

# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

Annual Report for the Year Ended 30 June 2014

The Board of Directors is pleased to present the Annual Report of Meridian Energy  
Captive Insurance Limited for the Year Ended 30 June 2014

For, and on behalf of, the Board

Mark Birns  
Director

Date 14 October 2014

Paul Chambers  
Director

Date 14 October 2014

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**ANNUAL REPORT**  
**For the year ended 30 June 2014**

**Contents**

	Page
Companies Act 1993 Disclosures	3
Directors' Responsibility Statement	5
Statement of Comprehensive Income	6
Statement of Changes in Equity	7
Statement of Financial Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	12
Auditor's Report	22

# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **ANNUAL REPORT**

### **For the year ended 30 June 2014**

The Directors of Meridian Energy Captive Insurance Limited (the 'Company') have pleasure in presenting the 2014 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 2014**

#### **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 (2013: Nil).

##### **Shareholder**

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

##### **Auditor**

Michael Wilkes 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 (2013: 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 2014**

#### **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 2014 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 2014 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 2014.

The annual financial statements were authorised for issue by the Board on 14 October 2014.

For, and on behalf of, the Board.



**Paul Chambers**  
**Director**

Date 14 October 2014



**Mark Binns**  
**Director**

Date 14 October 2014



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2014**

	Note	2014 \$	2013 \$
<b>Revenue</b>			
Interest	4	127,780	73,409
Commissions	5	257,075	267,146
Insurance premium revenue	5	4,990,492	5,738,928
Exchange loss		(2,255)	(1,942)
Re-insurance revenue		2,149,705	7,719,285
<b>Total Revenue</b>		<b>7,522,797</b>	<b>13,796,826</b>
<b>Expenses</b>			
Claims expense	13	(2,149,705)	(7,719,285)
Audit fees	3	(10,000)	(11,500)
Bank charges		(168)	(160)
Bond amortisation		(19,497)	(9,394)
Management fees		(8,775)	11,943
Professional fees		(13,000)	(5,000)
Sundry expenses		(2,475)	(1,550)
Reinsurance premium expense	5	(4,990,492)	(5,738,928)
<b>Total Expenses</b>		<b>(7,194,112)</b>	<b>(13,473,874)</b>
<b>Profit Before Tax</b>		<b>328,685</b>	<b>322,952</b>
Income tax expense	6	(92,031)	(90,427)
<b>Profit After Tax</b>		<b>236,654</b>	<b>232,525</b>
<b>Profit for the Year and Total Comprehensive Income</b>		<b>236,654</b>	<b>232,525</b>
<b>Profit After Tax Attributable to:</b>			
Shareholders of the Parent company		236,654	232,525
		<b>236,654</b>	<b>232,525</b>



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2014**

	Note	Share Capital \$	Retained Earnings \$	Total \$
<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>
<b>Balance at 1 July 2013</b>		<b>2,500,000</b>	<b>1,387,003</b>	<b>3,887,003</b>
Net surplus after taxation		-	236,654	236,654
Profit for the Year and Total Comprehensive Income		-	236,654	236,654
<b>Balance at 30 June 2014</b>		<b>2,500,000</b>	<b>1,623,657</b>	<b>4,123,657</b>



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2014**

	Note	2014 \$	2013 \$
<b>Shareholders' Equity</b>			
Share capital	7	2,500,000	2,500,000
Retained earnings		1,623,657	1,387,003
<b>Total Equity</b>		<b>4,123,657</b>	<b>3,887,003</b>
<b>Represented by:</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	9,276,403	11,149,177
Insurance premium receivable	13	-	-
Deferred reinsurance premium		3,774,706	4,258,814
Claims provision recoveries receivable	10	5,852,542	5,911,883
New Zealand Public Trust bond	9	514,214	-
Interest receivable		12,499	6,247
<b>Total Current Assets</b>		<b>19,430,364</b>	<b>21,326,121</b>
<b>Non-Current Assets</b>			
New-Zealand Public Trust bond	9	-	533,711
<b>Total Non-Current Assets</b>		<b>-</b>	<b>533,711</b>
<b>Total Assets</b>		<b>19,430,364</b>	<b>21,859,832</b>
<b>Current Liabilities</b>			
Re-insurance premiums payable	10	4,860,511	5,353,929
Sundry payables		377,877	283,669
Unearned premium		3,774,706	4,258,814
Unearned ceding commission		208,613	216,705
Provision for claims payable	10, 13	5,852,542	7,719,285
Intercompany payable	13	50,000	50,000
Provision for income tax payable	13	182,458	90,427
<b>Total Current Liabilities</b>		<b>15,306,707</b>	<b>17,972,829</b>
<b>Total Liabilities</b>		<b>15,306,707</b>	<b>17,972,829</b>
<b>Net Assets</b>		<b>4,123,657</b>	<b>3,887,003</b>

