

# Meridian Energy Captive Insurance Limited

## Financial Statements

For the year ended 30 June 2018

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# Meridian Energy Captive Insurance Limited

## Companies Act 1993 Disclosures

For the year ended 30 June 2018

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The Directors of Meridian Energy Captive Insurance Limited (the 'Company' or 'MECIL') present the 2018 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 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.

### **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 a 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

## Companies Act 1993 Disclosures

For the year ended 30 June 2018

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### Board of Directors

#### Directors' Profiles

During the period under review the following acted as Directors:

Paul Chambers (appointed 25/12/09)	Chief Financial Officer, Meridian Energy Limited Director of various Meridian Group subsidiaries
Neal Barclay (appointed 07/12/17)	Chief Executive Officer, Meridian Energy Limited Director of various Meridian Group subsidiaries
Jason Stein (appointed 25/12/09)	General Counsel, Meridian Energy Limited Alternate director of various Meridian Group subsidiaries (Alternate for Neal Barclay)
Mark Binns (resigned 07/12/17)	Former Chief Executive Officer, Meridian Energy Limited Former Director of various Meridian Group subsidiaries

The Directors received no Director Fees from the Company during the year (2017:Nil).

#### Auditor

Trevor Deed of Deloitte Limited was appointed by the Auditor-General to carry out the audit of the Company on his behalf. There have been no additional services provided. The remuneration for services provided by Deloitte Limited for the current financial year is reported in the financial statements.

#### Shareholder

All ordinary shares of the Company are owned by the Parent, Meridian Energy Limited.

#### Dividend

The Directors recommend that no dividend be paid (2017: 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**

## **Directors Responsibility Statement**

**For the year ended 30 June 2018**

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The Directors are responsible for ensuring that the financial statements fairly present the financial position of the Company as at 30 June 2018 and its financial performance and cash flows 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.

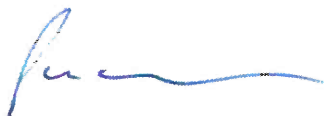
The Directors confirm that proper accounting records have been kept which enable the determination of the financial position of the Company as at 30 June 2018 and its financial performance and cash flows for the year ended on that date to ensure compliance of the financial statements with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

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 (including notes), set out on pages 5 to 15, of Meridian Energy Captive Insurance Limited for the year ended 30 June 2018.

The annual financial statements were authorised for issue by the Board on 21 September 2018.

For, and on behalf of, the Board.



Paul Chambers, Director, 21 September 2018



Neal Barclay, Director, 21 September 2018

# Meridian Energy Captive Insurance Limited

## Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Operating revenue	A1	3,419	3,399
Operating expenses	A2	(3,241)	(3,248)
<b>Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)</b>		<b>178</b>	<b>151</b>
<b>Operating profit</b>		<b>178</b>	<b>151</b>
Interest income	A1	116	147
<b>Net profit before tax</b>		<b>294</b>	<b>298</b>
Income tax expense	A4	(82)	(85)
<b>Net profit after tax attributed to the shareholders of the parent company</b>		<b>212</b>	<b>213</b>
<b>Total comprehensive income attributed to the shareholders of the parent company</b>		<b>212</b>	<b>213</b>





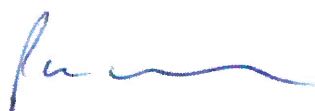
# Meridian Energy Captive Insurance Limited

## Balance Sheet

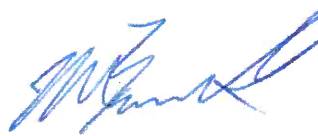
As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	B2	8,898	8,624
Deferred re-insurance premium		2,851	2,660
Interest receivable		7	4
Intercompany Receivable		208	-
Provision for claims receivable	B3	-	-
<b>Total current assets</b>		<b>11,964</b>	<b>11,289</b>
<b>Non-current assets</b>			
<b>Total non-current assets</b>		<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>11,964</b>	<b>11,289</b>
<b>Current liabilities</b>			
Provision for claims payable	B3	-	-
Provision for income tax payable	D1	166	83
Re-insurance premiums payable	B3	3,630	3,446
Sundry payables		22	31
Unearned premium		2,851	2,670
Unearned ceding commission		170	145
<b>Total current liabilities</b>		<b>6,839</b>	<b>6,375</b>
<b>Non-current liabilities</b>			
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>6,839</b>	<b>6,375</b>
<b>Net assets</b>		<b>5,125</b>	<b>4,914</b>
<b>Shareholders equity</b>			
Share capital	B1	2,500	2,500
Retained earnings		2,625	2,413
<b>Total shareholders' equity</b>		<b>5,125</b>	<b>4,913</b>

