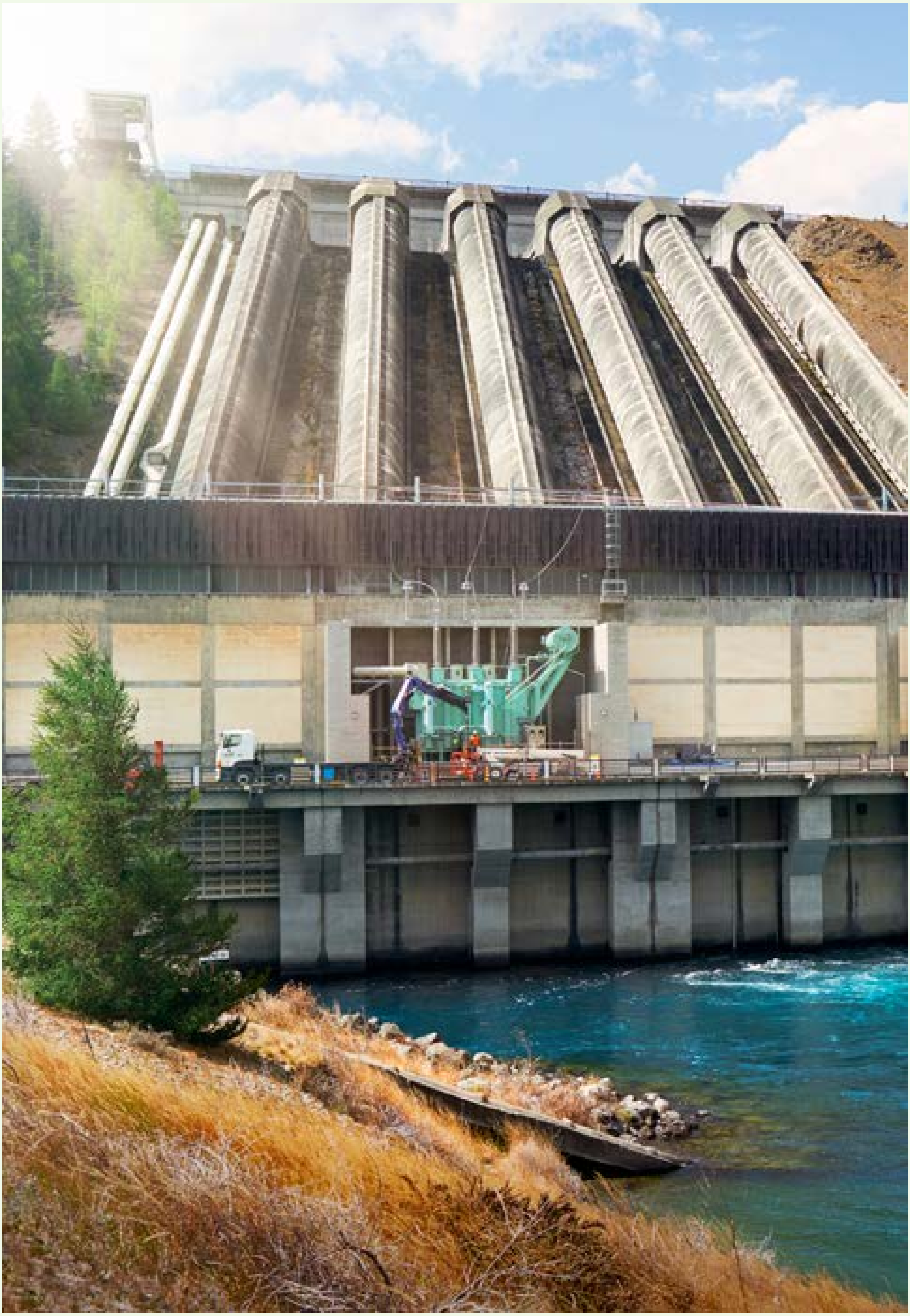
As noted earlier, NZAS will, from 1 January 2017, have a perpetual right of termination that will be exercisable on 12 months' notice. It is impossible to predict with any certainty how this will play out, but our working assumption is that NZAS will not terminate the Electricity Agreement in the current financial year.

As noted in our introduction, the supply side of the industry has been in focus. The recent withdrawal of 825MW of gas thermal plants, some 8% of total capacity, will almost certainly lead to greater volatility in wholesale prices during periods of peak demand (usually winter) and periods of drought. In fact recently we have seen trading periods where a combination of factors have led to periods of high wholesale prices.

