



RENEWABLE

MERIDIAN ENERGY REPORT FOR THE YEAR ENDING JUNE 2005



Meridian Energy



THIS REPORT CONTAINS FINANCIAL DETAIL AND A SHORT COMMENTARY ON MERIDIAN ENERGY'S ACTIVITIES FOR THE 2005 FINANCIAL YEAR. THE ATTACHED CD PROVIDES GREATER DEPTH TO THE WRITTEN MATERIAL. JUST CLICK ON THE ICON TO ENTER THE CD SEARCH NUMBER AND GO STRAIGHT TO THE RELEVANT STORY. THE CD ALSO CONTAINS PDF FILES OF THE WRITTEN REPORT.

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KEEPING NEW ZEALAND NEW

We are pleased to report that Meridian Energy has achieved outstanding progress in the past year.

Highlights include the public response to our commitment to develop only renewable electricity generation; the commissioning of one wind farm, consenting of another, and announcement of a third; further energy efficiency initiatives with our customers; and an excellent financial result that will support future investment in clean generation. Taken together, these achievements have recently allowed Meridian Energy to significantly limit its price rises.

In many ways it has been a watershed year, and the progress we have made reflects a huge effort from everyone at Meridian Energy. Our after-tax profit of \$218.2 million was an excellent result. In a year in which hydrology was poor, with inflows at 87 per cent of the annual average, this outcome was achieved while also ensuring careful management of our storage situation in the wider interests of national security of supply.

Strong revenue growth was driven by high spot prices on the wholesale market in the latter part of the year, primarily created by thermal plant maintenance and increasing concerns over hydrology moving into winter. Previous years' price increases were not repeated at the same level this year. The increase this year brings retail prices to the level where they can support our programme of new renewables generation growth.

The financial market's endorsement of Meridian Energy's performance was reflected in the removal of Standard & Poors' negative credit watch on Meridian Energy.

Disappointing hydrology conditions and high wholesale prices again signalled the urgent need for New Zealand to grow its electricity supply. In the last five years Meridian Energy has invested more than \$500 million in new capacity, and will spend a total of \$100 million on a project to increase the productivity of the Manapouri power station. With new projects such as Project West Wind on the horizon, we are pleased to have delivered a robust result that will allow us to continue investing in new renewable sources of supply.

We have taken the step of defining a bold strategy for future development. In November Meridian Energy announced a commitment to developing only new electricity generation that uses renewable resources.

Meridian Energy believes that much of New Zealand's growth in demand can be met through renewable generation projects. Renewable energy sources have given New Zealand a competitive advantage for the last 100 years. Our aim is to continue to leverage our abundant natural resources – wind and water – to sustain the momentum of economic development while balancing social and environmental considerations.

Reflecting our commitment to a renewables-only position, our annual report has a new format. Where previously we have included a discrete section on sustainability and balance, this has now been integrated into the body of the report, because these values underpin every part of our business. A new section (see pages 7-12) has also been added, outlining our renewables strategy and the key issues we face in delivering on that strategy.

Publicly our position has been supported by a major branding campaign. This has emphasised the critical role renewable resources play in New Zealand's electricity system, and our focus has been on communicating the message that by continuing to develop clean, sustainable electricity generation assets we can keep New Zealand new.

For residential customers we have continued to pilot advanced metering technologies developed for the market by our strategic business unit, Arc Innovations. This technology provides higher levels of accuracy and information quality on power bills. We have also helped customers to be energy efficient, expanding our Energy Saver Vans scheme to include approximately 1,000 households.



WAYNE BOYD AND KEITH TURNER

Energy efficiency was also the central element of a special focus on the farming sector. During the year we promoted a series of energy efficiency products trialled in 2003/04, and packaged them with New Zealand's first dairy farm calculator that is designed to help improve energy usage and milk quality, and reduce costs.

At the corporate customer level, a highlight was the commissioning of an innovative on-site heat plant at Winstone Pulp International's Karioi pulp mill, owned and developed by our Energy for Industry business unit (formerly Meridian Solutions). The plant converts waste from the production process into 12MW of process heat, and is part of a long-term energy supply agreement.

Meridian Energy also launched Business Online to this customer segment, allowing corporates to access and display their energy usage data and costs in a range of report formats.

Another important development was the beginning of negotiations with Comalco for electricity supply beyond 2012. As Comalco is our largest customer, this will be an important focus in the year ahead.

The strongest articulation of our renewables strategy has come through the achievement of several major milestones in Meridian Energy's wind development programme. The Te Āpiti wind farm north of the Manawatu Gorge progressed from first power in July 2004 to full commissioning in late October. Huge local support played a key role in the project's progress, and the community events we held in Ashhurst and Woodville to celebrate Te Āpiti's official opening in December were a highlight of the year for us.

In December 2004 resource consents were granted for the 70MW White Hill wind farm in Southland, a week after the consent hearing, with no appeals.

Public consultation also began, and has since concluded, for the 210MW Project West Wind in Wellington. With a predicted capacity factor of around 47 per cent, Project West Wind has more than twice the average capacity factor of 23 per cent of wind farms overseas. Project West Wind could generate enough electricity to power up to 110,000 average homes, and is an exciting prospect for the year ahead.

We continued to add value to our Australian subsidiary Southern Hydro during the year. This included an amalgamation of all other Australian generating assets to a combined capacity of 736MW, including New South Wales acquisitions made in 2001. Other highlights included completing the 91MW Wattle Point wind farm, finishing the McKay Creek Power Station upgrade, lifting its capacity from 120 to 150MW, and commencing construction of the 12MW Banimboola hydro project, due for completion in October 2005.

