

# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

Annual Report for the Year Ended 30 June 2013

The Board of Directors is pleased to present the Annual Report of Meridian Energy  
Captive Insurance Limited for the Year Ended 30 June 2013

For, and on behalf of, the Board

Mark Binns  
Director

Date

28 Feb 2014

Paul Chambers  
Director

Date

28 February 2014

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**ANNUAL REPORT**  
**For the year ended 30 June 2013**

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# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **ANNUAL REPORT**

### **For the year ended 30 June 2013**

The Directors of Meridian Energy Captive Insurance Limited (the 'Company') have pleasure in presenting the 2013 annual report to our shareholder. The report includes all information required to be disclosed under the Companies Act 1993. In addition to our statutory obligation we have included additional information to assist you in understanding the activities of the Company.

#### **Date of Incorporation**

Meridian Energy Captive Insurance Limited was incorporated on 16 March 2005 under Certificate #1612020.

#### **Principal Activity**

The Company's core business is that of an insurance company providing insurance to Meridian Energy Limited and its subsidiaries.

#### **Registered Office**

33 Customhouse Quay  
Queens Wharf  
Wellington 6011  
New Zealand

#### **Corporate Governance**

##### **Interests Register**

The Company is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register is available for inspection at its registered office.

Details of all matters that have been entered in the interests register by individual directors are outlined in the directors' profiles. Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as notice that the director may benefit from any transactions between Meridian Energy Limited (the Parent), the Company and the identified entities.

##### *Information Used by Directors*

No member of the Board of the Company issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

##### **Indemnification and Insurance of Officers and Directors**

The Parent indemnifies all directors named in this report, and current executive officers of the Company against all liabilities (other than to the Parent or member of the Company) which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Parent has indemnity insurance for each of its subsidiaries. The total cost of this insurance during the financial year is borne by the Parent. In addition, the Company has indemnified all current directors under a deed of indemnity.

# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **ANNUAL REPORT**

### **For the year ended 30 June 2013**

#### **Board of Directors**

##### **Directors' Profiles**

During the period under review the following acted as Directors:

Paul Chambers                      Appointed December 2009

Mark Binns                         Appointed May 2012

Jason Stein                         Appointed December 2009

The Directors received no Director Fees from the Company during the year (2012: Nil).

##### **Shareholder**

All ordinary shares of the Company are owned by the Parent.

##### **Auditor**

Jacqueline Robertson of Deloitte was appointed by the Auditor-General as the appointed auditor of the Company. There have been no additional services provided. The remuneration for services provided by Deloitte for the current financial year is reported in the financial statements.

##### **Dividend**

The directors recommend that no dividend be paid (2012: Nil).

##### **Executive Remuneration**

The Company did not pay remuneration, including benefits, in excess of \$100,000 to any employee during the year.

# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **ANNUAL REPORT**

### **For the year ended 30 June 2013**

#### **Directors' Responsibility Statement**

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 30 June 2013 and its financial performance for the year ended on that date.

The Directors consider that the financial statements of the Company 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 confirm that proper accounting records have been kept which enable the determination of the financial position of the Company as at 30 June 2013 and its financial performance for the year ended on that date to ensure compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors have pleasure in presenting the financial statements, set out on pages 6 to 21, of Meridian Energy Captive Insurance Limited for the year ended 30 June 2013.

The annual financial statements were authorised for issue by the Board on 28 February 2014.

For, and on behalf of, the Board.



**Paul Chambers**  
**Director**

**Date** 28 February 2014



**Mark Binns**  
**Director**

**Date** 28 February 2014



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2013**

	Note	2013 \$	2012 \$
<b>Revenue</b>			
Interest		73,409	64,664
Commissions	5	267,146	257,816
Insurance premium revenue	5	5,738,928	5,210,291
Exchange loss		(1,942)	(533)
Re-insurance revenue		7,719,285	3,072,031
<b>Total Revenue</b>		<b>13,796,826</b>	<b>8,604,269</b>
<b>Expenses</b>			
Claims expense	13	(7,719,285)	(3,072,031)
Audit fees		(11,500)	(5,500)
Bank charges		(160)	(144)
Bond amortisation		(9,394)	(8,860)
Management fees		11,943	(9,450)
Professional fees		(5,000)	(6,000)
Sundry expenses		(1,550)	(1,550)
Reinsurance premium expense	5	(5,738,928)	(5,210,291)
<b>Total Expenses</b>		<b>(13,473,874)</b>	<b>(8,313,826)</b>
<b>Profit Before Tax</b>		<b>322,952</b>	<b>290,443</b>
Income tax expense	6	(90,427)	(81,324)
<b>Profit After Tax</b>		<b>232,525</b>	<b>209,119</b>
<b>Profit for the Year and Total Comprehensive Income</b>		<b>232,525</b>	<b>209,119</b>
<b>Profit After Tax Attributable to:</b>			
Shareholders of the Parent company		232,525	209,119
		<b>232,525</b>	<b>209,119</b>