Most consumers are immune to spot market fluctuations as they have fixed-price plans with their retailers, but those who choose to buy directly from the market do so, accepting that this volatility can occur. Large generators, such as Meridian, have an obligation to operate responsibly and within the rules established by the market regulator. We accept that market volatility, which is a normal feature of a well functioning wholesale market, is going to occur on a more regular basis than has occurred in the recent past.

While having the EA reach a final decision on its Transmission Pricing Review will not have any impact on the 2016/17 results, the resolution of this long-running issue should provide certainty on future transmission costs for Meridian, which if the current direction of travel is maintained will have significant benefits for the company and, we hope, NZAS, our largest customer.

Again, in the past year our people have delivered a highly creditable result in two demanding markets. To our customers, suppliers and shareholders, thank you for your ongoing support.



Water: our most important natural resource

THE CAREFUL MANAGEMENT OF WATER IS ESSENTIAL TO THE SMOOTH OPERATION OF MERIDIAN'S HYDRO STATIONS

Twenty four hours a day, seven days a week, our hydro stations are working to produce electricity for New Zealand. Using water from the South Island's lakes and rivers, we operate seven hydro stations generating enough electricity to power around 1.4 million homes each year.

As the guardian of these assets, Meridian is responsible for managing the water that flows through them. Local communities, iwi, councils and other stakeholders are also committed to ensuring our waterways are protected. While our individual interests in water may be unique, collectively we are committed to achieving the best outcome for New Zealand.

Meridian's hydro stations produce around 90% of our New Zealand generation, which means it's fair to say water is of critical importance to us. Lakes Te Ānau and Manapōuri in the Waiau catchment feed our largest hydro station – Manapōuri – which is located in Fiordland National Park.

Our six stations across the Waitaki catchment deliver more than half of our total generation and are fed from Lake Pūkaki, New Zealand's largest storage lake. We are fortunate that additional emergency storage can be accessed from the lake.

Meridian's Environmental Strategy Manager Jeff Page says a recent change to the Waitaki Catchment Water Allocation Regional Plan has allowed Meridian to apply for consent to manage Lake Pūkaki down to 515 metres when New Zealanders need it most. "This will significantly reduce New Zealand's exposure to renewable generation shortages in dry years," says Jeff.

Other changes to the water allocation regime have seen Lower Waitaki River flows agreed in the local plan ahead of Meridian renewing its resource consents in 2025. "We negotiated these flows in partnership with Ngāi Tahu, local irrigators, Environment Canterbury and other stakeholders, with an agreement that we will implement the changes prior to our re-consent taking place. A significant outcome is the provision of water for mahinga kai purposes, which Meridian actively supported during the plan change process."

In recognition of the cultural importance of careful water management to iwi, Meridian has resource consent conditions and stakeholder agreements in place to protect and enhance the populations of eels that live in the Waiau and Waitaki catchments – including the native longfin. Meridian's dams and lake control structures in these areas affect the migratory habits of the eels, but through a trap and transfer programme, involving tangata whenua, we can help ensure the safe passage of the eels through the catchments.

Meridian's Sustainability and Environment Manager Hamish Cuthbert says "In the Waiau, the adult longfin eel programme involves trapping female migrating longfin eels in Lake Manapōuri and transferring them to below the Manapōuri Lake Control structure – from there they have open travel downstream, enabling them to migrate successfully out to sea to the Tonga Trench for spawning".

Ngāi Tahu consider eels an important mahinga kai resource. Meridian works with Bubba Thompson's whānau to trap and then transfer the young elvers from the Manapōuri Lake Control structure into the lakes and rivers upstream in the National Park. The whānau consider this active kaitiakitanga of a taonga species.

Bubba says "It's important to us that the tikanga is right, that we do everything possible to uphold tikanga and add to the knowledge our tīpuna left us. The whakataukī 'Ko au te awa, ko te awa ko au' ('I am the river, the river is me') helps explain what I mean. If the river is healthy then I am healthy. These cultural values are intertwined in our mahinga kai resources and are paramount for us.

Having our whānau involved in this kaupapa is important to us because we believe in what we are doing; enhancing this taonga on behalf of our iwi whānau whānui, Ngāi Tahu, and having up to date knowledge of the data collected. I am proud to have my whānau involved in this work and look forward to more successful seasons."