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

Paul Chambers  
 Director

Date 14 October 2014

Mark Binns  
 Director

Date

14 October 2014





**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2014**

	2014	2013
Note	\$	\$
<b>Operating Activities</b>		
<b>Cash was Provided from:</b>		
Receipts from customers	4,674,893	11,390,196
Re-insurance claims received	2,209,046	1,807,402
Interest received	127,780	87,502
	<u>7,011,719</u>	<u>13,285,100</u>
<b>Cash was Applied to:</b>		
Payments to suppliers and employees	(4,868,045)	(5,251,330)
Claims paid	(4,016,448)	(83,281)
Income tax paid	-	(370,896)
	<u>(8,884,493)</u>	<u>(5,705,507)</u>
<b>Net Cash (Outflows)/Inflows from Operating Activities</b>	<u>(1,872,774)</u>	<u>7,579,593</u>
<b>Investing Activities</b>		
<b>Cash was Provided from:</b>		
Maturity of Public Trust Bond	-	500,000
	<u>-</u>	<u>500,000</u>
<b>Cash was Applied to:</b>		
Purchase of Public Trust Bond	-	(549,549)
Intercompany loan repaid	-	-
	<u>-</u>	<u>(549,549)</u>
<b>Net Cash Outflows from Investing Activities</b>	<u>-</u>	<u>(49,549)</u>
<b>Financing Activities</b>		
<b>Cash was Provided from:</b>		
Proceeds from issue of share capital	-	2,000,000
Intercompany loan received	-	11,768
	<u>-</u>	<u>2,011,768</u>
<b>Net Cash Inflows from Financing Activities</b>	<u>-</u>	<u>2,011,768</u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<u>(1,872,774)</u>	<u>9,541,812</u>
Cash and Cash Equivalents at Beginning of Year	11,149,177	1,607,365
<b>Cash and Cash Equivalents at End of Year</b>	<u>9,276,403</u>	<u>11,149,177</u>

8



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2014**

**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

Claims paid

Bond amortisation

Bond accrued interest on purchase

**Changes in Working Capital Items**

Decrease in Insurance premium receivable

Decrease in Deferred reinsurance premium

Increase in Interest receivable

Decrease in Re-insurance premiums payable

Increase/(Decrease) in Sundry payables

Decrease in Unearned premium

Decrease in Unearned ceding commission

Decrease in Tax payable

**Net Cash (Outflow)/Inflow from Operating Activities**

	2014	2013
	\$	\$
Profit after Tax for the Year	236,654	232,525
Adjustments to Operating Activities:		
Claims received	2,209,046	1,807,402
Claims paid	(4,016,448)	-
Bond amortisation	19,497	9,394
Bond accrued interest on purchase	-	14,095
	(1,787,905)	1,830,891
Changes in Working Capital Items		
Decrease in Insurance premium receivable	-	6,923,867
Decrease in Deferred reinsurance premium	484,108	642,314
Increase in Interest receivable	(6,252)	-
Decrease in Re-insurance premiums payable	(493,418)	(837,142)
Increase/(Decrease) in Sundry payables	94,208	(281,443)
Decrease in Unearned premium	(484,108)	(642,314)
Decrease in Unearned ceding commission	(8,092)	(7,811)
Decrease in Tax payable	92,031	(281,294)
	(321,523)	5,516,177
Net Cash (Outflow)/Inflow from Operating Activities	(1,872,774)	7,579,593