Southern Hydro achieved a very good financial performance for the year, delivering an above-plan EBIT in spite of poor hydrology. Forward management of risks through derivatives and weather hedging to reduce exposure to poor hydrology was instrumental in this result.

Interest in Southern Hydro from potential buyers during the year led to the appointment of a financial advisor in June for a possible sale of the company. This reflects the increasingly positive international attitudes to renewable energy.

A key area of focus for New Zealand is addressing ongoing challenges to existing rights to use water for electricity generation. A positive outcome came in November 2004, when the High Court recognised these rights and turned down a declaratory judgment application from the Aoraki Water Trust.

The Waitaki hydro scheme provides around 20 per cent of the nation's electricity supply. While Meridian Energy remains committed to this asset as a generator, we are also continuing to work with communities on a number of irrigation projects that allow further use to be made of water, and a highlight for the year was an important agreement with the Mackenzie Irrigation Group.

The water allocation plan being developed by the Waitaki Catchment Water Allocation Board has potentially serious implications for our electricity supply, and could take years to resolve. Released in February, the draft plan would significantly compromise Meridian Energy's existing rights and operations, and we are seeking a better outcome under the final plan (see page 9).

Meridian Energy has committed significant resources to working with the Electricity Commission during the year, although we believe that there is a need for further clarification of the Commission's functions to provide the market with greater certainty and encourage investment.

Transmission remains a major issue with national implications. While the need to upgrade transmission infrastructure is clear, there are a number of obstacles to progress. Meridian Energy has continued to advocate for major investment in this area and encouraged public discussion of the issue through our series of Electricity Future Forums (see page 38).

In the year to come, we will continue to deliver to our customers' expectations, pursue new growth opportunities, and for our staff, leverage new people management services and improve health and safety programmes.

Our wind programme is poised to achieve more milestones. White Hill is expected to be completed and we hope to successfully consent Project West Wind in Wellington.

During the year several of Meridian Energy's senior Board members retired, including Chairman Dr. Francis Small and others who have been with Meridian Energy since its establishment in 1999. We would like to acknowledge the extraordinary contribution these Board members have made to the company during these formative years, in which Meridian Energy has doubled in size to \$4.3 billion worth of assets and grown into an energy company with a distinctive identity – one committed to keeping New Zealand new.



CHAIRMAN
Wayne Boyd



CHIEF EXECUTIVE
Keith Turner



RESPONSIBLE



CD SEARCH >

05

"OUR SMALL MERIDIAN ENERGY CREW AT MANAPOURI IS FOCUSED ON SAFETY. WE'RE VERY PROUD OF WHAT WE DO DOWN HERE, AND BEING IN THE MIDDLE OF FIORDLAND NATIONAL PARK IS A BIT OF A THRILL." JOHN TWIDLE

EXECUTIVE SUMMARY

- We achieved an excellent after-tax profit of \$218.2 million.
- We announced our commitment to generating electricity by using only renewable resources, and launched an integrated brand campaign to communicate this commitment.
- We presented evidence in support of our submission on the Water Allocation Board's draft plan.
- Dr Francis Small retired as Chairman. We welcome Wayne Boyd as his replacement.
- We won the NBR Sponsorship of the Arts Award for our partnership with the Royal New Zealand Ballet, and won the Institute of Chartered Accountants of New Zealand Supreme Award for our 2004 Annual Report.
- We achieved ACC Tertiary Status for Health and Safety procedures on all sites.
- Key strategies and processes were developed to support the manager/staff relationship, and learning and development opportunities were increased for all staff.
- The Te Āpiti and Wattle Point wind farms were completed, White Hill wind farm was consented, and we began public consultation for Project West Wind in Wellington.
- There was significant success in portfolio optimisation workstreams.
- The first refurbished turbine under the Manapouri Half-Life Refurbishment Project was commissioned.
- The Energy Saver Vans scheme was expanded to provide free energy efficiency products to approximately 1,000 customers in Christchurch, Oamaru, Dannevirke and Waipukurau.
- We introduced a rewards programme to recognise customer loyalty, and awarded two energy-efficient Toyota Prius cars.
- Business Online was launched. It is a web-based reporting service that allows corporate customers to see the financial implications of changing electricity consumption.
- Customers in selected areas piloted automated meter management systems through our strategic business unit, Arc Innovations.
- A joint project with Ngāi Tahu and Te Waiiau Mahika Kai Trust to restore culturally and environmentally significant wetlands in the Jericho Valley was opened.
- The Te Āpiti Community Fund was announced, providing \$100,000 for projects in Ashhurst and Woodville over the next three years.

| STATEMENT OF CORPORATE INTENT PERFORMANCE COMPARISON TABLE | | | |
|--|--------|---------|--------------------------|
| RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS AS AT 30 JUNE 2005 | TARGET | ACTUAL | FIND MORE DETAIL ON PAGE |
| Equity to total assets | 56.8% | 56.8% | 43 |
| FINANCIAL PERFORMANCE MEASURES FOR THE YEAR ENDED 30 JUNE 2005 | TARGET | ACTUAL | FIND MORE DETAIL ON PAGE |
| EBITDA to Total Revenue | 28.6% | 33.4% | 40 |
| Return on Equity including Revaluation | 7.4% | 9.0% | 40 |
| Gross Debt to Gross Debt plus Equity | 37.2% | 36.1% | 40 |
| EDITDA Interest Cover | 4.9x | 6.1x | 40 |
| NON-FINANCIAL PERFORMANCE MEASURES FOR THE YEAR ENDED 30 JUNE 2005 | TARGET | ACTUAL | FIND MORE DETAIL ON PAGE |
| Plant availability | 93.3% | 93.9% | - |
| Forced outage factor | 0.6 | 0.14 | 23 |
| Number of lost time incidents | 0.6 | 0.55 | 29 |
| Calls answered within 20 seconds | 80% | 83% | 24 |
| Residential customer satisfaction – excellent, very good, good | >80% | 84.6% | 25 |
| Complaint resolution (average days to resolve) | <10 | 14.21 | 24 |
| Switch outs that are compliant with industry standards | 100% | 99.996% | - |
| Staff satisfaction – excellent, very good, good | >80% | 84.71% | 27 |



REMARKABLE



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02

"PROJECT WEST WIND IS TRULY A UTILITY-SCALE, WORLD-CLASS WIND FARM DEVELOPMENT OPPORTUNITY IN WEST WELLINGTON. IT IS BIG ENOUGH TO POWER OUR ENTIRE CAPITAL CITY WITH RENEWABLE ENERGY."

ANDREW ROBERTSON



***OUR GREATEST IMAGINABLE CHALLENGE:
TO BE THE BEST PERFORMING RENEWABLE ENERGY COMPANY IN AUSTRALASIA.***

MERIDIAN ENERGY IS COMMITTED TO DEVELOPING RENEWABLE-ONLY SOURCES OF GENERATION TO HELP MEET NEW ZEALAND'S INCREASING DEMAND FOR ELECTRICITY. OUR GOAL IS TO DELIVER VALUE FOR OUR CUSTOMERS AND SHAREHOLDER THROUGH THIS COMMITMENT TO RENEWABLE-ONLY GENERATION AND END USE ENERGY EFFICIENCY.

Electricity is the lifeblood of a modern economy and an accepted part of life. New Zealand's population and economy have expanded – and continue to grow – at the same time as Maui gas supplies are diminishing, putting pressure on the supply of electricity. In this context, it is critical to develop new sources of electricity generation, as well as working with industry and consumers towards improved energy efficiency.

Meridian Energy believes that much of New Zealand's growth in electricity demand can best be met through renewable generation projects. New Zealand is blessed with excellent wind and hydro resources that have provided the nation with a competitive advantage for more than a century, and they hold significant further potential.

As well as being a more environmentally sustainable option, we believe that renewable energy is also the most cost competitive. The cost of generating by coal, gas or imported LNG is currently and likely to remain higher than renewable generation and carbon taxes will make them higher still. Renewable generation also provides a hedge for New Zealand against carbon being priced into the global economy and reduces New Zealand's reliance on imported global fossil fuel supplies.

Meridian Energy's generation portfolio consists of wind and hydro resources, which are highly complementary. A key part of our strategy is to maximise yield from existing assets. Some of the plant improvements made in the 2004/05 year that are discussed in the Responsibilities section (see pages 33-35) are examples of this. Critically, successful management of our existing assets underpins our ability to invest in new plant – both wind and hydro projects which will in turn benefit our customers and shareholders. The challenge lies in developing New Zealand's precious natural resources in a way that balances social, environmental, cultural and economic considerations.

No matter what road New Zealand follows in terms of expanding the supply of electricity, the days of comparatively low electricity prices internationally are over. Higher prices are required to fund investment in new generation and in new and more efficient technologies. They are also an important mechanism for signalling the need for all New Zealanders to become more energy efficient to limit unnecessary growth in demand.

There are significant challenges ahead for Meridian in delivering on this strategy – the robustness of transmission infrastructure, water allocation issues and increasing industry regulation – which are explored in detail in the next sections. To the extent that energy is critical to New Zealand's future, these are national issues as well as business risks for Meridian Energy.



THE ELECTRICITY COMMISSION WAS ESTABLISHED IN SEPTEMBER 2003. AS A CROWN ENTITY, THE COMMISSION REGULATES THE OPERATION OF THE ELECTRICITY INDUSTRY AND WHOLESALE AND RETAIL MARKETS IN ACCORDANCE WITH GOVERNMENT POLICY AND THE PROVISIONS OF THE ELECTRICITY ACT.

The Electricity Commission (EC) marked its first full financial and calendar years in operation during the 2004/05 year. During this time it has progressed a large and highly varied work programme ranging from urgent issues such as transmission investment and reserve generation, through to analysis of market functions and technical standards, policies and procedures.

Meridian Energy has worked intensively on regulatory issues in a wide range of areas, making a major contribution to work streams through the involvement of our staff on advisory groups and company submissions on proposed initiatives. Our approach has been to engage proactively with the EC and to provide information and analysis to facilitate high quality analysis and effective decision-making.

While we have enjoyed a productive relationship with the EC overall, a disappointment during the year was its decision regarding the allocation of costs of the High Voltage Direct Current (HVDC) cable that links the North and South Islands, which formed part of the guidelines Transpower must follow when developing its transmission pricing methodology.

The EC initially proposed to allocate HVDC costs across the electricity sector, in line with a similar approach for the High Voltage Alternating Current (HVAC) interconnected network transmission pricing. However, a late decision was made by the EC to allocate these costs to existing South Island generators only. This decision will be revisited as a result of legal action taken by Meridian Energy and Contact Energy.