**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2013**

	Note	Share Capital \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2011</b>		500,000	945,359	1,445,359
Net surplus after taxation		-	209,119	209,119
Profit for the Year and Total Comprehensive Income		-	209,119	209,119
<b>Balance at 30 June 2012</b>		500,000	1,154,478	1,654,478
<b>Balance at 1 July 2012</b>		500,000	1,154,478	1,654,478
Net surplus after taxation		-	232,525	232,525
Profit for the Year and Total Comprehensive Income		-	232,525	232,525
Share Issue	7	2,000,000	-	2,000,000
<b>Balance at 30 June 2013</b>		<b>2,500,000</b>	<b>1,387,003</b>	<b>3,887,003</b>

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2013**

	Note	2013 \$	2012 \$
<b>Shareholders' Equity</b>			
Share capital	7	2,500,000	500,000
Retained earnings		1,387,003	1,154,478
<b>Total Equity</b>		<b>3,887,003</b>	<b>1,654,478</b>
<b>Represented by:</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	11,149,177	1,607,365
Insurance premium receivable	13	-	6,923,867
Deferred reinsurance premium		4,258,814	4,901,128
Claims provision recoveries receivable	10	5,911,883	-
New Zealand Public Trust bond	9	-	507,649
Interest receivable		6,247	6,767
<b>Total Current Assets</b>		<b>21,326,121</b>	<b>13,946,776</b>
<b>Non-Current Assets</b>			
New-Zealand Public Trust bond	9	533,711	-
<b>Total Non-Current Assets</b>		<b>533,711</b>	<b>-</b>
<b>Total Assets</b>		<b>21,859,832</b>	<b>13,946,776</b>
<b>Current Liabilities</b>			
Re-insurance premiums payable	10	5,353,929	6,191,071
Sundry payables		283,669	481,831
Unearned premium		4,258,814	4,901,128
Unearned ceding commission		216,705	224,516
Provision for claims payable	10, 13	7,719,285	83,281
Intercompany payable	13	50,000	38,750
Provision for income tax payable	13	90,427	371,721
<b>Total Current Liabilities</b>		<b>17,972,829</b>	<b>12,292,298</b>
<b>Total Liabilities</b>		<b>17,972,829</b>	<b>12,292,298</b>
<b>Net Assets</b>		<b>3,887,003</b>	<b>1,654,478</b>

The Directors of Meridian Energy Captive Insurance Limited authorise these financial statements for issue on behalf of the Board.

  
Paul Chambers  
Director  
Date 28 February 2014

  
Mark Binns  
Director  
Date 28 February 2014



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2013**

	2013	2012
Note	\$	\$
<b>Operating Activities</b>		
<i>Cash was Provided from:</i>		
Receipts from customers	11,390,196	5,114,183
Re-insurance claims received	1,807,402	3,072,031
Interest received	87,502	64,664
	<b>13,285,100</b>	<b>8,250,878</b>
<i>Cash was Applied to:</i>		
Payments to suppliers and employees	(5,251,330)	(4,875,956)
Claims paid	(83,281)	(2,988,750)
Income tax paid	(370,896)	-
	<b>(5,705,507)</b>	<b>(7,864,706)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>7,579,593</b>	<b>386,172</b>
<b>Investing Activities</b>		
<i>Cash was Provided from:</i>		
Maturity of Public Trust Bond	500,000	-
	<b>500,000</b>	<b>-</b>
<i>Cash was Applied to:</i>		
Purchase of Public Trust Bond	(549,549)	-
Intercompany loan repaid	-	(11,249)
	<b>(549,549)</b>	<b>(11,249)</b>
<b>Net Cash Outflows from Investing Activities</b>	<b>(49,549)</b>	<b>(11,249)</b>
<b>Financing Activities</b>		
<i>Cash was Provided from:</i>		
Proceeds from issue of share capital	2,000,000	-
Intercompany loan received	11,768	-
	<b>2,011,768</b>	<b>-</b>
<b>Net Cash Inflows from Financing Activities</b>	<b>2,011,768</b>	<b>-</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>9,541,812</b>	<b>374,923</b>
Cash and Cash Equivalents at Beginning of Year	1,607,365	1,232,442
<b>Cash and Cash Equivalents at End of Year</b>	<b>11,149,177</b>	<b>1,607,365</b>

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# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **STATEMENT OF CASH FLOWS**

