A person in silhouette is shown from the side, reaching up with their right hand towards a large, glowing, translucent sphere. The sphere is positioned in the center of the frame, appearing to float in the air. The background consists of a vast, blue ocean meeting a clear blue sky with some light, wispy clouds. The overall color palette is dominated by various shades of blue, creating a serene and natural atmosphere. The person's silhouette is dark against the lighter background, emphasizing their form and the gesture of reaching for the sphere.

*Financial statement extracted from
Meridian Energy Annual Report*

FOR THE YEAR ENDING JUNE 2001

Creative solutions with the power of nature

OVERVIEW

Meridian Energy's core business is the generation of electricity (including the management of related assets) and the marketing, trading and retailing of energy and wider complementary products and solutions, which meet customer needs.

TREND STATEMENT	2001 (12 Months) \$M	2000 (12 Months) \$M	1999 (3 Months) \$M
Financial Performance			
Revenue (Excluding Interest Income)	772.0	574.4	138.8
Earnings before Interest and Tax (EBIT)	212.3	170.5	52.0
Net Surplus (after tax)	125.1	96.3	29.4 ¹
Dividends Paid and Proposed	181.5	62.4	149.0
Retained Surplus for Year	(56.4)	33.9	(119.6)
Funds Employed			
Shareholders' Funds	1,618.2	1,673.1	1,561.4
Long-Term Debt/Deferred Tax	246.8	493.3	482.9
Current Portion of Long-Term Debt	378.4	23.2	49.5
	2,243.4	2,189.6	2,093.8
Utilisation of Funds			
Non-Current Assets	2,380.5	2,203.0	2,075.3
Expenditure Carried Forward and Goodwill	22.8	24.8	17.1
Net Working Capital	(159.9)	(38.2)	1.4
	2,243.4	2,189.6	2,093.8
STATISTICS			
	%	%	%
Total Revenue to Net Funds Employed ²	34.4	26.2	6.6
Net Surplus to Total Revenue	16.2	16.8	21.2
EBIT to Net Funds Employed ²	9.5	7.8	2.5
Net Surplus to Total Assets	4.7	4.1	1.3
EBIT to Operating Assets	9.8	8.2	2.8
Weighted Average Cost of Interest	8.0	8.4	8.3
STATEMENT OF CORPORATE INTENT³			
	2001 Actual	2001 Target	2000 Actual
EBITDA Interest Cover	8.4x	6.2x	6.7x
Net Operating Surplus to Average Equity	% 7.6	5.7	6.0
Debt to Debt Plus Equity Ratio	% 25.7	22.1	22.6
EBITDA: Total Net Revenue	% 54.7	44.5	51.4

1 1999 net surplus after tax excludes gain on sale of Cobb Power Station.

2 Net funds are calculated as follows: Total Assets less Current Liabilities (excluding short term loans).

3 Financial performance targets included in Statement of Corporate Intent for the year commencing July 2000.

CORPORATE GOVERNANCE

Board of Directors

The Board is the governing body of Meridian Energy Limited and currently has seven members. The directors are appointed by and accountable to shareholding Ministers for directing and overseeing the management of the Group.

All directors of Meridian Energy are non-executive directors. The Meridian Energy constitution requires that directors be appointed to the Board for a fixed term not exceeding three years. Shareholding Ministers may choose to renew an appointment for further fixed terms of up to three years.

In May 2001 Susan Sheldon, Joan Withers and Philip Lough were all re-appointed by shareholding Ministers for further terms of three years. Ministers also appointed Susan Sheldon as deputy Chairman at the same time.

The Board meets on a monthly basis. Directors also meet on other occasions for the Audit and Finance, Remuneration and Executive Committees and other committee meetings as required.

Shareholding Ministers advise the Meridian Energy Board of the total amount of fees that may be allocated to directors of the Group (including those of subsidiary companies).

Auditor

In accordance with section 19 of the State-Owned Enterprises Act 1986, the Office of the Auditor-General is required to express an opinion on the financial statements. Pursuant to section 29 of the Public Finance Act 1989, the Auditor-General has appointed Deloitte Touche Tohmatsu to undertake the audit on its behalf. The auditor's report is set out on page 54 of this report.

Operation of the Board

Responsibilities

The Board is responsible for the supervision and direction of the Group and the appointment of the Chief Executive.

This incorporates approval and review of the long-term strategic financial plan, strategic initiatives, budgets and the policy framework. The Board delegates the day-to-day management of the Group to the Chief Executive. The Board has developed and maintained clear policies which define the individual and collective responsibilities of the Board and management.

The Board must comply with their duties as directors under the Companies Act 1993 and with the company's Statement of Corporate Intent under the State-Owned Enterprises Act. The Board is responsible for ensuring the company meets its principal objective as a state-owned enterprise, which is to operate as a successful business. A successful business is defined in the State-Owned Enterprises Act as being:

- One that is as profitable and efficient as comparable businesses not owned by the Crown;
- A good employer;
- An organisation which exhibits a sense of social responsibility having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

Independent professional advice

Directors are entitled to seek independent professional advice to assist them in meeting their responsibilities. The Group pays for this advice upon approval by the Chairman.

Treasury policy

Exposure to foreign exchange and interest rate risks is managed in accordance with the company's Treasury policy.

CORPORATE GOVERNANCE *(continued)*

Committee structure

The Board has three standing committees.

Remuneration Committee

The Remuneration Committee sets the principles and standards for the remuneration structure, policy and practice and the human resources policy. Its members determine the remuneration of senior executives as well as reviewing Group remuneration and succession strategy and conditions of employment. This committee is chaired by Joan Withers and met nine times during the financial period.

Audit and Finance Committee

The Audit and Finance Committee sets the principles and standards for internal controls, accounting policies and the nature, scope and objectives and functions of external and internal audit. It also evaluates post-implementation reviews of investments and major capital expenditure projects. This committee is chaired by Susan Sheldon and met eight times during the financial period.

Executive Committee

The Executive Committee represents the Board and responds to situations requiring immediate resolution of company issues. It acts as an executive arm of the Board to consider matters and execute documentation within approved Board policy and resolutions, and responds to any requests from the Chief Executive regarding company issues or business. The committee is chaired by Francis Small and met three times during the period.

BOARD OF DIRECTORS

Group Directors

Francis Small CNZM

Chairman
Appointed in 1999

Susan Sheldon

Deputy Chairman
Appointed in 1999

Steven Gentry

Director
Appointed in 1999

Joan Withers

Director
Appointed in 1999

Philip Lough

Director
Appointed in 1999

Scott Perkins

Director
Appointed in 1999

Sir Tipene O'Regan

Director
Appointed in 1999

Subsidiary Company Directors

DamWatch Services Limited

Directors since 1/4/99
Keith Turner (Chairman)
Murray Gillon (Managing Director)
Michael Kedian
Kenneth Smales
Murray Jackson

Meridian Limited

Directors since 1/4/99
Keith Turner (Chairman)
Raymond Aspey
Helen Bremner
Keith Turner
Neil Cochrane
(as alternate for Helen Bremner)

Woodville Windfarm Limited

Directors since 1/4/99
Howard Dodson
Raymond Aspey (resigned 18/4/00)
Helen Bremner (resigned 18/4/00)
Keith Turner

Directors subsequently appointed
Grant Smith (18/4/00)
Carsten Thomsen (18/4/00)

Meridian Energy International Limited

Directors since 1/2/01
Keith Turner (Chairman)
Carsten Thomsen
Neil Cochrane

Meridian Energy Australia Holdings Limited

Directors since 1/2/01
Keith Turner (Chairman)
Carsten Thomsen
Neil Cochrane

Meridian Energy Australia Pty Limited

Directors since 23/5/01
Keith Turner (Chairman)
Carsten Thomsen
Sunil de Silva
Stanley Brogan

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 and the Group as at 30 June 2001 and their financial performance and cash flows for the period ended on that date.


