

18 September 2023



Meridian Energy Limited (MEL)

The company will hold its Annual Shareholders Meeting at **9.30am Thursday 12 October 2023.**

The location is **Level 2, 287-293 Durham Street North, Christchurch.**

You can also join the meeting online [here](#).

Company Overview

The company generates around 30% of the country's electricity through 5 Windfarms and 7 hydro power stations in New Zealand. It retails power under the Meridian and Powershop brands. It has 363,000 customers and over 1000 employees. It also licenses the Flux platform, software that helps energy retailers in New Zealand, Australia, and the UK to better manage their business.

In July 2023 David Carter was appointed to the Board. Mark Cairns who has served since 2012 will retire at the ASM.

Current Strategy

The company's strategy is to generate and supply electricity from 100% renewable sources, wind, water, and sun.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Excellent disclosure.
Director share ownership	G	Directors are not required to own shares.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	G	See below.
Director Independence	G	All Directors are independent.
Board Composition	G	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board and Risk Management	G	See below.

Executive Remuneration: The CEO is paid a base salary and a short-term incentive (STI), both in cash, and a long-term incentive (LTI) by way of Performance Share Rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Meridian clearly discloses the measure groups, weighting and the level of achievement compared with target for each component of STI and LTI. For the LTI, NZSA notes that 50% of the award is based on absolute shareholder return, a framework appreciated by NZSA in the context of shareholder alignment.

The STI target is 50% of base salary and the LTI is 40%. This means the STI is 56% of total incentives. NZSA prefers a weighting towards LTI to align the CEO's interest with the long-term interests of shareholders.

NZSA considers the simplicity and extent of disclosure to be amongst the best for NZX-listed companies.

Golden parachutes/handshakes: The company is one of very few that makes a clear and comprehensive disclosure. There are no extraordinary payments made to the CEO or other senior executives by way of termination payments, nor by sign-on bonuses.

Board Composition: Meridian has disclosed a comprehensive skills matrix for its Directors in its Corporate Governance Statement providing assurance for shareholders as to the capability of individual directors. This is well cross-referenced in the Annual Report.

The company participates in the IoD's Future Director programme, with Ben Bateman's appointment as a future director.

The nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for Meridian. We note the Board's commitment to retaining a

strong representative relationship with Ngāi Tahu, a role currently fulfilled by the inclusion of Tania Te Rangiangana Simpson on the Board.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Director appointments range from 2017 to 2023. The company has a strong track record of balancing director succession and the retention of institutional knowledge.

ASM Format: NZSA prefers ‘hybrid’ ASM’s (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation. We appreciate Meridian’s commitment to this format.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

The [Board Charter](#) notes that *“each Director has the right to seek independent professional advice at Meridian’s expense within specified limits, or with the prior approval of the Chairperson.”*

We note that Meridian operates a co-sourcing model for internal audit, reporting to the Audit & Risk Committee.

Meridian offers clear disclosure of strategic, business, sustainability, and financial risks in its Annual Report, as well as its ISO-accredited processes that support risk management in the Corporate Governance Statement. The critical nature of the company’s asset management functions is discussed transparently in the Annual Report, together with existing risks and future development plans.

The company also discloses a materiality matrix in the Annual Report to focus on longer-term sustainability risks and their mitigations.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	A	See below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. Notwithstanding tenure, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

NZSA notes that under the Public Audit Act 2001, the auditor of Meridian is the New Zealand Controller and Auditor-General. The New Zealand Controller and Auditor-General ultimately makes the decision on auditor appointments, having previously appointed Deloitte to perform the audit of Meridian on their behalf.

We would expect the Auditor General to provide some guidance (via the company) on policy around Audit Firm rotation.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	G

Overall approach: Meridian Energy has been an early adopter of NZX-listed companies to use Integrated Reports, having produced them since 2017. In 2019, they were also the first NZ company to publish Climate-related Disclosures, well ahead of the NZ Climate Standards being developed in 2022. This assessment also drew on Meridian’s Climate Action Plan and Corporate Governance Statement. In 2023, Meridian continues its status as a leading NZ company in the field of environmental disclosure.

Sustainability Governance: Meridian discloses their Board skills matrix in their separate Corporate Governance Statement. It names each of the Directors and shows which of the 13 skills areas, including two related to environmental sustainability, they have expertise in. They also dedicate human resources to sustainability by way of their Safety & Sustainability Committee.

Strategy and Impact: Meridian provides a detailed overview of their business strategy and their plan to manage environmental impacts to maintain the resilience of their business model. They have also developed a separate adaptation roadmap called their “Climate Action Plan”.