The EC's work programme in key areas such as hedge markets, vertical integration and transmission is creating significant uncertainties in the current investment environment. This is resulting in important investment decisions being held up until policies and the EC's recommendations in terms of regulations, roles, models or guidelines are clear. There are also ambiguities about the EC's role in the market relative to that of the Commerce Commission.

In the year to come Meridian Energy looks forward to continuing a productive relationship with the EC, but believes that improving the transparency of its role and processes and facilitating an environment that is more conducive to investment must be high among its priorities.



MERIDIAN ENERGY'S EIGHT HYDRO POWER STATIONS ALONG THE WAITAKI RIVER MEET ABOUT 20 PER CENT OF THE NATION'S ELECTRICITY NEEDS. THE WAITAKI CATCHMENT ALSO REPRESENTS OVER 60 PER CENT OF NEW ZEALAND'S HYDRO STORAGE, WHICH IS VITAL FOR REDUCING THE RISK OF SHORTAGES IN DRY YEARS.

For this reason, challenges to Meridian's existing rights to draw water from the Waitaki Catchment for electricity generation have national implications.

The Waitaki Catchment Water Allocation Board was established in September 2004 by a special amendment to the Resource Management Act (RMA), and was given one year to prepare a water allocation plan. This was in response to a number of competing applications to use water from the Waitaki Catchment for alternative uses.

Meridian Energy was disappointed at this approach to resolving water allocation issues. Not only has it called into question the reliability of consents issued under the RMA, threatening the operation of existing assets, but the uncertainty and precedent this creates have the potential to represent a major deterrent to further investment in hydro generation assets anywhere in New Zealand. The intervention has also imposed significant cost on Meridian Energy, and other water users, and the Waitaki Catchment communities.

A major workstream for Meridian Energy this year has been the preparation of extensive evidence as part of our submissions on the Water Allocation Board's draft plan. Released in February, the draft plan proposed minimum flows of 200 cumecs between May and October, and 230 cumecs from November to April – well above the 120 cumecs in Meridian Energy's existing resource consent.

Little scientific evidence has been produced to justify these proposed levels. Meridian Energy normally maintains flows above the current 120 cumec minimum. In its natural state the river's flows dropped as low as 80 cumecs in dry years. In contrast, the flows proposed under the draft plan would result in a near uniform flow down the river, which would be very different from its natural state. This would significantly reduce current water storage, which we use to match energy production to meet peak daily and winter demand. Government and EC evidence showed this would increase national electricity prices and the volatility of those prices.



As well as the significant body of research undertaken for Project Aqua, Meridian's submissions drew on work by independent scientific and environmental experts. Representing a number of interests, our submissions proposed a minimum flow regime that would preserve our operational flexibility while still retaining amenities and intrinsic values, and make provision for alternative uses, including irrigation.

If the final water allocation plan is similar to the draft, the impact on New Zealand will be significant: our electricity supply will reduce at a time when it needs to expand to meet growth in demand.

The increased risk of shortage would be reflected in higher wholesale prices, particularly in winter when electricity demand is higher. This would translate into higher retail prices for consumers.

A different challenge to Meridian Energy's water rights during the year was the Aoraki Water Trust's application to the High Court for a declaration that could enable them to divert significant volumes of water out of the catchment for irrigation purposes. Meridian Energy successfully opposed the Trust's application, with the High Court declining the Trust's application in November 2004.

While Meridian Energy opposed the Aoraki Water Trust's application because it could have significantly reduced our ability to generate electricity, we are committed to working with local communities to find solutions to their irrigation aspirations. In North Otago we have played an instrumental role in bringing to reality a major new irrigation scheme currently under construction. In stage one, the scheme will bring water to 10,000 hectares. We are also involved in investigating other irrigation opportunities in South Canterbury with the South Canterbury Irrigation Trust.

A highlight for the year was the signing of a key agreement with the Mackenzie Irrigation Group. Under the agreement, Meridian Energy will not oppose an application for the Group to take water in the upper Waitaki catchment, provided it meets specific parameters regarding timing, geography and water volumes.

While we continue to work with others to reach solutions that enable greater use to be made of water, allocation remains a national issue, with competition for water resources not confined to the Waitaki. To address policy issues in this area the Government has initiated the Water Programme of Action.

Meridian Energy believes this workstream will be of great importance to all New Zealanders.

NEW ZEALAND'S NATIONAL GRID IS THE BACKBONE OF OUR ELECTRICITY SYSTEM. WITH GENERATION ASSETS SPREAD THROUGHOUT THE COUNTRY, IT IS THE LINK THAT CONNECTS THE COUNTRY'S DISPERSED FUEL RESOURCES WITH THE CONSUMER. IT ALSO HAS A KEY ROLE IN ENABLING THE GENERATION MARKET TO BE COMPETITIVE.

The interconnection of generators through the national grid is also a vital contributor to the reliability of the system and security of supply. This is particularly the case in New Zealand, where we have a high level of dependence on hydrological conditions, which vary from season to season and year to year. While New Zealand's transmission infrastructure has served the country well for the last 50 years, in the last two decades it has not had the investment needed to match growth in electricity demand. As a result, transmission infrastructure is now under significant pressure.

