

October 1st 2024



Meridian Energy Limited (MEL)

The company will hold its Annual Shareholders Meeting at **9.30am Tuesday 15 October 2024.**

The location is **Level 2, 98 Customhouse Quay, Wellington.**

You can also join the meeting [at this link](#).

Company Overview

The company generates around 30% of the country's electricity through six Windfarms and seven hydro power stations in New Zealand. It retails power under the Meridian and Powershop brands. It has 370,000 customers and over 900 employees. It also licenses the Flux platform, software that helps energy retailers in New Zealand, Australia, to better manage their business.

During the year the Harapaki wind farm, the second largest in the country become fully operational. It has the capacity to power 70,000 homes. The company signed a 20-year contract with New Zealand Aluminium Smelters ending a period of uncertainty around the continuation of this facility that uses around 13% of New Zealand's energy output.

Late in 2023, Meridian reached agreement with NZ Windfarms Limited (NZX: NWF) to support future investment in that companies assets, through a power offtake agreement and a 19.99% shareholding.

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 meeting.
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 versus target for each component associated with any awards. This methodology is supported by the new [NZX Remuneration Reporting Template](#).

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, currently 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.

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 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. Once again, in 2024, Meridian continues its status as a leading NZ company in the field of environmental disclosure.

Sustainability Governance: Meridian disclose 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 disclosed their climate transition plan, one of few companies to do so in New Zealand.

Risk and Opportunity: Meridian provide 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, subjected to assurance by Deloitte. They detail many environmental targets and are also one of few companies to have sustainability incentive targets within the CEO remuneration structure.

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	See comments below
Takeover or Scheme	n/a	

Meridian's share price rose from \$5.38 to \$6.14 (as of 19th September 2024) over the last 12 months – a 14% increase. This compares favourably with the NZX 50 which rose by 11% in the same period. The capitalisation of MEL is \$15.9b placing it 2nd out of 124 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	2024	Change
Revenue	\$3,963m	\$3,703m	\$3,222	\$4,856	51%
Operating Expenses	\$3,271m	\$2,994m	\$2,397	\$4,102m	71%
EBITDAF	\$692m	\$709m	\$825m	\$754m	-9%
NPAT	\$428m	\$664m	\$95m	\$429m	352%
EPS ¹	\$0.167	\$0.257	\$0.037	\$0.166	351%
PE Ratio	32	29	141	32	
Capitalisation	\$13.3b	\$13b	\$13.4b	\$15.9b	15%
Current Ratio	0.83	1.48	1.04	1.05	1%
Debt Equity	0.89	0.70	0.67	0.64	-5%
Operating CF	\$431m	\$461m	\$509m	\$667m	31%
NTA Per Share ¹	\$2.01	\$2.11	\$2.29	\$3.16	38%
Dividend Per Share ¹	\$0.169	\$0.174	\$0.179	\$0.21	17%

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

Meridian had another mixed year with revenues from continuing operations up substantially by 51% to \$4,856m but correspondingly expenses were up 71% to \$4,102m contributing to a 9% fall in EBITDAF of \$754m.

NPAT rose substantially to \$429m, however as is the case with all Gentailers, NPAT is not a useful measure of the financial viability. The increase in profit can be attributed to a \$253m net increase in the fair value of energy hedges. These hedges are used to smooth exposure to the spot market, and 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 another 31% on the prior year coming in at \$667m. This equates to \$0.25 when measured per share. The upwards trend (see table above) in this regard is very encouraging.

MEL operates a financially sound balance sheet and low levels of debt, with *debt equity* at 0.64, down another 5% on the prior year. This is the 4th year of declining debt-equity. Total interest-bearing debt increased slightly to \$1,347m. Current assets quite comfortably exceed current liabilities.

Dividends increased by 17% to 21.0 cps. Dividends are partially imputed, being imputed to 80%.

NTA per share rose by 38% to \$3.16. Shares trade at a hefty 94% premium to NTA.

As is the norm for Meridian, they have not provided substantive guidance for FY25.

On the 13th September, Meridian [provided](#) their monthly operating report for August.

The crown is the largest shareholder, holding a 51.01% controlling stake.

Resolutions

1. To re-elect Tania Simpson as an Independent Director.

Tania Simpson was appointed to the Board in August 2021. She is a director at Tainui Group Holdings Limited, Auckland International Airport Limited, and Waste Management NZ Limited and is also a member of the Waitangi Tribunal and Deputy Chair of the Waitangi National Trust. Tania has extensive experience in corporate governance, policy development and business having served as a director of Mighty River Power Limited for 13 years from 2001. She also holds the distinction of being the first Māori director on the Reserve Bank of New Zealand Board where she was the Deputy Chair.

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 Sunday 13 October 2024**.

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

The Team at NZSA

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