

Powering Lives

Meridian Energy Report
for the year ending

June 2003



Meridian Energy

CONTENTS

Executive summary	4
Chairman's and Chief Executive's report	6
Meridian's Purpose	10
Strategy and performance	12
Our operations	14
8 key reporting areas	
Sustainability and balance	18
Our customers	24
Our responsibilities	30
Our environment	34
Our growth	40
Our reputation	44
Our people	48
Our knowledge	54
Management team	58
Board of Directors	60
Corporate governance at Meridian	62
Financial information	
Overview	66
Governance at Meridian Energy	67
Board of Directors	70
Directors' responsibility statement	71
Statement of financial performance	72
Statement of movements in equity	72
Statement of financial position	73
Statement of cash flows	74
Notes to the financial statements	75
Report of the Auditor-General	98
Statutory information	99
Appendix 1 – resource consumption	102
Appendix 2 – Global Reporting Initiative index table	105
Verification statement	106
Feedback form	107
Directory	109

EXECUTIVE SUMMARY

POWERING LIVES TELLS THE STORY OF MERIDIAN ENERGY'S PROGRESS TOWARDS ITS GOAL TO ENHANCE LIVES WITH SUSTAINABLE POWER. IT TELLS THIS STORY IN THE CONTEXT OF AN INCREASINGLY UNCERTAIN ENVIRONMENT, WHERE THE INDUSTRY STRUCTURE IS CHANGING, DEMAND FOR ELECTRICITY IS GROWING AHEAD OF NEW SUPPLY OPTIONS, AND A SHORTAGE OF RAIN AND THERMAL FUELS AT THE ONSET OF WINTER HAS MADE MANY NEW ZEALANDERS THINK SERIOUSLY ABOUT THE IMPORTANCE OF ELECTRICITY IN THEIR LIVES FOR THE FIRST TIME.

MERIDIAN HIGHLIGHTS:

- Lodged resource consents for Project Aqua, a proposed hydro electric scheme along the south side of the lower Waitaki Valley, that would have the capacity to produce 524 MW of renewable electricity.
- Final inspection and completion of the second Manapouri tailrace tunnel project.
- Announced plans for and lodged consents for Project Te Āpiti, a wind farm development on the north side of the Manawatu Gorge.
- \$109.3 million net profit after tax in a year of difficult hydrology.
- Completed the purchase of Southern Hydro, a niche peak hydro generator with 10 stations in Victoria, Australia, on 1 May 2003.
- Business customers more informed about industry developments and pricing trends as a result of enhanced communications.
- Increased contact with the communities within which we operate as growth projects develop.
- Residential customer satisfaction exceeds Statement of Corporate Intent (SCI) target.

INDUSTRY HIGHLIGHTS:

- Industry vote against self-governance led to the announcement of the establishment of the Electricity Commission, and a future change in the industry structure.
- Increasing attention on the issue of water allocation and entitlement, as more users compete for New Zealand's water resource. This issue has consumed a lot of time and effort at Meridian, as we have worked on ways to allocate and share the resource.

Like last year's report, we have produced one integrated report for the year as we believe sustainable initiatives and practices cover all aspects of Meridian's business and all contribute to the value of the company. Also like last year, we have presented our achievements and future plans in line with our 8 Powerful Thoughts.

SCI PERFORMANCE COMPARISON TABLE

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS AS AT 30 JUNE 2003

	ACTUAL	TARGET	FIND MORE DETAIL ON PAGE
TOTAL DEBT	\$1,376.3 million	\$813.6 million	83
EQUITY	\$2,299.8 million	\$1,508.8 million	82
TOTAL ASSETS	\$4,020.7 million	\$2,551.2 million	73
EQUITY TO TOTAL ASSETS	57.2%	59.1%	73

FINANCIAL PERFORMANCE MEASURES FOR THE YEAR ENDED 30 JUNE 2003

	ACTUAL	TARGET	FIND MORE DETAIL ON PAGE
EBITDA: TOTAL REVENUE	41.2%	30.5%	66
RETURN ON AVERAGE EQUITY (excludes revaluation)	6.5%	8.9%	66
DEBT TO DEBT PLUS EQUITY (includes revaluation)	37.4%	35.0%	66
EDITDA INTEREST COVER	5.3x	5.4x	66

NON-FINANCIAL PERFORMANCE MEASURES FOR THE YEAR ENDED 30 JUNE 2003

	ACTUAL	TARGET	FIND MORE DETAIL ON PAGE
PLANT AVAILABILITY	93.0%	94.7%	42
FORCED OUTAGE FACTOR	0.9	0.6	43
NUMBER OF LOST TIME INJURIES	2	<5	52
CALLS ANSWERED WITHIN 20 SEC	77%	80%	28
RESIDENTIAL CUSTOMER SATISFACTION - EXCELLENT, VERY GOOD, GOOD	86%	80%	28
COMPLAINT RESOLUTION - % RESOLVED WITHIN 10 WORKING DAYS	72%	80%	-
SWITCHOUTS THAT ARE COMPLIANT WITH INDUSTRY STANDARDS	97%	100%	28
STAFF SATISFACTION - EXCELLENT, VERY GOOD, GOOD	96%	>80%	48
PUBLICATION OF THIS INTEGRATED ANNUAL SUSTAINABILITY REPORT TO DEMONSTRATE ENVIRONMENTAL PROGRESS			34-39

CHAIRMAN'S AND CHIEF EXECUTIVE'S REPORT

THIS REPORT IS TITLED POWERING LIVES. THESE WORDS CAPTURE THE ESSENCE OF WHAT MERIDIAN ENERGY IS ALL ABOUT AND WHAT WE ARE STRIVING TO BE. ELECTRICITY ENHANCES PEOPLE'S LIVES AND HAS BECOME SOMETHING THAT THE MODERN WORLD CANNOT DO WITHOUT. IT HELPS US TO ACHIEVE AND MAINTAIN A STANDARD OF LIVING THAT IS UNPRECEDENTED IN HUMAN HISTORY AND IT CONTRIBUTES TO THE QUALITY OF OUR HEALTH, EDUCATION AND WELFARE. IT IS A KEY ENABLER TO NEW ZEALAND'S ECONOMIC GROWTH.



Francis Small (Chairman) and Keith Turner (Chief Executive).

At Meridian Energy we have a fundamental role in generating and delivering electricity and its benefits to New Zealanders. We are the largest generator of electricity, operating some of New Zealand's most iconic generation assets. We have the most comprehensive range of development projects underway to help secure the country's future generation needs. We have developed innovative product offerings for customers to help them get the most value out of their electricity. And as a State-owned Enterprise, we return value to all New Zealanders.

Over the past 12 months, Meridian has made huge steps towards our ambition to be the best-performing sustainable energy company in Australasia. We have continued to grow through key strategic acquisitions and a commitment to optimising existing assets. As well as increasing shareholder value, this growth positions Meridian to respond to the long-term electricity supply challenges New Zealand faces.

We made real progress through the year in improving customer service and consistency of service delivery for both the residential and business/corporate segments. We worked closely with our large customers – including our largest, Comalco – to provide pricing options for their further power requirements to enable them to choose a way forward that best meets their business needs.

FINANCIAL PERFORMANCE

Our surplus for the year of \$109.3 million is a reflection of this year's operating environment. The first six months of this financial year were notable

for robust financial performance, exceeding targets in most areas. We produced a net profit after tax of \$83 million for this period. However, that was seriously eroded by the events of autumn when water and thermal fuel shortages led to soaring spot electricity prices, seriously impacting on our financial performance. The \$26.3 million net profit after tax for the second six months is the result, and while below budget, we believe it is sound given the circumstances.

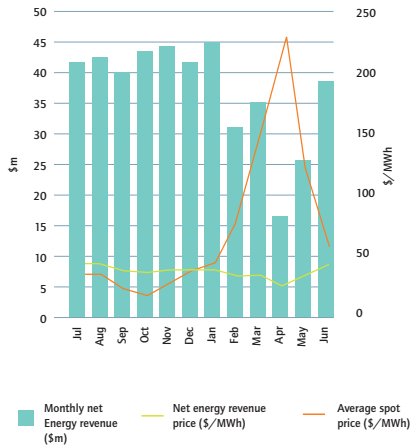
At the closing stages of the financial year we reviewed the value of our assets to reflect the recent changes in demand growth, the increasing cost of energy and the need for and cost of alternative fuel sources. The predicted future price path for electricity as a consequence of these factors has led to a review of the underlying value of our assets and resulted in the value of our assets being increased by \$600 million.

The new value of our assets, including the acquisition of Southern Hydro on 1 May, has had an impact on our annualised return on equity, which was already below the required rate of return based on industry standards. We now have the challenge of increasing our returns to address this ratio.

WINTER POWER CRISIS

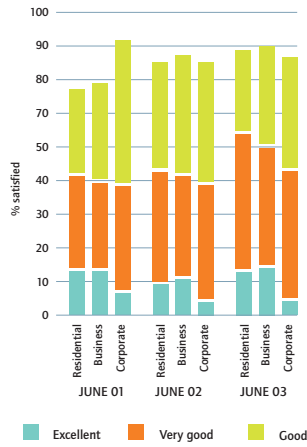
The biggest challenge we faced during the year was the threat of national power shortages during March-June 2003. Less than expected rainfall during summer left our hydro lakes below normal, and very low inflows during autumn threatened winter security of supply. Compounding the problem was the discovery in late March that there were limited thermal fuel reserves available throughout New Zealand.

REVENUE



Note: Net energy revenue unit price is calculated as net energy/generation volume.

CUSTOMER SATISFACTION IN KEY MARKETS



A key learning for the industry is that information on thermal fuel supplies is just as important as data on lake levels. Going forward, transparency of that information will be critical to every player, especially given that growth in demand is expected to continue to outstrip new supply over the next two to three years.

The power crisis this winter was averted thanks to a terrific savings effort from the New Zealand public and New Zealand businesses, cooperation across the electricity sector and much-welcomed rainfall. Meridian was an active member and funder of the Winter Power Taskforce, which ran the “Target 10” savings campaign. We were also quick to inform our customers about the situation and assisted them with advice and incentives to conserve energy. (More on page 20).

NEW ERA FOR ELECTRICITY

The threat of power shortages for the second time in three years has brought home to many New Zealanders the critical importance of electricity to our economic and societal well-being. Secure power supply is a critical national issue. Population and economic growth is driving up the demand for electricity and if it continues, it will be beyond the means of New Zealand’s current dry-year generation capacity within a few years.

The expansion and diversification of New Zealand’s energy generation are essential, and Meridian supports changes to the Resource Management Act 1991 (RMA) to recognise explicitly the importance of developing renewable energy generation for New Zealand.

Hydro electricity and Maui gas have helped New Zealand benefit from some of the cheapest

electricity in the world, but as gas supplies dwindle our growing energy needs will have to be met by new generation facilities that will come at a higher cost. New Zealand’s era of cheap electricity is now coming to a close and the price of electricity will have to rise or more costly power stations will not be built.

This has an important benefit – it makes renewable energy solutions that were previously uneconomic increasingly viable. Meridian is committed to sustainable solutions such as wind power and further hydro electric generation, and we are doing more than any other generator to help secure New Zealand’s future energy supply.

MERIDIAN’S RENEWABLE ENERGY INITIATIVES

During the year Meridian has put in a great deal of effort on Project Aqua, our proposed 3,000 GWh hydro development in the lower Waitaki Valley. We have completed much of the environmental investigation work on the project and have undertaken widespread consultation with a broad range of stakeholders. Importantly, Project Aqua moved from a pre-feasibility to a feasibility phase with the decision to parallel path the design and construction planning phase with the consenting process, and to establish a dedicated project team. Key to the progress of the project will be securing consents.

In addition, we made substantial progress with trans-Tasman wind power projects during the year. We announced plans in May 2003 to develop a 90 MW wind farm on the north side of the Manawatu Gorge. On completion, Project Te Āpiti

will be the country's largest, most technologically advanced and productive wind farm.

In Australia, where the regulatory environment strongly favours growth of wind generation, we have secured consents for a 100 MW wind farm at Wattle Point on South Australia's Yorke Peninsula. We are also investigating other possible wind farm developments in Victoria, at Nirranda South and at a number of sites in the South Gippsland region.

Combining the favourable Australian regulatory environment with New Zealand's excellent wind resource offers real cost advantages to wind projects in New Zealand.

WATER

Among the many challenges raised by Project Aqua are the competing uses for water. In Australia water allocation and entitlement is a well defined area and water trading is commonplace. In New Zealand the increased and competing demand for water from irrigators, generators, recreational users and others is not adequately addressed by the RMA. We recognise that irrigation is a major value driver in the farming sector and is important to New Zealand's national welfare. For this reason, we have contributed to investigating water harvesting options and ways of working with irrigators to assist in the development of schemes.

We have also made provision for irrigation water in our Project Aqua consent application. We have spent over \$400,000 on irrigation scheme investigations over the past 12 months.

Currently the governing rules under the RMA operate on a first-in-first-served basis, which does not take into account the most valuable use of what is a limited resource. Meridian looks forward to participating in the consultation on the Government's Sustainable Plan of Action, but we are deeply concerned that delays to the Aqua consent will put the project at risk.

GROWTH

A major achievement during the year was the purchase of Southern Hydro in Victoria, Australia, with 509 MW of generation capacity. The purchase fitted our Australian business strategy to position for growth in the niche, high-value renewable generation sector. We greatly appreciated the confidence of our shareholders in supporting this business proposition, which has further positioned us as a trans-Tasman operator.

From a management perspective, the benefits of becoming an Australasian business are considerable. Our purchase of Southern Hydro offers valuable opportunities to combine Australian electricity trading experience and New Zealand asset management experience. Pursuing wind power projects in both countries gives us the economies of scale to assist in making wind power commercially viable in New Zealand.

Meridian's growth strategy involves not only asset development and acquisition, but also a commitment to increasing the value of existing assets. In this financial year, we commenced the half-life refurbishment of our assets at Manapouri, including efficiency upgrade and replacement of Manapouri runners that will increase energy output even further following the second tailrace tunnel upgrade.

When this work is finished, Manapouri could be rated at 860 MW, up from its 585 MW rating of only one year ago.

INDUSTRY DIRECTION

Over the next year Meridian will be operating within a radically different New Zealand regulatory framework. In May, the Government announced the establishment of an Electricity Commission. This will see us move from a light-handed self-governance regulatory environment towards a more heavily regulated electricity sector. A Crown agent, the Electricity Commission will advise the Minister of Energy on direct intervention. While this signals that the Government views a reliable electricity supply as an important fundamental cornerstone of

New Zealand's economic growth, it also signals a very different way of organising and governing the industry.

We were disappointed that the work on industry self-governance was not ultimately successful. We were heavily engaged in the industry reform process over the past year, reviewing and consulting on the Electricity Governance Establishment Committee's proposed rulebook along with all key players in the electricity market.

Meridian ultimately voted against the proposed rulebook. This was consistent with our position last year when we expressed grave concern about its impact on our long-term, pre-existing contractual supply commitments to Comalco. Meridian was the only generator/retailer to cast a "no" vote.

We look forward to a close and productive working relationship with the Electricity Commission to help address New Zealand's energy needs in the years ahead and hope that the transition from voluntary rules to a Commission with extensive regulatory and directive powers does not impact on the efficient running of the market or override existing contracts and property rights.

The Electricity Commission will consist of six Government-appointed Commissioners who must give effect to Government policy (as opposed to having regard to Government policy in the case of the Commerce Commission).

The Electricity Commission will use powers already available to it under the Electricity Amendment Act 1991 to increase security of supply, including a greater requirement for information disclosure. The Government announced it would also seek to amend the Act to provide the Electricity Commission with additional powers to be used as required, notably in relation to contracting for dry-year reserves so that electricity demand can be met in a 1-in-60 dry year without the need for national power conservation campaigns.

We have expressed our concerns about how the reserve generation proposals will work.

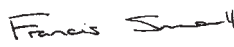
THE FUTURE

For its part, Meridian will make every effort to progress renewable energy developments in New Zealand and we will make the most of the synergies of our trans-Tasman operations.

Our focus on customer service will continue. Our performance continues to improve and we aspire to provide a high-quality, premium-level service to our residential, business and corporate customers. We don't aspire to be the biggest retailer – we just aspire to be the best.

Now and in the future, Meridian Energy will meet new electricity demand with sustainable energy solutions to help ensure New Zealanders have secure supply at the lowest possible cost.

Once again we are very proud of the performance of our Board and all staff during the past year. They have performed with incredible commitment during some very challenging circumstances.



Francis Small
CHAIRMAN



Keith Turner
CHIEF EXECUTIVE

MERIDIAN'S PURPOSE

OUR GOAL – TO BE A “PEAK PERFORMING ORGANISATION”.

DURING THE YEAR WE HAVE DONE A LOT OF WORK TO DEVELOP OUR PURPOSE FURTHER AND ENSURE THAT ALL MERIDIAN STAFF ARE UNITED IN A COMMON FOCUS.

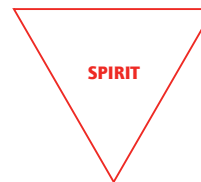


MERIDIAN'S PURPOSE

At Meridian, we are focused on becoming and sustaining our performance as a “Peak Performing Organisation” (PPO)¹. We express our vision according to the PPO framework, and our strategic direction and intent are captured in our Purpose. It has four facets, expressing our strategic direction in terms of:

- **WHO** we are (Spirit)
- **HOW** we will achieve our goals (Focus)
- **WHY** we come to work every day (Inspirational Dream)
- **WHAT** tangible things we will achieve (Greatest Imaginable Challenge (GIC)).

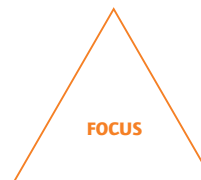
WHO WE ARE



CREATIVE IN WORKING WITH ENERGY

Meridian Energy people are energetic and imaginative. They bring their creativity to work to embody our spirit statement “creative in working with energy”.

HOW WE WILL ACHIEVE OUR GOALS



LIVE THE MERIDIAN WAY



The Meridian Way is a set of behaviours that were developed at Meridian's inception as qualities that demonstrate Peak Performance. They are: *hot wired, commercially driven, agile, imaginative, building rapport and working like you own the company.* During the year we realised that the Meridian Way has always been our focus and this year articulated it in our Purpose model. By consciously behaving in the Meridian Way we can deliver performance that lives out our Inspirational Dream and GIC.

WHY WE COME TO WORK EACH DAY



ENHANCING LIFE WITH SUSTAINABLE POWER

As with any great team, we have determined what inspires us, what lifts us to greater levels of performance and what enables us to sustain peak performance as an organisation. We call this our Inspirational Dream. Meridian's beliefs include improving people's lives – by including “Enhancing Life” in our Inspirational Dream we are illustrating how we place stakeholders at the forefront of our thinking. The emphasis on enhancing life is both expansive and enduring and embraces environmental and social engagement.

WHAT TANGIBLE THINGS WE WILL ACHIEVE	THE GIC AND OUR CHALLENGES
 <p>TO BE THE BEST-PERFORMING SUSTAINABLE ENERGY COMPANY IN AUSTRALASIA</p> <p>Our GIC expresses the aspirations that we have and encompasses what we are aiming for. The GIC is the most demanding stretch achievement for Meridian. It draws together the major work streams across the company, synthesising our market and enabling challenges.</p>	 <p>As the GIC part of our Purpose answers the “what tangible things are we doing” question, we have broken it down to a series of more explicit challenges.</p> <p>Each of the challenges has an ultimate focus on Meridian’s value, with strong sustainability underpinnings. We agree with the ECOS² Single Bottom Line concept that if a business focuses on value creation when undertaking actions and initiatives in the name of sustainability, it is far more likely to create value – and succeed in gaining traction on the sustainability initiatives. Our challenges as a company have been grouped into three broad areas:</p> <ul style="list-style-type: none"> • Portfolio Optimisation – increasing the yield from existing operations. This will be the combined result of our market challenges: <ul style="list-style-type: none"> – Asset Management – to set asset management benchmarks – Trading Optimisation – to optimise scale and portfolio contribution – NZ Retail – to achieve leadership in retail and to increase value • Business Growth – increasing the scale of our business on an Net Present Value basis • Enabling Support – enabling Meridian’s market challenges and helping to develop and support the company’s overall strategy. <p>In addition, we focus our strategic business units through subsidiary challenges for each of Meridian Energy Australia Pty Limited, the Southern Hydro Group, DamWatch Services and Meridian Solutions Limited.</p>

CORE BUSINESS

Meridian’s core business is the generation, trading and retailing of energy and wider complementary products and solutions. We operate in both New Zealand and Australia. Our core business activities are supported by functions for growing the business and delivering corporate and technology requirements to support our overall “challenges”.

ORGANISATIONAL DESIGN

Meridian Energy commenced operations on 1 April 1999 and is a state-owned electricity generator and retailer. From our initial establishment, we were determined to break the traditional utility company mould – we set out to grow value by being a company based on relationships and creativity. We encourage our people to work across functions and disciplines in a way that we call “hot wiring”. To allow us to focus on our core business and to drive efficiencies, we have key strategic sourcing relationships for significant parts of our operations. These strategic alliances and partnerships are an integral part of our overall business framework.

²Single Bottom Line Sustainability, ECOS Corporation August 2002 (www.ecos.com.au)

STRATEGY AND PERFORMANCE

OUR CHALLENGES		OUR STRATEGIES
PORTFOLIO OPTIMISATION	TRADING OPTIMISATION CHALLENGE <i>To optimise scale and portfolio contribution.</i>	<ul style="list-style-type: none">• Develop our asset management capability• Improve the performance of our existing assets• Excellence in natural resource management.

ACHIEVEMENTS AND PROGRESS

- Trading systems further refined during the year
- Continued upgrade of our information systems
- New pricing and contract management products implemented for corporate customers
- Provided a greater information base to customers in support of their own decision-making processes regarding energy consumption
- Relationship with Transpower continues to develop and strengthen.

- Manapouri half-life refurbishment project launched to extend asset life and enhance assets
- Tekapo B overhaul to extend life and improve environmental performance
- Generation organisation review to meet the needs of the business
- Continued effort to protect access to allocated water.

- Reliable customer service delivery standards met
- Solid progress in segment strategy development
- Established new corporate and business account teams and upgraded corporate billing systems
- Refined marketing initiatives to align better with segment strategies
- Key performance indicator (KPI) reporting implemented in all areas of Retail business.

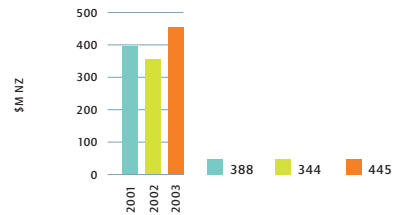
- Commissioned second Manapouri tailrace tunnel
- Project Aqua launched as a full-scale project – rapid progress made to date
- Purchase of Southern Hydro (a niche peak generator with 10 stations, 509 MW) in May 2003
- Advanced SuperWind programme – consents launched for New Zealand and Australia sites
- 1,100 MW of capacity added.

- Progress on value protection including development of sourcing relationships, evolution of risk management processes and investment framework
- Strengthened our commitment to being a PPO through human resources practices and training
- Continued development of corporate performance management processes and systems
- Progress in developing Meridian's innovation framework
- Ongoing implementation of knowledge management strategy initiatives
- Refreshed the Meridian brand and reviewed sponsorship programme to increase value of these investments.

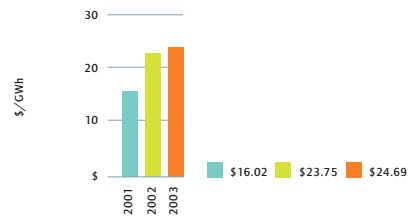
- Meridian Solutions commenced operations at Dunedin Energy Centre; Wellington Hospital facilities contract; Auckland District Health Board contract
- DamWatch Services staff grows during the year
- Meridian Energy Australia – a year of mixed fortunes due to drought in Australia, but solid cost containment for the year.

MEASURES

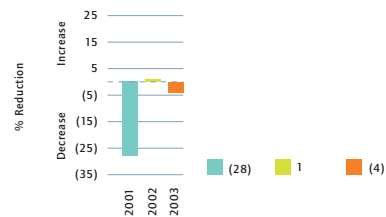
GROUP NET ENERGY REVENUES



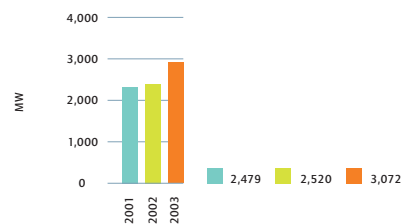
EBITDA PER GWH



YEAR-ON-YEAR % CHANGE IN RETAIL COST PER MWH



GENERATION CAPACITY



OUR OPERATIONS



AUSTRALIA			SOUTHERN HYDRO		PROPOSED DEVELOPMENTS	
	Plant Capacity (MW)	MWh Produced 2002-03		Plant Capacity (MW)		Proposed Max Capacity (MW)
Burrendong	19	17,039	Dartmouth	150	Nirranda South	49
Copeton	22	50,091	Eildon	130	Wattle Point	103
Glenbawn	5.5	30,676	McKay Creek	120	South Gippsland	TBC
Pindari	6	5,871	West Kiewa	62		
Yarrowonga	9.2	44,856	Clover	29		
TOTAL	61.7	148,533	Rubicon	9		
			Lower Rubicon	5		
			Rubicon Falls	1		
			Royston	1		
			Cairn Curran	2		
			TOTAL	509		

PLANT CAPACITY SIZE (MW) AT A GLANCE	APPROX NUMBER OF AVERAGE NEW ZEALAND HOMES SUPPLIED
● 1 – 50 MW	1 – 17,000
● 51 – 250 MW	17,001 – 85,000
● 251 – 500 MW	85,001 – 170,000
● 501 – 750 MW	170,001 – 255,000

KEY	
●	Meridian Solutions Energy Centres
●	Meridian Energy Stations (New Zealand)
●	Meridian Energy Stations (Australia)
●	Southern Hydro Stations
●	Meridian Energy Offices
▨	Areas where Meridian Energy is the incumbent electricity retailer



NEW ZEALAND				PROPOSED DEVELOPMENTS		MERIDIAN SOLUTIONS ENERGY CENTRES	
	Plant Capacity* (MW)	GWh Produced 2002/03	GWh Produced 2001/02	Proposed Max Capacity (MW)		Blue Mountain Lumber Dunedin Energy Centre	
Tekapo A	25	123	123	Project Te Āpiti	96	Under development Auckland Ohakune	
Tekapo B	160	865	766	Project Aqua	524		
Ohau A	264	1,179	1,020	TOTAL	620		
Ohau B	212	985	860				
Ohau C	212	982	855				
Benmore	540	2,291	2,060				
Aviemore	220	959	865				
Waitaki	105	509	464				
Manapouri	710	4,797	4,098				
Brooklyn	0.23	0.97**	0.95**				
TOTAL	2,448.23	12,690.97	11,111.95				

*Source: NZEM Market Report, Dec 2002. **Brooklyn production statistics have been reconciled with the incumbent retailer. All other stations are traded through the relevant electricity market.