To play our part, Meridian Energy has worked closely with customers, providing financial incentives for them to shift some of their electricity load into off-peak periods. We also have arrangements with some industrial customers to switch on their own generation at short notice if high demand on the grid leads to a "control period" of constrained supply, or, if they have capacity, to "export" power onto the grid locally.

However, these are short-term actions that do not substantially ease the burden on the national grid. While distributed generation has a role to play it is a complement to transmission investment, not a substitute for it.

We believe there are no large scale alternatives to transmission lines if we want energy supplied to our homes and workplaces at reasonable cost and high reliability.

Meridian Energy believes the National Grid must be designed and built to enable both regional distributed generation and access to lower cost renewable resources, ensuring a more sustainable and resilient electricity system.

Transpower has estimated that upgrading the national grid could cost up to \$1.5 billion in new investment between now and 2012. Among key transmission projects requiring investment are the upgrading of the High Voltage Direct Current (HVDC) link that carries electricity across Cook Strait, and the proposed 400kV transmission lines into Auckland and Christchurch.

But while the need to upgrade transmission infrastructure is clear, there are a number of obstacles to moving forward with investment. The Resource Management Act brings with it a number of difficulties for national projects, especially those that span more than one region, and a wide range of agencies are placing demands on the shape that new transmission infrastructure should take.

At a time when New Zealand urgently needs to invest in transmission, the development of the Grid Investment Test (GIT) by the Electricity Commission has created new challenges. The GIT involves a proposal-by-proposal cost-benefit analysis of individual investments, requires consideration of generation and transmission proposals together, and the consideration of transmission alternatives in each case.

The key flaw with this narrow cost-benefit approach is that it is not framed by a strategy or vision for the grid. Rather, it has the potential to result in a series of isolated decisions driven by the costs and benefits that can be quantified case by case, without allowing for broader considerations to be taken into account for the overall public good.

The risk to consumers is that rather than correcting the under investment in the national grid, the EC's GIT over time may result in a regionalised grid, impacting market competition and leading to a loss of options for generation investment.



This risks undermining sustainable development and retail competition. The EC's decisions on transmission investment projects or subsidising transmission alternatives may well predetermine future generation fuels and options by eliminating geographically distant but cheaper renewable options, and require permanent consumer controls on peak consumption.

Meridian Energy believes that rather than making transmission investments on an incremental basis, a more strategic approach is needed that recognises that:

- Generation investment options are valuable – the future locations and fuel sources of New Zealand's electricity are not certain and new technology is likely to emerge over the life of transmission assets.
- Lines need to be erected, or at least options to build need to be secured, in advance of decisions about generation as generally timelines for line development are longer.

- The primary regulation of investment in the electricity sector is via the Resource Management Act (RMA). The operation of the RMA, particularly in relation to transmission, tends to significantly restrict the ability of infrastructure developers to seek variations to consents on an incremental basis. This means that incremental increases in capacity may not be practical. The GIT should recognise the value of building capacity for the future.
- Energy efficiency helps with reducing demand and should be encouraged, but it is not a replacement for investment in transmission.

New Zealand cannot afford to delay making decisions on transmission. While the country's need for investment in new electricity generation is clear, any new projects remain reliant on an effective, efficient national grid to deliver electricity to consumers. An effective national grid in turn promotes competition for investment in new generation by enabling many options to be measured against each other. Rather than ruling options out, now is the time to start ruling some in.



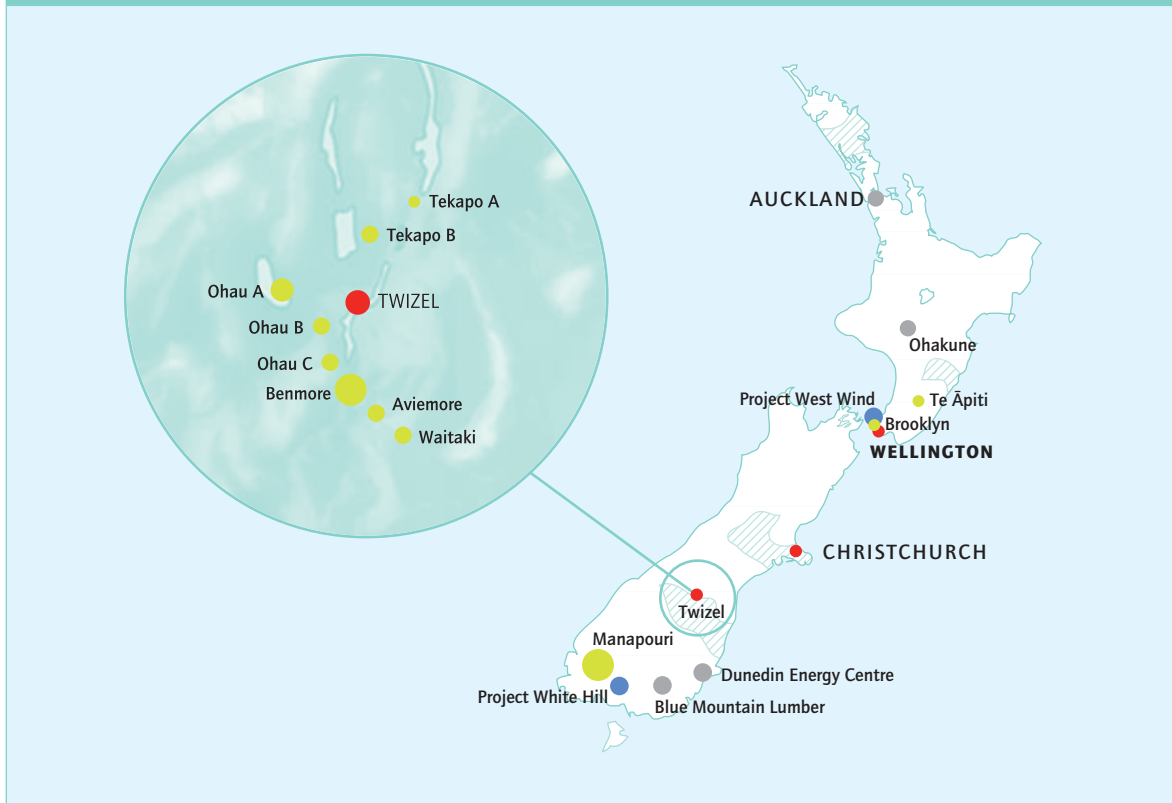
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GO TO THE CD FOR MERIDIAN ENERGY'S
POWER STATIONS' STATISTICS