The directors consider that the financial statements of the company and the Group 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 consider that proper accounting records have been kept which enable the determination of the financial position of the company and the Group and ensure compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the company and the Group and to prevent and detect fraud and other irregularities.

The directors have pleasure in presenting the financial statements, set out on pages 27 to 53, of Meridian Energy Limited and Group for the period ended 30 June 2001.

For and on behalf of the Board.



Francis Small CNZM
Chairman

4 September 2001



Susan Sheldon
Deputy Chair

4 September 2001

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2001

	Notes	Group		Parent	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
CONTINUING ACTIVITIES					
Operating Revenue	2	776,054	576,765	776,069	422,485
Operating Expenses	3	(585,350)	(433,647)	(583,250)	(280,528)
Operating Surplus before Income Tax		190,704	143,118	192,819	141,957
Income Tax	4	(65,604)	(46,784)	(65,902)	(46,618)
Net Surplus for the Year		125,100	96,334	126,917	95,339

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2001

	Notes	Group		Parent	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Equity at Beginning of Period		1,673,151	1,561,355	1,672,746	1,563,943
Net Earnings		125,100	96,334	126,917	95,339
Distributions to Owners					
Distributions to Owners Paid and Proposed	6	(181,480)	(62,351)	(181,480)	(62,351)
Other					
Movement in Foreign Currency Translation Reserve	7	1,387	-	-	-
Deficit on Amalgamation of Subsidiary		-	-	-	(1,801)
Revaluation of Business – Fair Value Adjustments		-	77,813	-	77,616
Equity at End of Period		1,618,158	1,673,151	1,618,183	1,672,746

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STATEMENT OF FINANCIAL POSITION

As at 30 June 2001

	Notes	Group		Parent	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
EQUITY					
Shareholders' Equity		1,618,158	1,673,151	1,618,183	1,672,746
LIABILITIES					
Non-Current Liabilities					
Term Borrowings	8	180,444	464,554	179,541	464,554
Deferred Tax	9	66,401	28,728	54,787	28,727
Total Non-Current Liabilities		246,845	493,282	234,328	493,281
Current Liabilities					
Payables and Accruals	11	264,201	147,436	263,580	147,367
Current Portion of Term Borrowings	8	378,371	23,198	378,000	23,198
Provision for Dividends	6	142,479	29,393	142,479	29,393
Total Current Liabilities		785,051	200,027	784,059	199,958
Total Liabilities		1,031,896	693,309	1,018,387	693,239
Total Equity and Liabilities		2,650,054	2,366,460	2,636,570	2,365,985
ASSETS					
Non-Current Assets					
Investments in Subsidiaries		-	-	37	102
Advances to Subsidiary		-	-	107,127	-
Other Investments	16	7,093	3,594	7,093	3,594
Acquired Goodwill and Customer Acquisition Costs	17	22,846	24,826	22,846	24,826
Loans Receivable		-	24	-	24
Property, Plant and Equipment	12	2,373,368	2,199,317	2,254,515	2,199,106
Total Non-Current Assets		2,403,307	2,227,761	2,391,618	2,227,652
Current Assets					
Cash and Bank Balances	18	52,829	33,562	51,466	33,290
Advance to Subsidiaries		-	-	1,448	8
Accounts Receivable	19	182,656	95,020	181,127	94,883
Current Tax Receivable		8,518	7,608	8,167	7,643
Inventories	20	2,744	2,509	2,744	2,509
Total Current Assets		246,747	138,699	244,952	138,333
Total Assets		2,650,054	2,366,460	2,636,570	2,365,985

STATEMENT OF CASH FLOWS

For the year ended 30 June 2001

	Notes	Group		Parent	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
OPERATING ACTIVITIES					
Cash was Provided from:					
Receipts from Customers		684,384	571,115	666,472	430,768
Interest Received		4,056	2,409	5,391	2,409
		688,440	573,524	671,863	433,177
Cash was Applied to:					
Payments to Suppliers and Employees		367,842	287,338	349,259	124,056
Interest Paid		21,566	27,422	21,476	27,422
Net GST Paid		25,602	19,634	25,498	19,559
Income Tax Paid		40,100	31,167	40,000	31,076
		455,110	365,561	436,233	202,113
Net Cash Inflows from Operating Activities	24	233,330	207,963	235,630	231,064
INVESTMENT ACTIVITIES					
Cash was Provided from:					
Sale of Property, Plant and Equipment		211	1,139	211	1,119
		211	1,139	211	1,119
Cash was Applied to:					
Purchase of Property, Plant and Equipment		90,300	61,344	91,043	61,234
Capitalised Interest		18,412	19,838	18,412	19,838
Purchase of Investments		6,639	3,594	6,574	3,594
Customer Acquisition Costs		1,478	2,103	1,477	2,103
Acquisition of Controlled Entity	14	107,127	-	-	-
Advances and Loans to Subsidiaries		-	-	108,567	23,312
		223,956	86,879	226,073	110,081
Net Cash Outflow from Investing Activities		(223,745)	(85,740)	(225,862)	(108,962)
FINANCING ACTIVITIES					
Cash was Provided from:					
Short-Term Debt		100,371	-	100,000	-
Long-Term Debt		903	-	-	-
		101,274	-	100,000	-
Cash was Applied to:					
Dividends Paid		68,394	132,910	68,394	132,910
Term Loans		23,198	49,510	23,198	49,510
		91,592	182,420	91,592	182,420
Net Cash Flow from Financing Activities		9,682	(182,420)	8,408	(182,420)
Net Increase/(Decrease) in Cash Held		19,267	(60,197)	18,176	(60,318)
Cash at Beginning of Period		33,562	93,759	33,290	93,608
Cash at End of Period		52,829	33,562	51,466	33,290
Composition of Cash					
Cash and Bank Balances	18	52,829	33,562	51,466	33,290

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

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1. Statement of Accounting Policies

Basis of preparation

Meridian Energy Limited is registered under the Companies Act 1993. The shares in Meridian Energy are held by the Minister for State Owned Enterprises and Minister of Finance, on behalf of Her Majesty the Queen in Right of New Zealand ("The Crown") under the State-Owned Enterprises Act 1986. Consequently, Meridian Energy is bound by the requirements of the State-Owned Enterprises Act. Financial statements for Meridian Energy Limited (the "Parent") and consolidated financial statements are presented. The consolidated statements comprise the Parent, its subsidiaries (the "Group") and the Group's interest in associates and partnerships.