**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2014**

- 1 Summary of Accounting Policies
- 2 Insured Risk
- 3 Operating Expenses
- 4 Interest Income
- 5 Underwriting Account
- 6 Income Tax
- 7 Share Capital
- 8 Cash and Cash Equivalents
- 9 Investments
- 10 Reconciliation of Movements in Re-insurance Assets and Insurance Liabilities
- 11 Financial Risk Management
- 12 Financial Instruments
- 13 Related Party Transactions
- 14 Credit Rating
- 15 Insurance Contracts - Risk Management Policy and Procedures
- 16 Commitments
- 17 Subsequent Events
- 18 Contingent Assets and Liabilities
- 19 Key Management Personnel



# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2014**

## **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 Public Finance Act 1989, but is no longer bound by 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 (IFRS), 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 2014.

The financial statements were authorised for issue by the directors on 14 October 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 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:

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>
NZ IFRS 10 Consolidated Financial Statements	1-Jan-13
NZ IFRS 11 Joint Arrangements	1-Jan-13
NZ IFRS 12 Disclosure of Interests in Other Entities	1-Jan-13
NZ IFRS 13 Fair Value Measurement	1-Jan-13
NZ IAS 19 Employee Benefits (revised 2011)	1-Jan-13
NZ IAS 27 Separate Financial Statements (revised 2011)	1-Jan-13
NZ IAS 28 Investments in Associates and Joint Ventures	1-Jan-13
NZ IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1-Jan-13
Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1-Jan-13
Improvements to IFRS:2009-2011 cycle	1-Jan-13

Other than additional disclosures, the adoption of these new standards has not had any material impact on the amounts recognised in the financial statements.

### **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 2014**

#### **1.4 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.

#### **1.5 Significant Accounting Policies**

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

##### **1.5.1 Cash and Cash Equivalents**

Cash and cash equivalents used in the Statement of Cash Flows comprise cash on hand and demand deposits and these are held at fair value.

##### **1.5.2 Investments**

Investments are designated as at fair value through profit and loss (FVTPL). Fair value changes exclude interest.

##### **1.5.3 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. The Company does not have any temporary differences therefore there is no deferred tax that has been recognised.

##### **1.5.4 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.

##### **1.5.5 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.

##### **1.5.6 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. 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.



# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2014**

#### **1.5.7 Reinsurance Recoveries**

Outstanding reinsurance recoveries assets are shown in the statement of financial position as claims provisions recoveries receivable. These are recognised when loss events have occurred and are based on the estimated ultimate proceeds of all claims not settled at balance date. An estimate is made of the present value of claims reported but not received. 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 receivable that have occurred but which have not been settled are reflected by adjusting the assets. The asset is derecognised when the claim is discharged or withdrawn. 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.

#### **1.5.8 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 received.

#### **1.5.9 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 paid. All assets are deemed to back insurance liabilities.

## **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

	2014	2013
	\$	\$
	10,000	11,500

## **4 Interest Income**

#### **Interest Income on Financial Assets:**

- Call account

- Bond

	2014	2013
	\$	\$
	97,781	40,523
	29,999	32,886
	127,780	73,409

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**5 Underwriting account**

	2014 \$	2013 \$
<b>Premium income</b>		
Insurance premiums receivable	4,506,384	5,096,614
Movement in unearned premiums	484,108	642,314
<b>Insurance premium income</b>	<b>4,990,492</b>	<b>5,738,928</b>
<b>Reinsurance expenses</b>		
Insurance premiums payable	4,506,384	5,096,614
Movement in unearned premiums	484,108	642,314
<b>Reinsurance premium expense</b>	<b>4,990,492</b>	<b>5,738,928</b>
<b>Re-insurance revenue</b>	<b>2,149,705</b>	<b>7,719,285</b>
<b>Claims expense</b>	<b>(2,149,705)</b>	<b>(7,719,285)</b>
<b>Underwriting result</b>		
Commissions earned	257,075	267,146
<b>Total underwriting surplus</b>	<b>257,075</b>	<b>267,146</b>