AUSTRALIA



NEW ZEALAND



KEY

Plant Capacity Size (MW) at a glance

- 1 - 50MW
- 51 - 250MW
- 251 - 500MW
- 501 - 750MW

1MW supplies approximately 500 average homes

- Meridian Energy Assets
- Proposed developments
- Southern Hydro Assets

- Meridian Energy Offices
- Energy for Industry Energy Centres
- ▨ Areas where Meridian Energy is the incumbent electricity retailer



REGENERATE



CD SEARCH >

09

"MERIDIAN ENERGY'S COMMITMENT TO THE ENVIRONMENT AND LONG-TERM SUSTAINABILITY IS ABSOLUTELY ESSENTIAL TO OUR BUSINESS. IT'S NOT SOMETHING YOU DO TOMORROW AND THEN MOVE ON FROM. IT'S A PART OF OUR BUSINESS; A PART OF OUR PHILOSOPHY." DAVE HERRICK



DR KEITH TURNER
Chief Executive

Keith has 36 years' experience in the electricity industry and since 1985 has held a number of senior executive positions in ECNZ and its predecessor NZED, before becoming Chief Executive of Meridian Energy. He has had extensive involvement in reform of the industry, including being on the Transpower Establishment Board, an M-Co Founding Director, a member of the Contact Energy Establishment Team and a member of the Market Surveillance Committee before leading the establishment of Meridian Energy in 1998.

GRENVILLE GASKELL
New Zealand
Operations Director

Grenville joined Meridian in 2002 as Retail Director. He 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 Operations team is responsible for maximising the long term value of our New Zealand business. This is achieved by optimising Meridian Energy's portfolio with excellent asset management, wholesale trading, and building long term valuable relationships with customers by providing quality solutions that exceed their expectations.

HELEN BREMNER
General Manager,
Arc Innovations

Helen has been a member of the executive management team since Meridian Energy was formed in 1999. Helen has significant international experience in the utility industry focusing on deregulation and innovation opportunities.

Prior to joining Meridian Energy, Helen was General Manager with another New Zealand utility. Helen also spent ten years as a strategy management consultant focusing on the energy, transportation and healthcare industries in the USA and Australia.

TEAM ROLE

Arc Innovations is a strategic business unit focused on developing and delivering advanced metering solutions to energy companies for the non-half hourly (NHH) market to enhance service delivery and enable new customer relationship models.

KEN SMALES
Growth & Development
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 NZED, Ken has more than thirty years' experience in the New Zealand electricity generation industry including design, construction/ commissioning and operations/ maintenance. Ken was Generation Director from the company's establishment until taking up his Growth and Development role in January 2004. He is also on the boards of DamWatch and Southern Hydro.

TEAM ROLE

The Growth and Development team is responsible for all major new asset projects from investigation to build and handover to NZ Operations. The team also includes Natural Resources who manage and enhance Meridian Energy's access to water, and consent new generation projects.

JASON MCDONALD
Executive Advisor
to the Chief Executive

Jason has held a number of positions across Meridian Energy's information technology, special projects, and strategy initiatives. He has been responsible for managing business expansion opportunities including Meridian Energy's venture investment portfolio and direct investments in new technology companies.

Prior to joining Meridian Energy, Jason was part of the establishment team that designed and developed Meridian Energy in its interim development group stages, and he has had a variety of trading, wholesale market and engineering roles within the energy industry.



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.

ARI SARGENT
Strategy Director

Ari has extensive experience in the New Zealand electricity industry. Prior to taking on his current role, Ari spent several years as Meridian Energy's Risk Portfolio Director managing electricity trading and risk. Before joining Meridian Energy, Ari held numerous roles with ECNZ, including Wholesale Market Manager. Ari has spent a good part of the past decade involved with electricity industry reform, both internally establishing organisational trading and risk management capabilities, and externally in market rule development. Ari is currently a member of the Electricity Commission's Security Advisory Group.

TEAM ROLE

The Strategy team is responsible for the ongoing development of Meridian Energy's strategy by providing advice and recommendations on strategic issues and making smarter choices to best position the company within the energy industry.

JAMES HAY
General Counsel

James has been General Counsel and Company Secretary of Meridian Energy since commencement of operations in April 1999. Prior to joining Meridian Energy, James worked in private legal practices in government and in-house business roles.