### **For the year ended 30 June 2013**

#### **Reconciliation of Profit after Tax for the Year to Cash Flows from Operating Activities**

#### **Profit after Tax for the Year**

#### **Adjustments to Operating Activities:**

Claims Received Not Recognised in Statement of Comprehensive Income

Bond amortisation

Bond accrued interest on purchase

#### **Changes in Working Capital Items**

Decrease/(Increase) in Insurance premium receivable

Decrease/ (Increase) in Deferred reinsurance premium

(Decrease)/Increase in Re-insurance premiums payable

(Decrease)/Increase in Sundry payables

(Decrease)/Increase in Unearned premium

(Decrease)/Increase in Unearned ceding commission

(Decrease)/Increase in Tax payable

#### **Net Cash Flow from Operating Activities**

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Profit after Tax for the Year</b>	<b>232,525</b>	<b>209,119</b>
<b>Adjustments to Operating Activities:</b>		
Claims Received Not Recognised in Statement of Comprehensive Income	<b>1,807,402</b>	-
Bond amortisation	<b>9,394</b>	8,860
Bond accrued interest on purchase	<b>14,095</b>	-
	<b>1,830,891</b>	<b>8,860</b>
<b>Changes in Working Capital Items</b>		
Decrease/(Increase) in Insurance premium receivable	<b>6,923,867</b>	(1,634,870)
Decrease/ (Increase) in Deferred reinsurance premium	<b>642,314</b>	(692,727)
(Decrease)/Increase in Re-insurance premiums payable	<b>(837,142)</b>	1,157,493
(Decrease)/Increase in Sundry payables	<b>(281,443)</b>	553,278
(Decrease)/Increase in Unearned premium	<b>(642,314)</b>	692,727
(Decrease)/Increase in Unearned ceding commission	<b>(7,811)</b>	10,969
(Decrease)/Increase in Tax payable	<b>(281,294)</b>	81,323
	<b>5,516,177</b>	<b>168,193</b>
<b>Net Cash Flow from Operating Activities</b>	<b>7,579,593</b>	<b>386,172</b>

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

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# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

## 1 Summary of Accounting Policies

### 1.1 Reporting Entity and Statement of Compliance

Meridian Energy Captive Insurance Limited (the Company) is a profit-oriented entity domiciled in New Zealand, registered under the Companies Act 1993. The registered office of the Company is 33 Customhouse Quay, Queens Wharf, Wellington, 6011, New Zealand. The shares in the Company are owned by Meridian Energy Limited. Consequently, the Company is bound by the requirements of the State-Owned Enterprises Act 1986. The liabilities of the Company are not guaranteed in any way by the Crown.

The Company's core business is that of an insurance company providing insurance to Meridian Energy Limited and its subsidiaries.

These 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, and are prepared in accordance with the requirements of the Financial Reporting Act 1993.

The reporting period for these financial statements is the year ended 30 June 2013.

The financial statements were authorised for issue by the directors on 28 February 2014.

### 1.2 Basis of Preparation

The financial statements have been prepared on the basis of historical cost with the exception of certain items identified in the following accounting policies.

These financial statements are presented in New Zealand dollars.

The accrual basis of accounting has been used unless otherwise stated.

The same accounting policies, presentation and methods of computation have been applied consistently to all periods presented in these consolidated financial statements except as set out below. The additional new Standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations are as follows:

Standard/Interpretation	Effective for annual reporting periods beginning on or after
Amendments to NZ IAS 12 <i>Income Taxes</i> – Deferred Tax: Recovery of Underlying Assets	1 January 2012
Amendments to NZ IAS 1 <i>Presentation of Financial Statements</i> – Presentation of Items of Other Comprehensive Income	1 July 2012

The adoption of these standards does not have an impact on the reported results or financial position of the Company.

Certain balances that were previously disclosed as net are now being disclosed on a gross basis. These are re-insurance recoveries and claims paid in the Statement of Comprehensive Income, and claims provision recoveries receivable and provision for claims payable in the Statement of Financial Position, which were previously netted to nil. The prior year comparative balances have been changed to reflect this, with no change to opening or closing Equity resulting.

### 1.3 Adoption Status of Relevant Financial Reporting Standards

There have been a number of standards that have been issued but are not yet effective for application. The Company has not elected to early adopt any of these and anticipates that the adoption of these will not have a material impact on the financial statements.



# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2013**

#### **1.4 Significant Accounting Policies**

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

##### **1.4.1 Judgements and Estimations**

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

There are no significant judgements or estimates in these financial statements.

##### **1.4.2 Foreign Currency**

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities at reporting date are translated at the exchange rate prevailing at reporting date.