SUSTAINABILITY AND BALANCE



IF YOU TAKE SOMETHING OUT, YOU'VE GOT TO PUT SOMETHING BACK. BALANCE IS A LIFE NECESSITY.

OUR CUSTOMERS



WE WON'T JUST MIND OUR OWN BUSINESS. WE'LL MIND OUR CUSTOMERS' TOO.

OUR RESPONSIBILITIES



WE ANSWER TO YOU. BECAUSE ULTIMATELY, WE WORK FOR YOU.

OUR ENVIRONMENT



OUR POWER COMES FROM NATURE. AND WE'RE MAKING IT WORK FOR US.

OUR GROWTH



WE ARE GROWING. THAT MEANS GETTING BETTER, NOT JUST BIGGER.

OUR REPUTATION



WE HAVE A NAME TO LIVE UP TO. MERIDIAN MEANS THE PEAK OF ACHIEVEMENT.

OUR PEOPLE



PEOPLE MAKE OUR WORLD GO ROUND. AND GIVE US COMPETITIVE ADVANTAGE.

OUR KNOWLEDGE



KNOWLEDGE EQUALS POWER. WHEN IT IS EQUALLY SHARED.

LIKE LAST YEAR, OUR PERFORMANCE IS PRESENTED IN LINE WITH THE 8 POWERFUL THOUGHTS THAT ENCOMPASS THE FINANCIAL, SOCIAL AND ENVIRONMENTAL PHILOSOPHIES THAT SHAPE OUR APPROACH. WE SET THE SCENE FOR EACH SECTION WITH A SUMMARY OF THE INDUSTRY AND MARKET FORCES WITHIN WHICH WE OPERATE (OUR REFERENCE POINT) AND OUTLINE OUR KEY RESULTS AND ACHIEVEMENTS IN EACH OF THE AREAS.

SUSTAINABILITY AND BALANCE

OUR THOUGHT

If you take something out, you've got to put something back. Balance is a life necessity.

HIGHLIGHTS

- Increased energy efficiency promotion and initiatives
- Final inspection of second Manapouri tailrace tunnel successfully completes this project
- Government decision to allocate Meridian emission credits for the Project Te Āpiti wind farm will assist in making the development viable.

FUTURE

- Ongoing projects to optimise all existing generation assets
- Ongoing research into new sources of renewable energy to help meet New Zealand's growing demand
- Further promotion of energy efficiency initiatives to customers, staff and suppliers
- Development and implementation of sustainability measurement process for project assessment.



Meridian Energy operates in some of the most spectacular environments, such as Lake Manapouri pictured. We are committed to making our community reach as wide, and our environmental touch as light, as possible.

OUR REFERENCE POINT

"We can cope with growing demand for electricity while continuing to make progress towards a more sustainable electricity industry... by advancing on three fronts:

- Increasing investment in renewable sources of energy for electricity generation
- Increasing the opportunities for demand-side participation in the electricity market
- Increasing energy efficiency and conservation."

Hon Pete Hodgson, Minister of Energy, address to Electricity Engineers' Association of New Zealand Conference, 20 June 2003.

The "balance" concept that is so prominent in sustainable development thinking is a good description of the future direction of the New Zealand electricity industry.

During the last year the dynamics of supply and demand were highlighted when New Zealand's electricity supply came under severe pressure early in winter 2003. A dry summer and autumn combined with a shortage of thermal fuel stocks and a reduction in Maui gas output signalled very tight supply over the high-demand winter period.

The tight supply position was eased in May by unseasonal rainfall in all catchments and the announcement of new thermal fuel contracts, however the need for careful management and disclosure of fuel stocks is likely to be a dominant theme over the next three years.

SUPPLY

Constraints on increasing electricity supply include:

- Potentially long lead times for new production to come on-stream due to the regulatory environment
- Increasingly competing demands for water
- Cost and availability of thermal fuels
- The appropriateness of energy projects in relation to New Zealand's Kyoto commitments and desire for sustainability
- Transmission capacity - investment is needed to upgrade transmission lines to deliver additional electricity supply to end users.

Industry players are pursuing various options to address this challenge. For its part, Meridian is committed to sustainable energy solutions to meet rising demand, in particular those using water and wind. To read more about our growth projects, go to page 40.

As the largest hydro generator in New Zealand, the implications of the growing demands for water are vast. Meridian is facing increasing competition for water in the Waitaki catchment, in respect of both current and future uses for water. Without any real water allocation policy operative within the catchment all existing and future users face uncertainty in relation to their entitlements to take and use water. This was reflected in the number of submissions lodged on Environment Canterbury's latest Annual Plan where over 30 submitters, including Meridian, requested a water allocation plan for the Waitaki catchment. For more detail on what Meridian has done to clarify water allocation in the past year, see page 21.

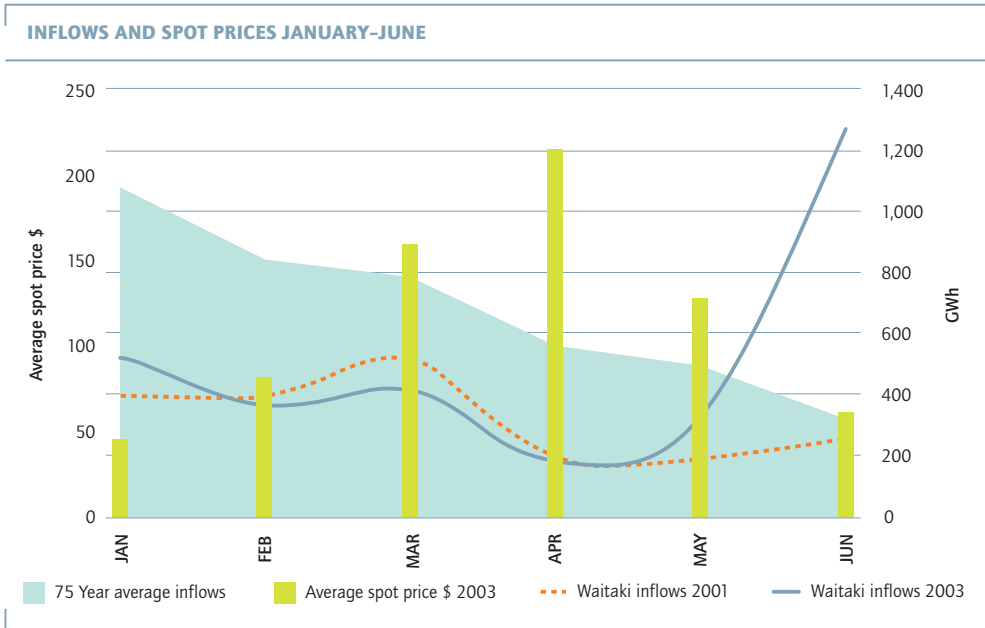
DEMAND-SIDE MANAGEMENT

Meridian has been working with many industrial customers on demand-side management since inception, but particularly since the 2001 energy crisis. When the country was faced with a similar situation in autumn 2003, we increased these efforts and joined industry initiatives.

The challenge now is to help New Zealanders appreciate the need for a mind shift to sustained energy efficiency efforts. Energy efficiency is an integral part of Meridian's ongoing endeavours, and we will continue to work with customers to effect this.



Lake Manapouri, looking towards the power station at West Arm.



" I'D LIKE TO SAY A BIG THANK YOU TO THE ENERGY SAVER TEAMS WHO VISITED ME. THEY DID A FANTASTIC JOB INSTALLING ENERGY SAVINGS' PRODUCTS IN MY HOME AND WERE VERY PROFESSIONAL AND FRIENDLY AND SINCE THEN MY POWER BILL HAS DROPPED BY ABOUT \$15 A MONTH."

DEBBY GEAYLEY
CHRISTCHURCH CUSTOMER.

OUR PROGRESS

MANAGING ANOTHER DRY YEAR

For the second time in three years, winter 2003 provided a timely reminder from nature that supplies of natural resources are not limitless. The low inflows in autumn, combined with reduced thermal generation, led to soaring spot prices on the electricity market. This meant that Meridian used its lake storage – already lower as a result of unseasonally low summer rainfall – earlier than usual. This had a direct impact on our financial performance as Meridian met its fixed price obligations to its customers by buying some of its requirements from the very high spot market. Our customers were spared this volatility at a significant cost to Meridian's own profitability.

As soon as it was apparent that nationally we had a serious problem, we initiated a series of projects to help prepare for and manage an electricity shortage situation.

- We assessed the impact of reducing lake levels below their typical operating range – balancing adverse environmental impacts and stakeholder concerns with the social and economic need for continued supply of electricity.

- We worked closely with large organisations that have on-site emergency generators, preparing them to run continuously if the high spot prices continued.
- We worked on an initiative in Christchurch in conjunction with Orion to seek resource consents to enable diesel generators in Christchurch to operate if required.
- We briefed key industry groups to encourage industry savings and explain the situation.
- We worked with network companies on contingency plans for potential rolling blackouts.
- Meridian was an early and active member of the industry-wide Target 10 national media campaign to encourage New Zealanders to make voluntary savings.
- We also developed our own energy savings initiatives to encourage and enable Meridian customers to save. These included:
 - A community rewards scheme that resulted in a donation to Plunket of \$500,000 cash and \$150,000 worth of goods and services to reward New Zealanders for the savings they made during the Target 10 campaign. (See case study on page 46.)

- Rewards for the top 10,000 energy savers among Meridian's customers, who will receive a \$100 credit on their pre-Christmas power bill, with the option of donating it to one of 10 charities
- An energy savings assessments and makeovers competition with five residential and five business winners
- In partnership with Community Energy Action and EnergySmart, we had teams travelling around Christchurch installing free energy-saving products, such as cylinder wraps, energy-saving lights, draught excluders and water-saving showerheads, in low-income households. The Energy Saver Vans teams knocked on 3,875 doors and visited 1,555 homes in six weeks, installing 5,500 energy-saving products.

We also made significant internal power savings to do our bit towards the 10% savings target. Cumulative energy savings for all our offices reached as high as 35% throughout the month of May, falling to 15% through June as the winter power crisis eased. These savings were the result of operating a diesel generator at one of our sites, as well as a sustained savings campaign in all offices.

WATER ALLOCATION

We are participating actively in the development of Environment Canterbury's Natural Resources Regional Plan, which will ultimately set out a framework for water allocation policy for the region. It is unclear as to when an allocation regime for the Waitaki will be added to the Plan.

In parallel, Meridian has been engaged in a process with the Environment Court to clarify for the public record our existing entitlements to take water under our resource consents granted in 1990. This has been necessary because of confusion within the public arena as to how Meridian's consents work and what they provide for.



Our Energy Saver Vans installed free Energy Saving products for over 1500 Christchurch homes.

CASE STUDY

DUNEDIN ENERGY CENTRE

"WHILE THE MERIDIAN SOLUTIONS APPROACH TO ENERGY SYSTEMS' OUTSOURCING AND MANAGEMENT IS RELATIVELY NEW TO NEW ZEALAND, IT CERTAINLY PROVIDED US WITH LONG-TERM RISK MANAGEMENT OPTIONS AND VALUABLE EXPENDITURE REDUCTION STRATEGIES."

EWAN SOPER

OTAGO DISTRICT HEALTH BOARD CHIEF OPERATING OFFICER.



In June 2002, Meridian Solutions bought the Dunedin Energy Centre from Otago District Health Board (ODHB). The Dunedin Energy Centre supplies steam for process heating and building services to a number of Meridian Solutions customers located near Dunedin Hospital in central Dunedin city, including the ODHB, Cadbury Confectionery Limited and the University of Otago.

Meridian Solutions has upgraded control systems and installed a baghouse (filter system) on the chimney stack. These improvements have already cleaned up emissions to the extent that previously visible plume has now disappeared and an estimated 50 tonnes of fine dust per annum are being removed from our Dunedin air. (Read more about Meridian Solutions in the Growth section on page 43.)

CASE STUDY | SECOND MANAPOURI TAILRACE TUNNEL INSPECTION

" I AM VERY PLEASED TO SAY THAT WHEN WE INSPECTED THE TUNNEL AFTER 12 MONTHS' OPERATION, NO DAMAGE WAS OBSERVED. THE FINAL INSPECTION MEANS THAT THE TUNNEL PROJECT IS NOW COMPLETE. IT HAS EXCEEDED OUR EXPECTATIONS ON PERFORMANCE."

KEN SMALES
GENERATION DIRECTOR.



When the second tailrace tunnel at Manapouri was dewatered and inspected in March, it concluded the project. The Manapouri power station was shut down between 1am and 5am (a low demand time for the national grid) early on 1 March. This enabled the huge stoplogs at both the head and outlet of the second tunnel to be lowered into place, effectively isolating the second tunnel, and meaning that when the station operations resumed, only the first tunnel discharged water from the station.

With the stoplogs in place, the remaining water in the tunnel, some of which is below sea level, was pumped out. After four days of pumping, the tunnel was empty enough to enter and carry out the inspection.

The inspection showed that the tunnel was in excellent condition, with members of the team commenting that it "looked better than before since it's had a good wash".

After the inspection, the tunnel was rewatered, and again, station production shut down for a few hours while the stoplogs at the tunnel entrance were raised again.

In order to protect Meridian's value, and without any water allocation policy, it has been necessary to oppose numerous water takes from farmers, both large and small, who are wishing to take water for irrigation purposes, some of which are for use outside the Waitaki catchment (Meridian only opposes new abstractions, not existing intakes for water). Many of these takes are not large in themselves, but we have significant concerns over the cumulative impact of these water takes on our existing consents.

We recognise that irrigation is a major value driver in the farming sector and that the sector is important to New Zealand's economy. Meridian has undertaken extensive research and investigations into alternative water sources and ways to harvest water for irrigation purposes. We have also researched different approaches to water allocation. Our objective is to source practical solutions that meet our own needs and those of other water users. We consider that hydro and irrigation don't have to be mutually exclusive, but that if worked through in a

planned and integrated way, the two uses of water could be managed in a mutually beneficial way. Project Aqua is an example of this.

SECOND MANAPOURI TAILRACE TUNNEL

Last year we completed the second Manapouri tailrace tunnel, a major energy efficiency project that made the Manapouri power station 16% more productive, increasing the station's output by 640 GWh a year, enough to power the equivalent of an additional 64,000 homes.

This year the final tunnel inspection was undertaken. This entailed closing off and dewatering the second tunnel for 10 days, and carrying out a detailed inspection of the condition and stability of the tunnel. We were extremely pleased with our findings marking the successful completion of the project.

CLIMATE CHANGE

Meridian welcomes the Government's ratification of the Kyoto Protocol in December 2002 and the business opportunities that will arise from it. To date this includes the allocation of emission credits that

assist in making the Project Te Āpiti wind farm development viable (read more about Project Te Āpiti on page 42). We look forward to participating in the forthcoming Project Mechanism tender.

SUSTAINABLE DEVELOPMENT AT MERIDIAN

Last year we outlined how a sustainability philosophy has been built into Meridian's framework since inception and set ourselves the challenge to integrate it further into everything that we do.

In the coming year we plan to put a structure around our project evaluation processes and we are currently reviewing value accounting and sustainability models that may help with this.

We will also be reviewing our Sustainability Policy (developed in June 2000) to reflect better the balance between environmental, social and economic needs throughout Meridian.

CO₂ FOOTPRINT

Using the same methodology as last year (Landcare's EBEX21 model), and the same source data, Meridian's CO₂ footprint for 2002/03 shows a 10.8% increase over last year's figures. Most of this can be attributed to greater consumption of resources due to an 11% increase in staff and increased business activity.

However, the figure of record that we want to use as a benchmark going forward shows an 83% increase. This is due to a change in scope of what is measured. This year we have included the diesel used in the boats on Lake Manapouri, which was not included in last year's calculation.

This emphasises the importance of setting and maintaining a clear scope. To avoid confusion going forward, the CO₂ footprint calculations include Meridian's core business, Meridian Solutions and DamWatch. They do not include any other newly purchased subsidiaries or external contractors, but consideration will be given as to the most appropriate treatment of these companies in the future.

It is interesting to note that the impact of Meridian's CO₂ footprint for 2002/03 could be offset by about five days' generation from the proposed Te Āpiti wind farm or about two days' generation from Manapouri power station taking into account the second tailrace tunnel.

The latest greenhouse gas (GHG) data for the electricity sector indicates that a total of 5,579,000 tonnes of CO₂ was emitted by the sector in 2002³. So, while Meridian provided approximately 29% of New Zealand's electricity⁴, it generated less than 0.04% of the GHG emissions.

CO ₂ FOOTPRINT						
ENERGY TYPE	2003	UNIT	TCO ₂ (using EBEX21 Emission Factor of 145.9 g CO ₂ per KWh)	2002	UNIT	TCO ₂ (using EBEX21 Emission Factor of 149.3 g CO ₂ per KWh)
Electricity	2,570,590	KWh	375	2,465,000	KWh	416
Air - International	1,739,896	km	191	1,363,000	km	150
Air - Domestic	2,294,736	km	413	1,795,000	km	323
Petrol	66,275	L	152	70,619	L	162
Diesel	26,048	L	68	12,086	L	32
Total CO₂ Excluding Manapouri			1,200			1,083
Manapouri Station/Boat Diesel	302,229	L	791	-	L	-
Total CO₂ Including Boats			1,991			1,083

³ Energy GHG Emissions 1990-2002, Ministry of Economic Development 2003, page 21.

⁴ Market Report Jan-Dec 2002. New Zealand Electricity Market, page 4.

OUR CUSTOMERS

OUR THOUGHT	HIGHLIGHTS	FUTURE
<p>We won't just mind our own business. We'll mind our customers' too.</p>	<ul style="list-style-type: none">• Residential customer satisfaction (rating as excellent and very good) increased from 42% to 53%• New products and enhanced communication with business/corporate customers• ISO accreditation under the 2000 standard for Data Handling.	<ul style="list-style-type: none">• We are committed to assisting customers become increasingly energy efficient to help make the best use of national energy resources and enable them to reduce their power bills.



Meridian Energy is focused on helping customers lead healthy, comfortable lives. We offer products, services and advice to help people use electricity as efficiently as possible.

OUR REFERENCE POINT

PRICING OUTLOOK

The Ministry of Economic Development's *Energy Outlook to 2020* identifies that New Zealand's energy sector is in a period of major transition. It indicates that the era of relatively cheap energy compared with other countries is now over, with new and replacement sources becoming more expensive.

New Zealand has enjoyed relatively low electricity prices over the last few decades compared with most other developed nations. For example, the price for industrial users is more than three times greater in Japan and Italy, while New Zealand residential

customers pay significantly less for electricity than those of most of our trading partners. While future prices will have to reflect the cost of new electricity generation to ensure that new investment will take place to provide security of supply, New Zealand's electricity price will remain relatively modest by world standards.

Meridian's retail operations now supply electricity to over 200,000 commercial, industrial and residential customers, including 40% of our output to one major customer, Comalco. Our focus is on providing quality service to our existing customers.

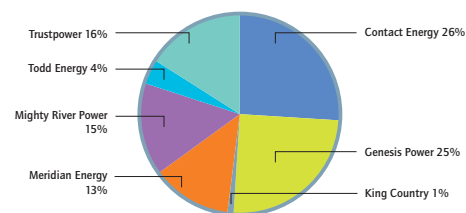
OUR CUSTOMERS

INTERNATIONAL COMPARISON OF ELECTRICITY PRICES JUNE QUARTER 2002

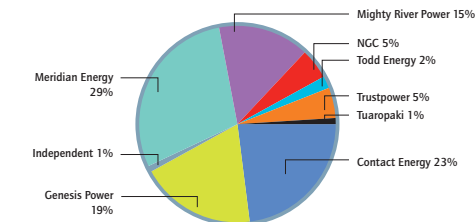
COUNTRY	INDUSTRIAL NZ CENTS/KWh (INCLUDING ALL TAXES)	RESIDENTIAL NZ CENTS/KWh (INCLUDING ALL TAXES)	COUNTRY	INDUSTRIAL NZ CENTS/KWh (INCLUDING ALL TAXES)	RESIDENTIAL NZ CENTS/KWh (INCLUDING ALL TAXES)
Japan	27.68	39.39	Spain	9.13	24.11
Turkey	21.02	21.29	Greece	8.99	15.05
Italy	19.18	29.22	Finland	8.93	17.75
Ireland	15.88	22.33	Germany	8.75	26.02
Switzerland	15.45	24.85	Austria	8.25	26.62
Denmark	14.67	43.99	France	7.71	21.93
Portugal	14.43	26.76	Norway	7.54	18.28
Netherlands	12.76	35.65	Canada	7.27	11.32
Hungary	12.54	16.76	New Zealand	7.15	14.23
Mexico	11.39	20.68	Australia	6.70	12.86
United States	10.59	18.37	Sweden	5.66	16.77
Belgium	10.30	28.53	Luxembourg	n/a	21.69
United Kingdom	9.67	22.18			

Source: New Zealand Energy Data File, January 2003, Ministry of Economic Development, page 145.

% TOTAL CUSTOMERS

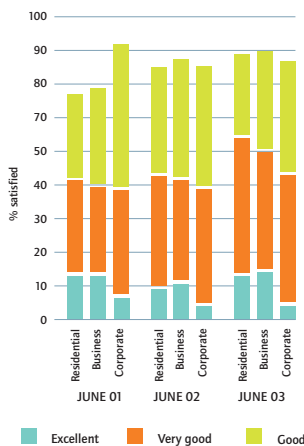


% TOTAL GENERATION



Market Report Jan-Dec 2002. New Zealand Electricity Market, page 4.

CUSTOMER SATISFACTION IN KEY MARKETS



“THE CORNERSTONE OF OUR CUSTOMER STRATEGY IS ENHANCING SERVICE QUALITY AND BUILDING ENDURING RELATIONSHIPS.”

GRENVILLE GASKELL
RETAIL DIRECTOR.

OUR PROGRESS

CUSTOMER SATISFACTION

Residential customers

We experienced improvement in residential customer satisfaction this year.

Our improved satisfaction ratings reflect the hard work we've put into getting the basics right. This has included enhancing the quality of service at contact centres and making progress in the areas of billing accuracy, switching and metering. As well as staff training (see case study), ongoing improvements in the quality of our customer data have contributed to achieving the stronger satisfaction ratings.

We are continually looking for ways to enhance our relationship with customers. We have introduced, for example, a bill checking system, whereby any significant increase in a home's electricity consumption is identified before the bill is sent out. That customer is contacted, and reasons for the change/opportunities to reduce electricity consumption, are discussed.

We are focusing our efforts on segmenting our customer bases to understand better their needs and preferences. This approach is enabling us to match our service approach to customer needs.

Business/corporate customers

Customer satisfaction levels among the business/corporate customer segment have held steady since last year. In the 2002/03 year we laid the groundwork for improvements in these areas by adding extra resources to the Business and Corporate Services teams, introducing greater specialisation and setting ourselves challenging targets for the year ahead. We expect to see satisfaction improving in the next financial year as a result of this.

Late in 2003, we agreed terms and conditions with our largest customer, Comalco, for supply of an additional 30 MW to the Tiwai Point aluminium smelter. The agreement was the culmination of many months' negotiation over terms that balanced Comalco's desire to increase consumption with Meridian's commitment to provide secure supply to the smelter.

The proposed development of a rationalised industry governance structure presented significant challenges for Meridian in relation to the Comalco power agreements. We spent significant time and effort developing proposals that would provide effective protection of Comalco's long-standing rights to secure electricity supply, and Meridian's and Transpower's

CASE STUDY

"THINK CUSTOMER" TRAINING

" THINK CUSTOMER REFOCUSED THE EFFORTS OF ALL OUR PEOPLE ON OUR REASON FOR BEING - THE CUSTOMER. THE TRAINING DEMONSTRATED THAT THIS ATTITUDE NEEDS TO APPLY REGARDLESS OF WHETHER WE WORK IN THE FRONT LINE OR IN ANY OF THE SUPPORT AREAS. NOW THAT WE HAVE SET THE SCENE WE CONTINUE TO CELEBRATE THIS KIND OF BEHAVIOUR WITH VARIOUS REWARDS AND INCENTIVES."

RICK JONES

BUSINESS AND OPERATIONS MANAGER TELETECH.



We trained all contact centre staff to "Think Customer", focusing on the importance of customers and meeting their needs. Further training was provided to support staff (management and technical) to reinforce the process.

The training has resulted in significant improvements in the communication, awareness and service quality of contact centre staff. Customer surveys show that the training has had a significant impact – friendliness of customer service staff is highly rated.

ability to meet their respective obligations in relation to that supply under the proposed new rulebook. Much of this work is now being applied to developing proposals that provide that same effective protection in the new regulatory regime.

COMMUNICATING WITH OUR CUSTOMERS

A key focus for us over the past year has been to fully engage and communicate with our customers so they understand the market, the issues around security of electricity supply over the medium to long term and the price implications of this, and the importance of supply to New Zealand's continued economic growth.

To this end, we have held key customer seminars around the country, participated in the Regional Electricity Group in Christchurch (see case study on page 28), and actively signalled price increases early to residential and business customers through a range of channels.

For our residential customers we have revamped our residential customer newsletter, *Currents*, and revised the format of the *One Weather Update* advertisements so that customers can learn more about the company.

We have also introduced a number of new initiatives for communicating with our business and corporate customers, designed to support and enhance our product offerings in these segments. These include:

- Email alerts on spot market pricing
- A weekly market report providing information on demand, supply, price and generation
- *The Meridian Report*, a quarterly newsletter on industry trends.