Risk and Opportunity: Meridian Energy provides an excellent description of their environmental-related risks, opportunities and mitigation strategies. They also provide a climate-related risk/opportunity heat map among other graphics showing their risk management strategies.

Metrics and Targets: Meridian’s GHG Inventory contains their Scope 1-3 GHG emissions with comparative data since FY2021 and is subject to assurance by Deloitte. They detail many environmental targets and are also one of few companies to have sustainability CEO incentive targets.

Assurance: Meridian’s limited assurance report (from Deloitte) indicates that all non-financial content and claims made within the Annual report have been subjected to a limited assurance review.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	There was no capital raising. Good disclosure around dividend rationale.
Takeover or Scheme	n/a	

Meridian’s share price rose from \$4.99 to \$5.17 (as of 11th September 2023) over the last 12 months – a 4% rise. This compares favourably with the NZX 50 which declined by 4% in the same period. The capitalisation of MEL is \$13.4b placing it 1st out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	\$3,963m	\$3,703m	\$3,222	-13%
Operating Expenses	\$3,271m	\$2,994m	\$2,397	-20%
EBITDAF	\$692m	\$709m	\$825m	16%
NPAT	\$428m	\$664m	\$95m	-86%
EPS ¹	\$0.167	\$0.257	\$0.037	-79%
PE Ratio	32	29	141	
Capitalisation	\$13.3b	\$13b	\$13.4b	4%
Current Ratio	0.83	1.48	1.04	-30%
Debt Equity	0.89	0.70	0.67	-3%
Operating CF	\$431m	\$461m	\$509m	10%
NTA Per Share ¹	\$2.01	\$2.11	\$2.29	9%
Dividend Per Share ¹	\$0.169	\$0.174	\$0.179	3%

¹ per share figures based off actual shares at balance date (not weighted average)

Meridian had a mixed year with revenues from continuing operations down by 13% to \$3,222m but correspondingly expenses were down by 20% to \$2,397m. This contributed to a 16% increase in EBITDAF of \$825m.

NPAT declined sharply by 86% to \$95m, however as is the case with the Gentailers, NPAT is not the most useful measure of financial performance. The change in profit can be attributed to a \$375m net decrease in the fair value of energy hedges. These hedges, that are used to smooth exposure to the spot market, will have a disproportionate impact every year making the NPAT figure rather meaningless.

Operating cashflows are a more useful financial metric for a company such as MEL, and these were up 10% on the prior year coming in at \$509m. This equates to \$0.20 when measured per share.

MEL operates a financially sound balance sheet and low levels of debt, with debt equity at 0.67, down another 3% on the prior year. Total interest-bearing debt increased slightly to \$1,236m. Current assets comfortably exceed current liabilities.

Dividends increased by 3% to 17.9 cps. Dividends are partially imputed, being imputed to 80%.

MEL operate on a high PE Ratio of 141, but high PE's are in line with the sector which relies more on net cashflows for distribution to shareholders than EPS.

NTA per share rose by 9% to \$2.29. Shares trade at a hefty 126% premium to NTA.

As is the norm for Meridian, they have not provided substantive guidance for FY24. The Crown is the largest shareholder, holding a 51.01% controlling stake.

Resolutions

1. To re-elect Mark Verbiest as an Independent Director.

Mark Verbiest was appointed to the Board in March 2017 and was appointed Chair in October 2019. He is the Chair of Summerset Group Holdings Limited and also the former Chair of Freightways Limited, Spark New Zealand Limited, and Transpower New Zealand Limited. He is a former director for ANZ Bank New Zealand Limited and former board member of the Financial Markets Authority and former member of the Advisory Board to New Zealand Treasury.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect David Carter as an Independent Director.

David Carter was appointed to the Board in July 2023 and is therefore required to offer himself for election. He has been with the Beca group of companies since 1988 and during his 30 plus years of experience has held various positions within the group. Since 2017 David has been the Group Executive Chair at Beca Group Ltd. A civil engineer by profession, David has worked across

a diverse range of sectors both within New Zealand and offshore, from airports to ports, and wastewater treatment plants to heavy duty pavements. He has worked on remediation of the Larona hydro canal and on foundations for high rise structures. During his career he has worked on a range of major projects including the Victorian (Australia) Desalination plant as a board member of the design JV. He was also a technical reviewer of the resource consent for the Kioreweku Hydroelectric project.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **9.30am Tuesday 10 October 2023.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA