

23 September 2022



Meridian Energy Limited (MEL)

The company will hold its Annual Shareholders Meeting at **10.00am Tuesday 18 October 2022.**

The location is **World Cup Lounge, Level 4, South Stand, Eden Park, Reimers Avenue, Kingsland, Auckland.**

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

Company Overview

The company owns and operates 5 Windfarms and 7 hydro power stations in New Zealand. It retails power under the Meridian and Powershop brands. It has 365,000 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 November 2021 the company sold its Australian business consisting of its retail operations, wind farms and hydro power stations to a consortium of Shell Energy and Infrastructure Capital Group for A\$729 million.

In July 2022 Graham Cockroft was appointed to the Board and the company announced Jan Dawson will retire from the Board 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	See below.
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	G	See below.

Directors Fees: While disclosure is generally clear, there is no disclosure as to whether retirement benefits or share options are available for Directors. Following discussions with the company, NZSA notes that neither benefit is available for directors, a position supported by NZSA.

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 within 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 does not currently participate in the IoD's Future Director programme (or any similar programme) designed to develop and mentor the next generation of Directors, although it has done so in the past.

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 Rangingangana 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.

We note two Directors have served since 2012, Jan Dawson and Mark Cairns, with other directors appointed between 2017-22. We note that Jan Dawson is retiring at the upcoming shareholder meeting. The company has a strong track record of balancing director succession and the retention of institutional knowledge.

Independent Advice for the Board: 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.

In both cases there are comprehensive disclosures clearly indicating compliance.

In both cases there are comprehensive disclosures. 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 are 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.

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

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.” Notwithstanding the internal audit function (see above), it is unclear as to the extent to which other key internal assurance staff have unfettered access to the Board.

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 must be 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.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	The company does not make donations.

We note the through comprehensive disclosure of remuneration differences by gender contained within the annual report.

NZSA notes that this is the third year that Meridian has made climate-related disclosures on governance, strategic implications, risk & opportunities and metrics associated with the TCFD (Taskforce on Climate-related Financial Disclosures) framework. This positions Meridian well for the emerging regulatory framework currently being formalised by the NZ External Reporting Board. On current XRB Exposure Drafts, we believe that Meridian would fully comply with the climate-related disclosure requirement and the expected NZSA *Environmental Sustainability* policy (see below).

The specific, factual disclosures, including measurable outcomes provided in the separate [Climate Related Disclosure Report](#) should reassure shareholders that the company is not ‘greenwashing’ its stakeholders.

NZSA has released a draft *Environmental Sustainability* policy for consultation, with a broader focus on environmental impacts than climate change. This is expected to be finalised in October 2022, for application from January 2023. We are currently reviewing existing corporate disclosures.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure.

Policy Theme	Assessment	Notes
Capital Raise process	n/a	n/a if no capital raised
Takeover or Scheme	n/a	n/a if no takeover

Meridian's share price fell from \$5.18 to \$5.05 (as of 16th September 2022) over the last 12 months – a 3% decline. This compares favourably with the NZX 50 which declined by 11% in the same period. The capitalisation of MEL is \$13b making it the largest company on the NZX.

Metric	2022	2021	Change
Revenue	\$3,703m	\$3,963m	-7%
Operating Expenses	\$2,994m	\$3,271m	-8%
EBITDAF	\$709m	\$692m	2%
NPAT	\$664m	\$428m	55%
EPS ¹	\$0.257	\$0.167	54%
PE Ratio	29	32	
Capitalisation	\$13b	\$13.3b	-2%
Current Ratio	1.48	0.83	80%
Debt Equity	0.70	0.89	-21%
Operating CF	\$461m	\$431m	7%
NTA Per Share ¹	\$2.11	\$2.01	5%
Dividend Per Share ¹	\$0.174	\$0.169	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 7% to \$3,703m but correspondingly expenses were down by 8% to \$2,994m. This contributed to a slightly increased EBITDAF of \$709m.

NPAT was improved by 55% to \$664m, however as is the case with the Gentailers, NPAT is not a useful measure of the financial viability. The increase in profit can be attributed to a \$136m increase 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 7% on the prior year coming in at \$461m. This equates to \$0.18 on a per-share basis.

MEL operates a financially sound balance sheet and low levels of debt, with debt equity at 0.70, down 21% on the prior year. Non-current term borrowings were reduced by \$294m during the year. Total interest-bearing debt fell by 31% to \$1,163m.

Dividends increased by 3% to 17.4 cps. Dividends are partially imputed, being imputed to 79%.

MEL operate on a high PE of 29, but this is in line with the sector which relies more on net cashflows for distribution to shareholders than EPS.

NTA per share was \$2.11. Shares trade at a hefty 139% premium to NTA.

Meridian has not provided substantive guidance for FY23.

Resolutions

1. To re-elect Michelle Henderson as an Independent Director.

Michelle Henderson was appointed to the Board in October 2019. She is currently on the board of Fulton Hogan, Cycling New Zealand Incorporated, South Port NZ Limited, and Awarua Holdings Limited. She is a former executive of Rio Tinto, both in New Zealand and Australia and previously held the role of Chief Operating Officer of PowerNet, an electricity distribution company.

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

2. To re-elect Julia Hoare as an Independent Director.

Julia Hoare was appointed to the Board in September 2019. She is currently President and Chair of the Institute of Directors, Chair of Port of Tauranga, and a Director of Auckland International Airport and a2 Milk. She was formerly a partner at PwC for twenty years.

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

3. To re-elect Nagaja Sanatkumar as an Independent Director.

Nagaja Sanatkumar was appointed to the Board in January 2020. She formerly held senior roles at both Amazon and Expedia. She studied Chemical Engineering at IIT Bombay and then moved to the US to take up a consulting role with Deloitte, before completing an MBA from the University of Washington in 2003. She is currently studying a Masters in Sustainable Development Goals from Massey University. She is also a Director for Foodstuffs North Island, NZ Post, Mediaworks, Tuatahi First Fibre, Cawthron Institute, and Groov.

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

4. To elect Graham Cockroft as an Independent Director.



Graham Cockroft was appointed to the Board in July 2022 and is therefore required to offer himself for election. He was formerly Group CFO at SGX-listed Sembcorp Industries Limited, Singapore, CFO and COO at Contact Energy Limited, New Zealand, and in various senior executive roles for nearly two decades at the UK energy company BG Group (now part of Shell plc), primarily in the UK and South America. He is currently a Director of ASX-listed AGL Energy Limited and Tuatahi First Fibre Limited.

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 **10.00am Sunday 16 October 2022.**

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

The Team at NZSA