The financial statements comply with the Financial Reporting Act and comprise statements of the following: significant accounting policies, financial performance, movements in equity, financial position, cash flows, as well as the notes to these statements contained in the annual report.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. Where no financial reporting standard or statement of standard accounting practice exists in New Zealand in relation to a particular issue, the accounting policies and disclosures adopted have been determined having regard to authoritative support.

The financial statements are prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

Subsidiaries

Subsidiaries, including in-substance subsidiaries, are those entities controlled, directly or indirectly, by the company.

The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

Associates

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The consolidated financial statements include the Group's share of the surplus of associates on an equity accounted basis.

Joint ventures

Joint ventures are joint arrangements with other parties in which the company has several liability in respect of costs and liabilities, and shares in any resulting output. The company's share of the assets, liabilities, revenues and expenses of joint ventures is incorporated into the company and Group financial statements on a line-by-line basis.

Partnerships

Partnerships are those relationships that the company has with other persons whereby the partners carry on a business in common with a view to profit. Where the Group has a controlling interest in a partnership it is accounted for in the consolidated financial statements as a subsidiary. Where the Group has significant influence over the operating and financial policies of the partnership it is accounted for in the Group financial statements as an associate.

Acquisition or disposal during the year

Where an entity becomes or ceases to be a Group entity during the year, the results of that entity are included in the net surplus of the Group from the date that control or significant influence commenced or until the date that control or significant influence ceased. Where a Group entity is disposed of, the profit or loss recognised in the Statement of Financial Performance is calculated as the difference between the sale price and the carrying value of the Group entity at the date the entity was sold.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Discount on acquisition

A discount arising on the acquisition of a Group entity represents the excess of the fair value of the identifiable net assets acquired over the purchase consideration. The discount is first applied in reducing the fair values of the non-monetary assets acquired. Any amount remaining is recognised in the Statement of Financial Performance.

Goodwill arising on acquisition

Goodwill, representing the excess of the cost of shares in a subsidiary over the fair value of the net assets acquired at the date of acquisition, is shown as an intangible asset. Goodwill is amortised on a straight-line basis over the period of expected benefit. The carrying amount of goodwill will be reviewed annually by the directors and adjusted where it is considered necessary.

Intra-group transactions

Intra-group balances and profits resulting from intra-group transactions are eliminated in preparing the Group financial statements.

Goods and services tax (GST)

The Statement of Financial Performance and Statement of Cash flow will be prepared so that the components are stated exclusive of GST. All items in the Statement of Financial Position will be stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction or the hedged rate. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange gains and losses have been recognised in the Statement of Financial Performance.

Exchange gains and losses and hedging costs arising on contracts entered into as hedges of specific revenue or expense transactions are deferred until the date of such transaction at which time they are included in the determination of such revenue and expense.

All other exchange gains and losses relating to hedge transactions are recognised in the Statement of Financial Performance in the same period as the exchange differences on the items covered by the hedge transaction. Costs on such contracts are amortised over the life of the hedge contract.

Derivative financial instruments

Treasury

The Group uses derivative financial instruments such as interest rate swaps, options and futures, and foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Financial instruments that are designated as hedges of specific items or economic exposures are recognised on the same basis as the underlying hedged items. The net differential paid or received on interest rate swaps is recognised as a component of interest expense or revenue over the period of the agreement. Premiums paid on interest rate options and net settlements of other interest rate derivatives are amortised to the Statement of Financial Performance over the life of the underlying hedged item or the period hedged.

Derivative financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the Statement of Financial Performance.

Electricity contracts

Surpluses and deficits on electricity hedging contracts for differences to the spot market are recognised in the Statement of Financial Performance for the period to which an invoice relates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Identifiable intangible assets

Patents and trademarks are stated at cost and amortised to the Statement of Financial Performance on a straight-line basis over their estimated useful lives, a period not exceeding 20 years. The directors will assess the carrying value of each intangible asset annually and make revisions where it is considered necessary.

Taxation

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the Statement of Financial Position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

Future tax benefits are not recognised unless realisation of the asset is virtually certain.

Property, plant and equipment

Owned assets

Property, plant and equipment are recorded at original purchase cost except where certain assets are revalued to reflect fair value in accordance with the requirements of the shareholding Ministers, and are depreciated as outlined below. The cost of property, plant and equipment purchased subsequent to 1 April 1999 equals the consideration given to acquire the assets plus other costs directly incurred in bringing the assets to the location and condition necessary for their intended service. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs, unrecovered operating costs incurred during planned commissioning and the cost of obtaining resource consents.

Certain assets are stated at valuations as described below.

Construction work in progress

Construction work in progress is stated at cost except where certain assets are revalued to reflect their fair value in accordance with the requirements of the shareholding Ministers, and include the settlement of related foreign exchange hedge contracts. Cost includes all expenditure directly related to specific contracts, and an allocation of fixed and variable overheads incurred by the Group's contract operations.

Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs. Financing costs on uncompleted capital work in progress are capitalised at the average cost of borrowing, where these meet certain time and money materiality limits.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the present value of the future minimum lease payments, and are depreciated as outlined below.

Revaluations

Land and buildings are stated at valuation as determined every three years by an independent valuer. The basis of valuation is market value less the estimated costs of disposal, on an existing use basis. Any surplus on revaluation of a class of land and buildings is transferred directly to equity unless it offsets a previous decrease in value recognised in the Statement of Financial Performance, in which case it is recognised in the Statement of Financial Performance. A decrease in value relating to a class of land and buildings is recognised in the Statement of Financial Performance where it exceeds the surplus previously transferred to equity.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Disposal of property, plant and equipment

Where a fixed asset is disposed of, the profit or loss recognised in the Statement of Financial Performance is calculated as the difference between the sale price and the carrying value of the fixed asset. Any gain or loss on sale of assets is taken to the Statement of Financial Performance when the contract becomes unconditional.

Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost, fair value or revalued amount of an asset, less any residual value, over its useful life.

Investments

Non-current investments

Non-current investments are stated at cost. Non-current investments include the company's investments in Group entities.

Current investments

Current investments are stated at quoted market value less the estimated costs of disposal. Where there is no quoted market value, investments are stated at directors' valuation. Changes in the value of current investments are recognised in the Statement of Financial Performance.

Investment income

Interest and rental income is recognised in the Statement of Financial Performance as it accrues.

Dividend income is recognised in the Statement of Financial Performance on the date that the dividend is declared or, where more appropriate, on the last date to register for the dividend.

Short form amalgamations

When a subsidiary is amalgamated into the company by way of a short form amalgamation, the assets and liabilities are included in the financial statements of the company at their previously recorded carrying values. The company's investment in the subsidiary is reduced to zero. Any excess of the carrying value of the net assets over the company's investment in the subsidiary, is recognised in the Statement of Movements in Equity. The results of the amalgamated company are included in the net surplus of the company from the date of the amalgamation.

Inventories

Inventories are stated at the lower of cost and net realisable value. The estimated costs of marketing, selling and distribution are deducted in calculating net realisable value.

Cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Receivables

Receivables are carried at anticipated realisable value. An estimate will be made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts will be written off during the year in which they are identified.

Acquired goodwill

Goodwill which was acquired upon purchase of shares in the retail companies from ECNZ, now amalgamated into their parent company, is amortised on a straight-line basis over the period of expected benefit. This period has been assessed as 10 years from the date of acquisition. The carrying amount of goodwill will be reviewed annually by the directors and adjusted where it is considered necessary.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Customer acquisition costs

The cost of acquiring customers will be recognised as a separate intangible asset where customers are acquired through a marketing campaign (but only in relation to those campaign costs that are highly correlated with the number of customers acquired).

Where a business combination, involving the acquisition of customers, has resulted in a payment of goodwill on acquisition the payment shall form part of the goodwill on acquisition unless the "customer value" can be distinguished from other "intangibles".

Intangible assets representing the value of customers acquired will be amortised over time. The rate of amortisation, currently based on five years, will be reviewed at least annually, taking into account all relevant factors including, but not limited to, the following:

- i) The tenure of any fixed term contractual arrangement;
- ii) The likely rate of customer attrition (i.e. churn rates);
- iii) The further diminution of value likely to be caused as economies of scale are lost through customer attrition.

Research and development expenditure

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development expenditure is expenditure on the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials or products.

All research expenditure is recognised in the Statement of Financial Performance as incurred. Development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the material or product will commence.

Development expenditure recognised as an asset is stated at cost and amortised over the period of expected benefits, not exceeding five years. Amortisation begins at the time that commercial production commences. All other development expenditure is recognised in the Statement of Financial Performance as incurred.

Recoverable amount

Where the estimated recoverable amount of an asset is less than its carrying value, the asset is written down to its estimated recoverable amount.

Estimated recoverable amount is the greater of the estimated amount from the asset's future use and ultimate disposal, and its net realisable value. The estimated recoverable amount from the asset's future use is determined by estimating the net present value of the future cash flows from the use and ultimate disposal of the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, recoverable amount is estimated for the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets.

Debt

Debt is initially stated at fair value. Debt incurred subsequent to 1 April 1999 is stated at face value less unamortised discounts, premiums and prepaid interest. Discounts, premiums and prepaid interest and borrowing costs such as origination, commitment and transaction fees are amortised to interest expense on a yield to maturity over the period of the borrowing.

Insurance

Meridian Energy's property, plant and equipment are predominantly located at power station locations that have the potential to sustain major losses through damage to plant and resultant consequential costs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

To minimise the financial impact of such exposures, the assessed risk is transferred to insurance companies by taking out appropriate policies.

Any uninsured loss is charged to the Statement of Financial Performance in the year in which the loss is incurred.

Lease costs

The interest component of finance lease payments is recognised in the Statement of Financial Performance using the effective interest rate method. Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased asset.

Employee entitlements

A liability for annual leave accruing to employees is recognised in the Statement of Financial Position.

Computer software development costs

Generally, costs associated with developing computer software programs are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the Group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. Associated costs include salaries of the development team and an appropriate portion of relevant overheads.

Expenditure which enhances and extends the benefits of computer software programs beyond their original specifications and lives will be recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised over their useful lives but not exceeding a period of three years.

Costs associated with the maintenance of existing software programs are expensed as incurred.

Restructuring provisions

Restructuring occurs when the Group materially changes the manner in which its business is conducted. A provision for restructuring is recognised when a detailed and formal restructuring plan has been approved by the directors, and the restructuring has either commenced or the Group otherwise cannot withdraw from its plans. Costs relating to the ongoing activities of the Group are not included in the provision. Restructuring provisions are not discounted to their net present value.

Discontinued operations

Discontinued operations are clearly distinguishable activities of the Group's business that have been sold or terminated before the earlier of three months after balance date and the date that the financial statements are approved. In order for the activities to be classified as discontinued, they must have a material effect on the nature and focus of the business, and represent a material reduction in either operating facilities or turnover.

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash balances (net of bank overdrafts) and demand deposits. Cash excludes Treasury bills that are not used as part of the Group's day-to-day cash management.

Changes in accounting policies

There have been no changes in accounting policies during the year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. Operating Revenue

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
CONTINUING ACTIVITIES				
Trading Revenue				
Energy-Related Revenue	768,095	570,280	768,000	417,414
Other Revenue				
Interest Income	4,056	2,409	5,391	2,409
Gain on Sale of Fixed Assets	73	600	73	600
Other	3,830	3,476	2,605	2,062
Total Revenue from Continuing Activities	776,054	576,765	776,069	422,485

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Operating Expenses

Operating expenses include the following:

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
CONTINUING ACTIVITIES				
Operating Expenses				
Depreciation of Property, Plant and Equipment	52,172	48,891	51,659	48,086
Loss on Sale of Fixed Assets	107	250	107	193
Amortisation of Goodwill and Customer Acquisition Costs	3,457	3,386	3,457	1,186
Operating Lease Expenses	457	276	457	276
Cost of Offering Credit				
Bad Debts Written Off	614	501	614	13
Increase in Provision for Doubtful Debts	647	820	647	124
Net Finance Costs				
Interest on Borrowings	39,977	43,699	39,903	43,699
Less Capitalised Interest	18,412	16,277	18,412	16,277
Less Debt Repricing Amortisation	4,209	8,472	4,560	8,472
	17,356	18,950	16,931	18,950
Remuneration				
Fees to Directors	250	241	250	241
Auditors' Fees				
Audit Fees Paid to Principal Auditors	110	159	110	159
Fees Paid for other Assurance Services Provided by Principal Auditors	244	-	244	-
Fees Paid for Other Consulting Services Provided by Principal Auditors	225	89	225	89
Sundry Expenses				
Donations	-	3	-	3

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Income Tax

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Surplus Before Tax	190,704	143,118	192,819	141,957
Permanent Differences				
Expenditure not Deductible for Tax	4,834	723	4,829	1,457
Depreciation/Amortisation of Revaluation	(73)	(1,992)	(484)	(2,069)
Other	3,338	(77)	2,543	(77)
Surplus Subject to Tax	198,803	141,772	199,707	141,268
Tax at 33%	65,604	46,784	65,902	46,618
Total Income Tax Expense	65,604	46,784	65,902	46,618
Comprising:				
Current Period Tax	40,118	23,070	39,842	23,140
Deferred Income Tax Liability	25,486	23,714	26,060	23,478
	65,604	46,784	65,902	46,618

5. Share Capital

The share capital is represented by 1,600,000,002 ordinary shares issued and fully paid. These are held in equal numbers by the Minister of Finance and the Minister for State Owned Enterprises on behalf of the Crown.