TEAM ROLE

The General Counsel team oversees and provides legal and regulatory advice to all parts of the Group. The team is also responsible for the Group Secretariat function and managing relationships with regulatory bodies such as the Electricity Commission and the Crown as shareholder.

PAUL SMART
Chief Financial Officer

Paul has had a successful business career, including his 12 years with Sky Television where he was Chief Financial Officer. During this time, Paul was a key member of the team that established the dominant pay TV force in New Zealand, and Sky's subsequent listing as a top 10 company on the NZSX. Paul was also instrumental in Sky's listing on the NASDAQ Stock Exchange in the United States and the Australian Stock Exchange. Paul has also held consulting and company director roles.

TEAM ROLE

The Chief Financial Officer and his team are responsible for supporting the organisation's growth plans, Business Planning, Finance, Taxation, Treasury Services, Enterprise Resourcing and Enterprise Risk.

CHRIS JONES
People and Performance Director

Chris joined the team from the UK where he gained extensive experience in HR in senior management roles and as a consultant – the latter primarily in the project management, engineering and construction fields. Chris was very involved in the people side of the transition of the UK railways to private ownership and the subsequent development of key organisations created after the change, as well as working with senior management teams across a broad spectrum of businesses. In recent years, he has built upon his own sports coaching experience to develop effective managerial coaching processes for individuals and teams.

TEAM ROLE

The People and Performance team is focused on maximising the effectiveness of our people through development and direct support – the team's own effectiveness will be measured by the confidence and trust placed in them by our people.

**WAYNE BOYD**

Chair

Wayne Boyd has established himself as a professional director after careers in law and investment banking.

Current directorships include Telecom Corporation of New Zealand Limited, Auckland International Airport Limited, Forsyth Barr Limited and Vulcan Steel Limited.

Wayne is also a member of the Fairfax New Zealand Advisory Board. Wayne recently retired from Ngāi Tahu's commercial boards after more than 10 years' service.

ANNE BLACKBURN

Anne Blackburn has been a senior executive in the Bank of New Zealand (BNZ) since 1996.

Prior to the BNZ, she spent 12 years in international investment banks in New York and London, as well as five years in the New Zealand public service with Treasury and Foreign Affairs.

Anne is Deputy Chair of AgResearch, a director of its subsidiary Celentis, of the Technical Advisory Board to the Export Credit Office, and of Wellington Regional Holdings and each of its subsidiaries.

TIM LUSK

Tim Lusk has been an executive in Telecom New Zealand Limited since 2002.

Prior to Telecom, he held executive positions in Transpower New Zealand Limited and Power New Zealand Limited. His accountabilities ranged from engineering development, network pricing, system operations, marketing, customer relations and electricity market development.

Tim has had extensive experience in public and private sector energy projects at project directorship level.



KEPA MORGAN

Kepa Morgan joined the Board of Meridian Energy in November 2002.

He is Associate Dean Maori 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 Maori asset development (marae and papakainga).

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.

ANNE URLWIN

Anne Urlwin is a professional director, chartered accountant and business consultant.

She is a director of Airways Corporation of New Zealand Limited, Landcare Research New Zealand Limited, New Zealand Domain Name Registry Limited, and New Zealand Cricket. She is a board member of the New Zealand Racing Board and serves on the Council of the Christchurch College of Education.

Anne is a former Chair of Red Bus Limited and Brackenridge Estate and Deputy Chair of Timberlands West Coast Limited. Anne also held the position of director of Trustbank Canterbury Limited.

RAY WATSON

Ray Watson is the former Chief Executive of Ngāi Tahu Development Corporation – a position he held from 2001 until early 2005.

Previously he was Chief Executive of Lakeland Health and he has an extensive clinical and management background in mental health services.

Ray currently chairs Ngāi Tahu Communications Ltd, Te Rūnaka o Arowhenua and He Oranga Pounamu.

Ray was previously a ministerial appointment to the New Zealand Maori Arts and Crafts Institute, the National Advisory Committee on Health and Disability Services, the Mental Health Commission Advisory Board and the Otago District Health Board.

THE PAST YEAR HAS BEEN A LANDMARK YEAR FOR MERIDIAN ENERGY. IN THE GOVERNANCE AREA THE MOST VISIBLE CHANGE WAS THE RETIREMENT OF OUR FOUNDING CHAIRMAN, DR FRANCIS SMALL, AND THE APPOINTMENT OF WAYNE BOYD IN HIS PLACE. WITH THE RETIREMENT OF OTHER SENIOR BOARD MEMBERS, WAYNE NOW LEADS A LARGELY NEW TEAM OF DIRECTORS.

The following sections provide more detail about our corporate governance framework, which ensures the company is effectively managed and our statutory obligations are met.

MERIDIAN ENERGY LIMITED

Meridian Energy is a limited liability company and a State-Owned Enterprise (SOE) under the State-Owned Enterprises Act 1986. Consistent with the Act, Meridian Energy'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.

As an SOE, all voting stock is owned by the Crown. The Crown's shares are held in equal proportions by the Minister of Finance and the responsible Minister as appointed by the Prime Minister from time to time.

The Board recognises the importance of organisational culture and the Company's identity and character in maintaining its competitive advantage and distinctive competencies. To this end, the Board supports the Meridian Way as the cornerstone values of the Company and each Meridian Energy director agrees to act in accordance with its principles.

INDEPENDENCE OF MERIDIAN ENERGY'S BOARD

The Board can comprise up to nine non-executive directors, including the Chairman, and is appointed by shareholding Ministers. Under the Company's 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.