Corporate products

During the year we launched two new products – Flexiplan and Easiplan – which are designed to give large corporate customers more flexibility. In order to offer the new products, we introduced a new corporate billing system in August 2002. Initially the system did not meet our expectations, but it has since stabilised and has now begun consistently to meet performance targets.

In 2001/02 we piloted a web-based Demand Exchange System, an industry first and a finalist in the EECA Energywise Awards in September in the supply- or demand-side energy efficiency category.

Since the initial pilot it has grown significantly over the past year, with a number of key customers regularly using the service. The system, supported by



TOP: A ONE Weather Update advertisement – nearly all your calls answered in under 20 seconds!

BOTTOM: Our residential newsletter *Currents* was revamped this year.

CASE STUDY | **REGIONAL ELECTRICITY GROUP**

" THE REGIONAL ELECTRICITY GROUP HAS BEEN AN EXTRAORDINARILY USEFUL FORUM, NOT ONLY FOR ADDRESSING THE SHORT-TERM SUPPLY ISSUES OF WINTER 2003, BUT ALSO FOR BRINGING TO THE TABLE IDEAS AND EXPERTISE ON MEDIUM- AND LONG-TERM ELECTRICITY DEMAND AND SUPPLY ISSUES THAT WILL BE OF CRITICAL REGIONAL AND NATIONAL IMPORTANCE IN THE YEARS AHEAD."

PETER TOWNSEND
CEO, CANTERBURY EMPLOYERS' CHAMBER OF COMMERCE.



In partnership with the Canterbury Employers' Chamber of Commerce, Meridian established the Regional Electricity Group in August 2002. This is a forum for Meridian and large commercial customers in Canterbury to meet regularly (every two months) to discuss issues of security of electricity supply and prices, and hear each other's perspectives. It proved an invaluable tool for communicating with customers during the winter shortages of 2003.



This year we have improved and targeted energy efficiency information for customers.

CUSTOMER SERVICE PERFORMANCE

PERFORMANCE MEASURE	THIS YEAR ACTUAL JUNE 2003	THIS YEAR TARGET	LAST YEAR JUNE 2002
Calls answered within 20 seconds (%)	77	80	78
Residential customer satisfaction (excellent, very good, good) (%)	86	80	81
Switchouts that are compliant with industry standards (%)	97	100	98.5

distributed generation purchase contracts, allows customers to track prices and, when high, reduce consumption and sell electricity back to us. This creates actual revenue/profit incentives for customers, and builds a partnership with our customers that contributes to national sustainability goals.

In conjunction with the increased communications channels with our corporate customers, these products give customers more control over managing their load and ultimately their costs. We are now putting in place product support services to help further build understanding of our products.

ENERGY EFFICIENCY

We are committed to helping customers become increasingly energy efficient to make the best use of national energy resources and enable them to reduce their power bills. This year we improved and targeted information on energy efficiency for customers, and offered discounted products such as hot water cylinder wraps.

This core business strategy underpinned our development of a range of new initiatives to help manage the 2003 winter crisis, which included direct contribution to the Target 10 campaign. Meridian's own programme included introducing a range of customer rewards for energy savings and offering energy-saving makeovers. (For the full details on our winter activities, see page 20.)

CASE STUDY

HELPING CUSTOMERS MITIGATE INCREASING COST OF ELECTRICITY

" MERIDIAN'S RECOMMENDATIONS HAVE ASSISTED IN DEVELOPING A SUSTAINABLE ENERGY MANAGEMENT OPPORTUNITY PROGRAMME WITHIN OUR COMPANY. THE PROGRAMME INCLUDES THE COMPLETION OF ALL MERIDIAN RECOMMENDATIONS THAT ARE ECONOMICALLY VIABLE. THE COMPLETION OF EACH OPPORTUNITY WILL BE REPORTED IN CONJUNCTION WITH THE ELECTRICAL ENERGY CONSUMPTION UNITS TO BE MEASURED IN KW PER EMPLOYEE. THE OBJECTIVE FOR THIS PROGRAMME IS 100% COMPLETION OF SELECTED OPPORTUNITIES AND A 10% REDUCTION IN ELECTRICAL ENERGY USAGE BY OCTOBER 2004, YIELDING SIGNIFICANT SAVINGS."

JUDY TOMPKINS

PROJECTS & SERVICES MANAGER, SCHNEIDER ELECTRIC (NZ) LIMITED.

When Schneider Electric (NZ) Limited was faced with a significantly higher cost of electricity as a result of the change in the market, our Retail team engaged Meridian Solutions, a business unit of Meridian Energy, to undertake an energy audit of the company.

With support and advice on energy efficiency initiatives, Schneider Electric was able to reduce energy usage by 30% at its Christchurch facility. The audit identified a range of management opportunities and ranked these in terms of capital cost required for implementation, energy cost savings thereafter, and payback period (recognising the initial cost).

Some opportunities were as simple as adjusting heating thermostats and switching off lights in vacant offices. The audit also identified an opportunity to reduce electricity demand charge costs more significantly by installing new power factor correction equipment, which had a significant capital cost but a payback period of only 1.5-3 years. (Read more about Meridian Solutions in the Our Growth section on page 43.)

PREPAYMENT / LOW USER TARIFFS

We are committed to offering low user tariffs and prepayment options in line with the Government Policy Statement. Last year we introduced low user tariffs in all network areas.

This year we have been working to upgrade our prepayment platforms. We aim to develop a prepay metering system, based on a single platform, to meet customer needs better. This will be developed by Arc Innovations (read more about Arc Innovations in the Our Knowledge section on page 56).

ISO AND MARIA CERTIFICATION

We have continued to lead the industry initiative to eliminate discrepancies in the National Electricity Registry. This has been an issue that has dogged the industry since deregulation. In June Meridian received ISO 9001:2000 and Metering and Reconciliation Information Agreement (MARIA) (non-half-hour data administration) certification for our Data Handling and Switching processes. While most retailers have ISO certification for the Data Handling process under the 1994 Standard, we believe we are only one of two retailers that have achieved ISO certification for Switching processes.

OUR RESPONSIBILITIES

OUR THOUGHT

We answer to you. Because ultimately, we work for you.

HIGHLIGHTS

- Revaluation of Meridian assets upwards by \$600 million
- Renewal of national sponsorship of the Royal New Zealand Ballet for another three years
- Donation of an additional \$650,000 in cash and kind to the Plunket Society to reward New Zealanders for energy saving efforts during Target 10 campaign
- After-tax profit of \$109.3 million.

FUTURE

- Improve annualised return on equity
- Further develop mutually beneficial relationships with our sponsorship partners.



We want our sponsorship support to reach everyday New Zealanders. Here, members of a Christchurch Rugby Club team enjoy a snack from the Meridian Energy barbeque that is on the sideline of Junior Rugby every Saturday to support the supporters.

OUR REFERENCE POINT

Meridian takes its responsibility as an SOE very seriously. Being an SOE means we have to operate as a successful business and be:

- As profitable and efficient as comparable businesses not owned by the Crown
- A good employer
- An organisation that exhibits a sense of social responsibility by 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.

(Part One of the State-owned Enterprises Act 1986.)

OUR PROGRESS

OUR PROFIT

Our after-tax profit of \$109.3 million was achieved in very difficult operating conditions. During winter we found ourselves having to balance the three points above to help maintain security of supply so that New Zealand homes and businesses could continue to run, while remaining a profitable and efficient business ourselves.

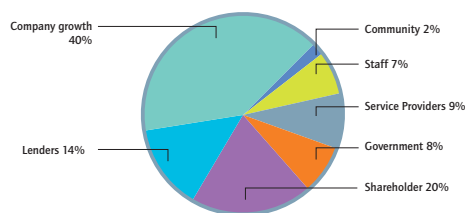
In line with our dividend policy, we will pay 65% of our profit to our shareholder, but no special dividends were paid as we are now operating around our desired gearing ratio.

Our contribution to the New Zealand economy remains high. After taxes, return to lenders and return to shareholders, over \$235.4 million went into the New Zealand economy. The graph above shows how cash was distributed. The company growth percentage is the major change since last year, with the proportion moving from 15% to 40%. This is a result of the investment in Southern Hydro and increased activity in Project Aqua and trans-Tasman wind projects. We have also seen a 2% increase in the proportion spent on staff salaries as we have increased resources to meet our growth targets.

REVALUATION

When Meridian was first established by the Crown we were required to complete a valuation review of our hydro generation assets within 12 months. We did this based on our best forecast of the long-term

DISTRIBUTION OF CASH VALUE-ADDED AMONGST STAKEHOLDERS



price path. However with changes in demand growth, the need for alternative fuel sources and the increased cost of energy, the earlier price path no longer reflected the true underlying value of the assets.

At the close of the financial year we revalued our major generation assets, increasing their value by \$600 million. We believe this is a conservative position to have taken to avoid fluctuations in underlying asset values. Further information on the composition of asset values can be found on page 85 of this report.

COMMUNITY RESPONSIBILITIES: SPONSORSHIPS

We have an active sponsorship programme supporting sports, the arts and communities. This enables us to build relationships with a diverse range of organisations, individuals and communities.

Following feedback that we received in a recent qualitative survey with sponsorship stakeholders, in the coming year we will put more structure around our existing relationships to ensure mutually beneficial outcomes.

SPORTS

In the past year we added sponsorship of Diving New Zealand to our portfolio of support for sports. The organisation had great success last year, producing the 2002 Junior World Champion for Diving. In addition, we have continued our sponsorship of South Island Rowing and other talented individual sportspeople.

With our largest customer base and the majority of our staff located in Canterbury, together with being

"THERE ARE VERY GOOD PROVISIONS OF SPECIAL PROGRAMMES AND PERSONNEL TO SUPPORT STUDENT LEARNING AND WELL-BEING. THESE INCLUDE THE KIWI CAN PROGRAMME. STAFF, STUDENTS AND PARENTS REPORT THAT THIS PROGRAMME IS HAVING A POSITIVE IMPACT ON ATTITUDES AND BEHAVIOURS."

STOKES VALLEY SCHOOL ERO REPORT JULY 2002.



"I'VE ENJOYED GETTING INVOLVED IN A RANGE OF ACTIVITIES WITH THE KIWI CAN PROGRAMME - FROM ATTENDING HEALTHY BREAKFASTS TO DEMONSTRATE THE IMPORTANCE OF EATING GOOD FOOD, TO TALKING TO THE CHILDREN ABOUT RESPECTING THEMSELVES AND OTHERS. I'VE BEEN ABLE TO GIVE PERSONAL EXAMPLES OF SETTING GOALS AND NEVER GIVING UP WHEN THE GOING GETS TOUGH."

MELISSA MOON
WORLD CHAMPION MOUNTAIN RUNNER AND SPONSORED ATHLETE, WHO VOLUNTEERS FOR KIWI CAN.

CASE STUDY | TWIZEL COMMUNITY CENTRE OPENING

"WE WERE HONOURED TO BE THE FIRST TO PERFORM IN TWIZEL'S WONDERFUL NEW COMMUNITY CENTRE. THANKS TO MERIDIAN ENERGY, 14 DANCERS PRESENTED A SPECIAL PROGRAMME OF CLASSICAL AND CONTEMPORARY DANCE. THE SHOW WENT DOWN A TREAT WITH THE AUDIENCE WHO GAVE US A STANDING OVATION. AFTERWARDS, MERIDIAN PUT ON A WICKED RECEPTION, WHERE IT FELT LIKE WE MET THE ENTIRE POPULATION OF TWIZEL. IT WAS A GREAT WEEKEND AND EVERYONE HAD A BALL."

GARY HARRIS,
CREATIVE DIRECTOR, ROYAL NEW ZEALAND BALLET.

Building on our relationship with the Royal New Zealand Ballet, we arranged and funded a performance at the opening of the Twizel Community Centre in September 2002. The establishment of the Centre was a milestone achievement for the Twizel community and an initiative involving many of the community. This was a great opportunity for Meridian to bring value to the Twizel community through our national sponsorship activities. We were proud to lend such excellence to the opening event.

on the doorstep of our generation operations, our biggest commitment in terms of sport sponsorship is to Canterbury Rugby. Our support helps make rugby accessible to more people and provides support for rugby development all the way from junior rugby to representative level.

As well as funding, our staff regularly join families on the sidelines at junior rugby and free sausage sizzles as a way of participating with local communities.

ARTS

In March we announced the renewal of our principal sponsorship of the Royal New Zealand Ballet for another three years. We believe the contemporary approach the New Zealand Ballet takes to a traditional art form mirrors our organisational values.

We work hard at getting to know the organisations that we support, and them us, and our relationship with the Royal New Zealand Ballet is a very good example of this. In Wellington our staff have regular get-togethers with dancers and staff from the Ballet, and when they are touring we take the opportunity to show them the generation side of our business and introduce dancers to stakeholders, community members and staff.

We continue to support the New Zealand String Quartet with Chair sponsorship of the Viola, the Wellington Sculpture Trust: Meridian Energy Wind Sculpture Project, and the Katherine Mansfield Memorial Fellowship.

COMMUNITY

As part of our community sponsorship programme, this year we increased our support for the Plunket Society. Over and above the existing sponsorship, we gave a one-off donation of cash and energy services and products to Plunket during the winter electricity shortage (more on how we chose our rewards scheme on page 46).

Kiwi Can, the self-esteem programme that we support in Wellington primary schools, has expanded in the last year. It now runs in 12 schools, up from 10 in 2001/02. Recent Education Review Office (ERO) reports⁵ have noted the contribution of Kiwi Can to encouraging positive behaviour. Our Wellington-based staff help to deliver the programme, visiting classrooms and participating in extracurricular activities. When the Kiwi Can programme begins in Christchurch next year, our Christchurch staff will have a chance to get involved too.

We also engage the support of individuals we sponsor, including world champion mountain runner and Sportswoman of the Year 2002, Melissa Moon, who has been a Kiwi Can volunteer.

⁵ Refer to ERO reports for Stokes Valley School, Taita Central School and Tui Glen School.

LOCAL EVENTS

We get involved in numerous local events and activities in communities around our generating assets in the Mackenzie, Waitaki Valley and Southland areas through community relations, sponsorships and donations. Meridian's community sponsorship programme supports initiatives created by communities, for the benefit of community members.

In addition to this support, our staff are "feet on the ground" in the communities, to establish and maintain two-way discussions about their community needs and our business activities.

One of Meridian's new community initiatives this year was our sponsorship of the Fiordland Cleanup Campaign, which involved a one-week cleanup of coastal shoreline to remove 200 cubic metres of waste. The campaign generated national coverage and raised public awareness as it assisted in maintaining and beautifying some of New Zealand's most notable shorelines. It also gave Meridian the opportunity to work alongside two key stakeholders – the Department of Conservation (DOC) and Environment Southland – in their efforts within the Southland community.

On completion of the second Manapouri tailrace tunnel, Meridian donated surplus buildings (used to

accommodate on-site project workers) to a number of South Island organisations. These buildings were gifted to four community initiatives:

1. Te Waiiau Mahika Kai Trust (see case study)
2. Fiordland College
3. Deep Cove Outdoor Education Trust
4. South Island Rowing Centre.

SPECIAL RELATIONSHIPS

We value the ongoing relationships and partnerships we have with key stakeholders in the communities where our generation assets are located. These include relationships with Te Rūnanga o Ngāi Tahu, the Waiiau Working Party, DOC, Fish and Game and the Guardians of Lakes Manapouri, Monowai and Te Anau, to name some of the many organisations with which we interact.

We have an excellent relationship with Ngāi Tahu, which is formalised through a relationship agreement. We consult regularly on projects and issues and engage at all levels within both organisations. The gifting of buildings constructed for the second Manapouri tailrace tunnel project to the Te Waiiau Mahika Kai Trust Project at Jericho, Southland, is something of which both Ngāi Tahu and Meridian are proud.



TOP: As well as cash donations, Meridian also provides expertise for local initiatives. For the Freez'n Frolics events in Tekapo, we assisted with logo development and advertising.

BOTTOM: Meridian's assets provide a compelling backdrop for filming. Production companies pay a donation to film on Meridian's private hydro canal roads.

CASE STUDY

TE KŌAWA TŪROA O TĀKITIMU – THE LONG VALLEY OF TAKITIMU

"TE KŌAWA TŪROA O TĀKITIMU IS A PLACE OF SPECIAL SPIRITUAL AND CULTURAL SIGNIFICANCE TO NGĀI TAHU IWI. THE VALLEY IS A PATHWAY TO NGĀ MAUNGA TĀKITIMU. OUR STORIES TELL US THAT OUR TUPUNA WAKA FOUNDERED AT THE MOUTH OF THE WAIU RIVER IN MURIHIKU AND IS NOW FOREVER REMEMBERED IN THE NAME OF THE TĀKITIMU MOUNTAIN RANGE. TE WAIU MAHIKA KAI TRUSTEES ARE WORKING TOGETHER WITH MERIDIAN ENERGY TO RESTORE THE MAHIKA KAI VALUES OF THE VALLEY FOR THE BENEFIT OF IWI AND THE MURIHIKU COMMUNITY."

JANE DAVIS

CHAIRPERSON, TE WAIU MAHIKA KAI TRUST.

Te Waiiau Mahika Kai Trust, of which Meridian is a member, was established with \$1 million seed funding resulting from the Manapouri resource consent project in 1996. The funding was to mitigate the effects of the Manapouri power station's activities on the mahika kai (food gathering) resources in the Waiiau catchment. The Trust is involved in many environmental and resource management initiatives including a major project to restore wetlands in the Jericho Valley.

When the opportunity arose to distribute surplus hostel buildings from the second Manapouri tailrace tunnel project, it was identified that the buildings met the needs of the Trust's Jericho Farm Project.

The donation of the buildings has enabled the Trust to continue to develop a resource and accommodation centre, which will feature mahika kai history in the Waiiau catchment and provide a base of operations for replanting and other environmental enhancements to the area.

OUR ENVIRONMENT

OUR THOUGHT


Our power comes from nature. And we're making it work for us.

HIGHLIGHTS

- Comprehensive botanical baseline surveys of upper Waitaki braided rivers
- Rapid response, in conjunction with other stakeholders, to the aquatic weed outbreak at Lake Benmore
- The completion of brown trout radio telemetry tracking surveys at the Manapouri Lake Control structure fish pass showed positive results for trout movement past the structure
- New lake level guidelines for Lake Te Anau were gazetted in December 2002
- Positive response from stakeholders regarding our consultation approach to consenting our new wind farm project – Project Te Āpiti.

FUTURE

- Manapouri consent and monitoring review to be finalised in November /December 2003
- Waitaki stakeholder agreement and consent review will be commenced in 2004
- Research to assist the development of a migratory eel transfer programme for the mid and upper Waitaki River catchment will be undertaken by the Waitaki Native Fish Committee.



Tree planting as part of the revegetation programme at Deep Cove, Doubtful Sound for the second Manapouri tailrace tunnel project. The project has seen 250,000 trees of 16 different species planted across an area of about 25 hectares.

OUR REFERENCE POINT

We believe that good environmental management is good for business because our business relies on nature. For this reason, we not only take our resource consent mitigation obligations seriously, we go beyond these commitments to address wider concerns raised by our stakeholders in relation to protecting and enhancing the environment.

Our excellent environmental track record from our South Island operations has provided a great platform for transferring our approach and competencies to development projects and new geographies as the business expands, such as the Project Te Āpiti wind farm development.

OUR PROGRESS

PROTECTING AND ENHANCING THE ENVIRONMENT

Project River Recovery

As part of a stakeholder agreement with DOC, Meridian funds Project River Recovery, which focuses on protecting and enhancing the braided river habitat in the Upper Waitaki Basin. Milestones achieved this year as part of this project include:

- An intensive weed control programme over the 2002/03 summer – helps to maintain near-pristine river and wetland ecosystems, comprising diverse native plant, invertebrate, fish and bird communities. These rivers and wetlands are strongholds for several species of rare birds, plants, fish and invertebrates
- Resource consents were obtained to extend conservation management into the mid and upper reaches of the internationally significant Ahuriri River, opening the door to substantial conservation gains
- The six-year Ruataniwha wetland management experiment was completed in 2002/03. It aimed to test whether a combination of basic electric fencing, predator trapping and constructed wetlands results in greater bird production than an unmanaged site
- Comprehensive botanical baseline surveys of upper Waitaki braided rivers were undertaken, involving over 750 plots. These revealed highly valuable plant communities, and are already informing management decisions

- Project River Recovery “kits” were developed and delivered to schools and the Project River Recovery team has led field visits with groups of school children
- A multispecies poster was produced and distributed widely, helping to promote appreciation of the diversity of life in these precious rivers and wetlands
- A walking track at the Ruataniwha wetlands was completed and an old portable bivy was converted into a bird-watching hide to enable more people to appreciate the bird-life of this area.

Waitaki Native Fish Committee

Meridian continues to work closely with representatives of the Waitaki Native Fish Committee, established in 2000 under an agreement between Meridian and Te Runanga o Ngāi Tahu, to ensure that native fish-life and aquatic ecosystems are protected and enhanced.

Meridian is funding a research initiative to determine whether a migratory eel downstream transfer programme focusing on the long fin eel population should be introduced for the mid and upper Waitaki catchment. This initiative is linked to the successful programme for the trap and transfer of young eels (elver) to habitats upstream of the Waitaki Dam.

The dynamics of eel and native fish populations are not as well understood as those of many of the other exotic river or lake species. Meridian sees this as an area in which we can assist by contributing to ongoing monitoring and research.

Lagarosiphon outbreak

A key issue we faced this year was the discovery of an aquatic weed (*Lagarosiphon major*) in Lake Benmore in February 2003. Aquatic weeds, spread mainly by recreational boats, can choke waterways and block power station intakes. While aquatic weed infestation has been a problem in North Island waterways for some time, it is now a serious threat in the Waitaki catchment.

In response, Meridian assisted Land Information New Zealand (LINZ) to mount an immediate spray control programme aimed at stopping the seeding of the weed.



“MERIDIAN'S INVOLVEMENT IN PROJECT RIVER RECOVERY IS EXTREMELY VALUABLE BECAUSE IT HELPS US GET THE BASIC RESOURCE INFORMATION NEEDED FOR MANAGING AND ACHIEVING CONSERVATION GOALS.”

CHRIS WOOLMORE

RANGER, PROJECT RIVER RECOVERY.



Meridian contributes to the successful trap and transfer programme of young eels (Elver).

" OUR BUSINESS IS ABOUT HARNESSING ENERGY PROVIDED BY NATURE IN THE MOST EFFICIENT WAY, MINIMISING OUR ENVIRONMENTAL IMPACTS, AND WORKING WITH STAKEHOLDERS TO ENSURE WE UNDERSTAND THOSE IMPACTS FROM ALL POINTS OF VIEW."

RAEWYN MOSS
MANAGER, NATURAL RESOURCES.

CASE STUDY | WHITEBAIT PONDS, TE WAEWAE LAGOON

" ECOSYSTEM RESTORATION IS A COMPLEX AND SLOW PROCESS, BUT OFTEN THERE CAN BE IMMEDIATE RESULTS... THE COLONISATION BY MACROPHYTES, INANGA, EELS AND BULLIES IN SOME OF THE TRIAL WHITEBAIT ENHANCEMENT PONDS... HAS BEEN VERY RAPID... THE TRUST IS CONFIDENT THAT OVER TIME THE CUMULATIVE EFFECT OF ALL TRUST PROJECTS WILL BE VERY POSITIVE FOR THE WAIAU CATCHMENT ECOSYSTEM AND ITS FISHERIES AND WILDLIFE VALUES."

2003 ANNUAL REPORT
WAIAU FISHERIES AND WILDLIFE
HABITAT ENHANCEMENT TRUST.



The Waiau Fisheries and Wildlife Habitat Enhancement Trust was established in 1997 as a result of the resource consent renewal process for the Manapouri power scheme. It has representatives from Fish and Game New Zealand, DOC, the Waiau Catchment community and Meridian Energy and an independent Chairperson.

A key objective of the Trust is to provide for the creation of additional areas of whitebait habitat at the mouth of the Waiau River. These projects are taking place on land owned by Meridian Energy or held by the Minister of Conservation adjacent to the Waiau Lagoon, Southland.

In 1999 the Trust constructed 23 whitebait (inanga) habitat ponds with a total area 0.8 hectares. These ponds were monitored over a three-year period and the results of the study have allowed the refinement of whitebait habitat design. This has enabled the Trust to proceed with further pond construction with confidence.

In the 2002/03 year, a further 22 habitat ponds (total area one hectare) were constructed and a further series of ponds is planned for 2003 and for subsequent years.

We are now working with stakeholders such as LINZ, the DOC, Environment Canterbury and Fish and Game New Zealand on its ongoing management.

For several years, Meridian has contributed to a public awareness campaign on *Lagarosiphon*, in conjunction with local regional councils, LINZ and DOC. This runs during the summer holidays and is aimed at recreational boaties. These efforts to inform and educate recreational users at popular South Island holiday destinations will continue.

MONITORING

Meridian's consent compliance programme is the most significant component of our environmental management system. Meridian holds approximately 75 consents for the operation and maintenance of nine power stations in the Waitaki and Manapouri catchments. We currently undertake 18 monitoring programmes associated with the Manapouri consents and several associated with the Waitaki consents.

As part of the Manapouri resource consent monitoring programme, Meridian continues to assist with upstream elver transfer at Manapouri. More than 60,000 elver were transferred in 2002/03 to Lake Te Anau, past the Manapouri Lake Control (MLC) structure at the confluence of the Mararoa and Waiau Rivers. We also support the downstream transfer of eels in autumn through the work of the Te Waiau Mahika Kai Trust.

In addition to consent requirements, we conduct further monitoring as required to assess better the appropriateness of some existing consent conditions. For example, in March 2003 we completed monitoring of the fish population and distribution in Forks Stream in the upper Waitaki catchment. This was conducted to help make assessments about an existing consent requirement to install, operate and maintain a fish pass at a hydro-canal culvert.

The following new surveys, in addition to many regular monitoring programmes, were undertaken during the last year as a part of our effects-based monitoring programme:

- Radio telemetry tracking of trout – upstream and downstream of MLC (see case study)
- Native fish population and distribution assessment, including eel age structure assessments in the lower Waiau River
- Lamprey movement through the MLC vertical slot fish pass.