6. Dividends

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Distributions Made				
Interim Dividend	39,001	32,958	39,001	32,958
Proposed Dividends				
On Ordinary Shares	42,479	29,393	42,479	29,393
Special Dividend	100,000	-	100,000	-
Total Provision for Dividends	142,479	29,393	142,479	29,393
Total Dividends Paid and Proposed	181,480	62,351	181,480	62,351

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Foreign Currency Translation Reserve

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Balance at Beginning of Year	-	-	-	-
Difference Arising from Translation of Foreign Operations	1,387	-	-	-
Total Foreign Currency Translation Reserve	1,387	-	-	-

8. Term Borrowings

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Borrowings Due Within 1 Year	378,371	23,198	378,000	23,198
Borrowings Due Within 1-2 Years	103,744	285,468	102,841	285,468
Borrowings Due Within 2-7 Years	76,700	179,086	76,700	179,086
Total Borrowings	558,815	487,752	557,541	487,752

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Current Portion of Borrowings	378,371	23,198	378,000	23,198
Non-Current Portion of Borrowings	180,444	464,554	179,541	464,554
Total Borrowings	558,815	487,752	557,541	487,752

Security

The borrowings are unsecured but subject to a negative pledge arrangement. Under this arrangement the Group will not grant security interests over its assets except where the security interests arise because of:

- The operation of law;
- An existing security over assets purchased;
- Access to concessional borrowing terms;
- Joint venture arrangements;
- The purchase of an asset where recourse is limited;
- The lender's consent;
- Security requirements of security projects;
- The amount in total is immaterial, being less than 5% of the Group's assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9. Deferred Tax

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Balance at Beginning of Period	28,728	5,014	28,727	5,249
Acquired during Period	12,187	-	-	-
On Surplus for Period	25,486	23,714	26,060	23,478
Balance at End of Period	66,401	28,728	54,787	28,727

The income tax effect of timing differences originating from the fair value review of assets and liabilities which has not been recognised as an asset in the deferred tax account is \$263 million (2000: \$269 million).

10. Imputation Credit Account

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Balance at Beginning of Period	15,749	10,000	15,614	10,000
Income Tax Paid	40,100	31,484	40,000	31,349
Credits Attached to Dividends Paid	(33,684)	(25,735)	(33,684)	(25,735)
Balance at End of Period	22,165	15,749	21,930	15,614

At balance date the imputation credits available to shareholders of the companies of the Group were:

	2001 \$'000	2000 \$'000
Through:		
Shareholding in the Parent Company		15,614
Indirect Interests in Subsidiaries		135
		<u>15,749</u>

11. Payables and Accruals

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Current				
Trade Creditors	102,775	64,139	102,734	64,211
Employee Entitlements	3,050	2,363	2,951	2,339
Unearned Income	3,900	12,420	3,900	12,420
Accrued Expenses	148,717	66,726	148,272	66,647
GST	5,759	1,788	5,723	1,750
	264,201	147,436	263,580	147,367

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12. Property, Plant and Equipment

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Generation Structures and Plant				
Cost	2,225,866	2,086,591	2,103,490	2,086,591
Less: Accumulated Depreciation	118,744	57,731	103,449	57,731
Book Value	2,107,122	2,028,860	2,000,041	2,028,860
Other Freehold Land				
Cost	26,710	26,716	26,710	26,716
Other Freehold Buildings				
Cost	6,052	6,129	6,052	6,129
Less: Accumulated Depreciation	433	240	433	240
Book Value	5,619	5,889	5,619	5,889
Capital Work in Progress				
Cost	212,544	119,014	200,971	119,014
Other Plant and Equipment				
Cost	23,893	15,857	23,462	15,549
Less: Accumulated Depreciation	9,656	4,309	9,424	4,212
Book Value	14,237	11,548	14,038	11,337
Resource Consents				
Cost	7,482	7,482	7,482	7,482
Less: Amortisation	346	192	346	192
Book Value	7,136	7,290	7,136	7,290
Total Property, Plant and Equipment and Resource Consents				
Cost	2,502,547	2,261,789	2,368,167	2,261,481
Less: Amortisation	346	192	346	192
Less: Accumulated Depreciation	128,833	62,280	113,306	62,183
Total Book Value	2,373,368	2,199,317	2,254,515	2,199,106

The following depreciation and amortisation rates have been applied:

	2001	2000
Generation Structures and Plant		
– Civil Structures	1.4%	1.4%
– Generation Land and Buildings	2.6%	2.6%
– Generation Plant	8.2%	8.2%
Other Freehold Buildings	2.0%	2.0%
Other Plant and Equipment	10.0%	10.0%
Motor Vehicles	20.0%	20.0%
IT Hardware, Software and Communications	33.3%	33.0%
Resource Consents	2%	2%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Commitments

The Group leases office equipment such as photocopiers, facsimile machines, printers etc. The cost of these leases is not considered material to the Group as a whole.

	Group		Parent	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000

Capital Expenditure

Commitments – Contracts for Capital Expenditure	70,079	61,698	70,079	61,698
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Operating Lease Commitments

Non cancellable operating lease rentals are payable as follows:

Not later than 1 year	1,173	861	1,173	861
Later than 1 year but not later than 2 years	485	861	485	861
Later than 2 years but not later than 5 years	1,590	1,764	1,590	1,764
Later than 5 years	530	530	530	530
	73,857	65,714	73,857	65,714

14. Investments in Subsidiaries

On 22 May 2001 the Group acquired Power Facilities Pty Limited (renamed Meridian Energy Australia Pty Limited), a company whose core business is the generation and the wholesaling of energy.

The acquisition was accounted for using the purchase method. No restructuring provisions or other expenses such as plant closures were required after the purchase of this company.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

The acquisition had the following effect on the consolidated financial position

	Consolidated	
	2001 \$'000	2000 \$'000
Current Assets		
Cash and Bank Balances	1,133	-
Accounts Receivable	412	-
Other Current Assets	524	-
	2,069	-
Non-Current Assets		
Property, Plant and Equipment	118,460	-
Current Liabilities		
Payables and Accruals	84	-
Non-Current Liabilities		
Term Borrowings	1,130	-
Deferred Tax	12,188	-
Net Assets Acquired	107,127	-
Cash Paid	107,127	-
Goodwill Arising on Acquisition	-	-

The directors believe that at this stage the acquisition price equates to fair value. However, a detailed assessment will be undertaken in the next financial year for the purpose of determining a more precise allocation of the fair value of the acquisition over the underlying asset classes.

Other existing investments in subsidiaries comprise shares at cost. Significant subsidiaries existing as at 30 June 2001 comprise:

Name of Entity	Principal Activity	Interest Held by Group	
		2001	2000
Meridian Limited	Non-Trading Entity	100%	100%
DamWatch Services Limited	Professional Services	100%	100%
Woodville Windfarm Limited	Generation Development	90%	90%
Meridian Energy Australia Holdings Limited	Investment Company	100%	-
Meridian Energy International limited	Investment Company	100%	-

All subsidiary entities have a balance date of 30 June.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. Acquisition of Controlled Entities

Name of Entity	Principal Activity	Date of Acquisition	Proportion of Shares Acquired
Meridian Energy Australia Pty Limited	Hydro Power Generation	May 2001	100%
Hydropower Group Pty Limited	Hydro Power Generation	May 2001	100%
Yarrowonga Power Pty Limited	Hydro Power Generation	May 2001	100%
N.T. Power Operations Pty Limited	Hydro Power Generation	May 2001	100%
Union Reefs Power Pty Limited	Hydro Power Generation	May 2001	100%
FES Power Pty Limited	Hydro Power Generation	May 2001	100%
MLC Power Pty Limited	Hydro Power Generation	May 2001	100%

16. Other Investments

At balance date, the following investments were held:

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
N th Power Technologies	5,672	1,038	5,672	1,038
WhisperTech Limited	1,421	2,556	1,421	2,556
	7,093	3,594	7,093	3,594

The investment in Nth Power is valued at cost. The investment in WhisperTech is based on equity accounting principles.