##### **1.4.3 Cash and Cash Equivalents**

Cash and cash equivalents used in the Statement of Cash Flows comprise cash on hand and demand deposits.

##### **1.4.4 Investments**

Investments are stated at cost less accumulated bond premium amortisation.

The bond premium is written off over the term of the New Zealand government stock which matures on 15 April 2015.

##### **1.4.5 Taxation**

Income tax expense represents the sum of the tax currently payable includes both the current year liability and the income tax effects of temporary differences after allowing for non-assessable income and non-deductible expenses.

##### **1.4.6 Goods and Services Tax (GST)**

The Statement of Comprehensive Income and the Statement of Cash Flows are prepared on a GST exclusive basis. All items in the Statement of Financial Position are stated net of GST, except for receivables and payables, which include GST.

##### **1.4.7 Revenue Recognition**

The primary revenue for this entity is derived from providing insurance services. Revenue is earned in a manner consistent with the period of the insurance covered.

##### **1.4.8 Insurance Claims and Outstanding Claims Liability**

Outstanding claims liabilities are shown in the statement of financial position as provision for claims payable. These are recognised when loss events have occurred and are based on the estimated ultimate costs of all claims incurred but not settled at balance date. An estimate is made of the present value of claims reported but not paid. Claims are normally settled within one year, therefore the effect of discounting for the time value of money is not material.

Changes in expected claims that have occurred but which have not been settled are reflected by adjusting the liability. The liability is derecognised when the claim is discharged or withdrawn.



# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2013**

#### **1.4.8 Insurance Claims and Outstanding Claims Liability (continued)**

Any insurance claims are made with reinsurance companies and proceeds of these claims are passed directly through to the claimant, i.e., Meridian Energy Limited and its subsidiaries, and are reflected in the profit and loss as re-insurance revenue and claims expense. Where insurance claim proceeds have been received, but not yet passed on to the claimant, these will be included in the Statement of Financial Position.

#### **1.4.9 Financial Liabilities**

Financial liabilities are recognised initially at fair value, net of transaction costs. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss over the period of the financial liabilities using the effective interest rate method.

The unearned premium represents the unearned portion of annual insurance premiums receivable.

#### **1.4.10 Financial Assets**

Financial assets are classified as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets are recognised initially at fair value, net of transaction costs. Financial assets are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss over the period of the financial assets using the effective interest rate method.

The deferred reinsurance premium represents the unexpired portion of annual reinsurance premiums payable.

## **2 Insured Risk**

The Company is a captive insurance company providing insurance to Meridian Energy Limited and its subsidiaries. All of the Company's liability is reinsured with reputable reinsurance companies.

## **3 Operating Expenses**

#### **Other Operating Expenses include:**

Auditors Remuneration to Deloitte for:

- Audit of Financial Statements

<b>2013</b>	<b>2012</b>
<b>\$</b>	<b>\$</b>

<b>11,500</b>	<b>5,500</b>
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\$6,000 of audit fees incurred this year relate to the audit of the 2012 financial statements

## **4 Interest Income**

Interest Income on Financial Assets at amortised cost:

- Call account

- Bond

<b>2013</b>	<b>2012</b>
<b>\$</b>	<b>\$</b>

<b>40,523</b>	<b>32,164</b>
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<b>32,886</b>	<b>32,500</b>
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<b>73,409</b>	<b>64,664</b>
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**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

**5 Underwriting account**

	2013	2012
	\$	\$
<b>Premium income</b>		
Insurance premiums receivable	5,096,614	5,760,575
Movement in unearned premiums	642,314	(550,284)
<b>Insurance premium income</b>	5,738,928	5,210,291
<b>Reinsurance expenses</b>		
Insurance premiums payable	5,096,614	5,760,575
Movement in unearned premiums	642,314	(550,284)
<b>Reinsurance premium expense</b>	5,738,928	5,210,291
<b>Underwriting result</b>		
Commissions earned	267,146	257,816
<b>Total underwriting surplus</b>	267,146	257,816

**6 Income Tax**

	2013	2012
	\$	\$
<b>Current Tax Expense</b>		
Current income tax expense	90,427	81,324
<b>Total Income Tax Expense</b>	90,427	81,324

Income Tax Credit can be reconciled to Accounting Profit as follows:

<b>Profit Before Tax</b>	322,952	290,443
<b>Income Tax at 28%</b>	90,427	81,324
<b>Income Tax Expense</b>	90,427	81,324

**7 Share Capital**

	2013	2012	2013	2012
Note	Units	Units	\$	\$
Ordinary Shares	2,000,100	100	2,500,000	500,000

The share capital is represented by 2,000,100 ordinary shares (2012: 100). 2 million shares issued at \$1 per share and 100 shares issued at \$5,000 per share. These shares are held by Meridian Energy Limited. All shares 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.