**6 Income Tax**

	2014 \$	2013 \$
<b>Current Tax Expense</b>		
Current income tax expense	92,031	90,427
<b>Total Income Tax Expense</b>	<b>92,031</b>	<b>90,427</b>
Income Tax Credit can be reconciled to Accounting Profit as follows:		
Profit Before Tax	328,685	322,952
Income Tax at 28%	92,031	90,427
<b>Income Tax Expense</b>	<b>92,031</b>	<b>90,427</b>

**7 Share Capital**

	Note	2014 Units	2013 Units	2014 \$	2013 \$
Ordinary Shares		2,000,100	2,000,100	2,500,000	2,500,000

The share capital is represented by 2,000,100 ordinary shares (2013: 2,000,100). 2 million shares are issued at \$1 per share and 100 shares are 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.

**MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2014**

**8 Cash and Cash Equivalents**

	2014	2013
	\$	\$
Current Account	5,870,622	10,843,396
Call Account	305,781	305,781
Call Deposit	3,100,000	-
	<u>9,276,403</u>	<u>11,149,177</u>

**9 Investments**

	2014	2013
	\$	\$
New Zealand Public Trust Bond	514,214	533,711
	<u>514,214</u>	<u>533,711</u>

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

<b>Claims provisions recoveries receivable:</b>	2014	2013
	\$	\$
Opening balance 1 July	5,911,883	-
Claims submitted recognised	2,149,705	7,719,285
Claims settled	(2,209,046)	(1,807,402)
Closing balance 30 June	<u>5,852,542</u>	<u>5,911,883</u>

<b>Re-insurance premiums payable:</b>	2014	2013
	\$	\$
Opening balance 1 July	5,353,929	6,191,071
Premiums paid to reinsurers	(5,353,929)	(6,191,071)
Premiums invoiced by reinsurers	4,860,511	5,353,929
Closing balance 30 June	<u>4,860,511</u>	<u>5,353,929</u>

<b>Provision claims payable:</b>	2014	2013
	\$	\$
Opening balance 1 July	7,719,285	83,281
Claims submitted recognised	2,149,705	7,719,285
Claims settled	(4,016,448)	(83,281)
Closing balance 30 June	<u>5,852,542</u>	<u>7,719,285</u>

The movement during the 2014 financial year relates to updates in the outstanding claim obligation to reflect the best estimate of the ultimate costs of the claims incurred but not settled at balance date.



# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2014

## 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 2014 reported a solvency margin of \$3,123,657. PricewaterhouseCoopers act as the Actuary for the Company and have reviewed the actuarial information including the unearned premium liability and deferred reinsurance premium. In the opinion of the actuary the actuarial information contained in the financial statements has been appropriately included and used in the preparation of the financial statements. 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.

2014						
	Due within 1 year	Due between 1 and 2 years	Due between 3 and 5 years	Due after 5 years	Total undiscounted cashflows	30-Jun-14 Carrying Value
	\$	\$	\$	\$	\$	\$
<b>Non-derivative Financial Liabilities</b>						
- Re-insurance premiums payable	4,860,511	-	-	-	4,860,511	4,860,511
- Sundry payables	377,877	-	-	-	377,877	377,877
- Provision for claims payable	5,852,542	-	-	-	5,852,542	5,852,542
- Intercompany payable	50,000	-	-	-	50,000	50,000
<b>Total Financial Liabilities</b>	<b>11,140,930</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,140,930</b>	<b>11,140,930</b>

The carrying value of financial liabilities approximates the fair value.

2013						
	Due within 1 year	Due between 1 and 2 years	Due between 3 and 5 years	Due after 5 years	Total undiscounted cashflows	30-Jun-13 Carrying Value
	\$	\$	\$	\$	\$	\$
<b>Non-derivative Financial Liabilities</b>						
- Re-insurance premiums payable	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.