The Group also has interests in Ceramic Fuel Cells Limited and in Superlink Developments Limited by way of a joint venture. These interests were assigned to the Group from ECNZ at no cost and, as such, the carrying value of the interests is nil.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17. Acquired Goodwill and Customer Acquisition Costs

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Acquired Goodwill				
Acquired Goodwill (at Cost)	26,110	26,110	23,909	23,910
Accumulated Amortisation	(6,013)	(3,073)	(3,812)	(873)
	20,097	23,037	20,097	23,037
Customer Acquisition Costs				
Capitalised Customer Acquisition Costs	3,575	2,102	3,575	2,102
Accumulated Amortisation	(826)	(313)	(826)	(313)
	2,749	1,789	2,749	1,789
Total Acquired Goodwill and Customer Acquisition Costs	22,846	24,826	22,846	24,826

18. Cash and Bank Balances

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Cash and Bank Balances Comprise:				
Current Account	4,014	2,063	2,651	1,791
Money Market Account	48,815	31,499	48,815	31,499
	52,829	33,562	51,466	33,290

19. Accounts Receivable

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Current				
Billed and Accrued Receivables	182,088	93,160	180,583	93,023
Less: Provision for Doubtful Debts	2,023	1,376	2,023	1,376
Net Trade Receivables	180,065	91,784	178,560	91,647
Prepayments	2,591	3,236	2,567	3,236
	182,656	95,020	181,127	94,883

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. Inventories

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Inventories Comprise:				
Consumable Spares and Stores	2,744	2,509	2,744	2,509
	2,744	2,509	2,744	2,509

21. Borrowings and the Use of Financial Instruments

Exposure to foreign currency, interest rate and credit risk arises in the normal course of the Group's business. Within approved policy guidelines and authorisations set by the Board of Directors, derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The principal or contract amounts of derivative financial instruments outstanding at balance date were:

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Forward Exchange Contracts	215	13,193	215	13,193
Interest Rate Swaps	375,500	192,500	375,500	192,500
Interest Rate Options	25,000	25,000	25,000	25,000

(a) Foreign currency risk

The Group incurs foreign currency risk as a result of purchases that are denominated in a currency other than the respective Group entity's functional currency. The currencies giving rise to foreign currency risk, in which the Group primarily deals, are Japanese Yen, Euros, and US Dollars.

The Group does not have any material foreign currency monetary assets or monetary liabilities that are not hedged for the lesser of the next 12 months and the period until settlement.

(b) Interest rate risk

It is Group policy to manage exposure to interest rate risk via the use of interest rate swaps, forward rate agreements and interest rate options and to maintain a fixed/floating profile within parameters prescribed by the Board's Treasury policy.

(c) Repricing analysis

The following tables identify the repricing period for financial instruments that are interest rate risk sensitive. The interest rate applicable to derivative financial instruments is incorporated into the effective interest rate of the underlying hedged items.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Repricing 2001 Group

\$'000	Effective Interest Rate	Total	6 Months or Less	6-12 Months	1-2 Years	2 or More Years	Non-Interest Bearing
Financial Assets							
Cash Balances (Net)	5.75%	52,829	52,829	-	-	-	-
Receivables		182,656	-	-	-	-	182,656
Investments		7,093	-	-	-	-	7,093
Total Financial Assets		242,578	52,829	-	-	-	189,749
Financial Liabilities							
Term Borrowing	8.04%	558,815	465,050	-	66,610	27,155	-
Creditors and Borrowings		264,201	-	-	-	-	264,201
Dividends Payable		142,479	-	-	-	-	142,479
Total Financial Liabilities		965,495	465,050	-	66,610	27,155	406,680
Off Balance Sheet							
Interest Rate Swaps ⁴		375,500	-	-	50,000	325,500	-
Interest Rate Options		25,000	-	-	-	25,000	-
Total Off Balance Sheet		400,500	-	-	50,000	350,500	-

Repricing 2000 Group

\$'000	Effective Interest Rate	Total	6 Months or Less	6-12 Months	1-2 Years	2 or More Years	Non-Interest Bearing
Financial Assets							
Cash Balances (Net)	6.86%	33,562	33,562	-	-	-	-
Receivables		95,020	-	-	-	-	95,020
Investments		3,594	-	-	-	-	3,594
Total Financial Assets		132,176	33,562	-	-	-	98,614
Financial Liabilities							
Term Borrowing	8.42%	487,752	154,588	-	214,078	119,086	-
Creditors and Borrowings		147,436	-	-	-	-	147,436
Dividends Payable		29,393	-	-	-	-	29,393
Total Financial Liabilities		664,581	154,588	-	214,078	119,086	176,829
Off Balance Sheet							
Interest Rate Swaps ⁴		192,500	-	-	-	192,500	-
Interest Rate Options		25,000	-	-	-	25,000	-
Total Off Balance Sheet		217,500	-	-	-	217,500	-

Note: The repricing analysis for the Parent has not been represented, as there is no significant difference between the Group and the Parent pricing profile.

⁴ Notional principal amount.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(d) Credit risk

The Group incurs credit risk from transactions with financial institutions and in relation to its trade receivables.

The Group does not have any significant concentrations of credit risk. Amounts owed by trade receivables are unsecured, however evaluations are performed for significant levels of credit. There is no requirement to hold collateral or security to support financial instruments, owing to the high credit rating of the financial institutions dealt with. The Group further limits its credit exposure by limiting the amount of funds placed with any one financial institution at any one time. The Group does not anticipate the non-performance of any obligations that existed at balance date.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position and the fair value of financial instruments as shown below.

(e) Revenue risk

As part of its energy supply and hedge contracts acquired from ECNZ, and as part of its wholesale risk management activities, the Group has electricity price hedges with customers and counterparties for the various periods out to 30 September 2006. Under these contracts, Meridian Energy sells and buys electricity forward at a fixed price (hedge price). Any difference, during the period to which the invoice relates, between the hedge price and the spot price is settled between the parties, irrespective of the supply of electricity. If the spot price is greater than the hedge price, Meridian Energy must settle with the counterparty. Conversely, if the spot price is less than the hedge price, the counterparty must settle with Meridian Energy. It is not practicable to estimate the fair value of electricity hedge contracts as the secondary market for electricity price hedge products, namely seasonal hedge, monthly hedge and call options, is not sufficiently active at balance date.

(f) Futures contracts

The Group enters into electricity futures through the New Zealand Futures & Options Exchange as a further means of managing its revenue risk. The fair value of futures transactions using a mark to market valuation as at balance date is represented in the fair value table on page 50.