2 million shares at \$1 per share were issued to Meridian Energy Limited during the year.

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

**8 Cash and Cash Equivalents**

	2013	2012
	\$	\$
Current Account	10,843,396	1,301,584
Call Account	305,781	305,781
	<u>11,149,177</u>	<u>1,607,365</u>

**9 Investments**

	2013	2012
	\$	\$
New Zealand Public Trust Bond	533,711	507,649
	<u>533,711</u>	<u>507,649</u>

**10 Reconciliation of Movements in Re-insurance Assets and Insurance Liabilities**

**Claims provisions recoveries receivable:**

	2013	2012
	\$	\$
Opening balance 1 July	-	-
Claims submitted	7,719,285	3,072,031
Claims settled	(1,807,402)	(3,072,031)
Closing balance 30 June	<u>5,911,883</u>	<u>-</u>

**Re-insurance premiums payable:**

	2013	2012
	\$	\$
Opening balance 1 July	6,191,071	5,033,578
Premiums paid to reinsurers	(6,191,071)	(5,033,578)
Premiums invoiced by reinsurers	5,353,929	6,191,071
Closing balance 30 June	<u>5,353,929</u>	<u>6,191,071</u>

**Provision claims payable:**

	2013	2012
	\$	\$
Opening balance 1 July	83,281	-
Claims submitted	7,719,285	3,072,031
Claims settled	(83,281)	(2,988,750)
Closing balance 30 June	<u>7,719,285</u>	<u>83,281</u>



# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

## 11 Financial Risk Management

### 11.1 Capital Risk Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company's capital includes share capital and retained earnings.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On 25 June 2013, the Reserve Bank of New Zealand issued Meridian Energy Captive Insurance Limited (MECIL) a license to carry on insurance business in New Zealand, under section 19 of the Insurance (Prudential Supervision) Act 2010. General conditions were applied to the license, including the requirement to maintain a positive solvency margin and the requirement that the minimum solvency capital be at least \$1 million. As a result the parent contributed a further \$2 million of capital in June 2013. The latest solvency return, completed as at 30 June 2013, reported a solvency margin of \$2,887,003. PricewaterhouseCoopers act as the Actuary for the Company. The Company has been in compliance with its solvency requirements throughout the period.

### 11.2 Financial Risk Management

The Company's activities expose it to a variety of financial risks: liquidity risk, interest rate risk, foreign exchange risk and credit risk.

Risk management for any currency risk is carried out by Meridian Energy Limited's Treasury department under policies approved by its Board.

#### 11.2.1 Liquidity Risk

The Company maintains sufficient cash, is equity funded as required by the Parent, Meridian Energy Limited, and trade and other payables are settled on a monthly basis as part of its management of liquidity risk.

#### Contractual Maturities

The following table is an analysis of the contractual undiscounted cash flows relating to financial liabilities at the end of the reporting period and reconciliation from total undiscounted cash flows to carrying amounts:

The amounts disclosed in the table are the contractual undiscounted cash flows.

	2013					30-Jun-13 Carrying Value
	Due within 1 year	Due between 1 and 2 years	Due between 3 and 5 years	Due after 5 years	Total undiscounted cashflows	
	\$	\$	\$	\$	\$	\$
<b>Non-derivative Financial</b>						
- Trade creditors	5,353,929	-	-	-	5,353,929	5,353,929
- Sundry payables	283,669	-	-	-	283,669	283,669
- Provision for claims payable	7,719,285	-	-	-	7,719,285	7,719,285
- Intercompany payable	50,000	-	-	-	50,000	50,000
<b>Total Financial Liabilities</b>	<b>13,406,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,406,883</b>	<b>13,406,883</b>

The carrying value of financial liabilities approximates the fair value.

	2012					30-Jun-12 Carrying Value
	Due within 1 year	Due between 1 and 2 years	Due between 3 and 5 years	Due after 5 years	Total undiscounted cashflows	
	\$	\$	\$	\$	\$	\$
<b>Non-derivative Financial</b>						
- Trade creditors	6,191,071	-	-	-	6,191,071	6,191,071
- Sundry payables	481,831	-	-	-	481,831	481,831
- Provision for claims payable	83,281	-	-	-	83,281	83,281
- Intercompany payable	38,750	-	-	-	38,750	38,750
<b>Total Financial Liabilities</b>	<b>6,794,933</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,794,933</b>	<b>6,794,933</b>

The carrying value of financial liabilities approximates the fair value.

# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

#### 11.2 Financial Risk Management (continued)

The following tables are an analysis of the contractual undiscounted cash flows relating to financial assets at the end of the reporting period and reconciliation from total undiscounted cash flows to carrying amounts.

The amounts disclosed in the table are the contractual undiscounted cash flows.

The inclusion of information on financial assets is necessary in order to understand the Company's liquidity risk management, as liquidity is managed on a net asset and liability basis.

	2013				Total undiscounted cashflows	30-Jun-13 Carrying Value
	Due within 1 year	Due between 1 and 2 years	Due between 3 and 5 years	Due after 5 years		
	\$	\$	\$	\$	\$	\$
<b>Non-derivative Financial Assets</b>						
- Cash and Cash Equivalents	11,149,177	-	-	-	11,149,177	11,149,177
- Insurance Premium Receivable	-	-	-	-	-	-
- Claims Provision Recoveries	5,911,883	-	-	-	5,911,883	5,911,883
- New Zealand Public Trust Bond	-	533,711	-	-	533,711	533,711
- Interest Receivable	6,247	-	-	-	6,247	6,247
<b>Total Financial Assets</b>	<b>17,067,307</b>	<b>533,711</b>	<b>-</b>	<b>-</b>	<b>17,601,018</b>	<b>17,601,018</b>

The carrying value of all financial assets approximates the fair value.

	2012				Total undiscounted cashflows	30-June-12 Carrying Value
	Due within 1 year	Due between 1 and 2 years	Due between 3 and 5 years	Due after 5 years		
	\$	\$	\$	\$	\$	\$
<b>Non-derivative Financial Assets</b>						
- Cash and Cash Equivalents	1,607,365	-	-	-	1,607,365	1,607,365
- Insurance Premium Receivable	6,923,867	-	-	-	6,923,867	6,923,867
- Claims Provision Recoveries	-	-	-	-	-	-
- New Zealand Public Trust Bond	507,649	-	-	-	507,649	507,649
- Interest Receivable	6,767	-	-	-	6,767	6,767
<b>Total Financial Assets</b>	<b>9,045,648</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,045,648</b>	<b>9,045,648</b>

The carrying value of all financial assets approximates the fair value.

#### 11.2.2 Interest Rate Risk

The Company's primary interest rate risk is with the Cash and cash equivalents and the New Zealand Public Trust Bond, where the Company is subject to market movements in interest rates. None of the other financial assets or liabilities arising from insurance or reinsurance contracts entered into by the company are directly exposed to interest rate risk. The average interest rate earned from cash and cash equivalents during the year was 2.82% (2012: 3.35%). Due to the low average balances of Cash and cash equivalents and the New Zealand Public Trust Bond, the impact of increases / decreases in interest rates is not considered to have a material effect on Profit or Loss of the Company.

#### 11.2.3 Foreign Exchange Risk

At 30 June 2013 the Company had NZ\$23,319 of assets denominated in foreign currencies, all of which were in Australian Dollars ("AUD") and all of which were Cash and cash equivalents (2012: NZ\$33,691). The impact of increases / decreases in the AUD is not considered to have a material effect on Profit or Loss of the Company.

#### 11.2.4 Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to an insurance transaction fails to meet its contractual obligations, and arises principally from the Company's premium receivables from related parties and from claims provision recoveries under reinsurance contracts. Insurance contracts are only entered into with related parties. Refer to note 14 for further discussion of insurance risk.



# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

#### 11.2 Financial Risk Management (continued)

The Company believes that no impairment allowance is necessary in respect of premiums receivable as no amounts are past due and all receivables are due from related parties. The Company does not hold collateral or security in relation to credit risk.

The Company limits its exposure to reinsurance credit risk by entering into reinsurance contracts only with counterparties that have good financial strength. Reinsurers must be rated BBB (Standard & Poor's) or A- (AM Best) or greater and must have the equivalent of US\$25 million in unencumbered policyholders surplus. Given this high credit rating requirement, management does not expect the counterparties to fail to meet their obligations.

Credit risk also arises from the Company's holdings in cash and cash equivalents and the New Zealand Public Trust bond. Management mitigate this risk by only using banks and financial institutions that are independently rated with a minimum rating of 'A'.

The carrying amount of insurance assets, cash and cash equivalents and the New Zealand Public Trust bond represents the maximum credit exposure.

## 12 Financial Instruments

### 12.1 Fair Value of Financial Instruments

The carrying values of financial assets and financial liabilities disclosed on the face of the balance sheet approximates their fair values.