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



Paul Chambers, Director, 21 September 2018



Neal Barclay, Director, 21 September 2018



# Meridian Energy Captive Insurance Limited

## Statement of Changes in Equity

For the year ended 30 June 2018

		\$'000	
	Note	Share capital	Retained earnings
Balance at 1 July 2016		2,500	2,200
Net profit for the 2017 financial year		-	213
Total comprehensive income for the year, net of tax		-	213
Balance at 30 June 2017 and 1 July 2017		2,500	2,413
Net profit for the 2018 financial year		-	212
Total comprehensive income for the year, net of tax		-	212
Balance at 30 June 2018		2,500	2,625

## Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Operating activities</b>			
Receipts from customers		3,226	3,827
Interest received		116	147
		3,342	3,974
Payments to suppliers		(3,068)	(3,702)
Income tax paid		-	(83)
		(3,068)	(3,785)
<b>Operating cash flows</b>	B2	274	189
<b>Net (decrease)/increase in cash and cash equivalents</b>		274	189
Cash and cash equivalents at beginning of year		8,624	8,435
<b>Cash and cash equivalents at end of year</b>	B2	8,898	8,624



# Meridian Energy Captive Insurance Limited

## Notes to the Financial Statements: About this report

For the year ended 30 June 2018

### In this section

The notes to the financial statements include information which is considered relevant and material to assist the reader in understanding the financial performance and position of MECIL. Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of MECIL;
- it helps to explain changes in MECIL's business; or
- it relates to an aspect of MECIL's operations that is important to future performance.

Meridian Energy Captive Insurance Limited (MECIL and the Company) is a for profit 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, a Mixed Ownership Company majority owned by Her Majesty the Queen in Right of New Zealand. Consequently, the Company is bound by the requirements of the Public Finance Act 1989.

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 and comply with the International Financial Reporting Standards (IFRS) and the New Zealand equivalents (NZ IFRS);
- in accordance with the requirements of the Companies Act 1993;
- in accordance with the Financial Markets Conduct Act 2013;
- on the basis of historical cost;
- in New Zealand dollars (NZD), with all values rounded to the nearest thousand dollars
- using accounting policies as provided throughout the notes to the financial statements.

### Basis of preparation

The same accounting policies, presentation and methods of computation have been applied consistently to all periods presented in these financial statements.

### Key estimate

In the process of applying the Company's accounting policies and the application of accounting standards, Meridian Energy Captive Insurance Limited has made estimates which are based on historic experience and various other factors that are considered to be appropriate under the circumstances. Actual results may differ from these estimates.

The estimate which is considered material to understanding the performance of Meridian Energy Captive Insurance Limited is found in the following note:

Note B3: Re-insurance assets and re-insurance liabilities

Page 11

### Other accounting policies

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

### 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.





# Meridian Energy Captive Insurance Limited

## Notes to the Financial Statements: A) Financial performance

For the year ended 30 June 2018

### A1 Income

	2018 \$'000	2017 \$'000
<b>Operating revenue</b>		
Revenue	3,240	3,224
Other revenue - commissions	179	175
	<b>3,419</b>	<b>3,399</b>

#### Revenue Recognition

The primary revenue for this entity is derived from providing insurance services. Revenue is recognised over the period of the insurance coverage in accordance with the expected pattern of the incidence of risk.

	2018 \$'000	2017 \$'000
<b>Interest income</b>		
Interest income on Financial Assets:		
Call deposits	116	147
	<b>116</b>	<b>147</b>

### A2 Expenses

	2018 \$'000	2017 \$'000
<b>Operating expenses</b>		
Audit fees	12	12
Exchange (gain)	(18)	(2)
Insurance claim payout	-	2
Management fees	-	5
Professional fees	2	4
Re-insurance premium expense	3,240	3,222
Solvency Opinion fees	5	5
	<b>3,241</b>	<b>3,248</b>

#### Expense Recognition

Reinsurance premium expense is recognised over the period of the indemnity for the reinsurance.

Audit fees and solvency opinion fees are paid to Deloitte Limited. Audit fees are for the audit of the financial statements, and the solvency opinion fee is for the review of the solvency return.