(g) Fair values

Fair values are estimated using the mark to market value methodology except for short-term and other investments where the carrying value of these items is equivalent to their fair value. The valuations were provided by the Group's bankers and other independent advisors. For cash at bank, bank overdraft, receivables and trade creditors the fair values are equivalent to their carrying values and therefore have been excluded from the table on page 50.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

	2001		2000	
	Fair Value \$'000	Carrying Value \$'000	Fair Value \$'000	Carrying Value \$'000
GROUP ON BALANCE SHEET FINANCIAL INSTRUMENTS				
Assets				
Investment in Unlisted Shares	7,093	7,093	3,594	3,594
Liabilities				
Term Debt	179,221	180,293	487,752	487,752
OFF BALANCE SHEET FINANCIAL INSTRUMENTS				
Consolidated				
Forward Exchange Contracts	4	-	292	-
Interest Rate Swaps	(982)	-	248	-
Interest Rate Options	(126)	-	406	-
Futures Contracts	-	-	(55)	-

22. Land

The Group is not yet formally registered as proprietor under the Land Transfer Act of significant portions of its land assets. However the Group has full beneficial ownership rights and the benefit of an obligation from the Crown to create titles under the Land Transfer Act and transfer them to the Group. This is also the basis on which ECNZ owned these assets prior to transfer to the Group. Titles will be issued once the surveying and land title processes have been completed.

23. Related Party Transactions

The shareholder of the company is the Crown. The Group undertakes many transactions with the Crown, state-owned companies and Government entities and with its subsidiary DamWatch Services Limited, all of which are carried out on a commercial and arm's-length basis.

Entity	Transaction	\$'000	Relationship
Deutsche Bank	Payments to Deutsche Bank for financial advisory services	469	Meridian Energy director Scott Perkins is Chief Executive of Deutsche New Zealand Limited.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

24. Net Cash Flow from Operating Activities

	Group		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
RECONCILIATION WITH OPERATING SURPLUS				
Reported Surplus After Tax	125,100	96,334	126,917	95,339
Items Not Involving Cash Flows				
Write Off of Stock	-	533	-	533
Amortisation of Debt Revaluation	(4,210)	(8,472)	(4,560)	(8,472)
Deferred Tax	37,673	23,714	26,060	23,478
Other Non-Cash Items	179	413	(274)	89
Write Down of Investments	3,140	-	3,140	-
Depreciation Expense	52,172	48,891	51,659	48,086
Amortisation of Goodwill	3,457	3,386	3,457	1,186
	92,411	68,465	79,482	64,900
(INCREASE)/DECREASE IN WORKING CAPITAL ITEMS				
Accounts Receivable	(87,614)	(12,236)	(104,206)	1,832
Inventory	(235)	211	(235)	211
Trade Creditors	116,765	63,635	134,196	77,749
Tax Provision	(910)	(8,097)	(524)	(8,560)
	28,006	43,513	29,231	71,232
ITEMS CLASSIFIED AS INVESTMENT ACTIVITIES				
Loss/(Surplus) on Disposal of Assets	-	(349)	-	(407)
Items Classified as Investment Activities	(12,187)	-	-	-
Net Cash Flow from Operating Activities	233,330	207,963	235,630	231,064

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25. Segment Information

Industry segments

Meridian Energy operates predominantly in one industry, the generation, wholesale marketing and retailing of electricity and complementary products and services. Its operations are carried out in New Zealand and Australia.

Geographical segments

Meridian Energy operates predominantly in New Zealand and has recently acquired Power Facilities Pty Limited (renamed Meridian Energy Australia Pty Limited). This acquisition occurred on 22 May 2001. The geographical segments of Meridian Energy have not been presented, because of the short trading period between 23 May 2001 and 30 June 2001.

26. Contingent Gains and Losses

Except for the items identified below, there are no contingent gains or losses as at 30 June 2001 and the company is not aware of any post-balance date event that is likely to give rise to any contingency.

Lines and energy costs

Difficulties have been encountered across the industry in reconciling profiled and actual volumes. Best estimates have been used to establish liabilities for lines and energy costs. The estimated costs cannot be accurately ascertained at balance date.

Transpower New Zealand Limited

In October 1999 Transpower took legal proceedings against the company for recovery of amounts unpaid by the company in respect of disputed grid connection charges. This court action was successfully defended by the company on the ground that Transpower did not have a contractual basis on which to enforce the charges. However, for the period up to balance date, the method by which Transpower levied the charges remains in dispute. For the purposes of these financial statements the full value of the charges that were actually invoiced to the company has been recognised in the Statement of Financial Performance. The company considers that the liability booked is likely to be overstated but whether a contingent benefit is likely to accrue in a future period cannot, at balance date, be estimated with any accuracy.

27. Second Manapouri Tailrace Tunnel Project

Breakthrough of tunnelling was achieved in March 2001. The tunnel is now due to be completed in May 2002.

Prior to year end, claims by both parties were addressed and an agreement was formed to settle contractual disputes up to 1 June 2001. The final settlement under this agreement occurred during July 2001 and has been provided for in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

28. Statement of Corporate Intent Performance Targets

In its Statement of Corporate Intent (SCI) for the year commencing 1 July 2000, the company established financial and non-financial targets. The financial targets are compared with actual performance in the table below.

	Actual Performance to 30 June 2001	SCI Target to 30 June 2001
Financial Performance Measures		
EBITDA: Total Revenue	54.7%	44.5%
Return on Equity	7.6%	5.7%
Debt to Debt plus Equity	25.7%	22.1%
Interest Cover	8.4x	6.2x

29. Post-Balance Date Event

On 13 July 2001 a conditional agreement with On energy Limited to purchase that company's South Island customer base became unconditional. The financial settlement for this transaction has occurred subsequent to balance date and as a result is not incorporated in the Statement of Financial Position as at 30 June 2001. In accordance with the Sale and Purchase Agreement, the final consideration paid may be adjusted. This will be effected by the end of 2001.

REPORT OF THE AUDIT OFFICE

To The Readers Of The Financial Statements Of Meridian Energy Limited And Group For The Year Ended 30 June 2001

We have audited the financial statements on pages 27 to 53. The financial statements provide information about the past financial performance and financial position of Meridian Energy Limited and Group as at 30 June 2001. This information is stated in accordance with the accounting policies set out on pages 31 to 36.

Responsibilities of the Board of Directors

The State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements which comply with generally accepted accounting practice and give a true and fair view of the financial position of Meridian Energy Limited and Group as at 30 June 2001 and the results of its operations and cash flows for the year ended 30 June 2001.

Auditor's Responsibilities

Section 19 of the State-Owned Enterprises Act 1986 requires the Audit Office to audit the financial statements presented by the Board. It is the responsibility of the Audit Office to express an independent opinion on the financial statements and report its opinion to you.

The Controller and Auditor-General has appointed P. W. Schumacher, of Deloitte Touche Tohmatsu to undertake the audit.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Meridian Energy Limited and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards including the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We carry out other assignments for Meridian Energy Limited in areas of other assurance and consulting projects. Apart from this and other than in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with or interests in Meridian Energy Limited or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required. In our opinion:

- proper accounting records have been kept by Meridian Energy Limited and Group as far as appears from our examination of those records; and
- the financial statements of Meridian Energy Limited and Group on pages 27 to 53:
 - comply with generally accepted accounting practice; and
 - give a true and fair view of:
 - the financial position as at 30 June 2001; and
 - and the results of operations and cash flows for the year ended on that date.

Our audit was completed on 4 September 2001 and our unqualified opinion is expressed as at that date.