	Categories of Financial Instruments		
	Loans and receivables \$	Financial liabilities at amortised cost \$	Total \$
<b>As at 30 June 2012</b>			
<b>Assets</b>			
New Zealand Public Trust Bond	507,649	-	507,649
Cash and cash equivalents	1,607,365	-	1,607,365
Claims provision recoveries receivable	-	-	-
Interest receivable	6,767	-	6,767
<b>Total financial assets</b>	<b>2,121,781</b>	<b>-</b>	<b>2,121,781</b>
<b>Liabilities</b>			
Re-insurance premiums payable	-	6,191,071	6,191,071
Sundry Payables	-	481,831	481,831
Provision for claims payable	-	83,281	83,281
Intercompany payable	-	38,750	38,750
Provision for income tax payable	-	371,721	371,721
<b>Total financial liabilities</b>	<b>-</b>	<b>7,166,654</b>	<b>7,166,654</b>
<b>As at 30 June 2013</b>			
<b>Assets</b>			
New Zealand Public Trust Bond	533,711	-	533,711
Cash and cash equivalents	11,149,177	-	11,149,177
Claims provision recoveries receivable	5,911,883	-	5,911,883
Interest receivable	6,247	-	6,247
<b>Total financial assets</b>	<b>17,601,018</b>	<b>-</b>	<b>17,601,018</b>
<b>Liabilities</b>			
Re-insurance premiums payable	-	5,353,929	5,353,929
Sundry Payables	-	283,669	283,669
Provision for claims payable	-	7,719,285	7,719,285
Intercompany payable	-	1,857,402	1,857,402
Provision for income tax payable	-	90,427	90,427
<b>Total financial liabilities</b>	<b>-</b>	<b>15,304,712</b>	<b>15,304,712</b>

# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2013**

#### **13 Related Party Transactions**

During the financial year, the Company provided insurance to its parent company, Meridian Energy Limited, and its subsidiaries.

The Company received payment for insurance premiums from Meridian Energy Limited of \$11.245 million (2012: \$4.953 million). The balance outstanding at 30 June 2013 was \$Nil (2012: \$6.900 million).

The Company received payment for insurance premiums from Mt Millar Wind Farm Pty Limited, a subsidiary of Meridian Energy Limited, of \$0.147 million (2012: \$0.336). The balance outstanding at 30 June 2013 was \$Nil (2012: \$0.025 million).

The total balances outstanding are represented in the Statement of Financial Position by Insurance Premium Receivable, inclusive of GST where applicable.

The Intercompany payable consists of a loan from Meridian Energy Limited, of \$0.05m (2012: \$0.04 million).

The provision for income tax payable is an inter-company balance with Meridian Energy Limited. Any other receivables and payables with Meridian Energy Limited have been offset.

The Company had insurance claims payable to Meridian Energy Limited totalling \$7.719 million (2012: \$2.989 million), of which \$7.719 million (2012: \$Nil) was outstanding as payable at balance date. The Company also had claims payable to its subsidiary Energy for Industry Limited totalling \$Nil (2012: \$0.083 million), of which \$Nil (2012: \$0.083 million) was outstanding as payable at balance date.

All related party balances are interest free and unsecured.

#### **14 Credit Rating**

The Company does not have, has not sought and is not required to have a credit rating.

#### **15 Insurance Contracts – Risk Management Policies and Procedures**

The financial condition and operation of the company is affected by a number of key risks including insurance risk, market risk, compliance risk and operational risk. The Company's policies and procedures in respect of managing these risks are set out in this note.

##### **Objectives in managing risks arising from insurance contracts and policies for mitigating those risks**

The company has an objective to control insurance risk thus minimising substantial unexpected losses that would expose the company to an adverse financial capital loss.

The Board of the company have developed, implemented and maintain policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. Annually, the Board reviews these strategies.

##### **Key aspects of the processes established to mitigate risks include:**

- The maintenance and use of management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes.
- The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The mix of assets in which we invest is driven by the nature and term of insurance. The diversification of business over separate geographical segments seeks to reduce variability in loss experience.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract, all terms and conditions are negotiable or, in the case of renewals, renegotiable.



# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2013**

#### **14 Insurance Contracts – Risk Management Policies and Procedures (continued)**

##### **Insurance Risk**

As the Company is a captive insurer the risk profile of the insured business is very specific to the nature of the insured business' property assets. There are only two policy holders, the portfolio is not very well diversified and has some geographic concentration.

Insurance exposures are managed by the Company through:

- Implementation of a reinsurance programme that limits the Company's insurance exposures. This reinsurance programme is reviewed annually by the Board.
- The ability to review insurance contracts in place and in particular adjust premium rates
- The Company's business is structured so that it does not pay claims to insurance contract parties until claim proceeds are received from a reinsurer. If a reinsurer is unable to meet its obligations then the Company will fail to provide the agreed cover to insurance contract parties, being all related parties, causing those parties to suffer loss. Refer to note 11 for details of mitigation of reinsurer credit risk.