### A3 Underwriting Result

	2018 \$'000	2017 \$'000
<b>Premium income</b>		
Insurance premiums received	3,034	3,206
Claims recovery	-	2
Movement in unearned premiums	206	17
<b>Insurance premium income</b>	<b>3,240</b>	<b>3,224</b>
<b>Re-insurance expenses</b>		
Insurance premiums expenses	3,240	3,222
Claims expense	-	2
Movement in unearned premiums	-	-
<b>Re-insurance premium expense</b>	<b>3,240</b>	<b>3,224</b>
<b>Underwriting result</b>		
Commissions earned	179	175
<b>Total underwriting surplus</b>	<b>179</b>	<b>175</b>



**Meridian Energy Captive Insurance Limited**  
**Notes to the Financial Statements: A) Financial performance**  
For the year ended 30 June 2018

**A4 Taxation**

	2018 \$'000	2017 \$'000
<b>Income tax expense</b>		
Current income tax charge	82	83
Adjustments to tax of prior years	-	2
<b>Total current tax expense</b>	<b>82</b>	<b>85</b>
<b>Total income tax</b>	<b>82</b>	<b>85</b>
<i>Reconciliation to profit before tax</i>		
<b>Profit before tax</b>	<b>294</b>	<b>298</b>
Income tax at applicable rates (28%)	82	83
Income tax under/(over) provided in prior year	-	2
<b>Income tax expense</b>	<b>82</b>	<b>85</b>

**Income tax expense**

Income tax expense represents the sum of the tax currently payable. It 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.

**Notes to the Financial Statements: B) Managing funding**

**B1 Share capital**

	2018		2017	
	Shares	\$'000	Shares	\$'000
Share capital				
Shares issued	2,000,100	2,500	2,000,100	2,500
<b>Share capital</b>	<b>2,000,100</b>	<b>2,500</b>	<b>2,000,100</b>	<b>2,500</b>

**Share capital**

The share capital is represented by 2,000,100 ordinary shares (2017: 2,000,100). Two million shares are issued at \$1 per share and one hundred 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.

**B2 Cash and cash equivalents**

	2018 \$'000	2017 \$'000
<b>Cash and cash equivalents</b>		
Current account	3,696	6,141
Call Deposit	5,202	2,483
	<b>8,898</b>	<b>8,624</b>

The call deposits are held with ANZ Bank Limited and BNZ and attract interest at 2.00% p.a. and 3.70% p.a. as at 30 June 2018 (2017: ANZ Bank Limited 2.00% p.a.).

**Cash and Cash Equivalents**

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

	2018 \$'000	2017 \$'000
<b>Reconciliation of NPAT to cash flows from operating activities</b>		
<b>Net profit after tax</b>	<b>212</b>	<b>213</b>
<i>Adjustments for operating activities non-cash items:</i>		
Claims receivable	-	-
Claims payable	-	-
<i>Changes in working capital items:</i>		
(Increase)/Decrease in deferred re-insurance premium	(191)	28
(Decrease) in interest receivable	(3)	(2)
(Decrease)/Increase in re-insurance premiums payable	184	(31)
(Increase) in intercompany receivable	(208)	-
Increase in sundry payables	(9)	-
Increase in unearned premium	181	11
Decrease/(Increase) in unearned ceding commission	25	(30)
Increase in tax payable	82	-
	<b>63</b>	<b>(24)</b>
<b>Cash flow from operating activities</b>	<b>275</b>	<b>189</b>



# Meridian Energy Captive Insurance Limited

## Notes to the Financial Statements: B) Managing funding

For the year ended 30 June 2018

### B3 Re-insurance assets and insurance liabilities

Reconciliation of movements in re-insurance assets and insurance liabilities	2018 \$'000	2017 \$'000
<i>Provision for claims receivable:</i>		
Opening balance 1 July	-	405
Claims provision recognised	-	-
Claims settled	-	(405)
<b>Closing balance 30 June</b>	<b>-</b>	<b>-</b>
<i>Re-insurance premiums payable:</i>		
Opening balance 1 July	3,446	3,477
Premiums paid to re-insurers	(3,446)	(3,477)
Premiums invoiced by re-insurers	3,630	3,446
<b>Closing balance 30 June</b>	<b>3,630</b>	<b>3,446</b>
<i>Provision for claims payable:</i>		
Opening balance 1 July	-	(405)
Claims payable recognised	-	-
Claims settled	-	405
<b>Closing balance 30 June</b>	<b>-</b>	<b>-</b>

All outstanding claims were settled during the 2018 year. There are no claims payable at year end.