13,406,883  
For  
Identification  
17

# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2014

#### 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.

	2014					30-Jun-14 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 Assets</b>						
- Cash and Cash Equivalents	9,276,403	-	-	-	9,276,403	9,276,403
- Insurance Premium Receivable	-	-	-	-	-	-
- Claims Provision Recoveries Receivable	5,852,542	-	-	-	5,852,542	5,852,542
- New Zealand Public Trust Bond	514,214	-	-	-	514,214	514,214
- Interest Receivable	12,499	-	-	-	12,499	12,499
<b>Total Financial Assets</b>	<b>15,655,658</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,655,658</b>	<b>15,655,658</b>

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

	2013					30-June-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 Assets</b>						
- Cash and Cash Equivalents	11,149,177	-	-	-	11,149,177	11,149,177
- Insurance Premium Receivable	-	-	-	-	-	-
- Claims Provision Recoveries Receivable	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.

#### 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 2.25% (2013: 2.82%). The impact of a 50 basis point increase / decrease in interest rates on interest revenue would be +\$0.022m / -\$0.022m (2013: +\$0.001m / -\$0.001m).

#### 11.2.3 Foreign Exchange Risk

At 30 June 2014 the Company had NZ\$155,597 assets denominated in foreign currencies, all of which were in Australian Dollars ("AUD") and all of which were Cash and cash equivalents (2013: NZ\$23,319). 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 15 for further discussion of insurance risk.



# MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2014

#### 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 assets at FVTPL \$	Financial liabilities at amortised cost \$	Total \$
<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>5,918,130</b>	<b>11,682,888</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	-	-	50,000	50,000
Provision for income tax payable	-	-	90,427	90,427
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>13,497,310</b>	<b>13,497,310</b>
<b>As at 30 June 2014</b>				
<b>Assets</b>				
New Zealand Public Trust Bond	-	514,214	-	514,214
Cash and cash equivalents	-	9,276,403	-	9,276,403
Claims provision recoveries receivable	5,852,542	-	-	5,852,542
Interest receivable	12,499	-	-	12,499
<b>Total financial assets</b>	<b>5,865,041</b>	<b>9,790,617</b>	<b>-</b>	<b>15,655,658</b>
<b>Liabilities</b>				
Re-insurance premiums payable	-	-	4,860,511	4,860,511
Sundry Payables	-	-	377,877	377,877
Provision for claims payable	-	-	5,852,542	5,852,542
Intercompany payable	-	-	50,000	50,000
Provision for income tax payable	-	-	182,458	182,458
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>11,323,388</b>	<b>11,323,388</b>

# **MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2014**

#### **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 \$4.632 million (2013: \$11.245 million). The balance outstanding at 30 June 2014 was \$Nil (2013: \$Nil).

The Company received payment for insurance premiums from Mt Millar Wind Farm Pty Limited, a subsidiary of Meridian Energy Limited, of \$0.134 million (2013: \$0.147). The balance outstanding at 30 June 2014 was \$Nil (2013: \$Nil).

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 (2013: \$0.05 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 \$2.150 million for the year (2013: \$7.719 million), with \$5.853 million (2013: \$7.719 million) outstanding as payable at balance date. The Company paid insurance claims to Meridian Energy Limited totalling \$4.016m (2013: \$Nil) and to Energy for Industry Limited totalling \$Nil (2013: \$0.083m).

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 throughout New Zealand 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 2014**

#### **15 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 four 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 2014 (2013: Nil).

#### **17 Subsequent Events**

There have been no material events subsequent to 30 June 2014.

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

There are no contingent assets or liabilities at 30 June 2014 (2013: 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.

## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

The Auditor-General is the auditor of Meridian Energy Captive Insurance Limited (the Company). The Auditor-General has appointed me, Michael Wilkes, 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 2014, the statement of comprehensive income, 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.

#### **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;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company's:
  - financial position as at 30 June 2014; and
  - financial performance and cash flows for the year ended on that date.

##### ***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 14 October 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, financial performance and cash flows.

The Board of Directors is 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 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.

## **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.



Michael Wilkes  
Deloitte  
On behalf of the Auditor-General  
Christchurch, New Zealand





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

10 October 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 2014:

- Unearned Premium liability
- Outstanding Claims 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 24 February 2014.

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".

Paul Rhodes, FNZSA, FIA  
Partner