P W Schumacher

Deloitte Touche Tohmatsu
On behalf of the Controller and Auditor-General
Wellington, New Zealand

STATUTORY INFORMATION

General Disclosures

Disclosure of Directors' Interests

Declaration of general interest by directors for the period ended 30 June 2001 in accordance with section 140 (2) of the Companies Act 1993:

Francis Small

Wisconsin Central Transportation, Director/Chairman and Shareholder
Australian Transport Network, Director
Tranz Rail Holdings Ltd, Director/Shareholder
Tranz Rail Ltd, Director
Standards New Zealand, Council Member

Susan Sheldon

Advanced Business Education Ltd, Director
Bayliss Sheldon, Partner
FibreTech New Zealand Ltd, Director
FibreTech Holdings Ltd, Director
Nimbus Bedware Ltd, Director
Institute of Chartered Accountants of New Zealand, President
(term completed November 2000)
Crown Forestry Management Ltd, Director/Chairman
Proseed Ltd, Director
Asure New Zealand Ltd, Director

Joan Withers

Ceramco Corporation Ltd, Director
(resigned August 2000)
Auckland International Airport Ltd, Director
The Warehouse Group Ltd, Director
Auckland Trotting Club, Director
Broadcasting Standards Authority, Member (resigned October 2000)
Counties Manukau Health Ltd, Director (resigned September 2000)
Counties Manukau Pacific Trust, Trustee
Clinical Research & Effective Practice Foundation, Chair
Tourism Holdings Ltd, Director
The Royal New Zealand Ballet, Trustee

Scott Perkins

Deutsche New Zealand Ltd, Director and Chief Executive
Deutsche Management New Zealand Ltd, Director
Deutsche Finance Ltd, Director
Deutsche Securities New Zealand Ltd, Director
Deutsche Pacific Ltd, Director
Deutsche Financial Corp. New Zealand Ltd, Director
Valuta Investments Ltd, Director
Deutsche Futures New Zealand Ltd, Director
Deutsche Corporate Finance Ltd, Director
Deutsche Capital Partners New Zealand Ltd, Director
Deutsche International Investments Ltd, Director
Deutsche Bank AG New Zealand Branch, Officer
Kingfisher Nominees Ltd, Director
Deutsche Services New Zealand Ltd, Director
Deutsche Capital Finance (2000) Ltd, Director
Greenwood Technology Ltd, Director (resigned 9 April 2001)

Steven Gentry

Sinclair Knight Merz Group, Senior Consultant
WhisperTech Ltd on behalf of Meridian Energy Ltd, Director
Mission Contact Finance, Shareholder

Philip Lough

Rangiotu Holdings Ltd, Director
Sealord Group Ltd, CEO
Sealord Holdings Inc, Director
Sealord Pacific Ltd, Director
Sealord Charters Ltd, Director
Sealord Shellfish Ltd, Director
Sealord (Europe) Ltd, Director
Sealord Espana Ltd, Director
Sealord Asia Ltd, Director
Sealord Investments Ltd, Director
Sealord North America Inc, Director
Fifeshire Fishing (1993) Ltd, Director
Sealord Marine Farms Ltd, Director
Antarctic Investments Ltd, Director
Wisehold 11 Ltd, (Sealord), Director
Infrastructure and Utilities New Zealand Ltd, Shareholder
Contact Energy Ltd, Shareholder
Mussel Investments Ltd, Director
SS Fishing Ltd, Director
Sealord Management Ltd, Director
Mar Profundo Chila SA, Director
Sealord Australia Pty Ltd, Director
Australian Deepwater Fishing Pty Ltd, Director
Petuna Management Pty Ltd, Director
New Zealand Longline Ltd, Director
Port Nelson Ltd, Director
Yuken SA, Argentina, Director
Standard 932 Ltd, Director

Sir Tipene O'Regan

Escorial Ltd, Director/Chairman
Whalewatch Kaikoura Ltd, Director
Sealord Group Ltd, Director/Chairman
Kutai Investments Ltd, Director
Functional Foods Ltd, Director
Awarua Tio Development Co Ltd, Director
Clifford Bay Marine Farms Ltd, Director
Kura Ltd, Director/Chairman
Te Ika Paewai Ltd, Director/Chairman
Te Waka Unua Ltd, Director/Chairman
Te Tapuae o Rehua Ltd, Director/Chairman
Transit New Zealand Ltd, Director/Deputy Chairman

There were no specific disclosures of interest under section 140 (1) of the Companies Act 1993.

STATUTORY INFORMATION *(continued)*

Information used by directors

No member of the Board of Meridian Energy Limited, or any subsidiary, issued a notice requesting the use of 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 Group against all liabilities (other than to the Parent or member of the Group) 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 Group has indemnity insurance. The total cost of this insurance during the financial period was \$20,500.

Directors' remuneration

	2001 Directors' Fee (\$'000)
Francis Small (Chairman)	58.0
Susan Sheldon (deputy Chairman as from May 2001)	35.5
Steven Gentry	33.5
Philip Lough	37.0
Sir Tipene O'Regan	27.0
Scott Perkins	27.0
Joan Withers	32.0
TOTAL	250.0

Shareholders

Shareholder information

All the issued shares in Meridian Energy Limited are held equally by the Minister of Finance and the Minister for State Owned Enterprises on behalf of Her Majesty the Queen in Right of New Zealand (the Crown).

Employees

The Meridian Energy Group's employment philosophy is to attract and retain high-calibre staff. The key staff attributes that the company seeks to develop and reinforce across the Group are expected to reflect in the quality of service levels experienced by customers and stakeholders. The company has streamlined, innovative human resource policies and practices to support the delivery of excellent people performance.

Executive remuneration

The number of employees within the Group receiving remuneration and benefits above \$100,000 during the period are indicated in the following table.

STATUTORY INFORMATION *(continued)*

	2001	
	Parent	Subsidiaries
\$ 100,000 – 109,999	8	1
\$ 110,000 – 119,999	4	–
\$ 120,000 – 129,999	2	–
\$ 130,000 – 139,999	3	–
\$ 140,000 – 149,999	6	–
\$ 150,000 – 159,999	8	–
\$ 160,000 – 169,999	4	–
\$ 170,000 – 179,999	3	–
\$ 180,000 – 189,999	1	1
\$ 190,000 – 199,999	1	–
\$ 200,000 – 209,999	1	–
\$ 230,000 – 239,999	1	–
\$ 240,000 – 249,999	1	–
\$ 260,000 – 269,999	4	–
\$ 270,000 – 279,999	1	–
\$ 390,000 – 399,999	1	–
\$ 540,000 – 549,999	1	–

Other stakeholders

Community support and sponsorship

As part of the acquisition from ECNZ Meridian Energy has taken over a major sponsorship commitment to The Royal New Zealand Ballet. The company also sponsors the Katherine Mansfield Memorial Fellowship, New Zealand's leading literary award, the New Zealand String Quartet, the Kiwi Can child development programme, the Wellington Wind Sculpture and is the principal sponsor of the Canterbury Rugby Football Union.

Meridian Energy will continue to contribute to the community at local, regional and national levels both in support of its business objectives and as part of its responsibilities as a good corporate citizen. This involves support to the Waiau and Waitaki community programmes, which include the Upper Waitaki Basin Project River Recovery project, the salmon smolt release programme and South Island rowing.