#### 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 incurred 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 re-insurance 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 balance sheet under provision for claims receivable/payable.

#### Re-insurance recoveries

Outstanding re-insurance recoveries assets are shown in the balance sheet as a provision for claims 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 re-insurance 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.





# Meridian Energy Captive Insurance Limited

## Notes to the Financial Statements: C) Financial instruments used to manage risk

For the year ended 30 June 2018

### In this section

This section explains the financial risks MECIL faces, how these risks affect MECIL's financial position and performance and how MECIL manages these risks. In this section of the notes there is information:

a) Outlining MECIL's approach to financial risk management.

### C1 Financial risk management

#### Capital risk management

The Company's objective when managing capital is to safeguard its 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 licence to carry on insurance business in New Zealand, under section 19 of the Insurance (Prudential Supervision) Act 2010. General conditions were applied to the licence, including the requirement to maintain a positive solvency margin and the requirement that the actual solvency capital be at least \$1 million. As a result the parent contributed a further \$2 million of capital in June 2013. The licence was reissued by the Reserve Bank effective as at 30 June 2015 with no change to the solvency margin requirements.

Paul Rhodes, FNZSA, FIA of PricewaterhouseCoopers acts as the actuary for the Company and has reviewed the actuarial information including the unearned premium liability, outstanding claims liability and deferred reinsurance premium. There are no assumptions made in setting the claims liability, and the amount is based on the final claim discharge document and an offsetting reinsurance recovery asset is held, making the net provision zero. Because the net liability is zero, there is no need for a risk margin, discounting or claims handling costs. 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 actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The Company has been in compliance with its solvency requirements throughout the period. The latest solvency return, completed as at 30 June 2018, reported the following solvency calculations:

	2018 \$'000	2017 \$'000
Actual solvency capital	5,126	4,913
Minimum solvency capital	1,000	1,000
Solvency margin	4,126	3,913
Solvency ratio (percent)	513%	491%

#### 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.

#### Management of key financial risks

##### Liquidity risk

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

#### Market risk

##### - Interest rate risk

MECIL's primary interest rate risk is with cash and cash equivalents, where the Company is subject to market movements in interest rates.

None of the other financial assets or liabilities arising from insurance or re-insurance 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 1.30% (2017: 1.22%). The impact of a 50 basis point increase / decrease in interest rates on interest revenue would be +\$0.026m / -\$0.026m (2017: +\$0.011m / -\$0.011m).

##### - Foreign exchange risk

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

At 30 June 2018 the Company had NZ\$270,708 assets denominated in foreign currencies, all of which were Australian Dollar ("AUD") cash and cash equivalents (2017: NZ\$243,074). The impact of increases / decreases in the AUD is not considered to have a material effect on profit or loss of the Company.

#### 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 re-insurance contracts.

Insurance contracts are only entered into with related parties. Refer to C3 for further discussion of insurance risk.

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 re-insurance credit risk by entering into re-insurance contracts only with counterparties that have good financial strength. Re-insurers 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. Management mitigate this risk by only using banks and financial institutions that are independently rated with a minimum rating of 'A' (Standard & Poor's).

The carrying amount of the financial assets recognised on the balance sheet best represent the maximum likely exposure to credit risk at the date of this report.



**Meridian Energy Captive Insurance Limited**  
**Notes to the Financial Statements: C) Financial instruments used to manage risk**  
For the year ended 30 June 2018

**C2 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, and are due within one year. There are no assets or liabilities due beyond one year.

	Categories of financial instruments			Total \$'000
	Loans and receivables \$'000	Financial assets at FVTPL \$'000	Financial liabilities at amortised cost \$'000	
<b>As at 30 June 2018</b>				
<b>Assets</b>				
Cash and cash equivalents	-	8,898	-	8,898
Interest receivable	7	-	-	7
Intercompany Receivable	208	-	-	208
<b>Total financial assets</b>	<b>215</b>	<b>8,898</b>	<b>-</b>	<b>9,113</b>
<b>Liabilities</b>				
Re-insurance premiums payable	-	-	3,630	3,630
Sundry Payables	-	-	22	22
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>3,652</b>	<b>3,652</b>

**As at 30 June 2017**

<b>Assets</b>				
Cash and cash equivalents	-	8,624	-	8,624
Interest receivable	4	-	-	4
Intercompany Receivable	-	-	-	-
<b>Total financial assets</b>	<b>4</b>	<b>8,624</b>	<b>-</b>	<b>8,628</b>
<b>Liabilities</b>				
Re-insurance premiums payable	-	-	3,446	3,446
Sundry Payables	-	-	31	31
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>3,477</b>	<b>3,477</b>

**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.

**Financial Assets**

Financial assets (except cash) 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 classified as loans and receivables 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.