This year over 13 tonnes (an estimated 7,000 individuals) of adult migrating eels and approximately 380 kilograms (an estimated 85,000 elvers) were transferred. As with any fishing, catches vary from year to year. This year the adult migrant transfer has increased on last year and the elver transfer has reduced. Trends from the past seven years' data show increases in transfers of migrants and elvers.

Within the Waitaki catchment the programme operates in a similar way. We work with Arowhenua, Moeraki and Waihao rūnanga, which facilitate the movement of migrant adult longfin eels and oversee the annual elver trap and transfer activities. Numbers in this catchment are significantly lower than those in the Waiau, reflecting the general state of the eel population on the east coast of the South Island.

The adult female longfin migrant transfer programme in Manapōuri is being used as part of a study by Dr Mark Lokman from the University of Otago. Mark is carrying out research into the life history of the eels, specifically the stage at which they change from non-migrant to migrant eels. Mark says these changes typically occur in autumn, but migratory eels are being found in the catchments throughout the transfer season. He says determining the scenarios that may explain the presence of out-of-season migrants is important to understanding eel biology.

Ensuring the ongoing, sustainable management of our waterways is of critical importance to Meridian and we are committed to working with others who value water in order to achieve this.

Surf's up!

TWELVE KIDS + ONE WEEK IN RAGLAN = AN INSPIRING EXPERIENCE AT THE MERIDIAN TAMARIKI SURF CAMP 2016

This year we hosted the Meridian Tamariki Surf Camp 2016 in Raglan, home to our Te Uku wind farm. The camp gave a group of lucky children the chance to learn to surf while also learning about environmental sustainability. It was Meridian's way of saying thank you to the communities where our wind and hydro assets are located and showing our support for KidsCan at the same time.

Getting the camp off the ground required a lot of work from dedicated Meridian staff. The first step was to select 12 children from schools near our wind and hydro assets and schools supported by KidsCan, and let them know we were giving them an experience of a lifetime: learning to surf with champion New Zealand surfer Daniel Kereopa (DK).

Each year we invest around $700,000 into our asset communities through our Community Funds programme. We also have a corporate sponsorship in place with KidsCan, which allows Meridian to support tamariki in need across New Zealand.

The tamariki who took part in the camp were all chosen because of their future leadership potential. Close collaboration with the Raglan community was integral to the success of the camp. Karioi Lodge in Whale Bay was home-base for the week, with a group of Meridian buddies on hand to provide support to the tamariki and ensure that everything ran smoothly.

Each day was centred on surf lessons led by DK. Recognised as one of the best surfers New Zealand has ever produced, DK is an inspiration to everyone; showing how through hard work and self-belief anyone can achieve their dreams.

Patrick Tuilumu from Finlayson School in Auckland was one of the children who took part in the camp. He says he was very excited when he found out about the camp as he had never been surfing before. He certainly enjoyed his chance to learn to surf, saying surfing feels like you're flying on water.

Joining Patrick was Ariana Murphy from Naenae School in Lower Hutt. She says the surf camp was not really like other school camps as it makes you be more confident around people. Ariana says catching a big wave meant she gained confidence in herself and she was really proud.

As well as learning to surf, the tamariki engaged in a series of activities centred on environmental and cultural awareness. They visited our Te Uku wind farm, the Xtreme Waste community recycling centre and a local organic vegetable garden. They also learnt to fish, tried their hands at weaving and learned about the area's cultural history.

We captured the tamariki's journeys through a series of short films. In total the videos were viewed more than a million times.

"Surfing was the glue that bound it all together. The camp itself was about community, whānau and sustainability and teaching the kids a few life skills. It was an amazing experience for us and for them", says Meridian's General Manager, Markets and Production, Guy Waipara.

Feedback from whānau was resoundingly positive. One parent said seeing the relationships their son formed with other boys from different walks of life in such a short space of time, was really special. The camp put a human face to Meridian, and the company's interest in community development was a surprise. They said, "Meridian has a connectedness to New Zealand that we weren't expecting from a corporate."

The Meridian Tamariki Surf Camp 2016 allowed us to connect with our communities in a way we've never done before. Strong relationships with those located near our wind farms and hydro stations are essential to Meridian's continued operation. It was great to be able to recognise these communities and do something unique to thank them. The camp was an inspiring experience for all involved.