Manapouri resource consent review

During this year, we began preparatory work for the seven-year review of Meridian's Manapouri resource consents, which is due to be finalised in December 2003. Review work to date has included significant consultation with stakeholders – notably the Guardians of Lakes Manapouri, Monowai and Te Anau and the Waiau Working Party. Advice from technical experts has also assisted in identifying

possible refinements to monitoring programmes or alternative mitigation options. Completion of the consent review will give certainty about Meridian's position for the next seven years and help to refocus our monitoring efforts.

RESPONSIBLE OPERATOR

Synthetic oil conversions

In 2001 we first investigated converting the oil used in our gate control structures from mineral to synthetic ester-based oil to reduce possible environmental effects from any unexpected leakage.

We converted the Pukaki and Ohau canal outlets in 2001, and have monitored their performance since. This year we continued the conversion programme and upgraded the oil used in our Lake Tekapo control structure, gate 16.



Fish monitoring at Fork Stream culvert.

CASE STUDY

RADIO TELEMETRY STUDIES OF BROWN TROUT MANAPOURI

"THE IMPORTANCE OF THE MLC FISH PASSAGE FACILITY TO SPORTS FISH MOVEMENT IN THE WAIU/MARAROA CATCHMENT WAS RE-ENFORCED BY THE TRACKING RESULTS."

NZ FISH AND GAME – SOUTHLAND REGION
RADIO TELEMETRY MONITORING OF BROWN TROUT MOVEMENT IN RELATION TO THE MANAPOURI LAKE CONTROL, 2002.

In 1998, a vertical slot fish pass was constructed at MLC as a condition of the resource consents for the Manapouri power scheme.

In September 2002, Fish and Game New Zealand completed a two-year survey of brown trout movement through and upstream of the MLC vertical slot fish pass.

This survey was carried out using radio telemetry tracking of tagged brown trout and complements other trapping surveys by Fish and Game New Zealand at MLC in 1999 and 2000. Both sets of surveys confirmed the effectiveness of the new fish pass in allowing brown trout free movement upstream and downstream along the Waiau and Mararoa Rivers past MLC.

" WE ARE PROUD OF OUR COMPLIANCE RECORD AND OF THE POSITIVE INTERACTIONS WE HAVE HAD WITH ENVIRONMENTAL STAKEHOLDERS OVER THE LAST FOUR YEARS. WE ARE COMMITTED TO ACHIEVING OPTIMAL SUSTAINABLE OUTCOMES FOR ALL NEW ZEALANDERS, THE ENVIRONMENT, THE COMMUNITIES WITHIN WHICH WE OPERATE, AS WELL AS OUR BUSINESS."

RAEWYN MOSS
MANAGER NATURAL RESOURCES.

CASE STUDY | RECREATIONAL RELEASE FLOWS WELL RECEIVED BY CANOEISTS

" NOW THAT THE COURSE HAS BEEN CONSTRUCTED, IT MAKES SENSE THAT THE TRUST BE RESTRUCTURED AND GIVEN THE MANDATE TO OPERATE THE COURSE. AS THE NZRCA DELEGATE, THE TRUST WILL BE A GOOD FORUM TO ENSURE THAT WE MAKE THE MOST OF THE RECREATIONAL RELEASE FLOWS FOR ALL USERS."

MIKE SAVORY
RNZCA DELEGATE ON TEKAPO WHITE WATER TRUST.



Under Meridian's existing resource consents, we are required to release water down the Tekapo River for use by canoeists. These "recreational release flows" go either down a section of the river or down the river for a short distance before being diverted into an old river bed that contains a purpose-built canoe course, and then diverted back into the Tekapo canal below the power station.

The construction of the canoe course began in the early 1990s and was funded by Meridian's predecessor, ECNZ. Construction was overseen by the Tekapo White Water Trust.

During the last year the Trust was restructured, with a new mandate and new membership. Meridian provided seed funding for the new initiative and donated an equipment building. Its aim now is to oversee the operation of the canoe course, including course rules and maintenance.

Meridian has a representative on the Trust, along with the New Zealand Recreational Canoeing Association (NZRCA), the New Zealand Slalom Canoe Association, Mackenzie District Council, Mackenzie College, and the Otago and Canterbury Universities.

Scheduling of water release dates and flows is coordinated by the NZRCA, and Meridian and the Trust are currently working with it to provide water for the New Zealand National Canoe Slalom Championships to be held during Easter 2004.

Resource consent compliance

This year Meridian experienced its most serious environmental non-compliance incident since the company's inception in 1999.

On Friday 16 May 2003 we reported a significant breach of our consent for MLC, due to an equipment failure in the gate structure. Unfortunately the back-up system also failed. As a result the gate closed, causing the flow to drop to below the minimum required level of 12 cumecs for a period of 45 minutes during the night (three quarters of a cumec flowed through the fish pass for 20 minutes).

Immediate steps taken and proactive communication included the following:

- The control system identified the failure and re-set the gates back to normal within 20 minutes
- The breach event was reported to Environment Southland on the morning of Friday 16 May
- Meridian contacted Southland Fish and Game Council on the Friday morning and Meridian funded an aerial inspection by helicopter that day to determine whether the drop in river flow had stranded any fish or affected early spawning effort. The survey revealed no real impact on trout or salmon, attributed to a late spawning season and the fact the breach was rectified within 45 minutes
- Meridian notified the Guardians' Chairman on 20 May
- The incident was reported to senior management and the Meridian Board

COMPLIANCE INCIDENTS FOR THE YEAR ENDED 30 JUNE 2003

MANAPOURI

NUMBER	SEVERITY	DETAILS
1	Minor	Relating to the flow ramping rules for the Lake Te Anau control structure within a 24-hour period. The temporary failure of a gate encoder led to an erroneous 20 cumec drop in flows within the same day on which flows had been increased.
Several	Minor	Turbidity/flow events associated with releasing flows at MLC during turbid (discoloured water) events. In all cases, no turbid waters reached Lake Manapouri.
1	Minor	Relating to the minimum flow of 14 cumecs which is to be released into the lower Waiau River from MLC during April. The flow dropped to 12.3 cumecs for 45 minutes in late April 2003 due to a gate encoder failure. The automated system was overridden by the controller in order to restore the minimum flow.
1	Significant	MLC gate failure. (See text for overview of incident and Meridian's response.)

WAITAKI

NUMBER	SEVERITY	DETAILS
1	Minor	Continuing issue with flow ratings for the Ohau Canal gates when releasing maximum flow into the canal during periods when the Ohau lake level exceeds the maximum control limit.
5	Minor	Discharge flows at the Ohau and Benmore power stations in excess of consent limits. For both stations flow limits were complied with for 99.9% of the time.
1	Minor	Relating to load and flow change limits during periods of spill flow events at Waitaki power station.

- Technical improvements were identified and an upgrade programme was put in place and carried out to ensure the failure could not reoccur.

All other non-compliance incidents were minor – and occurred as a result of instrumentation failure, as a result of insignificant deviations from the required hydrological regime, or as a result of erosion protection requirements. The more significant non-compliances (but still deemed minor with respect to environmental impacts) are listed above.

OUR GROWTH

OUR THOUGHT

We are growing. That means getting better, not just bigger.

HIGHLIGHTS

- Lodged resource consents for Project Aqua on 14 May 2003. If consents are granted when expected, first power from Aqua will be available from 2008 to help meet New Zealand's rising electricity demand
- Completed the purchase of Southern Hydro on 1 May 2003, providing opportunities to leverage trans-Tasman synergies
- Secured development consents for wind farm at Wattle Point, Australia, and lodged resource consents for Te Apiti wind farm in the Manawatu. Pursuing wind development on both sides of the Tasman provides valuable economies of scale.

FUTURE

- Further wind farm development to provide sustainable energy solutions to New Zealand's rising electricity demand.



Southern Hydro's trading unit trades off capacity from the generation assets and participates in the derivatives market. Darryl Flukes, General Manager Trading, Southern Hydro in the trading room.

OUR REFERENCE POINT

On average over the last 20 years, demand for electricity has grown at about 2% per year – the equivalent of adding a city the size of Dunedin to the country's energy needs every year.

Meridian is committed to developing sustainable energy solutions to meet New Zealand's rising demand for electricity, which in turn fuels New Zealand's economic growth.

While the RMA provides a much-needed mechanism for promoting the sustainable management of natural and physical resources, the consenting process is protracted and places a significant compliance burden on generators seeking to invest in new sustainable supply initiatives. Meridian supports changes to the RMA to recognise explicitly the importance of developing renewable energy generation and to recognise projects of "national importance".

OUR PROGRESS

PROJECT AQUA

Options for developing the lower Waitaki have been investigated for 30 years. Only a recent innovative engineering approach by Meridian Energy has enabled the projected costs to be low enough to make the project feasible and environmentally sound.

Meridian announced Project Aqua investigations in April 2001. Project Aqua is based on an innovative engineering design that promises to produce 3,000 GWh per annum – enough electricity to supply a city the size of Wellington, or 400,000 homes.

This year, in the context of rising demand for electricity in New Zealand and the urgent need for more sources of supply, we accelerated Project Aqua in order to deliver first power by 2008. We have advanced both the consenting and engineering processes in parallel and achieved some significant milestones over the past year.

On 14 May 2003 we lodged the resource consent application for Project Aqua and gained requiring authority status. We have also reached the two-third mark in terms of land access for canal alignment.

The Project Aqua team is committed to working closely with the Waitaki community to:

- Fully understand and respond to any issues/concerns they may have (both during and post construction)
- Ensure any environmental and social impacts, arising from the Project are minimised
- Create a positive legacy for the valley communities.

The team has worked extensively with local residents, iwi, community groups (including fire and ambulance services, schools, the Kurow Aqua Liaison Committee, Kurow Business Group, the Duntroon and Districts Aqua Liaison Group, and the Waitaki Community Aqua Negotiating Board) and other interested parties (such as regional and district councils, Fish and Game, DOC, the Historic Places Trust and recreational groups). During the year we held six community open days at Kurow, Duntroon, Glenavy, Waimate, Oamaru and Papakaio in addition to making personal visits to individuals and communicating with residents at Meridian's Kurow office.

We took a decision this year to use a collaborative alliance delivery approach in which all partners in the alliance share the risks and rewards. This approach is consistent with our overall sourcing strategy (see page 52). It is only the second time in New Zealand this approach has been used and, outside of the oil and gas industry, this is likely to be one of the largest project alliances in the world. The alliance, and therefore the entire project performance, will be measured on four key result areas – cost, schedule, quality and sustainability. Final selection of the alliance partners will be before the end of the 2003 calendar year.

A key issue for the year ahead in terms of progressing Project Aqua is whether resource consents are secured. In addition, the design and estimation work following the selection of alliance partners is likely to be a critical determinant of progress over the next year.



When we lodged resource consents for Project Aqua in May, the application was wheeled in – it was 55 volumes, or about 7500 pages.

Keith Turner with (left) Gary Campbell and (right) Ken Smales.

"NEW ZEALAND'S POWER DEMAND IS INCREASING. PROJECT AQUA COULD BE A MAJOR PART OF THE SUPPLY SOLUTION FOR A VERY LONG TIME."

GARY CAMPBELL
PROJECT DEVELOPMENT MANAGER
PROJECT AQUA.



Southern Hydro's McKay Creek Power Station pipeline, in the Kiewa Scheme.

AUSTRALIAN HYDRO ASSETS

We completed the purchase of Southern Hydro on 1 May 2003. This takes Meridian's presence in Australia from five small hydro power stations to 15 stations and represents an increase in our capacity in Australia from 62 MW to 571 MW. As a "peaking plant operation", Southern Hydro does not have the supply obligations of a normal retailer and is a nimble player in the Australian market.

As well as providing an increase in value and giving us a wider geographical spread to help spread risk, the purchase of Southern Hydro enables Meridian to maximise trans-Tasman synergies. We are able to leverage our New Zealand expertise in asset management and hydro development as well as Southern Hydro's trading expertise.

Southern Hydro's trading unit trades off capacity from the generation assets and participates in the derivatives market. While Australia's year-long drought has affected base stations adversely, Southern Hydro's weather derivatives have to some extent hedged the downside risk of poor hydrology inflows. These practices may provide some useful lessons for our operations in New Zealand.

As a significant niche player in the Australian renewables market, our plans for future growth include making enhancements to existing assets to improve capacity and efficiency. In addition, the emphasis in Australia on water releases to maintain river flows offers us the opportunity to install smaller turbines to capture extra high-value renewable energy.

TRANS-TASMAN WIND DEVELOPMENTS

In Australia, where the regulatory environment favours renewable energy developments such as wind, we secured development consents and received final planning approval in May 2003 for a 103 MW wind farm at Wattle Point, South Australia. This will save up to 360,000 tonnes of greenhouse gas emissions each year. We have also begun investigating further opportunities for growth in wind development at Nirranda South and in the South Gippsland region, both in Victoria. The key benefit of our wind developments in Australia is that

they provide economies of scale for trans-Tasman purchase of equipment, and enable transfers of valuable expertise.

On 8 May 2003, we announced plans for Project Te Āpiti, a wind farm development on the north side of the Manawatu Gorge. Project Te Āpiti is expected to have 55 wind turbines with a total capacity of around 90 MW. This is more than double the existing capacity of the Tararua wind farm, which is currently New Zealand's largest, and is on a par with the Aratiatia hydro power station on the Waikato River. The wind farm is expected to provide enough power for more than 32,000 homes.

Following the launch of Project Te Āpiti, we carried out an extensive community-wide consultation programme in Palmerston North, Ashhurst and Woodville. This included open days, site visits, stakeholder meetings, focus workshops on ecology and aviation issues and direct mailbox drops to over 2,000 residents.

We were pleased to receive renewable energy credits from the Government in February 2003, which will assist in making Project Te Āpiti viable.

Project Te Āpiti will be the country's most technologically advanced and productive wind farm and will be the first wind farm in New Zealand to feed into the national grid.

We made a land use consent application to the Tararua District Council on 20 June 2003. Resource consents were granted as this report went to print in September 2003. Work should now begin after Board approval to ensure construction starts in late 2003, with first production achieved by late 2004 and full production early 2005.

GENERATION EFFICIENCIES

While we want to grow our generation capacity through new projects, we are also making sure that our existing generation facilities are as efficient as possible. In the last financial year plant was available 93% of the time. While this is lower than our SCI target of 94.7% we took opportunities to improve the performance of our assets with

additional and extended maintenance during the year (primarily at Manapouri and Ohau A). Our forced outage factor for the year was 0.9 (over target as a consequence of one significant event relating to a circuit breaker at Benmore).

In 2001, Meridian began a major mid-life refurbishment project (after 35 years of operation) to upgrade generation and transmission components inside the Manapouri station. The project, to be completed by 2005, will enhance the reliability and efficiency of Manapouri, lifting its peak output to 860 MW and extending machinery life to beyond 2050.

As part of this project, work began in May this year on the re-running of the seven turbines at Manapouri.

MERIDIAN SOLUTIONS

A Meridian Energy business unit, Meridian Solutions has grown significantly over the past year, acquiring a critical mass of business to build on for the future. Two contracts were agreed and a third agreed in

principle, each committing Meridian Solutions to partnership with the other parties for six to 15 years. The contracts are with:

- Capital and Coast District Health Board, for facilities management at Wellington Hospital
- Winstone Pulp International (Ohakune), to build, own and operate a 12 MW thermal oil heating system (supplying heat for pulp drying) fuelled by wood waste and pulp sludge which would otherwise be going to landfill. The new burner replaces an obsolete bark burning unit and combustion of four million litres of LPG per year.

Agreed in principle is a contract to build, own and operate a new co-generation facility and standby power at the new Auckland Hospital at Grafton. Having established a strong position in the health and forestry sectors, Meridian Solutions is now looking to move into other industrial segments, including food processing. (See baghouse case study on page 22.)



The Manapouri Power Station, which is undergoing major refurbishment.

"WE BECAME AN INTEGRAL PART OF CUSTOMERS' BUSINESS AND A PARTNER – IF THEY PERFORM WELL, WE PERFORM WELL."

MIKE SUGGATE
GENERAL MANAGER,
MERIDIAN SOLUTIONS.

CASE STUDY

PROJECT TE ĀPITI CONSULTATION

"WE WERE VERY IMPRESSED BY THE WAY THE MERIDIAN PEOPLE WENT ABOUT THE CONSULTATION PROCESS AND APPRECIATED THEIR FLEXIBILITY IN RESPECT TO MEETING AND DISCUSSING THE PROJECT. [WE ARE] LOOKING FORWARD TO WORKING CLOSELY WITH MERIDIAN AS WE MOVE INTO THE NEXT STAGE OF THE PROJECT."

LOCAL IWI RANGTĀNE O TAMAKI NUIA A RUA
SUBMISSION IN SUPPORT OF THE TE ĀPITI RESOURCE
CONSENT APPLICATION.



Project Te Āpiti, our proposed 90 MW wind farm development on the Ruahine foothills, north of the Manawatu Gorge, received resource consent on 4 September less than four months after the project was publicly announced. Such a positive response is testament to the thorough ground work and consultation done by the project team since planning began.

Meridian's New Zealand Wind Development Project Manager Alan McKinney said that as soon as the location and scale of the technology were chosen, the project team began consulting widely with the Manawatu public.

"We made contact with key stakeholders well before we lodged consent, letting organisations, district councils and iwi know all the information that might be relevant to them. This gave key stakeholders ample opportunity to raise issues and provide meaningful input to help shape the project."

The team met with landowners, council representatives and members of the community, and after the project was announced, held open days and workshops on civil aviation and ecology to discuss the impact of the project. They consulted extensively with the local iwi, Rangitāne, to ensure the construction process would not impact on any culturally significant sites.

OUR REPUTATION

OUR THOUGHT

We have a name to live up to. Meridian means the peak of achievement.

HIGHLIGHTS

- Commerce Commission confirmed Meridian Energy acted properly toward On energy in 2001 – confirmation that we were genuine in managing our response to the 2001 water shortages
- Visual identity refreshed – Meridian Energy Report 2002/03 illustrates the new look
- Credit rating remains at BBB+ despite increased investments.

FUTURE

- Increase in brand recognition.



David Green, Wind Implementation Project Manager with landowners Jamie and Jenny Moar, on the site of the proposed Te Āpiti wind farm.

OUR REFERENCE POINT

Meridian means “the peak of achievement” and also “reference point”. We chose this ambitious name for ourselves as we want to set the standard as an Australasian energy company – in both financial performance and behaviour.

We have made a commitment to becoming a PPO⁶ and have adopted the team-based framework proven successful by some of the world’s leading businesses, from legendary sports teams to manufacturers, advertising agencies and technology giants.

OUR PROGRESS

MANAGING REPUTATION IN HIGH-PROFILE TIMES

A number of key events this year have placed Meridian increasingly in the public spotlight, including:

- The winter electricity shortage
- Project Aqua consultation
- Project Te Āpiti consultation
- Pricing review and rises for most customers
- Opuha Dam media attention.

In this context, we have focused more attention on making direct connections with people and discussing our position, through staffing initiatives, stakeholder and community consultation, and dissemination of accurate market information.

This year, Meridian made corporate reputation a specific management accountability with the establishment of a Corporate Affairs directorate. It is still up to everyone to take responsibility for living up to the Meridian name, but the Corporate Affairs team works closely with all parts of the business to ensure that relationship management remains a priority.

STAKEHOLDER ENGAGEMENT

We have always been committed to stakeholders and over the years have been able to build up respect and mutual understanding. This year, with the lodging of the Project Aqua and Project Te Āpiti resource consents, additional demands have been put on existing relationships, and we have begun talking to new people and communities.

To meet the consultation needs of our growth projects we have increased the frequency and depth of public consultation in local areas of the projects to inform communities fully and aim for win-win outcomes.

In Australia we need to meet the same high standards of communication and consultation to which we aspire in New Zealand.

While we have made steps to increase the level of contact and quality of communications material, we are very aware that the high-profile issues that we have faced this year can polarise existing stakeholders, and we began to see comments to this effect in recent stakeholder surveys.

PRICE REVIEW AND RISES FOR MOST CUSTOMERS

While rising prices will never be embraced by consumers, we believe that active dialogue with consumers and representative groups ensured that there was accurate understanding of the reasons for price increases this year.

As well as consultation, we have kept customers well informed about the bigger issues for New Zealand in terms of supply and demand through regular newsletters and interest group seminars. (More on customer initiatives on page 26.)

INDUSTRY CREDIBILITY

In March 2003 Meridian welcomed the outcome of the Commerce Commission investigation into the events of winter 2001. The investigation concluded that nothing in Meridian’s conduct contributed to On energy’s difficulties in the lead-up to its exit from the electricity retail business. The investigation has confirmed an earlier finding by the New Zealand Electricity Market (NZEM) Surveillance Committee that On energy had the opportunity to acquire electricity hedges at reasonable prices, but had chosen not to do so.

Both reports confirm that Meridian had acted appropriately.

The last year has seen us heavily involved in industry groups, particularly through working towards industry self-governance. We have been members of

“ I’VE HAD NO DEALINGS WITH MERIDIAN WHERE I’VE BEEN DISSATISFIED WITH THE WAY THEY’VE BEHAVED, OR WITH THE INFORMATION THEY PROVIDED, OR ANYTHING LIKE THAT.”

ENVIRONMENTAL STAKEHOLDER SURVEY, JULY 2003.

⁶ Clive Gilson and Mike Pratt, www.inspiros.org.

CASE STUDY

HOW WE CHOSE OUR WINTER REWARDS SCHEME

" AS MERIDIAN HAS ISSUES WITH POWER SHORTAGES, PLUNKET HAS ISSUES WITH FUNDING SHORTAGES. WE ARE DELIGHTED THAT NEW ZEALAND FAMILIES – MOST OF WHOM ARE PLUNKET BABIES OR HAVE PLUNKET BABIES IN THEIR FAMILIES – SUPPORTED THE CALL FOR POWER SAVINGS."

PAUL BAIGENT
CHIEF EXECUTIVE, PLUNKET.



During the winter power crisis 2003, Meridian introduced rewards initiatives to motivate customers to do their bit to save energy.

When designing the reward scheme we wanted both a meaningful reward for people who made large savings, and a substantial reward to a respected community agency that would inspire buy-in from all consumers, whether they were in a position to make major savings or not.

To create compelling incentives for customers on an individual level, we introduced the top 10,000 energy savers reward programme – winners will receive a \$100 credit on their pre-Christmas power bill, with the option of donating it to one of 10 charities.

We chose Plunket as the national organisation as it is recognised and respected, but also because it works daily with some of the most vulnerable in society. We felt that it was imperative that families with young children knew they could be safe and warm while they saved energy and saved money.

the Electricity Governance Establishment Committee (EGEC) and its working groups, NZEM, the Metering and Reconciliation Information Agreement the (MARIA), the Grid Security Committee and the Winter Power Taskforce.

FINANCIAL CREDIBILITY

In the financial community, Meridian is seen as a good credit risk owing to our business profile and strategy, financial structure, assets, management structure, options securing and potential developments. For example, we were able to obtain a competitive bridging facility for the acquisition of Southern Hydro this year because of the financial community's recognition of the company and its management.

Our Standard & Poor's BBB+ credit rating was reaffirmed in October 2002. This rating was modified to BBB+ with a negative outlook at the time of our debt-funded acquisition of Southern Hydro.

Standard & Poor's noted that once we overcome this short-term pressure on the balance sheet, the negative watch should be removed.

As part of the decision to maintain the credit rating and to ensure we have the appropriate capital structure to enable us to manage major development projects, we are in the process of mapping our long-term capital structure to ensure our future business needs are met and properly funded.

OPUHA DAM

During our investigations into the irrigation options for South Canterbury, Meridian became aware of information regarding the performance of the Opuha Dam. We took special care to make this information known to the dam owners, and because of our commitment to public safety and to the maintenance of dam safety standards in New Zealand, we subsequently briefed the relevant regulatory authorities.

The dam owners are currently completing their own investigations of the issues.

BRAND RECOGNITION

We have built Meridian's brand through our profile in the media, sponsorships and through the personal contacts New Zealanders have with Meridian people every day. Last year we set an aim for unprompted awareness of the Meridian name to exceed 80% (up from 66% in June 2002). We did not make that target this year, and actually dropped one point to 65% unprompted awareness in June 2003. The yearly trend shows that during autumn, when the electricity shortage became a national issue, brand recognition decreased and it has not recovered since.

We know that we have further to go with our brand, especially in terms of helping New Zealanders appreciate the value of electricity and the central role Meridian plays in its supply.

VISUAL IDENTITY

Meridian's visual identity has been evolving over the past four years, and reached a milestone this year with the launch of a refreshed, standardised visual identity.

The overhaul included logo rationalisation to provide for greater consistency, given the huge range of collateral on which the brand appears and the number of suppliers working with it. It also included the introduction of a secondary colour palette complementing Meridian's three corporate colours.

MEMBERSHIP OF INDEPENDENT ORGANISATIONS

Meridian continues to be an active participant in a number of important independent organisations promoting sustainability and best practice.

We are a member of the New Zealand Business Council for Sustainable Development (NZBCSD) and Chief Executive Keith Turner is on its executive committee. The company has been involved in

NZBCSD's Climate Change Project, which is developing guidelines for greenhouse gas accounting and reporting, and identifying business opportunities for renewable energy projects such as in emission trading.

Meridian is a corporate member of the Institute for the Study of Competition and Regulation (ISCR) and is represented on the ISCR Board. ISCR has a key project underway on economic incentives for sustainable development. During the year Meridian facilitated a presentation to large customers by the ISCR's energy industry experts, to help our customers better understand the recent changes in the industry, and their implications.

MANAGING RISK

An integral part of Meridian's development as an organisation is the ability to challenge our own preconceptions, to learn from our mistakes, and to hunt out opportunities wherever they arise.

To embed this ability we promote risk management not only as a strategic discipline to manage our reputation, but also as a means of learning and growth.

Over the last 12 months risk management software has been rolled out, communication systems to support business continuity have been implemented, and stronger links have been forged between audit, insurance and risk activities.

To continue to achieve and exceed our stakeholders expectations we have to take risks; our risk management focus ensures we make educated choices and find smarter solutions.



TOP: We feel closely aligned to the Royal New Zealand Ballet, sharing a passion to be world class, with a bond to New Zealand communities.

BOTTOM: You'll now see more colour in Meridian publications, to demonstrate our vitality.

OUR PEOPLE

OUR THOUGHT

People make our world go round. And give us competitive advantage.