# Meridian Energy Captive Insurance Limited

## Notes to the Financial Statements: C) Financial instruments used to manage risk

For the year ended 30 June 2018

### C3 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 maintained 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.
- Re-insurance 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 the Company invests 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 re-insurance 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.

#### 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 re-insurance programme that limits the Company's insurance exposures. This re-insurance 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 re-insurer 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 C1 for details of mitigation of re-insurer 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. As noted above, the Company runs a credit risk with respect to the insurers; this risk is mitigated by choosing re-insurers with good financial strength – refer to note C1 for details.



# Meridian Energy Captive Insurance Limited

## Notes to the Financial Statements: D) Other

For the year ended 30 June 2018

### D1 Related parties

During the financial period, 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 \$3.366 million (2017: \$3.126 million). The balance outstanding at 30 June 2018 was Nil (2017: Nil).

The Company received payment for insurance premiums from the following entities, all of which are subsidiaries of Meridian Energy Limited. There are no balances outstanding as at 30 June 2018 (2017: Nil).

Related party transactions	2018 \$'000	2017 \$'000
Mt Millar Wind Farm Pty Limited	68	65
Mt Mercer Wind Farm Pty Limited	136	128
Powershop Australia Pty Limited	7	37
GSP Pty Limited	58	-
	<b>269</b>	<b>230</b>

Related party receivables	2018 \$'000	2017 \$'000
Meridian Energy Limited - GST	208	-
	<b>208</b>	<b>-</b>

Related party payables	2018 \$'000	2017 \$'000
Meridian Energy Limited - Income Tax	166	83
	<b>166</b>	<b>83</b>

The Company did not pay any insurance claims to Meridian Energy Limited during the year (2017: Nil).

All related party balances are interest free and unsecured.

### 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.

### D2 Credit Rating

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

### D3 Commitments

There are no capital commitments at 30 June 2018 (2017: Nil).

### D4 Contingent assets and liabilities

There were no contingent assets or liabilities at 30 June 2018 (2017: Nil).

### D5 Subsequent events

There have been no material events subsequent to 30 June 2018 that require disclosure in the financial statements (2017: Nil).

### D6 Changes in financial reporting standards

In the current year, the Company has adopted all mandatory new and amended Standards. The application of these new and amended Standards has had no material impact on the amounts recognised or disclosed in the financial statements.

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.

NZ IFRS 17 Insurance Contracts (effective 1 January 2021). NZ IFRS 17 will be effective in MECIL's 2021 financial year. This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of NZ IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. The Company has not yet completed its assessment on the impact of this standard.





## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDER OF MERIDIAN ENERGY CAPTIVE INSURANCE LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

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

#### **Opinion**

We have audited the financial statements of the company on pages 5 to 15 that comprise the balance sheet as at 30 June 2018, 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.

In our opinion the financial statements of the company on pages 5 to 15:

- present fairly, in all material respects:
  - its financial position as at 30 June 2018; and
  - its financial performance and cash flows for the year then ended;
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 21 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, and we explain our independence.

#### **Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of the Board of Directors for the financial statements**

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

### **Responsibilities of the auditor for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of the shareholder taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.





### **Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out a review of the company's solvency return, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the company.

A handwritten signature in blue ink, appearing to read "T. Deed", enclosed within a circular blue ink stamp.

**Trevor Deed**  
**for Deloitte Limited**  
**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

21 September 2018

***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 2018:

- Unearned Premium liability
- Outstanding Claims liability
- Reinsurance Recovery asset
- 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 Consulting (New Zealand) LP. 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 August 2018.

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 No. 90 *General Actuarial Practice (PS90)* issued by the New Zealand Society of Actuaries.

Yours sincerely

**PricewaterhouseCoopers Consulting (New Zealand) LP**

A handwritten signature in blue ink, appearing to read 'Paul Rhodes'.

Paul Rhodes, FNZSA, FIA  
Partner