CLICK HERE TO DOWNLOAD THE FULL MERIDIAN ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

Stock exchange listings: NZX (MEL) ASX (MEZ)

Financial Assistance Disclosure Notice

24 August 2016

Under section 78(5) and 79 of the Companies Act 1993, we are required to provide all shareholders with the following notice in respect of financial assistance that is being provided by Meridian Energy Limited ("Meridian" or the "Company") to certain executives in connection with a Long Term Incentive Scheme adopted by the Company.

Introduction

Meridian Energy Limited ("**Company**") has established an Executive Long Term Incentive Plan ("**Plan**") for the executive management team to enhance the alignment of interests between shareholders and those executives most able to influence the financial results of the Company.

Under sections 78(5) and 79 of the Companies Act 1993 ("**Act**"), we are required to provide all shareholders with certain information around the proposal by the Company to give financial assistance in connection with the Plan.

This notice sets out details of the proposal and the information required to be provided in accordance with the Act. This notice is for your information only and no action is required by you in relation to it.

Executive Long Term Incentive Plan

Under the Plan, participating executives ("**Participants**") purchase shares funded by an interest free loan from the Company, with the shares held on trust by the trustee of the Plan, Meridian LTI Trustee Limited ("**Trustee**").

Each Participant's securities will be beneficially owned by the Participant and held on trust by the Trustee in accordance with the rules of the Plan and the trust deed entered into by the Trustee and the Company for the vesting period.

The vesting of securities is subject to the Company and the Participant meeting certain criteria. Vesting of shares with a Participant at the conclusion of a three year vesting period is dependent on:

- the continued employment of the Participant through the three year period;
- the Company's absolute total shareholder return being positive; and
- the Company's total shareholder return relative to a benchmark peer group meeting certain criteria.

More information on the Plan can be found in the Remuneration section of the Meridian Energy Annual Report for the year ended 30 June 2016 at http://www.meridianenergy.co.nz/investors/reports-and-presentations

Board Resolutions

The directors have authorised the Company providing financial assistance for the acquisition of the Company's shares to the Participants identified in this disclosure notice, in an amount up to $**1,351,313** in aggregate.

The text of the resolutions of directors passed on 27 July 2016 authorising the Company to provide the financial assistance is as follows:

The Board resolves that:

1. The Company provide financial assistance by way of loans advanced to each Participant on the terms set out in the Plan up to the amount set out (in aggregate) in the Schedule.
2. The giving by the Company of the financial assistance is in the best interests of the Company.
3. The terms and conditions under which the financial assistance is to be given are fair and reasonable to the Company.
4. The giving of the financial assistance considered by this resolution is of benefit to those shareholders not receiving the assistance.
5. The terms and conditions under which the assistance is given are fair and reasonable to those shareholders not receiving the assistance.
6. The Board is satisfied on reasonable grounds that the Company will, immediately after the provision of the financial assistance, satisfy the solvency test set out in section 4 of the Act.
7. The Board considers that the Company will receive fair value in connection with the provision of the financial assistance through the receipt of benefits to the Company that will result from offering the employees participation in the Plan, being assistance with staff retention and alignment of the interests of the Participants with the Company and its shareholders.
8. Accordingly, the Company is authorised to provide the financial assistance
9. The grounds for the directors' conclusions in relation to resolutions 1, 2, 3, 4, 5, 6 and 7 are that the giving of financial assistance by way of loans to the Participants and other benefits to be provided to the Participants under the Plan, will benefit the Company and its shareholders by attracting and retaining key executives, aligning the interests of participants with those of shareholders and providing executives incentives and rewards which reflect the performance and success of the Company.

SCHEDULE OF PARTICIPANTS

Chief Executive Officer
General Manager Markets & Production
Chief Financial Officer
General Manager Human Resources
General Manager Retail
General Manager Information and Communications Technology
Manager Wholesale Markets
General Counsel

Amount of financial assistance (in aggregate) $1,351,313

SHAREHOLDER RIGHTS

Section 78(7) of the Companies Act 1993 confers on shareholders and the Company certain rights to apply to the court to restrain the proposed assistance being given.

The financial assistance may be given by the Company not less than 10 working days nor more than 12 months after this document has been sent to each shareholder.

Yours sincerely,

Chris Moller

Chairman