HIGHLIGHTS

- Staff satisfaction levels, (rating as excellent, very good, good) at 96%
- 91% of staff satisfied with internal communications
- Voluntary staff turnover at 7.5%
- Maintained healthy relationships with strategic sourcing partners
- ACC Workplace Safety Management Practices (WSMP) standard level slipped from Secondary to Primary status.

FUTURE

- Build on our PPO progress by developing modules for potency and performance
- Focus on regaining Secondary ACC WSMP status.



We encourage staff to get involved in our community activities. Wellington staff member and New Zealand Kendo champ Gerard Egerton, with students from Miramar North School after a demonstration for the Kiwi Can Role Model programme.

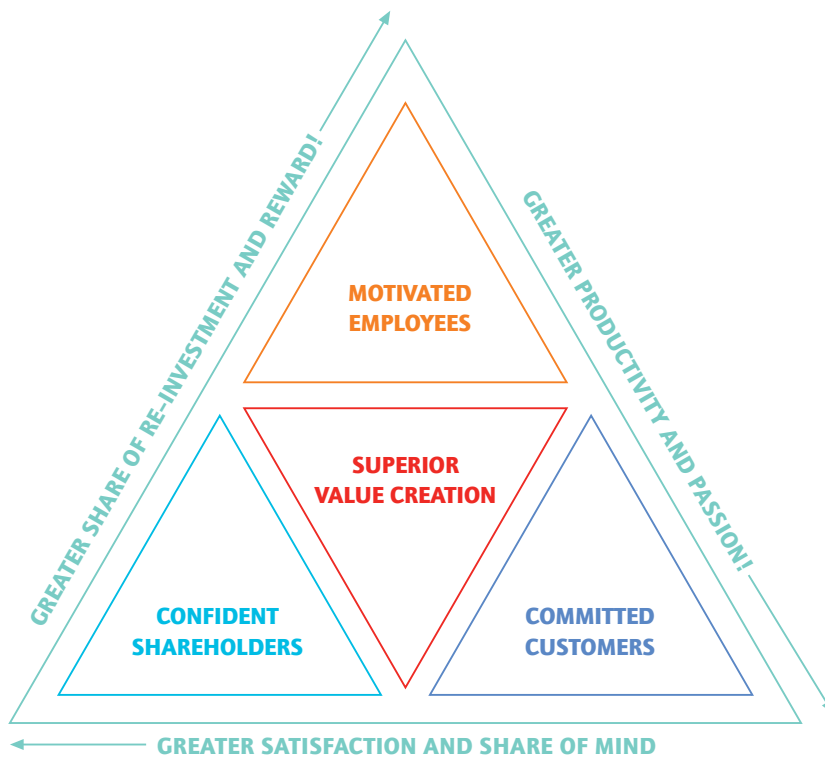
OUR REFERENCE POINT

Having highly committed staff is absolutely critical for Meridian to achieve company performance goals. This belief is inherent throughout the company, and is a key part of our company Purpose.

Our focus (as outlined on page 10) is to live the Meridian Way, and these concepts guide and encourage the behaviour of everyone at Meridian.

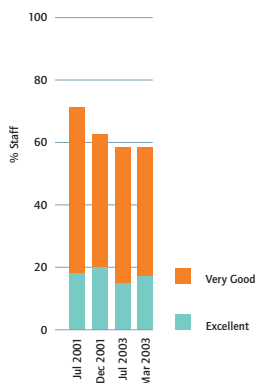
The Meridian Way influences all of our human resources policies and processes. It shapes recruitment, development and retention activities and informs our decisions about who we choose to work with. We ensure our partners and suppliers are committed to sharing our dream – and approach it in the same way that we do.

DIRECT LINK BETWEEN COMMITTED STAFF, CUSTOMER RETENTION AND COMPANY SUCCESS



Source: NFO World Group.

STAFF SATISFACTION - EXCELLENT AND VERY GOOD



" I'VE BEEN AT MERIDIAN JUST OVER THREE YEARS NOW AND AM IN MY THIRD ROLE IN THE COMPANY. MERIDIAN HAS ENCOURAGED ME TO CONSTANTLY CHALLENGE MYSELF AND HAS PUSHED ME A LOT FURTHER THAN I MAY HAVE GONE ON MY OWN. THE SUPPORT STRUCTURE IS FANTASTIC AND THE COMPANY'S COMMITMENT TO DEVELOPING ITS OWN PEOPLE MOTIVATES ME TO STAY. I'M STILL EXPLORING WHAT'S NEXT FOR ME AT MERIDIAN BUT I'M ALSO ENJOYING BEING ABLE TO DEVELOP THE PEOPLE WHO REPORT TO ME SO THEY CAN FULFIL THEIR CAREER PLANS TOO."

MELANIE SEYFORT
RETAIL BILL PRODUCTION MANAGER.

OUR PROGRESS

PERFORMANCE MANAGEMENT

Meridian's business planning process includes the development of business unit 100-day gameplans targeted at achieving our GIC. At the conclusion of each 100-day period, we review our progress against key initiatives.

Gameplans are, in turn, linked to individual performance objectives and staff performance is reviewed on this basis. 100% of eligible staff had a performance review during 2002/03.

STAFF SATISFACTION

Staff satisfaction stabilised during the year with the percentage of staff rating satisfaction as excellent or very good remaining at 59%.

This year we have changed how we report the percentage of staff satisfied. The graph above now shows only those people who rated Meridian as "excellent" or "very good" (not including "good" as we have done in the past). We believe this is a more accurate indicator.

To better understand ways to improve this score, we are upgrading the methodology for measuring staff satisfaction. This will provide more detailed

information on the attributes staff consider to be most important, and will allow us to identify specific areas where Meridian can improve.

INTERNAL COMMUNICATIONS

In the February 2003 staff satisfaction survey, 91% of staff agreed or strongly agreed that they were satisfied with Meridian's communications with staff.

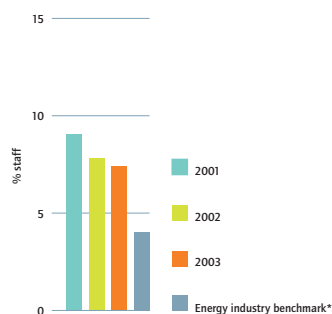
The key channel for staff communication is Meridian's intranet, *Wired*. This includes a weekly column from our Chief Executive or a member of his executive team. The area where we have slipped in the past year is in the knowledge of "why" things are happening. In the coming year we will work on internal communications initiatives to try to strike the fine line between too little and too much information.

RECRUITMENT, DEVELOPMENT AND RETENTION

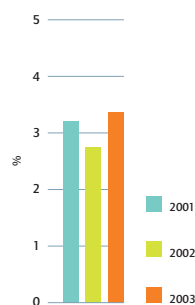
Voluntary staff turnover decreased slightly from 7.8% to 7.5% this year. While higher than we would have liked, this is to be expected as some staff are seeking new challenges after joining the company at its inception four years ago.

We continue to develop existing staff by encouraging them to move to new roles and by providing secondment opportunities.

VOLUNTARY TURNOVER – % TOTAL STAFF



INVESTMENT IN TRAINING – % OF COMPENSATION



* Energy Industry benchmark, sourced from the Australian Human Resource Benchmarking Report, INFORM, 2002.

Meridian recognises the link between learning and development opportunities and staff retention. In the current year, we spent an average of \$2,841 per full-time equivalent (FTE) employee on training and development (up 21% from the previous year). We have identified five corporate-wide learning and development areas for improvement in the coming year. These include:

- Project management
- Personal management and planning

- Stress and resilience
- Organisational career management
- Monitoring of Peak Performance Learning Development Plans.

We also plan to extend our learning and development opportunities into our Southern Hydro business.

“WE’VE PARTNERED WITH MERIDIAN ENERGY TO CREATE A SUSTAINABLE LEARNING CLIMATE THAT PROVIDES A DYNAMIC MIX OF DEVELOPMENT STRATEGIES DESIGNED TO PROVIDE IMMEDIATE IMPACT AND GROW CAPABILITY AS MERIDIAN ENERGY MOVES TOWARDS NEW AND MORE DEMANDING CHALLENGES.”

TERENA HARRIS
DIRECTOR TRAININGLINE.

CASE STUDY | LEARNING AND DEVELOPMENT OPPORTUNITIES

“I WAS FORTUNATE TO BE GIVEN THIS OPPORTUNITY TO WORK WITH PEOPLE WHO ARE AT THE CUTTING EDGE OF NEW DEVELOPMENTS IN THE ENERGY SECTOR. I BELIEVE THE ENERGY SECTOR IS BECOMING A HOT AREA FOR NEW, SUSTAINABLE TECHNOLOGY DEVELOPMENT AND INVESTOR INTEREST.”

JASON MCDONALD
KNOWLEDGE AND INNOVATION PRINCIPAL.

As part of a strategic relationship with Nth Power Technologies, Meridian staff member Jason McDonald, Knowledge and Innovation Principal, was seconded to the organisation for four months earlier this year.

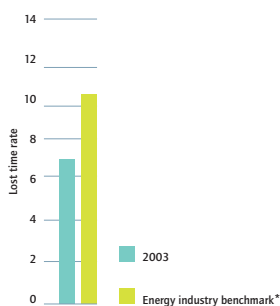
The secondment and Meridian’s ongoing interaction with Nth Power provide us with insights into emerging technologies and other new developments in the energy sector. Having an understanding of the five- to 10-year development outlook enables Meridian to make informed decisions today that will benefit the company in the future.

Nth Power is a venture capital fund that focuses exclusively on the energy sector. It invests in companies that are developing innovative energy solutions, with a particular emphasis on renewable energy, demand reduction and pollution control solutions.

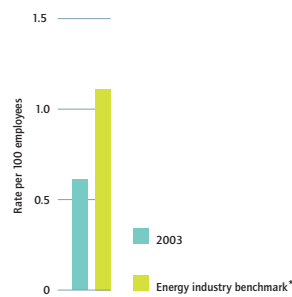
“WE HEAR VERY POSITIVE THINGS ABOUT MERIDIAN FROM CANDIDATES ACROSS A RANGE OF DISCIPLINE AREAS, FROM LAW TO ENGINEERING, WHICH SUGGESTS THEY ARE BECOMING KNOWN AS AN EMPLOYER OF CHOICE.”

NICK SIMCOCK
MANAGING DIRECTOR,
FUTURESTEP/KORN FERRY.

AVERAGE LOST TIME RATE
(WORKING DAYS LOST/OCCURRENCES)



INCIDENT RATE PER 100 EMPLOYEES
(OCCURRENCES/FTE* 100)



* Energy Industry benchmark, sourced from the Australian Human Resource Benchmarking Report, INFORM, 2002.

HEALTH AND SAFETY

It has been a mixed year for health and safety at Meridian. We maintained our focus on injury prevention and employee wellness and continued to work towards our ultimate goal of zero lost time incidents. This year we had two lost time injuries resulting in a total of 14 days' lost time. This is below our target of five lost time incidents per year that is stated in our SCI.

To continue our focus on injury prevention, we employ two occupational health and safety professionals to visit Meridian's Wellington and Christchurch offices weekly to provide advice and support to staff.

On the downside, Meridian's ACC Workplace Safety Management Practices (WSMP) status slipped from Secondary to Primary during the year following an ACC audit in December 2002. We are currently reviewing plans to regain Secondary status during 2003/04.

As a PPO, we encourage our team to strive for balance and fun in their lives. Our aim is to have no more than 15% of staff with leave balances over 20 days. This year, that figure is 23.7%, and most of

these are at the senior management level. We are working with these individuals to ensure they can manage their workloads to plan for rest and recuperation.

Our unscheduled absence rate, which indicates the amount of time being incurred due to employees taking sick leave, fell from last year, and is well ahead of the energy industry benchmark.

SOURCING STRATEGY

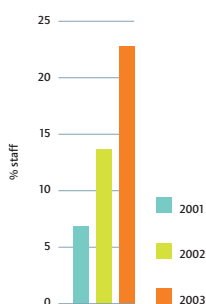
While we have a small team of full-time employees relative to our turnover, the wider Meridian family extends a lot further. We seek alliance partners and preferred suppliers who approach business the same way that we do.

Significant parts of our operations are outsourced through strategic alliances and relationships. We seek alliance partners and preferred suppliers who are aligned with our business direction and values.

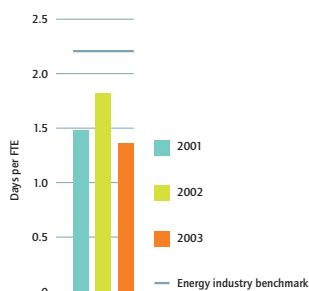
Our key alliance partners are:

- Alstom – generation asset maintenance and operational support
- BearingPoint (formerly KPMG Consulting) – accounting and financial services
- HP – information systems

% STAFF WITH >20 DAYS' ANNUAL LEAVE OUTSTANDING



UNSCHEDULED ABSENCE RATE



- ABB – telecommunications and telemetry systems
- Teletech – contact centre operations
- Zelko – facilities management.

Just as we do when we recruit staff, when seeking registrations of interest we share information about

the Meridian Way, as it is the attitude we expect to see adopted by a partnering service provider, and our commitment to sustainability. For major projects, alignment with the Meridian Way is an important selection criterion.

APPROXIMATE NUMBER OF PEOPLE WORKING FULL-TIME FOR MERIDIAN

AT JUNE 30 2003

	WELLINGTON	RETAIL OPS CHRISTCHURCH	CHRISTCHURCH OFFICE	TWIZEL	MANAPOURI	DUNEDIN/ TAPANUI	OTHER	TOTAL EXCLUDING AUSTRALIA	AUSTRALIA	TOTAL
Meridian Staff	119	64	56	40	5	8	-	292	87	379
Contractors	8	2	3	15	-	-	-	28	5	33
HP	4	-	1	1	-	-	9	15	-	15
ABB	1	-	4	8	-	-	-	12	-	12
Alstom	-	-	-	40	-	-	-	40	-	40
Zelko	-	-	-	40	-	-	-	40	-	40
BearingPoint	-	-	8	-	-	-	-	8	-	8
Teletech	-	66	-	-	-	-	-	66	-	66
Total at 30 June 2003	131	132	71	144	5	8	9	500	92	592
FTE at 2001/02								298	1	299
Average FTE for 2002/03 Year								399	47	446

OUR KNOWLEDGE

OUR THOUGHT

Knowledge equals power. When it is equally shared

HIGHLIGHTS

- Continued implementation of Meridian's knowledge management strategy
- Launched innovation framework to capture and develop new ideas
- Winter Power Taskforce shows the value of information sharing among industry players and consumers to manage supply and demand.

FUTURE

- Leverage new infrastructure capabilities
- Use internal innovation to develop value-added, flexible products for customers
- Continue to talk to – and seek feedback from – all stakeholders.



Arc Innovations supplies prepayment technologies Quikpoint to several New Zealand companies.

OUR REFERENCE POINT

The Meridian Way behaviours (see page 10 for more detail) are at the heart of our approach to knowledge sharing. We are committed to building rapport between staff and with other stakeholders. To do so, we need to be able to share information easily and seamlessly.

This means setting up our internal systems and processes in such a way that it is easy to share and access information, as well as making sure that we are open and receptive to communication with and from external stakeholders.

OUR PROGRESS

NEW BUSINESS PLATFORMS

This year we have implemented and enhanced a number of business platforms that enable us to be hot wired – a Meridian Way behaviour – and to support better the company's growth.

- We developed a business process model which was deployed via our intranet, *Wired*. This presents a snapshot of how all the parts of the business work together to achieve our goals, and documents key business processes. This is particularly useful to give new staff a complete picture of the company.
- We rolled out an enhanced document management system that is more secure, intuitive and user-friendly than the previous system, and able to be used across the Meridian information network. This means that more information can be shared across the company.

- We designed and developed a stakeholder management database system to support major growth initiatives and external relationships. This will be rolled out in the first quarter and will provide one central reference point, helping staff to share information more easily.
- We continued to migrate the Meridian Energy website (see case study) and other subsidiary, business unit and project sites onto a content management system so that information can be updated easily, quickly and inexpensively. As more and more New Zealanders are turning to the internet for information, we see this channel as an important way of sharing our views, particularly in relation to development projects.
- In May we rolled out Windows XP to the desktops of all New Zealand staff for increased stability, security and productivity. This included comprehensive training for all staff to ensure that everyone gets the best performance from the same system.
- During the year we also upgraded our telecommunications platforms to support better the company's growth, with an emphasis on remote operations. This has been done in partnership with our outsourced telecommunications and telemetry partner, ABB.
- Investigation continues into further integration of the intranet and other systems with other collaborative tools and extranets.

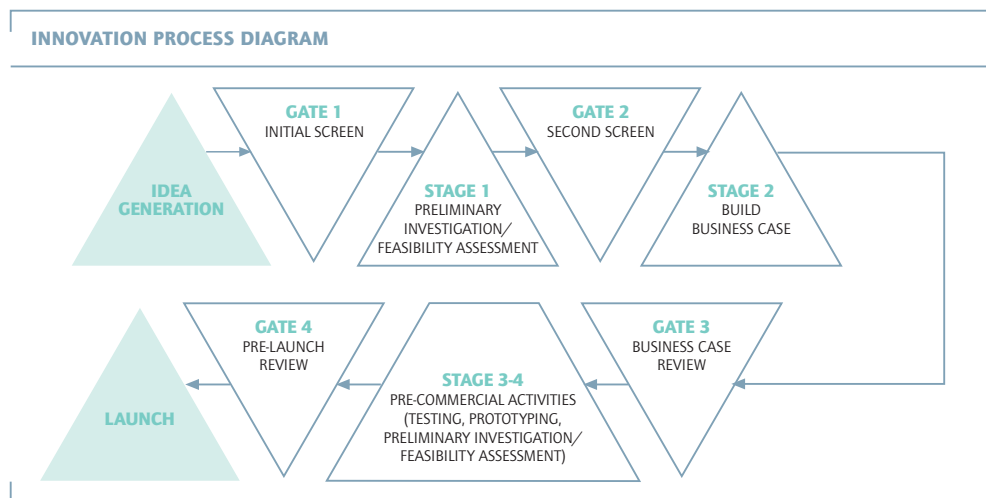
CASE STUDY

NEW WEBSITE



In June 2003 Meridian Energy launched its new website. The company website was the last to be moved onto the content management technology that we purchased for our intranet the previous year. Like the intranet project, we spent a considerable amount of time at the outset working on the information architecture, and finding out users' requirements before any design began.

As a result we altered the navigation significantly from the previous site, making it more obvious for our retail customers to find information. This has set up a solid platform for service delivery via the internet.



ENCOURAGING AND CAPTURING INNOVATION

During the last financial year we developed and piloted an internal innovation process to enable us to tap into the entrepreneurial spirit, expertise and experience of all our staff. People from throughout the business will be encouraged to submit ideas for business improvement and value growth, which will be assessed on their commercial viability. With positive results from the pilot phase, this process will be rolled out further in the coming year.

As part of the innovation project, in May 2003 we acquired CIC Global, a Christchurch-based metering company which we have renamed Arc Innovations. The company, which supplies prepayment technology for several New Zealand companies, will help us to deliver on our prepayment goals. It was a strategic acquisition and is now being operated as a strategic business unit by our Knowledge and Innovation team to maintain commercial integrity for Arc Innovations' other retail electricity customers.

RESEARCH ACTIVITIES

We actively monitor new technology developments internationally and assess whether they may be threats or opportunities for Meridian. To this end, we leverage our relationships with external research

providers and with Nth Power Technologies, a US-based venture fund specialising in the energy industry (please see page 51 for case study on secondment).

During the year, we participated in the Energy Efficiency and Conservation Authority's demand-side management (DSM) trial, which gave insight into the technical challenges and value proposition for time-of-use metering to support DSM activities for a variety of customers.

We are investigating the feasibility of building a refinery to convert animal tallow into biodiesel, with the hope of commercialising the technology for use in the construction of Project Aqua (see case study on page 57 for details).

We have continued our investment in Whisper Tech, a Christchurch-based developer of a new technology known as the Whispergen. This is a residential-sized combined heat and power device that replaces a conventional boiler with a unit that can generate base-load electricity while meeting the heating requirements of a home.

Whisper Tech has continued to make good progress over the last 12 months with a number of units placed with customers for testing and evaluation.

This year 400 units have been ordered by Powergen in the UK for a full-scale market trial.

KNOWLEDGE SHARING DURING WINTER

Meridian's approach to knowledge sharing was well demonstrated during the autumn of 2003 when we were a key member of the Winter Power Taskforce.

The Taskforce included representation from all industry players and enabled a coordinated, industry-wide response to the issue. Meridian contributed to the Taskforce's Target 10 campaign, which encouraged all New Zealanders to make 10% energy savings. This was supported by incentive/reward programmes run by individual retailers (please see page 20 for the full range of activities carried out during winter).

The Winter Power Taskforce was wound up in July 2003, once inflows in June and greater certainty over coal stockpiles eased pressure on supply. However, Meridian hopes the establishment of the new Electricity Commission will help to maintain the momentum of better information sharing among industry players.

STAFF INITIATIVES

The company intranet, *Wired*, continues to be a key internal communications tool. Now that it has been operating for a year, work is underway to develop it further so that it continues to meet the needs of staff.

Another initiative developed this year to share knowledge among Meridian's staff is *LiveWired* – a seminar series that features five presenters speaking for five minutes on five different topics. The seminars are designed to foster and encourage the creative, imaginative side of the Meridian Way.



CASE STUDY

BIODIESEL RESEARCH

"POWERING THE CONSTRUCTION WITH RENEWABLE FUEL IS ANOTHER WAY WE ARE DEMONSTRATING OUR COMMITMENT TO RENEWABLE ENERGY AND EXPLORING LOW-IMPACT TECHNOLOGIES FOR THE CONSTRUCTION OF AQUA AND OTHER PROJECTS."

GEORGE RITCHIE
MANAGER TECHNICAL OPERATIONS.



Meridian is working with a Massey University team to develop an environmentally friendly fuel to power the bulldozers, scrapers and diggers that could be used in the construction of Project Aqua. The fuel in development is a biodiesel derived from animal tallow – a readily available waste product from meat processing.

It is estimated that 55 million litres of fuel will be needed to power the machinery that will build Project Aqua. The biodiesel will be greenhouse gas-free and could be blended with ordinary diesel in any proportion or used on its own.

The team is also developing plans to build a refinery that will be able to be used to produce biodiesel for other purposes once the construction of Project Aqua has been completed. It is believed this would be the country's first biodiesel plant and the first in the world to use animal tallow as the base product.

MANAGEMENT TEAM



DR KEITH TURNER

CHIEF EXECUTIVE

Since 1985, Dr. Keith Turner has held a number of senior executive positions in the New Zealand electricity sector. A former energy consultant, he has advised the Government and major corporate clients on a wide range of energy matters. He was project manager of the establishment team that designed and developed Meridian Energy in its interim development group stages.

Keith leads a senior management team of seven directors.

HELEN BREMNER

KNOWLEDGE AND INNOVATION DIRECTOR

Helen has extensive experience in establishing business strategies and implementing major change initiatives for organisations. Before joining Meridian Helen was GM HR and Change Programme for TransAlta New Zealand. Prior to that she was a strategy management consultant for Andersen Consulting in Australia, and Booz, Allen & Hamilton in the USA, where she focused on clients in the energy, transportation and healthcare industries.

TEAM ROLE

The Knowledge and Innovation team is responsible for knowledge management innovations and business platforms across the company. Its aim is to facilitate competitive advantage and value by using knowledge, innovation and technology intelligently as business enablers and value creators.

NEIL COCHRANE

CORPORATE DELIVERY DIRECTOR

Neil has extensive experience in establishing new corporate entities and in companies undergoing major organisational change across a wide range of industries including energy, telecommunications and health. Before joining Meridian Neil was the Chief Financial Officer for a gas company created out of the Victoria gas industry reform, with initial responsibility for the establishment of all its business, treasury and financial systems. He then led the company through the privatisation sales process. Prior to that Neil held a number of general management and senior financial executive positions across a wide range of industry sectors.

TEAM ROLE

The Corporate Delivery team is responsible for Governance, Legal and Regulatory, Business Planning, Human Resources, Finance, Taxation, Treasury Services, Sourcing and Enterprise Wide Risk.

GRENVILLE GASKELL

RETAIL DIRECTOR

Grenville joined Meridian in 2002 and was formerly with a major bank where he was General Manager Retail Markets responsible for personal customer strategy and core banking products. Grenville has considerable experience in developing and implementing customer and product strategies, including the launch of a number of new products and the management of major change programmes.

TEAM ROLE

The Retail team is responsible for building long-term, valuable relationships with customers by providing quality solutions that exceed their expectations.



MATTHEW JANSEN
CORPORATE AFFAIRS DIRECTOR

Matthew joined Meridian Energy in 2002 after eight years as a senior advisor with a leading corporate communications firm, working with national, regional and international clients. Prior to this, he worked as a Strategic and International Policy Analyst with the Ministry of Defence.

TEAM ROLE
The Corporate Affairs team is responsible for overseeing Meridian Energy's reputation and relationships, working closely with all other teams to provide best practice communications advice.

DARRYL ROWELL
ACTING STRATEGIC GROWTH DIRECTOR

Darryl has an extensive background in strategy acquisitions and finance. Prior to joining Meridian Energy he was NZ Equities Manager for Royal and SunAlliance. Previous roles covered business development, funds management and marketing in New Zealand and the UK.

TEAM ROLE
The Strategic Growth team is responsible for identifying and implementing new investment opportunities and entering into strategic alliances, and is leading the company's trans-Tasman wind developments.

ARI SARGENT
RISK PORTFOLIO DIRECTOR

Ari has extensive experience in the New Zealand electricity industry. Prior to joining Meridian, Ari held numerous roles with Electricity Corporation of New Zealand (ECNZ), including Wholesale Market Manager. Ari has spent a good part of the past decade involved with electricity industry reform, both internally in establishing organisational trading and risk management capabilities, and externally in market rule development. Ari is currently a member of the NZEM Rules Committee, and continues to be involved in numerous other industry working groups.

TEAM ROLE
The Risk Portfolio team is responsible for maximising the market value of the company through the trading of physical and financial energy products.

KEN SMALES
GENERATION DIRECTOR

Ken was formerly ECNZ's Group Manager, Northern Generation, following a three-year group management role with Southern Generation in which he set up the group office at Twizel. Starting work as an engineering cadet with the New Zealand Electricity Department, Ken has more than 30 years' experience in the New Zealand electricity generation industry including design, construction/commissioning and operations/maintenance. Ken is also on the board of DamWatch and Southern Hydro.