##### **Reinsurance**

Since the Company does not take or retain any risk, the insurance cover offered by the company is mirrored in the reinsurance market and there are no unexpected catastrophe risks or adverse claim numbers that would impact the company. The Company runs a credit risk with respect to the insurers; this risk is mitigated by choosing reinsurers with good financial strength – refer to note 11 for details.

#### **16 Commitments**

There are no capital commitments at 30 June 2013 (2012: Nil).

#### **17 Subsequent Events**

There have been no material events subsequent to 30 June 2013, apart from that shown below in note 20.

#### **18 Contingent Assets and Liabilities**

There are no contingent assets or liabilities at 30 June 2013 (2012: Nil).

#### **19 Key Management Personnel**

The key management personnel are the directors of the Company and are employees of and remunerated by the Parent. Indemnity insurance is paid on their behalf by the Parent.

#### **20 Withdrawal and Replacement of Financial Statements**

As the company became a fully licensed insurer on 25 June 2013 it is no longer eligible for differential reporting exemptions as it is defined as an issuer for the purposes of the Financial Reporting Act 1993. The previous financial statements for the year ended 30 June 2013 were prepared under the differential reporting exemptions and have been withdrawn (along with the accompanying audit report dated 12 September 2013) and replaced by these financial statements that have been prepared under full NZ IFRS requirements. The main changes have been to provide a cash flow statement and further disclosures in respect of financial instruments. There were no measurement changes.

## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of Meridian Energy Captive Insurance Limited (the company). The Auditor-General has appointed me, Jacqueline Robertson, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the company, on her behalf.

We have audited the financial statements of the company on pages 6 to 21 that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income and statement of changes in equity for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

#### **Opinion**

##### ***Financial statements***

In our opinion the financial statements of the company on pages 6 to 21:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company's:
  - financial position as at 30 June 2013; and
  - financial performance for the year ended on that date.

##### ***Replacement financial statements***

Without modifying our opinion, we draw attention to the fact that the financial statements on pages 6 to 21 replace the previously issued financial statements dated 12 September 2013. The previous financial statements have been replaced because they were prepared under the differential reporting framework and should have been prepared under full NZ IFRS as the company became an issuer prior to 30 June 2013. Attention is drawn to note 20 on page 21 which outlines the circumstances in more detail. This audit report replaces the audit report issued on 12 September 2013

##### ***Other legal requirements***

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 28 February 2014. This is the date at which our opinion is expressed.

The basis of 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 readers' 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 company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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 company'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 all 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.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. 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 preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company's financial position and financial performance.

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.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

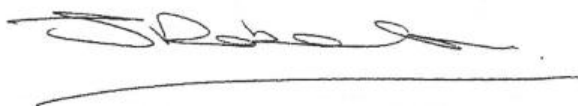
### **Responsibilities of the Auditor**

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 section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

### **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.

Other than the audit, we have no relationship with or interests in the company.



Jacqueline Robertson  
Deloitte  
On behalf of the Auditor-General  
Wellington, New Zealand



The Board of Directors  
Meridian Energy Captive Insurance Limited  
Level 1, 33 Customhouse Quay  
PO Box 10840  
Wellington

27 February 2014

***Appointed actuary's review of actuarial information for Meridian Energy Captive Insurance Limited***

To the Directors of Meridian Energy Captive Insurance Limited,

This letter has been prepared for Meridian Energy Captive Insurance Limited ("MECIL") to meet the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") in respect of Section 77 of the Act which requires that each Licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information included in the audited accounts for MECIL as at 30 June 2013:

- Unearned Premium liability
- Deferred Reinsurance Premium asset

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to MECIL and am a Partner of PricewaterhouseCoopers New Zealand. I am independent of MECIL.

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements has been used appropriately; and
- MECIL is maintaining a solvency margin as required under the Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank of New Zealand.



### ***Reliances and limitations***

This letter has been prepared for MECIL and is provided in accordance with the terms set out in our statement of work dated 26 February 2013.

No distribution of this letter to third parties, other than as required by law is permitted by us. There may be requests for our report to be copied to third parties. We will be happy to consider these requests, as and when they arise.

Our responsibilities and liabilities are limited to MECIL and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our report for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We perform some data validation checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the total reliability, accuracy or completeness of the information provided to us and upon which we have relied. We have no reason to believe that the information provided to us is inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

This letter is not considered an actuarial report, as per Professional Standard 9.2 of the New Zealand Society of Actuaries.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Rhodes', written in a cursive style.

Paul Rhodes, FNZSA, FIA  
Partner