TEAM ROLE
The Generation team is responsible for innovative and responsible management of assets, ensuring environmental respect and trusted guardianship of natural resources and fostering community relationships. Generation is the sponsor of Project Aqua and irrigation development.

BOARD OF DIRECTORS



DR FRANCIS SMALL CHAIRMAN CNZM

Francis Small is a professional company director and consultant. Formerly Managing Director of Tranz Rail Limited (1990 to 2000), he played a major role in the restructuring and privatisation of that company. He is Chairman of Met Services Limited, a director of Australian Transport Network Limited, the Standards Authority of New Zealand Limited and Antarctica New Zealand Limited. He has been a director of a number of transportation companies. Francis is a Past President of the Institution of Professional Engineers of New Zealand and Chairman of the Centre for Advanced Engineering at the University of Canterbury. He has recently retired as National President of Scouting New Zealand.

APPOINTED: 1999
COMMITTEES: EXECUTIVE

SUSAN SHELDON DEPUTY CHAIRMAN

Susan Sheldon is a chartered accountant and consults from her Christchurch practice, Sue Sheldon Advisory. She is Deputy Chairman of Christchurch International Airport Limited, Chairman of the Board of Trustees of the National Provident Fund and a director of Ngāi Tahu Holdings Corporation Limited, Asure New Zealand Limited and Freightways Limited. Susan is a former President of the Institute of Chartered Accountants of New Zealand, a Board member of Guides New Zealand and a member of the Accounting Standards Review Board.

APPOINTED: 1999
COMMITTEES: EXECUTIVE, AUDIT AND FINANCE

STEVEN GENTRY

Steven Gentry retired from the Executive Chairmanship of Kingston Morrison Limited on 31 March 1999 and from the directorships of PT Kingston Morrison Indonesia and Business Continuance Planning Limited. He is a Past President of the International Federation of Consulting Engineers and the Association of Consulting Engineers New Zealand as well as a former director of ECNZ and Energy Direct Limited. His current directorships include BRANZ Inc, and Whisper Tech Limited.

APPOINTED: 1999
COMMITTEES: EXECUTIVE, RISK AND COMPLIANCE, PROJECT AQUA

PHILIP LOUGH

Philip Lough is a professional director with extensive executive and directorship experience in New Zealand and internationally. This includes previous directorship on the board of ECNZ. He held senior positions in the New Zealand Dairy Board and was most recently Chief Executive Officer of the Sealord Group. He is currently a director of companies including Tatua Co-operative Dairy Company Limited, Crop & Food Research Limited, Port Nelson Limited and Livestock Improvement Corporation Limited and is also Chair of New Zealand Trade and Enterprise and of SMI Limited.

APPOINTED: 1999
COMMITTEES: AUDIT AND FINANCE, PROJECT AQUA



JOAN WITHERS

Joan Withers is a professional company director and a former Chief Executive of The Radio Network of New Zealand Limited. She is a director of The Warehouse Group Limited, Auckland International Airport Limited and Tourism Holdings Limited, Chair of the Clinical Research and Effective Practice Foundation, and a Trustee of the Royal New Zealand Ballet.

APPOINTED: 1999

COMMITTEES: REMUNERATION AND HR



SIR TIPENE O'REGAN

Sir Tipene O'Regan is a professional company director and a well known national figure in Māori Economic Development. He is a past long-serving Chairman of the Ngāi Tahu Māori Trust Board and served as the foundation Chairman of the Ngāi Tahu Holdings Corporation and as a director of a number of Ngāi Tahu companies until he retired from the Ngāi Tahu Group in 2000. From 1989 until 2000 he was Chairman of the Treaty of Waitangi Fisheries Commission and, from 1992 until 2002, Chairman of the Sealord Group Limited. He is a past director of TVNZ. He currently chairs the Escorial Group Limited and Te Tapuae o Rehua Ltd, and serves as Deputy Chair of Transit New Zealand. He is a director of Whale Watch Kaikoura Limited, Clifford Bay Marine Farms Limited, Kūtai Investments Ltd, Aoraki Salmon Limited, The Stehr Group Limited (Aust), and Spencer Gulf Sea Farms Limited (Aust). He is a Senior Research Fellow at the University of Canterbury and a Distinguished Fellow of the Institute of Directors.

APPOINTED: 1999

COMMITTEES: REMUNERATION AND HR



CHARLES CHAUVEL

Charles Chauvel joined the Board of Meridian Energy Limited in April 2002. He is a partner in the Minter Ellison Legal Group Limited, and works primarily in Sydney and Wellington as Director of the Group's Trans Tasman Practice. Charles was formerly Crown Counsel with the Crown Law Office and a director of the Public Health Commission. He has served on several Law Society committees and is also Deputy Chair of the New Zealand Lotteries Commission.

APPOINTED: 2002

COMMITTEES: RISK AND COMPLIANCE



TE KIPA (KEPA) MORGAN

Te Kipa (Kepa) Morgan joined the Board of Meridian Energy Limited in November 2002. He is Associate Dean Māori for the Faculty of Engineering at the University of Auckland and is a senior lecturer in the Department of Civil and Environmental Engineering. Kepa is Principal of his own consultancy (Mahi Maioro Professionals), specialising in Māori asset development (marae and papakāinga). He is Chairman of Haumingi 10a2b Papakainga Trust, a Principal Investigator for the Maori Centre of Research Excellence and a Ministerial Appointee to the Engineering Associates Registration Board, and the Building Reference Group. He is on the management committee and is a performing member of Te Mātārae i Ōrehu Kapahaka.

APPOINTED: 2002

COMMITTEES: PROJECT AQUA

CORPORATE GOVERNANCE AT MERIDIAN

MERIDIAN OPERATES UNDER A CORPORATE GOVERNANCE FRAMEWORK THAT IS DESIGNED TO ENSURE THAT THE GROUP OF COMPANIES IS EFFECTIVELY MANAGED AND OUR STATUTORY OBLIGATIONS ARE MET. CONSISTENT WITH THE STATE-OWNED ENTERPRISES ACT 1986, MERIDIAN'S PRINCIPAL OBJECTIVE IS TO OPERATE AS A SUCCESSFUL BUSINESS, WHICH 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 COMMUNITIES IN WHICH IT OPERATES AND BY ENDEAVOURING TO ACCOMMODATE OR ENCOURAGE THOSE INTERESTS WHEN ABLE TO DO SO.

INDEPENDENCE OF MERIDIAN'S BOARD

The Meridian Board of eight non-executive directors, including the Chairman, is appointed by shareholding Ministers. Profiles of the current members of the Board are set out on pages 60-61 of this report. The Board's role is to protect and enhance value in the interests of the Group and the Crown as shareholder.

The Board is accountable to shareholding Ministers. Each year shareholding Ministers determine the total pool of fees available for payment of directors. The Board determines the actual amount of fees paid to each director on advice from the Company Secretary. The Board conducts a self-evaluation each year, which examines the performance of the Board, the Chairman and each director. This is shared with shareholding Ministers as part of their director evaluation process.

Meridian's Board has adopted a strict policy to maintain the independence of external auditors. The Auditor-General has appointed Deloitte Touche Tohmatsu to audit Meridian on his behalf. The company ensures that Deloitte is only used to perform audit/assurance work for the Group.

MERIDIAN BOARD'S RELATIONSHIP WITH MANAGEMENT

Our Chairman Francis Small's role is to manage the Board effectively, to provide leadership to the Board and its directors, and to interface with the Chief Executive, Keith Turner. The Remuneration and HR Committee of the Board is responsible for the formal evaluation of the performance and remuneration of the Chief Executive.

There is a good working relationship between Meridian's Board and management. It is underscored by a clear understanding of the delineation of the respective roles of Board and management, but with a shared commitment to the success of the business. This shared commitment is reflected in the joint Chairman's and Chief Executive's statement at the start of this report.

COMMITMENT OF MERIDIAN'S BOARD TO THE BUSINESS

On assuming their appointment, Meridian's Board members undergo a comprehensive induction process to bring them up to speed on the industry and on the business. This includes briefings from the Chairman, CEO, management and staff; familiarisation tours of Meridian's assets/operations; and a catalogue of key papers.

The Meridian Board undertakes to meet on a monthly basis and on other occasions as required.

Key elements of our governance framework are shown in the table below:

GOVERNANCE AREA	BETTER PRACTICES	MERIDIAN
Board Composition and Independence	• Minimum of three directors on the Board	✓
	• Minimum of two independent directors	✓
	• Independence of directors determined and disclosed in Annual Report	✓
	• Separation of Chairperson of the Board and CEO	✓
Audit Committee and Duties	• Audit Committee with at least three members with one member having a financial or accounting background	See Note 1
	• External auditor or lead partner is changed at least every five years	✓
	• Audit Committee monitors the independence of the external auditors	✓
Remuneration	• Remuneration of Board members is fixed by the shareholder(s)	✓
Board Committees	• Duties of Board sub-committees are defined and the Chairman monitors compliance	✓
Board Access to Information	• The Board has access to information to enable members to execute their obligations	✓
Appointment	• The shareholder(s) appoints Board members	✓
Tenure	• Board members are appointed for a fixed term of up to three years with one renewal period of up to three years allowed	✓

Note 1: Meridian's Audit and Finance Committee has two members, one of whom is a former President of the Institute of Chartered Accountants of New Zealand (ICANZ).

This table has been prepared as an internal benchmark to assess Meridian's Governance framework against current thinking on governance "better practices" among the sources used for this purpose are the following:

1. "Review of the role and effectiveness of the non-executive directors", Derek Higgs, The Department of Trade and Industry, UK, January 2003.
2. "Principles of Good Corporate Governance and best practice recommendations" ASX Corporate Governance Council, Australian Stock Exchange, March 2003.
3. "Corporate Governance Issues Research", Andrew Fletcher Consulting and PricewaterhouseCoopers, published by PWC New Zealand, February 2003

However, in the year ended 30 June 2003, the full Board met 19 times, reflecting the number of special projects and major decision points during the period, including the purchase of Southern Hydro. The Board's responsiveness in this regard reflects the Meridian Way attributes of agility and innovation.

To maximise efficiency, the Board has delegated some of its powers to Board committees and other powers to the Chief Executive and management.

In addition to standing Remuneration and HR, Audit and Finance, Risk and Compliance and Executive Committees, ad hoc committees are established from

time to time to deal with issues of major importance.

The first such ad hoc committee was the Second Manapouri Tailrace Tunnel Committee, which has now disbanded following the completion of the project. In this financial year, the Aqua Committee was established in February 2003 with its own specific terms of reference and responsibility for considering matters related to Project Aqua and recommending actions to the Board.

MEMBER DETAILS				BOARD AND COMMITTEE COMPOSITION					
MEMBER	APPOINTED	\$'000		19 meetings	3 meetings	6 meetings	6 meetings	6 meetings	2 meetings
		REMUNERATION		Board	Executive	Audit and Finance	Remuneration and HR	Risk and Compliance	Aqua
		2003	2002						
Dr Francis Small	April 1999	62.0	56.0	Chair 18/19	Chair 3/3				
Susan Sheldon	April 1999	44.4	44.0	Deputy 18/19	2/3	Chair 6/6			
Steven Gentry	April 1999	35.9	34.5	17/19	2/3			Chair 6/6	2/2
Philip Lough	April 1999	38.9	40.0	14/19		6/6			Chair 2/2
Sir Tipene O'Regan	June 1999	31.9	29.0	16/19			6/6		
Joan Withers	April 1999	34.4	35.5	18/19			Chair 6/6		
Charles Chauvel	April 2002	31.9	7.5	13/19				6/6	
Te Kipa (Kepa) Morgan	Nov 2002	20.6	-	11/13					2/2
Scott Perkins	Resigned March 2002	-	21.5						
TOTAL		300.0	268.0						

Statistics with respect to Board committee composition and attendance at Board meetings are shown in the table above.

COMMITMENT OF MERIDIAN'S BOARD TO BEST PRACTICE

Meridian is a young company, with its Board established only four years ago (1999). This has provided Meridian with an opportunity to establish a best practice governance framework. Meridian's governance model has been evolving from that position of strength ever since. Key elements of our governance framework are shown in the table on page 63.

An issue for Meridian's Chairman in the years ahead is effective succession planning. Directors' initial tenure is generally for three years, and shareholding Ministers may choose to renew appointments for a number of further fixed terms of up to three years

each. The Chairman works closely with shareholding Ministers and their advisors to ensure an appropriate strategy is implemented for staggering the turnover of directors with the objectives of maintaining continuity and accountability whilst also ensuring an optimal skills and experience mix on the Board.

The commitment to best practice governance extends to Meridian's operations in Australia. A decision has been taken to establish a separate Board for the Southern Hydro Group, including independent Australian directors with key skills and experience. The Southern Hydro Board will be chaired by Meridian's CEO and subject to the parent company's wider governance principles embodied in its existing policies and risk frameworks. These policies and risk frameworks are designed to ensure that the Meridian Energy Limited Board is fully informed and ultimately accountable for key decisions throughout the entire Group.

FINANCIAL INFORMATION

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 within and outside New Zealand.

TREND STATEMENT for year ending	2003	2002	2001
	\$M	\$M	\$M
Financial Performance			
Gross Revenue	1,366.9	1,126.6	776.1
Total Net Revenue ¹	752.1	602.3	481.1
Earnings Before Interest and Tax (EBIT)	232.9	167.6	212.3
Net Surplus after Tax	109.3	84.0	125.1
Net Surplus after Tax Adjusted for One-Off Items ²	111.9	101.1	113.5
Funds Employed			
Shareholders' Funds ³	2,299.8	1,662.3	1,618.2
Long-Term Debt and Deferred Tax	792.0	683.5	246.8
Current Portion of Long-Term Debt	723.1	184.7	378.4
	3,814.9	2,530.5	2,243.4
Utilisation of Funds			
Non-Current Assets	3,695.5	2,395.0	2,380.5
Customer Acquisition Costs	45.0	52.4	22.8
Net Working Capital ⁴	74.4	83.1	(159.9)
	3,814.9	2,530.5	2,243.4

RATIOS	%	%	%
Net Surplus after Tax to Average Equity	6.5	5.1	7.6
Net Surplus after Tax Adjusted for One-Off Items to Average Equity	6.7	6.2	6.9
EBIT to Average Total Assets	7.7	6.3	8.5
Weighted Average Cost of Interest	7.3	7.3	8.0

STATEMENT OF CORPORATE INTENT		2003	2003 ⁵	2002
		Actual	Target	Actual
EBITDA Interest Cover	Times	5.3	5.4	4.7
Return on Equity Excluding Revaluation	%	6.5	8.9	5.1
Return on Equity Including Revaluation	%	5.5		
Debt to Debt Plus Equity Ratio	%	37.4	35.0	31.8
EBITDA: Total (Net) Revenue	%	41.2	30.5	38.7

¹ Total Net Revenue is gross revenue less direct supply purchases and interest received.

² The 2003 figure comparative includes major project investigation costs (Project Aqua). The 2002 comparative includes the costs associated with the purchase of the South Island On energy customer base, the Transpower transmission settlement and major project investigation costs. The 2001 comparative one-off items include the impact of the settlement of a hedge dispute with ECNZ.

³ Shareholders' Funds include a revaluation of \$600m effective from 30 June 2003.

⁴ Net working capital excludes current portion of term debt.

⁵ Performance targets included in the Statement of Corporate Intent for the year commencing July 2002.

GOVERNANCE AT MERIDIAN ENERGY

Meridian Energy is a limited liability company and is New Zealand's largest State-Owned Enterprise (SOE) in terms of shareholder equity.

Under the State-Owned Enterprises Act 1986 the principal objective of an SOE is to operate as a successful business which 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 communities in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

The Meridian Energy Board

1. Role

The Board has a responsibility to protect and enhance the value of the Group in the interests of the Group and the Crown as shareholder.

In terms of the State-Owned Enterprises Act 1986 this includes responsibility for:

- The preparation of and compliance with the Group's Statement of Corporate Intent
- The overall management of the Group through the appointment of the Chief Executive and the monitoring of his or her performance and stakeholders.

More generally the Board meets to review and approve:

- Strategic planning and corporate strategies
- The annual business plan and review of corporate performance
- Business opportunities and risks
- Financial and dividend policies
- Management's performance against established goals and plans.

2. Appointment of Directors and Composition of Board

The Meridian Energy Board of Directors comprises eight non-executive directors appointed by shareholding Ministers under the State-Owned Enterprises Act 1986.

Under the constitution directors may be appointed for a fixed term not exceeding three years and shareholding Ministers may choose to renew any such appointments for further fixed terms of up to three years each. The roles of Chairman and Deputy Chairman are allocated by shareholding Ministers.

Profiles of the current members of the Board are set out on page 60-61 of this report.

3. Directors' Remuneration

Each year shareholding Ministers advise the Board of the total amount of fees which may be allocated to directors of the Group. The allocation of those fees in respect of the financial year ended 30 June 2003 is detailed on page 101 and is determined by the Board on advice from the Company Secretary.

4. Operations

The Meridian Energy Board meets on a monthly basis and on other occasions as required.

In the year ended 30 June 2003 the full Board met 19 times, occasioned by a number of special projects requiring consideration.

To ensure efficiency the Board has delegated some of its powers to Board committees and other powers to the Chief Executive and management.

GOVERNANCE AT MERIDIAN ENERGY (CONTINUED)

5. Board Committees

The Board has four standing committees and one project committee as detailed below. The membership and terms of reference for the committees are reviewed regularly by the Board. The Chairman is Chair of the Executive Committee and an ex-officio member of all other committees.

Audit and Finance Committee

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

The Risk and Compliance Committee

The Risk and Compliance Committee is responsible for ensuring the efficient and effective management of all business risk and compliance with the relevant legal, market and Group policy requirements.

The purpose of this committee is to emphasise the priority the Board places on risk management and compliance while maintaining the independence of the wider internal and external audit and control functions of the Audit and Finance Committee. There is no cross-membership between this committee and the Audit and Finance Committee, however there are formal protocols to ensure communication between the two committees. This committee is currently chaired by Steven Gentry and met six times during the financial year.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee sets the principles and standards for remuneration structure, policy and practice and human resources policy. The Committee conducts regular reviews of the Chief Executives' performance and remuneration. It also approves company-wide remuneration policy and reviews the remuneration of senior executives as well as reviewing the remuneration and succession strategy and conditions of employment. This committee is currently chaired by Joan Withers and met six times during the financial year.

Executive Committee

The Executive Committee represents the Board in response to situations requiring immediate resolution of Group issues. It acts as an executive arm of the Board to consider matters and execute documentation within approved Board policy and delegations. It also responds to specific requests from the Chief Executive regarding Group issues or business. The committee is chaired by Francis Small and met three times during the financial year.

The Aqua Committee

The Aqua Committee was established during this financial year and is responsible for considering matters related to Project Aqua on a regular basis and to recommend appropriate action to the Board. This committee is currently chaired by Phil Lough and met twice during the financial year.

6. Key Policies

The Board is responsible for setting and determining key policies. Approved policies cover matters such as the delegations of authority framework, sustainability, compliance, treasury, risk management and health and safety.

The delegations of authority policy together with the terms of reference for Board committees establish the key standing delegations of authority from the Board to management and Board committees. It also establishes links to more specific policies such as compliance and treasury.

The delegations of authority policy establishes authorities with respect to certain decision-making powers defined by reference to both subject matter and financial limits. These limits are reviewed periodically.

The Group has a sustainability policy that reflects the Group's environmental ethic and its commitment to a wider social responsibility in terms of the State-Owned Enterprises Act 1986. Meridian Energy was the first electricity generator and retailer in New Zealand to adopt and report annually on the basis of an established sustainability policy.

From the year ended 30 June 2002 the Group's reporting against its sustainability objectives has been combined into this single integrated annual report, reflecting the Group's commitment to a wider accountability to the communities within which it operates and to its customers.

GOVERNANCE AT MERIDIAN ENERGY (CONTINUED)

Compliance with the many legal, regulatory and multilateral industry requirements in the electricity industry is of vital importance and is a priority for the Board. Meridian Energy takes its obligations seriously in this regard and constantly looks for initiatives to improve its standard of compliance.

The compliance policy ensures that effective compliance is primarily a line management responsibility, with executive management required to demonstrate they have effective processes in place.

7. Review of Performance

The Meridian Energy Board of Directors reviews its performance and the performance of each director annually, including formal evaluations which are required to be submitted to shareholding Ministers every year.

8. Auditors

In accordance with Section 15 of the Public Audit Act 2001, the Auditor-General is required to express an opinion on the Group's financial statements. Pursuant to Section 29 of the Public Finance Act 1989 the Auditor-General has appointed Deloitte Touche Tohmatsu to undertake this audit on his behalf. The Auditor's Report is set out on page 98 of this report.

The Board has adopted a strict policy to maintain the independence of the external auditors.

BOARD OF DIRECTORS

Group Directors

Dr 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

Sir Tipene O'Regan

Director
Appointed in 1999

Charles Chauvel

Director
Appointed 1/04/02

Te Kipa Kepa Morgan

Director
Appointed 1/11/02

Subsidiary Company Directors

DamWatch Services Limited

Keith Turner (Chairman)
Murray Gillon (Managing Director)
Michael Kedian (resigned 20/12/02)

Kenneth Smales
Murray Jackson (resigned 14/11/02)
Michael Campbell (appointed 14/11/02)
Tim Densem (appointed 16/01/03)
Peter Menzies (appointed 9/05/03)

Meridian Limited

Keith Turner (Chairman)
Helen Bremner
Ari Sargent
Neil Cochrane

Woodville Windfarm Limited

Keith Turner (Chairman)
Shaun Cornelius (resigned 30/04/03)
Howard Dodson (resigned 30/04/03)
Carsten Thomsen (resigned 11/04/03)

Meridian Energy International Limited

Keith Turner (Chairman)
Neil Cochrane
Carsten Thomsen (resigned 2/07/03)

Meridian Energy Australia

Holdings Limited
Keith Turner (Chairman)
Neil Cochrane
Carsten Thomsen (resigned 2/07/03)

Meridian Energy Australia Investments Pty Limited

Stanley Brogan (appointed 14/03/03)
Keith Turner (appointed 14/03/03)
Carsten Thomsen (appointed 14/03/03, resigned 28/06/03)

MEA Finance Pty Limited

Keith Turner (appointed 3/04/03)
Graham Ebbett (appointed 3/04/03)

MEA General Partner Pty Limited

Keith Turner (appointed 3/04/03)
Graham Ebbett (appointed 3/04/03)

Meridian Energy Australia Pty Limited

Keith Turner (Chairman)
Stanley Brogan
Graham Ebbett
Carsten Thomsen (resigned 28/06/03)

SHP1 Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

SHP2 Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

SHP3 Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

SHP3 Holdings Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

Southern Hydro Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

Southern Hydro Operations Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

Southern Hydro Maintenance Services Pty Limited

Keith Turner (appointed 30/04/03)
Graham Ebbett (appointed 30/04/03)

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 2003 and their financial performance and cash flows for the year 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 that 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 72 to 97, of Meridian Energy Limited and Group for the year ended 30 June 2003.

The accounts were authorised for issue by the Board on 2 September 2003.

For and on behalf of the Board.



Francis Small
CHAIRMAN
2 SEPTEMBER 2003



Susan Sheldon
DEPUTY CHAIRMAN
2 SEPTEMBER 2003

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	GROUP		PARENT	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Operating Revenue	2	1,366,892	1,126,554	1,363,994	1,125,539
Operating Expenses	3	(1,134,176)	(960,534)	(1,117,167)	(954,216)
Net Financing Costs	4	(57,469)	(32,249)	(57,221)	(32,587)
Equity Accounting of Associate		(3,235)	(1,972)	-	-
Operating Surplus Before Income Tax		172,012	131,799	189,606	138,736
Income Tax	5	(62,698)	(47,753)	(65,623)	(49,531)
Operating Surplus After Tax		109,314	84,046	123,983	89,205

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	GROUP		PARENT	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Equity at Beginning of Year		1,662,247	1,618,158	1,676,388	1,618,183
Net Surplus After Tax		109,314	84,046	123,983	89,205
Revaluation Reserve	13	600,000	-	600,000	-
Movement in Foreign Currency Translation Reserve	9	5,471	(8,957)	-	-
Total Recognised Gains and Losses		714,785	75,089	723,983	89,205
Distributions to Owners	8	(77,230)	(31,000)	(77,230)	(31,000)
Equity at End of Year	7	2,299,802	1,662,247	2,323,141	1,676,388

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2003

	NOTE	GROUP		PARENT	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Equity					
Shareholders' Equity		2,299,802	1,662,247	2,323,141	1,676,388
Liabilities					
Non-Current Liabilities					
Term Borrowings	10	653,178	591,498	652,949	591,036
Deferred Tax	11	138,871	92,031	102,765	81,387
Total Non-Current Liabilities		792,049	683,529	755,714	672,423
Current Liabilities					
Payables and Accruals	12	205,709	101,988	154,341	101,163
Current Portion of Term Borrowings	10	723,098	184,731	722,869	184,500
Total Current Liabilities		928,807	286,719	877,210	285,663
Total Liabilities		1,720,856	970,248	1,632,924	958,086
Total Equity and Liabilities		4,020,658	2,632,495	3,956,065	2,634,474
Assets					
Non-Current Assets					
Investments	15	5,975	8,562	11,557	10,571
Advances to Subsidiary		-	-	796,366	109,425
Advances to Associate		1,162	-	1,162	-
Prepayments		4,804	-	4,804	-
Intangible Assets	16	365,012	-	401	-
Customer Acquisition Costs	17	45,020	52,417	45,020	52,417
Property, Plant and Equipment	13	3,318,601	2,386,476	2,890,144	2,276,747
Total Non-Current Assets		3,740,574	2,447,455	3,749,454	2,449,160
Current Assets					
Cash and Bank Balances	18	55,337	9,962	5,121	2,234
Advance to Subsidiaries		-	-	27,022	11,854
Accounts Receivable and Prepayments	19	209,728	153,665	168,095	152,082
Current Tax Receivable		12,135	18,505	3,489	16,236
Inventories	20	2,884	2,908	2,884	2,908
Total Current Assets		280,084	185,040	206,611	185,314
Total Assets		4,020,658	2,632,495	3,956,065	2,634,474

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	GROUP		PARENT	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		1,304,595	1,151,629	1,341,747	1,140,067
Interest Received		1,431	962	1,431	11,563
		1,306,026	1,152,591	1,343,178	1,151,630
Cash was Applied to:					
Payments to Suppliers and Employees		930,770	1,049,644	996,791	1,046,854
Interest Paid		57,697	33,877	57,450	34,215
Net GST Paid		750	4,027	531	3,431
Income Tax Paid		32,811	31,186	31,253	31,000
		1,022,028	1,118,734	1,086,025	1,115,500
Net Cash Inflow from Operating Activities	24	283,998	33,857	257,153	36,130
Investment Activities					
Cash was Provided from:					
Sale of Fixed Assets		178	178	178	178
		178	178	178	178
Cash was Applied to:					
Purchase of Fixed Assets		387,471	65,084	71,677	61,598
Capitalised Interest		1,310	17,661	1,310	17,661
Purchase of Intangible Assets		371,246	-	471	-
Purchase of Investments		2,648	3,440	2,648	3,440
Customer Acquisition Costs		247	37,118	247	37,118
Advances and Loans to Subsidiaries		-	-	702,447	12,705
Advance to Associate		1,162	-	1,162	-
		764,084	123,303	779,962	132,522
Net Cash Outflow from Investing Activities		(763,906)	(123,125)	(779,784)	(132,344)
Financing Activities					
Cash was Provided from:					
Short-Term Debt		607,369	84,500	607,369	84,500
Long-Term Debt		95,156	416,429	95,391	416,429
		702,525	500,929	702,760	500,929
Cash was Applied to:					
Dividends Paid		77,230	173,479	77,230	173,479
Term Loans		100,012	281,049	100,012	280,468
		177,242	454,528	177,242	453,947
Net Cash Inflow from Financing Activities		525,283	46,401	525,518	46,982
Net (Decrease)/Increase in Cash Held					
Cash at Beginning of Year		9,962	52,829	2,234	51,466
Cash at End of Year		55,337	9,962	5,121	2,234
Composition of Cash					
Cash and Bank Balances	18	55,337	9,962	5,121	2,234
		55,337	9,962	5,121	2,234

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

1	STATEMENT OF ACCOUNTING POLICIES	<i>page 76</i>
2	OPERATING REVENUE	<i>page 80</i>
3	OPERATING EXPENSES	<i>page 80</i>
4	NET FINANCING COSTS	<i>page 81</i>
5	TAXATION	<i>page 81</i>
6	SHARE CAPITAL	<i>page 82</i>
7	EQUITY	<i>page 82</i>
8	DIVIDENDS	<i>page 82</i>
9	FOREIGN CURRENCY TRANSLATION RESERVE	<i>page 83</i>
10	TERM BORROWINGS	<i>page 83</i>
11	DEFERRED TAX	<i>page 84</i>
12	PAYABLES AND ACCRUALS	<i>page 84</i>
13	PROPERTY, PLANT AND EQUIPMENT	<i>page 85</i>
14	COMMITMENTS	<i>page 86</i>
15	INVESTMENTS	<i>page 87</i>
16	INTANGIBLES	<i>page 91</i>
17	CUSTOMER ACQUISITION COSTS	<i>page 91</i>
18	CASH AND BANK BALANCES	<i>page 91</i>
19	ACCOUNTS RECEIVABLE AND PREPAYMENTS	<i>page 91</i>
20	INVENTORIES	<i>page 92</i>
21	BORROWINGS AND THE USE OF FINANCIAL INSTRUMENTS	<i>page 92</i>
22	LAND	<i>page 95</i>
23	RELATED PARTY TRANSACTIONS	<i>page 95</i>
24	NET CASH FLOW FROM OPERATING ACTIVITIES	<i>page 96</i>
25	SEGMENT INFORMATION	<i>page 97</i>
26	CONTINGENT GAINS AND LOSSES	<i>page 97</i>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Statement of Accounting Policies

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 the Minister of Finance, on behalf of Her Majesty the Queen in Right of New Zealand ("The Crown") under the State-Owned Enterprises Act 1986. The consolidated statements comprise the Parent and its subsidiaries (the "Group") and the Group's interest in associates.

The financial statements comply with the Financial Reporting Act 1993 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.

The financial statements for the Group, including the consolidation of subsidiaries domiciled outside of New Zealand, 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 modified to include the revaluation of certain hydro assets, with the exception of certain items for which specific accounting policies are identified.

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

Basis of Preparing Group Financial Statements

Subsidiaries

Subsidiaries are those entities controlled directly or indirectly by the Group. Subsidiaries are consolidated under the purchase method on a line-by-line basis.

All intercompany transactions are eliminated on consolidation.

Associates

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. Associates are accounted for using the equity method of accounting. The Group recognises its share of the associates' net surplus or deficit for the year in reaching its Operating Surplus Before Income Tax in its Statement of Financial Performance. The Group's share of the associates' surplus or deficit is adjusted for the amortisation of goodwill arising on acquisition and differences between the accounting policies of the Group and associates. The Group recognises its share of other post-acquisition movements in reserves in its Statement of Movements in Equity. Dividends received from associates are recognised directly against the carrying value of the investment. In the Statement of Financial Position the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post acquisition reserves of the associates. In assessing the Group's share of earnings of associates, the Group's share of any unrealised profits between Group companies and associates is eliminated.

Other Investments

Long-term investments are stated at cost, except where there is a permanent impairment in value, in which case the lower of cost or fair market value is adopted.

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)

Goodwill Arising on Acquisition

Goodwill, representing the excess of purchase consideration 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 is reviewed annually by the directors and adjusted where it is considered necessary.

Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction.

The assets and liabilities of overseas operations, being independent foreign operations, are translated at the closing rate at balance date. The revenues and expenses of these operations are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of independent foreign operations are recognised directly in the foreign currency translation reserve.

Financial Instruments

The Group uses financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in interest rates, foreign exchange rates and wholesale electricity prices.

Financial instruments entered into as hedges of an underlying exposure are accounted for on the same basis as the underlying exposure.

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.

Non-Current Assets

Property, Plant and Equipment

Fixed assets were initially allocated a fair value at inception of the company. Subsequent fixed asset additions are recorded at cost including costs directly attributable to bringing the asset to the location and condition necessary for its intended service.

The cost of assets constructed includes all expenditure directly related to specific contracts including financing costs where these meet certain time and materiality limits. Financing costs for major projects are capitalised at the average cost of borrowing. Costs cease to be capitalised as soon as the asset is ready for use.

Depreciation of fixed assets, other than Australian hydro assets and freehold land, is calculated on a straight-line basis to allocate the cost or fair value amount of an asset, less any residual value, over its useful life. For the New Zealand hydro assets, straight-line depreciation reflects the base load usage of the underlying assets.

Australian hydro assets are depreciated on a units of production basis which reflects that the underlying assets are used at peak times or are irrigation dependent. The measurement of levels of production refers to the expected gigawatt hours generated over the remaining useful lives of the assets depreciated or amortised.

Formal reviews of the carrying values of assets are periodically carried out and, where deemed appropriate, the directors will approve the amendment of the carrying value of the relevant assets in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Meridian has adopted fair value accounting as from 30 June 2003 for its generation assets. The underlying valuation will be reviewed by independent third party valuation experts at a minimum of five-yearly intervals with the underlying assumptions being reviewed for reasonableness on an annual basis. Any increase in valuation is accounted for as an increase in the revaluation reserve and any decrease in valuation is accounted for as a reduction in the revaluation reserve. Where any reduction is in excess of the carrying value of the revaluation reserve then it is expensed to the Statement of Financial Performance.

Investments

Investments are stated at cost, except where there is a permanent impairment in value, in which case the lower of cost or fair market value is adopted. Where there is no quoted market value, investments are stated at directors' valuation. Changes in the value of investments are recognised in the Statement of Financial Performance.

Intangibles

Licences

Power generation licences and leases are recorded at fair value on acquisition. They are amortised over their estimated useful lives either over 70 years or based on the units generated.

Derivatives

On acquisition of Southern Hydro, financial instrument derivatives were recorded in the Statement of Financial Position as either an asset or liability measured at fair value. To the extent that subsequent gains and losses on the instruments qualifying as hedges relate to the opening fair value, they are brought to account in the Statement of Financial Position when the underlying event being hedged occurs.

Customer Acquisition Costs

Goodwill may be acquired through a business combination involving the acquisition of customers, or through an organic marketing campaign (but only in relation to those campaign costs that are highly correlated with the number of customers acquired). This is amortised over a period between 5 and 10 years from the date of acquisition. The carrying value is reviewed annually by the directors and adjusted where it is considered necessary.

Impairment of Assets

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

Current Assets

Inventories

Inventories are stated at the lower of cost or 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 is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash balances (net of bank overdrafts) and demand deposits.

Prepaid Premiums/Unearned Income

Unearned income is recognised and recorded as a current liability for payments received by Southern Hydro that are paid up front under forward derivative contracts. This unearned income is amortised in the Statement of Financial Performance over the period of the relevant contract.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A current asset is recognised for premiums paid up front by Southern Hydro under forward derivative contracts. This prepaid expense is amortised over the period of the relevant contract.

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 over the period of the borrowing.

Insurance

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

To minimise the financial impact of such exposures, the assessed risk based on a catastrophic event impact 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.

Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating surplus in equal instalments over the lease term.

Finance Leases

Finance leases, which effectively transfer to the lessee substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. Income for assets leased out under finance lease arrangements is recognised on the basis of the net investment outstanding at balance date.

Changes in Accounting Policies

Effective from 30 June 2003 Meridian adopted fair value accounting for its generation assets. As a result of this change in accounting policy New Zealand fixed assets have been revalued upwards by \$600m effective from 30 June 2003. This change has not given rise to an increased depreciation charge in the year ending 30 June 2003. In future years the revalued component of fixed assets will be depreciated in line with Meridian's depreciation methodology for the relevant class of assets.

There have been no other changes in accounting policies during the year. All accounting policies have been applied on bases consistent with those applied in Meridian Energy's annual report for the previous year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Operating Revenue

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Trading Revenue				
Energy-Related Revenue	1,361,241	1,121,171	1,340,039	1,111,737
Other Revenue				
Interest Income	1,431	962	19,753	11,563
Gain on Sale of Property, Plant and Equipment	92	48	92	48
Other	4,128	4,373	4,110	2,191
Total Revenue from Continuing Activities	1,366,892	1,126,554	1,363,994	1,125,539

3. Operating Expenses

Operating expenses include the following:

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Operating Expenses				
Depreciation on Generation Structures and Plant	50,895	49,847	48,517	47,295
Depreciation on Buildings	271	256	256	256
Depreciation on Other Plant and Equipment	8,520	8,481	8,401	8,401
Loss on Sale of Property, Plant and Equipment	22	108	-	108
Amortisation of Customer Acquisition Costs	7,644	7,547	7,644	7,547
Amortisation of Leases and Licences	375	-	-	-
Amortisation of Derivatives	5,858	-	-	-
Operating Lease Expenses	3,307	2,006	2,973	1,816
Cost of Offering Credit				
Bad Debts Written Off	2,501	3,055	2,501	3,055
(Decrease)/Increase in Estimated Doubtful Debts	32	(149)	32	(149)
Remuneration				
Fees to Directors	300	280	300	268
Fees Paid to Auditors				
Audit Fees	314	198	140	183
Fees Paid for Other Assurance Services	23	264	23	264
Fees Paid for Other Consulting Services	-	114	-	114

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Net Financing Costs

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Net Financing Costs				
Interest on Borrowings	59,008	51,538	58,760	51,876
Less Capitalised Interest	1,310	17,661	1,310	17,661
Less Debt Repricing Amortisation	229	1,628	229	1,628
Total Net Financing Costs	57,469	32,249	57,221	32,587

5. Taxation

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
(A) INCOME TAX EXPENSE				
Operating Surplus Before Income Tax	172,012	133,771	189,606	138,736
Permanent Differences				
Expenditure Not Deductible for Tax	3,257	2,077	1,145	2,061
Depreciation/Amortisation of Revaluation	(911)	2,265	4,901	2,946
Other	15,637	6,592	3,206	6,351
Surplus Subject to Tax	189,995	144,705	198,858	150,094
Tax at 33%	62,698	47,753	65,623	49,531
Total Income Tax Expense	62,698	47,753	65,623	49,531
Comprising:				
Estimated Current Year Tax Assessment	37,996	21,199	44,246	22,931
Deferred Income Tax Liability	24,702	26,554	21,377	26,600
	62,698	47,753	65,623	49,531

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
(B) IMPUTATION CREDITS				
Balance at Beginning of Year	17,160	22,165	16,732	21,930
Income Tax Paid	31,373	31,186	31,253	30,916
Credits Attached to Dividends Received	-	-	167	77
Credits Attached to Dividends Paid	(38,039)	(36,191)	(38,039)	(36,191)
Balance at End of Year	10,494	17,160	10,113	16,732

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2003 \$'000	2002 \$'000
Through:		
Shareholding in the Parent Company	10,113	16,732
Indirect Interests in Subsidiaries	381	428
	10,494	17,160

6. 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.

7. Equity

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Equity Comprises:				
Share Capital	1,600,000	1,600,000	1,600,000	1,600,000
Retained Earnings	24,099	(7,985)	45,525	(1,228)
Revaluation Reserve	677,802	77,802	677,616	77,616
Foreign Currency Translation Reserve	(2,099)	(7,570)	-	-
Equity at End of Period	2,299,802	1,662,247	2,323,141	1,676,388

8. Dividends

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Distributions Made				
Interim Dividend	53,600	31,000	53,600	31,000
2002 Final Dividend	23,630	-	23,630	-
Total Dividends	77,230	31,000	77,230	31,000

The final dividend relating to the 2003 year has been proposed post-balance date at a level of 65% of net surplus after tax. In accordance with Financial Reporting Standard 5 "Events after balance date", the final dividend, less the amount paid as an interim dividend in March 2003, has not been recorded as a liability in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Foreign Currency Translation Reserve

	GROUP	
	2003 \$'000	2002 \$'000
Balance at Beginning of Year	(7,570)	1,387
Difference Arising from Translation of Foreign Operations	5,471	(8,957)
Total Foreign Currency Translation Reserve	(2,099)	(7,570)

The foreign currency translation reserve results from the translation of the Australian subsidiaries' Statement of Financial Position at the closing rate at balance date. The closing rate at 30 June 2003 was \$0.87 (30 June 2002 \$0.86).

The net exchange difference included in the Statement of Financial Performance at 30 June 2003 relating to translation of foreign denominated monetary assets and liabilities held within the New Zealand parent is an exchange gain of \$3.1m.

10. Term Borrowings

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Borrowings Due Within One Year	723,098	184,731	722,869	184,500
Borrowings Due Within One to Two Years	26,700	97,500	26,700	97,500
Borrowings Due Within Two to Seven Years	626,478	493,998	626,249	493,536
Total Borrowings	1,376,276	776,229	1,375,818	775,536

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current Portion of Borrowings	723,098	184,731	722,869	184,500
Non-Current Portion of Borrowings	653,178	591,498	652,949	591,036
Total Borrowings	1,376,276	776,229	1,375,818	775,536

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 are permitted due to the following:

- The operation of law
- An existing security over assets purchased
- Acquisition of a Guaranteeing Group Member with security interests on existing assets, or where the security interest is provided for the sole benefit of a Guaranteeing Group Member
- Access to concessional borrowing terms
- Joint venture arrangements
- The purchase of an asset where recourse is limited
- The lender's consent
- Security requirements of capital projects
- Permitted lease transactions
- Substitution for security interests
- The amount in total is immaterial, being less than 5% of the Group's assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Deferred Tax

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at Beginning of Year	92,031	66,401	81,387	54,787
Acquired During Year	21,576	-	-	-
Foreign Exchange Translation	562	(924)	-	-
On Surplus for Year	24,702	26,554	21,378	26,600
Balance at End of Year	138,871	92,031	102,765	81,387

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 \$247m (2002 \$256m). The effect of the \$600m revaluation of the generation assets on deferred tax has not been quantified and could reduce the unrecognised deferred tax asset.

12. Payables and Accruals

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current				
Trade Creditors	22,807	7,394	6,537	7,278
Employee Entitlements	6,642	2,820	2,987	2,580
Unearned Income	22,334	940	171	876
Accrued Expenses	153,040	89,198	143,725	88,977
GST	886	1,636	921	1,452
	205,709	101,988	154,341	101,163

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Property, Plant and Equipment

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Generation Structures and Plant				
Cost	3,179,497	2,452,025	2,943,180	2,340,023
Less: Accumulated Depreciation	206,270	154,202	201,129	151,829
Book Value	2,973,227	2,297,823	2,742,051	2,188,194
Other Freehold Land				
Cost	8,015	9,454	8,015	9,454
Other Freehold Buildings				
Cost	6,470	6,440	6,470	6,440
Less: Accumulated Depreciation	926	706	926	706
Book Value	5,544	5,734	5,544	5,734
Other Plant and Equipment				
Cost	232,228	29,792	39,715	29,311
Less: Accumulated Depreciation	25,368	16,921	22,718	16,540
Book Value	206,860	12,871	16,997	12,771
Resource Consents				
Cost	7,482	8,271	7,482	8,271
Less: Amortisation	653	500	653	500
Book Value	6,829	7,771	6,829	7,771
Total Property, Plant and Equipment				
Cost	3,433,692	2,505,982	3,004,862	2,393,499
Less: Accumulated Depreciation and Amortisation	233,217	172,329	225,426	169,575
Plus: Capital Work in Progress	118,126	52,823	110,708	52,823
Total Book Value	3,318,601	2,386,476	2,890,144	2,276,747

The following depreciation and amortisation rates have been applied:

Generation Structures and Plant	Up to 80 years
Other Freehold Buildings	Up to 67 years
Other Plant and Equipment	Up to 20 years
Resource Consents	Up to 67 years
Australian Hydro Assets	Units of production basis

During the year the depreciation methodology for Meridian Energy Australia Pty Limited hydro assets was changed from a straight-line to units of production basis. This better reflected that the assets are periodically used depending on irrigation requirements, rather than being used on a load basis.

New Zealand property, plant and equipment have been revalued upwards by \$600m effective from 30 June 2003. This is a directors valuation based on an independent review of future revenue and expense streams forecast for the New Zealand hydro assets. The independent review was completed by PricewaterhouseCoopers, which is highly skilled at business valuations. The full revaluation has been applied to those assets classified as generation structures and plant. There is no depreciation impact of this revaluation in the 2003 year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Commitments

The Group leases premises, motor vehicles and plant and equipment.

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Capital Expenditure				
Commitments – Contracts for Capital Expenditure	27,095	10,217	11,408	10,217
Operating Lease Commitments				
Non-Cancellable Operating Lease Rentals are Payable as Follows				
Not Later than One Year	3,445	1,718	2,893	1,718
Later than One Year but Not Later than Two Years	2,639	1,249	2,335	1,249
Later than Two Years but Not Later than Five Years	6,705	1,798	6,598	1,798
Later than Five Years	8,210	1,136	8,210	1,136
	48,094	16,118	31,444	16,118
Finance Lease Commitments				
Non-Cancellable Operating Lease Rentals are Payable as Follows				
Later than Five Years	204,445			
	204,445			

The company has entered into a number of agreements in relation to land with land owners as part of significant generation development projects. The capital commitment in relation to this land has been included above where there is a signed contract and the price is agreed. The company has other agreements in place which provide for future commitment to acquire land at the company's option. These have been excluded from the commitments above, as the values of the options, should they be exercised, have yet to be determined.

Finance leases have been capitalised for land and civil structures relating to the Kiewa and Rubicon schemes in Australia. The finance lease and any improvements to or on the leasehold property are amortised over a period of 60 years. The first 30 years of the lease have been prepaid. The company has a commitment for the future value of payments due under the lease from years 31 to 60.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Investments

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Investments				
Investments in Subsidiaries	-	-	375	37
Investments in Associates	328	2,314	5,535	4,286
Other Investments	5,647	6,248	5,647	6,248
	5,975	8,562	11,557	10,571

(A) Investments in Subsidiaries and Controlled Entities

Subsidiaries

Investments in subsidiaries comprise shares at cost. Significant subsidiaries as at 30 June 2003 comprise:

NAME OF ENTITY	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
		2003	2002
Meridian Limited	Non-Trading Entity	100%	100%
DamWatch Services Limited	Professional Services	100%	100%
Woodville Windfarm Limited	Non-Trading Entity	100%	90%
Meridian Energy International Limited	Investment Company	100%	100%

All subsidiary entities have a balance date of 30 June.

Controlled Entities

NAME OF ENTITY	COUNTRY OF INCORPORATION	DATE ¹	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
				2003	2002
Meridian Energy Australia Holdings Limited	New Zealand		Investment Company	100%	100%
Meridian Energy Australia Pty Limited	Australia		Hydro Power Generation	100%	100%
Hydropower Group Pty Limited	Australia		Hydro Power Generation	100%	100%
Yarrowonga Power Pty Limited	Australia		Hydro Power Generation	100%	100%
N.T. Power Operations Pty Limited	Australia		Hydro Power Generation	100%	100%
Union Reefs Power Pty Limited	Australia		Hydro Power Generation	100%	100%
FES Power Pty Limited	Australia		Hydro Power Generation	100%	100%
MLC Power Pty Limited	Australia		Hydro Power Generation	100%	100%
Hydroco Partnership	Australia		Hydro Power Generation	100%	100%
MEA General Partner Pty Limited	Australia	3/04/03	Investment Company	100%	-
MEA Limited Partnership	Australia	3/04/03	Investment Company	100%	-
MEA Finance Pty Limited	Australia	3/04/03	Finance Company	100%	-
Meridian Energy Australia Investments Pty Limited	Australia	14/03/03	Investment Company	100%	-
SHP1 Pty Limited	Australia	30/04/03	Hydro Power Generation	100%	-
SHP2 Pty Limited	Australia	30/04/03	Hydro Power Generation	100%	-
SHP3 Pty Limited	Australia	30/04/03	Hydro Power Generation	100%	-
SHP3 Holdings Pty Limited	Australia	30/04/03	Hydro Power Generation	100%	-
Southern Hydro Pty Limited	Australia	30/04/03	Hydro Power Generation	100%	-
Southern Hydro Operations Pty Limited	Australia	30/04/03	Non-Trading Entity	100%	-
Southern Hydro Maintenance Services Pty Limited	Australia	30/04/03	Non-Trading Entity	100%	-

¹The date where the controlled entity became part of the Group during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(B) Investments in Associates

At balance date the company holds a 29.9% investment in Whisper Tech Limited.

Whisper Tech Limited, a company incorporated in New Zealand, has a balance date of 31 March. Equity accounted earnings have been aligned to a 30 June balance date for the group. Whisper Tech Limited was formed to design, develop, manufacture and distribute co-generation systems for residential and mobile markets. The company has no material capital commitments or contingencies at 30 June 2003.

Carrying Amount of Investment in Associate

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Carrying Amount at Beginning of Year	2,314	1,421	4,286	1,421
Further Investment in Associate	1,249	2,865	1,249	2,865
Goodwill Amortised Attributable to Associate	(859)	(168)	-	-
Equity Accounted Earnings of Associate	(2,376)	(1,804)	-	-
Carrying Amount at End of Year	328	2,314	5,535	4,286

In the Parent company the investment in Whisper Tech is recorded at cost. This carrying value in the parent company is supported by an independent valuation that is in excess of Meridian's cost that was completed by Morel & Co Limited in July 2002.

Goodwill Relating to Investment in Associate

	GROUP	
	2003 \$'000	2002 \$'000
Goodwill at Beginning of Year	3,355	-
Goodwill Arising on Acquisition of Associate	1,330	3,355
	4,685	3,355
Accumulated Amortisation	(1,027)	(168)
Goodwill Included within the Carrying Amount of the Investment in Associate	3,658	3,187

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Equity Accounted Earnings of Associate

	GROUP	
	2003 \$'000	2002 \$'000
Equity Accounted Earnings Comprise:		
Net Surplus/(Deficit) Before Tax	(2,376)	(1,804)
Income Tax	-	-
Total Recognised Revenues and Expenses	(2,376)	(1,804)

Equity Accounting of Associate

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Equity Accounted Earnings of Associate	(2,376)	(1,804)	-	-
Goodwill Relating to Investment in Associate	(859)	(168)	-	-
Total Recognised Revenues and Expenses	(3,235)	(1,972)	-	-

(C) Other Investments

At balance date the company holds an investment in Nth Power Technologies Fund II, L.P. This investment does not give rise to consolidated or equity accounting treatment.

The carrying value of the investment in Nth Power Technologies Fund has been written down by \$2m at year end. Whilst recognising the long-term nature of the investment in this venture capital fund, the directors have considered that the adjusted carrying value more appropriately reflects the fair value of this investment.

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Other Investments	5,647	6,248	5,647	6,248
	5,647	6,248	5,647	6,248

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

See other investments next page.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(D) Investment in Southern Hydro Limited

On 30 April 2003 the Group acquired Southern Hydro Pty Limited, a company whose core business is electricity generation and the trading of a range of energy risk management products and the wholesaling of energy. The contribution of Southern Hydro Pty Limited to the consolidated net surplus/(loss) for the period 30 April 2003 to 30 June 2003 was (\$2,528,000) (post-tax after the elimination of intra-Group transactions).

The acquisition was accounted for using the purchase method. To support the purchase price being used as fair value Sinclair Knight Merz, a Melbourne based engineering services firm, was engaged to provide a depreciated replacement cost valuation of the assets acquired. The acquisition fair value of plant, property and equipment supported by the independent valuer's assessment of depreciated replacement cost was then allocated across the separately identified assets acquired.

The effect of the acquisition on the Consolidated Financial Position is illustrated below.

	CONSOLIDATED	
	2003 \$'000	2002 \$'000
Current Assets		
Cash and Bank Balances	35,806	-
Accounts Receivable	22,395	-
Other Current Assets	11,742	-
	69,943	-
Non-Current Assets		
Property, Plant and Equipment	309,252	-
Intangible Assets	366,829	-
	676,081	-
Current Liabilities		
Payables and Accruals	(55,851)	-
Non-Current Liabilities		
Deferred Tax	(21,576)	-
Net Assets Acquired	668,597	-
Cash Paid	668,597	-
Goodwill Arising on Acquisition	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Intangibles

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Leases	169,924	-	401	-
Licences	139,763	-	-	-
Fair Value Derivatives	55,325	-	-	-
	365,012	-	401	-

Meridian acquired on 30 April 2003 leases, licences, and derivatives with its acquisition of the Southern Hydro Group.

17. Customer Acquisition Costs

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Customer Acquisition Costs (at Cost)	67,049	66,802	64,848	64,601
Accumulated Amortisation	(22,029)	(14,385)	(19,828)	(12,184)
Total Customer Acquisition Costs	45,020	52,417	45,020	52,417
Reconciliation				
Balance at Beginning of Year	52,417	22,846	52,417	22,846
Acquisition Costs During Year	247	37,118	247	37,118
Amortisation During Year	(7,644)	(7,547)	(7,644)	(7,547)
Balance at End of Year	45,020	52,417	45,020	52,417

18. Cash and Bank Balances

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash and Bank Balances Comprise:				
Current Account	9,963	1,969	5,121	734
Money Market Account	45,374	7,993	-	1,500
	55,337	9,962	5,121	2,234

19. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current				
Billed and Accrued Receivables	188,812	138,707	158,488	137,330
Less: Provision for Doubtful Debts	1,906	1,874	1,906	1,874
Net Trade Receivables	186,906	136,833	156,582	135,456
Prepayments	22,822	16,832	11,513	16,626
Total Accounts Receivable and Prepayments	209,728	153,665	168,095	152,082

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Inventories

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Inventories Comprise:				
Consumable Spares and Stores	2,884	2,908	2,884	2,908

21. Borrowings and the Use of Financial Instruments

Exposure to currency, revenue, 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	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Forward Exchange Contracts	33,057	20,951	33,057	20,951
Interest Rate Swaps	1,350,655	505,500	1,350,655	505,500
Interest Rate Options	100,000	100,000	100,000	100,000

(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 currencies. The currencies giving rise to currency risk in which the Group primarily deals, are Japanese Yen, Euro Dollars and US Dollars.

(b) Interest rate risk

It is Group policy to manage exposure to interest 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 treasury policy.

(c) Repricing analysis

The tables on the following page 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 2003 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)	4.69%	55,337	55,337	-	-	-	-
Receivables and Prepayments		209,728	-	-	-	-	209,728
Investments		5,975	-	-	-	-	5,975
Total Financial Assets		271,040	55,337	-	-	-	215,703
Financial Liabilities							
Total Borrowing	7.28%	1,376,276	1,249,320	49,987	26,969	50,000	-
Payables and Accruals		205,708	-	-	-	-	205,708
Total Financial Liabilities		1,581,984	1,249,320	49,987	26,969	50,000	205,708
Off-Balance Sheet							
Interest Rate Swaps' Maturities ¹		1,350,655	25,000	-	112,286	1,213,369	-
Interest Rate Options' Maturities		100,000	15,000	-	75,000	10,000	-
Total Off-Balance Sheet		1,450,655	40,000	-	187,286	1,223,369	-

Repricing 2002 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)	4.67%	9,962	9,962	-	-	-	-
Receivables		153,665	-	-	-	-	153,665
Investments		8,562	-	-	-	-	8,562
Total Financial Assets		172,189	9,962	-	-	-	162,227
Financial Liabilities							
Total Borrowing	6.49%	776,229	598,690	100,120	50,269	27,150	-
Payables and Accruals		101,988	-	-	-	-	101,988
Total Financial Liabilities		878,217	598,690	100,120	50,269	27,150	101,988
Off-Balance Sheet							
Interest Rate Swaps' Maturities ¹		505,500	119,500	-	50,000	336,000	-
Interest Rate Options' Maturities		100,000	-	-	15,000	85,000	-
Total Off-Balance Sheet		605,500	119,500	-	65,000	421,000	-

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

(d) Credit risk

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

¹ Notional principal amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Apart from one major direct supply customer, the Group does not have any significant concentrations of credit risk. Amounts owed by trade receivables are unsecured but evaluations are performed for significant levels of credit. In limited cases bonds are withheld where credit risks are perceived to be above normal.

There is no requirement to hold collateral or security to support financial instruments, owing to the high credit ratings 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 in the table below.

(e) Revenue risk

As part of its portfolio contracts and as part of its wholesale risk management activities, the Group has electricity price hedges with customers and counterparties for various periods out to 2011. Under these contracts, the Group 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, the Group must settle with the counterparty. Conversely, if the spot price is less than the hedge price, the counterparty must settle with Meridian Energy.

For the New Zealand Parent 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. The face value of outstanding electricity hedge contracts in New Zealand at 30 June 2003 at hedge prices is \$336.6m (30 June 2002 \$342.6m). For the Australian subsidiaries, the fair value of electricity hedge contracts has been calculated on a mark-to-market basis against the forward price curve and is \$77.6m at 30 June 2003. There were no Australian electricity hedge contracts held at 30 June 2002. Meridian acquired the 2003 contracts with the purchase of Southern Hydro on 30 April 2003.

(f) 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/or 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 below.

	2003		2002	
	FAIR VALUE \$'000	CARRYING VALUE \$'000	FAIR VALUE \$'000	CARRYING VALUE \$'000
Group On-Balance Sheet Financial Instruments				
Non-Current Assets				
Investment in Unlisted Shares	5,975	5,975	8,562	8,562
Non-Current Liabilities				
Term Debt	653,151	653,178	591,241	591,498
Off-Balance Sheet Financial Instruments				
Group				
Forward Exchange Contracts	(1,240)	-	480	-
Interest Rate Swaps	(59,961)	-	602	-
Interest Rate Options	(356)	-	618	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The company has a beneficial interest through the Wakehurst Trust in land acquired to support Project Aqua. The land that has not been transferred at 30 June 2003 from the Wakehurst Trust will be transferred subsequent to balance date.

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.

Non Government Party Related Transactions

Some directors of the Group may be directors or officers of other companies or organisations with which Meridian may transact. Such transactions are all carried out independently on an arm's-length basis.

ENTITY	TRANSACTION	\$'000	RELATIONSHIP
Minter Ellison Rudd Watts	Payments to Minter Ellison Rudd Watts for legal services	\$57	Charles Chauvel, Meridian Energy director, is a partner of Minter Ellison Rudd Watts
Wakehurst Trust	The Wakehurst Trust has been advanced funds by the company for the purpose of acquiring land and managing properties as agent for the company. There is an outstanding advance balance at 30 June 2003	\$3,782*	The company has a beneficial interest in the Wakehurst Trust * The closing balance of the advance.
Royal New Zealand Ballet	Sponsorship grant	\$250	Joan Withers, Meridian Energy director, is a trustee of the Royal New Zealand Ballet in her own personal capacity
Katherine Mansfield Trust	Sponsorship grant	\$55	Steven Gentry, Meridian Energy director, is a trustee of the Katherine Mansfield Trust.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Net Cash Flow from Operating Activities

	GROUP		PARENT	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Reconciliation with Operating Surplus				
Operating Surplus	109,314	84,046	123,983	89,205
Items Not Involving Cash Flows				
Amortisation of Debt Revaluation	(229)	(1,628)	(229)	(1,628)
Deferred Tax	46,840	26,555	21,378	26,600
Other Non-Cash Items	2	49	-	(50)
Write Down of Investments	5,235	-	2,000	-
Depreciation Expense	59,686	58,584	57,174	55,952
Loss on Sale of Fixed Assets	22	108	-	108
Amortisation	13,878	9,519	7,715	7,547
	125,434	93,187	88,038	88,529
Changes in Working Capital Items				
Accounts Receivable	(60,866)	28,990	(20,816)	29,045
Inventory	24	(164)	24	(164)
Trade Creditors and Accruals	103,721	(162,214)	53,178	(162,417)
Tax Provision	6,371	(9,988)	12,746	(8,068)
	49,250	(143,376)	45,132	(141,604)
Net Cash Flow from Operating Activities	283,998	33,857	257,153	36,130

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 As at and for the year ended 30 June 2003

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000
Revenue Derived From Outside Group	1,345,868	21,506	(482)	1,366,892
Total Revenue	1,345,868	21,506	(482)	1,366,892
Segment Net Surplus	124,328	(11,438)	(3,575)	109,314
Segment Total Assets	3,952,103	1,286,441	(1,217,886)	4,020,658

As at and for the year ended 30 June 2002

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2002 \$'000	2002 \$'000	2002 \$'000	2002 \$'000
Revenue Derived From Outside Group	1,117,403	9,713	(562)	1,126,554
Total Revenue	1,117,403	9,713	(562)	1,126,554
Segment Net Surplus	80,448	3,598	-	84,046
Segment Total Assets	2,516,102	116,393	-	2,632,495

26. Contingent Gains and Losses

There are no contingent gains or losses as at 30 June 2003 and the company is not aware of any post-balance date event that is likely to give rise to any contingency. (2002 Nil).

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF MERIDIAN ENERGY LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2003

We have audited the financial statements on pages 72 to 97. The financial statements provide information about the past financial performance and financial position of Meridian Energy Limited and Group as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 76 to 79.

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 in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of Meridian Energy Limited and Group as at 30 June 2003 and the results of operations and cash flows for the year ended on that date.

Auditor's Responsibilities

Section 15 of the Public Audit Act 2001 and Section 19(1) of the State-Owned Enterprises Act 1986 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Mr Ian C Marshall 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 the Auditing Standards published by the Auditor-General, which incorporate 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.

Other than in our capacity as auditor acting on behalf of the Auditor-General, and in performing certain assurance related assignments, 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 72 to 97.
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - Meridian Energy Limited and Group's financial position as at 30 June 2003; and
 - the results of operations and cash flows for the year ended on that date.

Our audit was completed on 2 September 2003 and our unqualified opinion is expressed as at that date.



Ian C Marshall
Deloitte Touche Tohmatsu
On behalf of the Auditor-General
Wellington, New Zealand

STATUTORY INFORMATION

General Disclosures

Disclosure of Directors' Interests

Declaration of general interest by directors for the year ended 30 June 2003 in accordance with Section 140 (2) of the Companies Act 1993:

Francis Small

Francis Small Consulting Limited, Director
Murray King and Francis Small Consulting Limited, Director
Australian Transport Network Limited, Director
Standards New Zealand, Council Member
Antarctica New Zealand Limited, Director
Centre for Advanced Engineering, Chairman
Meteorological Service of New Zealand Limited, Chairman
Anglican Diocese of Wellington, Trustee

Susan Sheldon

Advanced Business Education Limited, Director
FibreTech New Zealand Limited, Director
FibreTech Holdings, Director
Nimbus Bedware Limited, Director
Asure New Zealand Limited, Director
Accounting Standards Review Board, Member
Christchurch International Airport Limited, Director/Deputy Chairman
National Provident Fund Board of Trustees, Chairman
Freightways Limited, Director
Ngai Tahu Holdings Corporation Limited, Director

Joan Withers

Auckland International Airport Limited, Director
The Warehouse Group Limited, Director
Counties Manukau Pacific Trust, Trustee
Clinical Research and Effective Practice Foundation, Chairman
Tourism Holdings Limited, Director
Royal New Zealand Ballet, Trustee

Steven Gentry

Sinclair Knight Merz Group, Senior Consultant
Whisper Tech Limited on behalf of Meridian Energy Limited, Director
BRANZ Inc, Director
Contact Energy Limited, Shareholder (In Trust)
Red Cross Foundation, Trustee
Katherine Mansfield Memorial Fellowship, Trustee
IPENZ Foundation, Trustee
Chartered Professional Engineers' Council, Member

STATUTORY INFORMATION (CONTINUED)

Philip Lough

Rangiotu Holdings Limited, Director
Port Nelson, Limited Director
Livestock Improvement Corporation Limited, Director
New Zealand Institute for Crop and Food Research Limited, Director
Tatua Co-operative Dairy Co Limited, Director
SMI Limited, Chairman
Duncan Cotterill, Advisor
New Zealand Trade and Enterprise, Chair
Investment New Zealand Limited, Director/Chair
Energy Developments Limited (Aust), Shareholder
Contact Energy Limited, Shareholder
Infrastructure and Utilities New Zealand Limited, Shareholder
McCashin Wines Limited, Director

Sir Tipene O'Regan

The Escorial Company Limited, Chairman
Whalewatch Kaikoura Limited, Director
Kutai Investments Limited, Director/Shareholder
Awarua Tio Development Co Limited, Director
Clifford Bay Marine Farms Limited, Director/Shareholder
Te Tapuae o Rehua Limited, Chairman
Transit New Zealand Limited, Deputy Chairman
Aoraki Salmon Limited, Director/Shareholder
Stehr Group Limited Aust, Director

Charles Chauvel

Minter Ellison Rudd Watts, Partner
Minter Ellison Rudd Watts Limited, Director
Minter Ellison Rudd Watts Pty Limited, Chair
New Zealand Lotteries Commission, Deputy Chair

Te Kipa (Kepa) Morgan

University of Auckland, School of Engineering, Associate Dean, Maori
Mahi Maioro Professionals, Managing Director
Engineering Associates Registration Board, Ministerial Appointee
Haumingi 10A 2B Papakainga Trust, Chairman
Maori Centre of Research Excellence (Nga Pae O te Maramatanga), Principal Investigator
Building Reference Group, Member

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

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 director which would not otherwise have been available to them.

Indemnification and Insurance of Officers and Directors

The Parent indemnifies its directors and current executive officers of the Group against all liabilities (other than to the Parent or a 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.

STATUTORY INFORMATION (CONTINUED)

Directors' Remuneration

	GROUP 2003 DIRECTORS' FEES \$'000	SUBS 2003
Dr Francis Small (Chairman)	61.9	
Susan Sheldon (Deputy Chairman)	44.4	
Steven Gentry	35.9	
Philip Lough	38.9	
Sir Tipene O'Regan	31.9	
Joan Withers	34.4	
Charles Chauvel	31.9	
Te Kipa (Kepa) Morgan	20.6	
Stanley Brogan		20.0
TOTAL	299.9	20.0

Shareholders

Shareholder Information

All the issued ordinary 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 HR 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 year are indicated in the following table:

	2003	
	PARENT	SUBSIDIARIES
\$100,000 - 109,999	9	2
\$110,000 - 119,999	12	
\$120,000 - 129,999	4	
\$130,000 - 139,999	4	
\$140,000 - 149,999	10	
\$150,000 - 159,999	5	
\$160,000 - 169,999	1	
\$170,000 - 179,999	6	
\$180,000 - 189,999	1	
\$190,000 - 199,999	2	
\$210,000 - 219,999	2	
\$260,000 - 269,999	2	
\$300,000 - 309,999	2	
\$340,000 - 349,999	1	
\$610,000 - \$619,999	1	

APPENDIX 1: RESOURCE CONSUMPTION

This appendix reports progress on Meridian's resource consumption, using the figures produced in last year's report as a benchmark. We now have a series of initiatives in place to help manage our resource consumption, however the level of business activity this year has seen most measures per full-time equivalent (FTE) increase. Having said that, we are particularly pleased with the decrease in our electricity consumption figures, which demonstrates the effects that education and training can have on staff behaviour. This section covers resources consumed in Meridian Energy's New Zealand operations. We continue to use Landcare Research as a benchmark for our resource use targets, as it has a comparable business operation and a workforce in several locations.

Retail and Communications Operations

Our retail operation is paper intensive and we continue to investigate online customer services and communications as a way of reducing paper used. We continue to ensure that all publications are available on our website, and when printing, that we use as sustainable resources as possible. This report is printed on elemental chlorine-free paper using 100% vegetable oil ink. We specify these requirements whenever possible.

Electricity Consumption

Our electricity consumption increased by 4.3% during the year, but it is a pleasing result given that staff numbers have also increased, as have the sizes of our Christchurch and Wellington offices. This has seen the consumption per FTE figure decreasing to 6,662 kWh.

During winter we initiated energy savings activities that have contributed to the good result. Meridian set a target of saving 15% compared with the same time last year, and at one point our combined savings were at 35% as we had a generator running at one of our sites. The diesel used to fuel the generator has had an impact on our fuel consumption figures in the CO₂ calculation table. The table below does not report on generation facilities as they are predominantly self-supply.

Electricity Consumption	2003	2002
Retail Operations Centre, Christchurch (KWh)	553,140	430,000
Generation Office, Christchurch (KWh)	361,500	361,000
Wellington Offices (KWh)	570,050	556,000
Twizel Offices (KWh)	1,085,900	1,118,000
Totals for Year to 30 June	2,570,590	2,465,000
Consumption/FTE kWh	6,443	6,662
Landcare Benchmark (kWh/FTE)	7,200	6,900

Paper Consumption

The figures below show the volume of paper that was purchased by Meridian's New Zealand operations. It does not include the paper used for offset and digital printing completed off site.

While we set ourselves a target of reducing kg/FTE by a further 10% last year, we have not met it, and overall usage per FTE has actually increased. While disappointing, this can most probably be explained by the large amount of activity in which the company has been involved during the year, including the industry reforms and project consultation.

We have recently upgraded our printers and photocopiers so that they are better able to produce double-sided copies more effectively, which we hope will encourage paper use to decrease.

Year	Reams of A4 equivalent	Total kg (1 ream = 2.6 kg)	Number of reams /FTE	Kg/FTE	Landcare benchmark
2000/01	5,400	14,000	18	47	31
2001/02	4,974	13,000	13	35	31
2002/03	5,951	15,473	15	39	30

APPENDIX 1: RESOURCE CONSUMPTION (CONTINUED)

Paper Recycling

There has been a large increase in the volume of paper recycled this year. While it is pleasing and demonstrates that our processes are working, it is perhaps misleading as it includes recycling volumes during office moves in Wellington and Christchurch (and storeroom cleaning) as well as the regular office recycling activities.

	Total (kg)	kg/FTE	Landcare benchmark (kg/FTE)
2002/03 actual	32,906	82	49
2001/02 actual	22,000-25,000	59-68	37

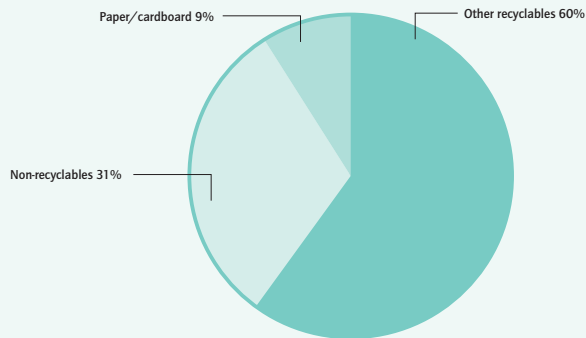
Solid Waste

The figures on solid waste below are based on a company-wide waste audit conducted at the end of July 2003. This audit sampled one week's collection of solid waste from all sites, which was extrapolated to an annual basis. The methodology assumes the week sampled was representative of waste stream discarded over the course of the year.

The annualised total volume increased this year, with a slightly higher proportion of non-recyclables than last year. The annual volume per FTE was about 33 kg this year, compared with 30 kg last year.

The findings of the audit indicate that we need to focus on ongoing education and encouragement to use our recycling facilities during the coming year.

SOLID WASTE ANNUAL TONNES



Travel

Our operations are located across New Zealand and Australia and staff frequently travel between them. For our South Island operations we operate a fleet of 31 pool vehicles based in Christchurch, Twizel and Manapouri. We also use rental vehicles in conjunction with airline travel.

Vehicle Use

The figures below cover the kilometres travelled by all Meridian pool vehicles, and rental vehicles in New Zealand and internationally. Our total per FTE crept up this year, but is likely to be the result of the increased activity in Australia, the lower Waitaki (for Project Aqua) and Manawatu (for Project Te Āpiti).

Vehicles	2003	2002
Meridian Vehicles (km)	917,006	855,000
Rental Vehicles (km)	199,182	145,000
Total	1,116,188	1,000,000
km/FTE	2,797	2,617
Landcare Benchmark (km/FTE)	2,400	2,500

APPENDIX 1: RESOURCE CONSUMPTION (CONTINUED)

Air Travel

Air travel is again up on last year, and can be attributed to the increased need to travel for growth projects. Kilometres travelled per FTE remain lower than the Landcare benchmark, but we do not want this figure to continue to increase, and encourage the use of technology such as video conferencing as a way of bringing staff together.

Air Travel	2003	2002
International Air Travel (km)	1,739,896	1,363,000
Domestic Air Travel (km)	2,294,737	1,795,000
Total Air Travel (km)	4,034,633	3,158,000
km/FTE	10,112	8,300
Landcare Benchmark (km/FTE)	14,200	15,600

Hydro Spill

The table below provides a summary of spill volumes and occurrences for the period. All values are in GWh.

	Tekapo A	Tekapo B	Pukaki Gate 19	Ohau A	Lake Ohau Weir	Ohau Siphon Ruataniwha	Ohau B (bypass)	Labyrinth Weir	Ohau C (bypass)	Benmore	Aviemore	Waitaki	Manapouri	Total	% lost
PLANT	27.36	0.02	-	-	-	-	-	-	-	-	-	1.46	-	28.84	0.21
OBSTRUCTION	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HIGH FLOW	-	-	-	-	0.19	-	-	-	-	2.22	1.60	-	683.53	687.54	4.69
REGULATORY	-	-	-	-	-	52.87	-	-	-	-	-	-	597.11	649.97	4.45
CONTRACTUAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RECREATIONAL	0.79	-	-	-	-	-	-	-	-	-	-	-	2.53	3.32	0.02
COST	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ECONOMIC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TRANSMISSION CONSTRAINT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HYDRAULIC CONSTRAINT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER	0.67	-	-	-	-	-	-	-	-	-	-	-	-	0.67	-
Total Energy Lost	28.82	0.02	-	-	0.19	52.87	-	-	-	2.22	1.60	1.46	1,283.17	13,70.34	
Produced Electricity	137.22	983.77	-	1,312.17	-	-	1,100.05	-	1,093.55	2,532.76	1,038.67	563.20	5,208.99	13,970.39	
% Lost	17.36	-	-	-	0.01	3.87	-	-	-	0.09	0.15	0.26	19.76	8.93	

APPENDIX 2 – GLOBAL REPORTING INITIATIVE INDEX TABLE

Meridian has incorporated some of the indicators recommended in the Global Reporting Initiative (GRI) sustainability reporting guidelines 2002 in this report, and they are listed below with references to specific pages.

GRI Element/reference	Topic	Page reference
VISION AND STRATEGY		
	Organisational strategy	10
	Sustainability approach	23
	CEO statement	4-9
PROFILE		
	Overview of operations	14-15
	Financial overview	66
	Core business	11
	Customers	24-29
	Suppliers and workforce	53
GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS		
	Governance	62-64, 67-69
	Board of Directors	60
	Management team	58
	Membership of independent organisations	47
	Strategy and performance	12-13
PERFORMANCE INDICATORS		
EC2	Geographic breakdown of operations	14-15
EC2	Market share – retail customers and generation capacity	25
EC4	Payments to suppliers	31
EC5	Salaries paid	31
EC6	Dividends/retained earnings	31
EN3	Electricity consumed	102
EN8	CO ₂ footprint	23
EN10	Solid waste and recycling	103
EN17	Energy efficiency initiatives	28, 102
EN 19	Energy use for travel etc	103
EN25	Impacts of activities and operations on protected and sensitive areas	35
EN26	Changes in natural habitats resulting from activities and operations	35
EN27	Programme for protecting and restoring native ecosystems	34
LA1	Geographical breakdown of workforce	53
LA5	Health and safety recording practices	52
LA6	Health and safety structure	52
LA7	Lost time incidents	52
LA9	Training and education	51
SO1	Monitoring systems and procedures for engaging in dialogue	36, 45
SO4	Awards received	27

VERIFICATION STATEMENT

Objectives, Scope and Process

URS New Zealand Limited has completed an independent evaluation of Meridian Energy's Annual Report for the year ending June 2003. The objective was to verify that the report content is an accurate and comprehensive description of Meridian's performance over the reporting period. In accordance with Assurance Standard AA1000 our focus was to determine whether the report covered all areas of "material" interest to stakeholders.

The complete contents of the report were audited with the exception of the financial statements. We understand that these statements have been audited separately.

The audit process included:

- Review of the final report text to identify all statements of fact and data requiring verification
- Interviews with more than 30 Meridian staff to sight supporting evidence for the report text and discuss content
- Discussion with external stakeholders and Meridian Board members
- Report revisions, as required.

A full report on the verification process and findings was prepared, and is available from Meridian.

Disclosure

URS New Zealand provides some engineering and environmental consultancy services to Meridian. This relationship has not influenced the independence of the verification findings. URS New Zealand has independently verified the environmental/social components of the Meridian Annual Report for the last three years.

Findings

On the basis of the supporting evidence discussed and sighted during our investigations, URS New Zealand verifies (with the exception of the separately audited financial statements and statements of service performance) that the content of the Meridian Energy Annual Report for year ending June 2003 is accurate.

In our opinion the report covers key performance areas that are of significance to stakeholders. It provides a frank and balanced account of Meridian's achievements and also areas that still require additional focus/improvement. In some areas (stakeholder and staff survey results, health and safety, Project Aqua opposition) the discussion of issues could be expanded upon.

The report, and more importantly the underlying sustainability initiatives within the company, would benefit from a clearer set of specific future commitments and performance measures. Annual performance could then be gauged and reported upon according to this framework. This would enhance accountability to stakeholders – who would have a clear understanding of Meridian's future commitments and progress in achieving these.

It was evident throughout the verification process that Meridian staff from across the company, and Board members, are fully committed to their stated challenge – "to be the best performing sustainable energy company in Australasia". The Annual Report reflects this commitment, and places Meridian at the forefront of organisations building strong stakeholder relationships through open, transparent performance reporting.

URS New Zealand Limited
10 September 2003



Gael Ogilvie
Senior Principal



FEEDBACK FORM

We value your feedback

We would like to hear what you think of our report so that we can continue to make improvements for next year. Please share your views by ticking the boxes, or by adding further comments.

	Excellent	Good	Poor
Report presentation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Range of issues covered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Level of information provided	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of information provided	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of diagrams/graphs/tables	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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If you would prefer not to receive a copy of this report next year, please tick the box and write your name below

If you would like to be added to our Annual Report mailing list, please tick the box and complete your details below

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Charles Chauvel
Steven Gentry
Philip Lough
Te Kipa (Kepa) Morgan
Sir Tipene O'Regan
Joan Withers

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