In the past year Sue Sheldon, Steven Gentry, Sir Tipene O'Regan and Dr Francis Small retired from the Board. Charles Chauvel resigned to stand in the 2005 election. Joan Withers resigned to take up a Chief Executive appointment.

All new Board members underwent a comprehensive induction process to enhance their understanding of the industry and Meridian's business, including familiarisation tours of Meridian's assets and operations with the Chief Executive and Chairman.

Meridian Energy's Board has adopted a strict policy to maintain the independence of external auditors. Following Section 29 of the Public Finance Act 1989 the Auditor-General has appointed Deloitte to audit Meridian Energy on his behalf. The Company ensures that Deloitte is used only to perform audit/assurance work for the Group.

MERIDIAN ENERGY BOARD'S RELATIONSHIP WITH MANAGEMENT

There is an excellent working relationship between Meridian Energy's Board and management. It is underscored by a clear understanding of the respective roles of Board and management, with a shared commitment to the culture and success of the business.

All Board authority conferred on management is delegated through the Chief Executive. The Board agrees to the levels of sub-delegation immediately below the Chief Executive and throughout the Company.

ROLES AND RESPONSIBILITIES OF THE BOARD

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 performance and succession planning
- ensuring that Meridian adheres to high standards of ethics and corporate behaviour.

More generally the Board meets to review and/or 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.

The Board conducts a self-evaluation each year, which examines the performance of the Board, the Chairman and each director.

BOARD AND COMMITTEE MEETINGS

The Board will normally hold up to 11 scheduled meetings per year.

In the 2004/05 year the Board met 13 times, reflecting the number of special projects and major decision points during that period.

To ensure efficiency the Board has delegated some of its roles to Board committees. Board committees observe the same rules of conduct and procedure as the Board unless the Board determines otherwise. In appointing directors to a particular Committee, the Board will consider the balance of skills, experience and other qualities required for that committee.

During the year the Board has four standing committees as outlined below. The Chairman is Chair of the Governance and Special Issues Committee and an ex-officio member of all other committees. The Audit and Finance Committee and Risk and Compliance Committee are not chaired by the Chair of the Board.

The **Audit & 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, major capital expenditure projects and funding arrangements.

The **Risk & 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 that 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 & Finance Committee.

The **Remuneration & Human Resources Committee** sets the principles and standards for remuneration structure, policy and practice and human resources policy. It approves company wide remuneration policy and reviews remuneration of senior executives as well as reviewing the succession strategy and conditions of employment.

The **Governance and Special Issues Committee** represents the Board in response to situations requiring immediate resolution. 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 Officer regarding Meridian Energy issues or business.

Other committees are formed for specific purposes and disbanded as required. During the current financial year the Aqua Committee was disestablished and a Comalco Renegotiation Committee was established.

The table below outlines the meetings held and director attendance for the 2004/05 year.

| BOARD AND COMMITTEE COMPOSITION (AS AT 30 JUNE 2005) | | | | | | | | | |
|--|-----------|--------------|------------------------|--|---------------------------------|--------------------------------------|--|--|---|
| MEMBER | APPOINTED | RESIGNED | Board (13 Meetings) | Governance & Special issues (2 meetings) | Audit & Finance (7 Meetings) | Remuneration & HR (4 Meetings) | Risk and Compliance (4 Meetings) | Aqua Disestablished 7 Dec 05 (2 Meetings) | Comalco Renegotiation (1 Meeting) |
| Dr. Francis Small | Apr 1999 | 30 June 2005 | Chair (12) | Chair (1) | | 1 | | | |
| Susan Sheldon | Apr 1999 | 31 Dec 2004 | 7 | | Chair (4) | | | | |
| Steven Gentry | Apr 1999 | 30 Apr 2005 | 10 | Chair (1) | 5 | | Chair (5) | Chair (2) | |
| Sir Tipene O'Regan | Apr 1999 | 31 Mar 2005 | 6 | | | 2 | | | |
| Joan Withers | Apr 1999 | 30 June 2005 | 13 | 2 | | Chair (2) | | | |
| Charles Chauvel | Apr 2002 | 28 Feb 2005 | 8 | 1 | | | 3 | | |
| Kepa Morgan | Nov 2002 | | 13 | | | 2 | 2 | 1 | |
| Anne Blackburn | June 2004 | | 13 | | 7 | Chair (2) | | | |
| Anne Urlwin | Jan 2005 | | 5 | 1 | Chair (3) | 1 | | | 1 |
| Wayne Boyd | Apr 2005 | | 4 | 1 | | 1 | | | Chair (1) |
| Tim Lusk | June 2005 | | 1 (2 as observer) | | 1 (as observer) | | | | 1 (as observer) |
| Raymond Watson | June 2005 | | | | | | | | |

MERIDIAN ENERGY'S PERFORMANCE IS PRESENTED WITHIN SIX KEY AREAS – GROWTH, CUSTOMERS, PEOPLE, ENVIRONMENT, RESPONSIBILITIES AND REPUTATION. THIS IS A CHANGE IN FORMAT FROM PREVIOUS YEARS WHERE KNOWLEDGE AND SUSTAINABILITY AND BALANCE WERE INCLUDED IN WHAT WERE COLLECTIVELY REFERRED TO AS THE EIGHT POWERFUL THOUGHTS. KNOWLEDGE AND SUSTAINABILITY UNDERPIN ALL OUR ACTIVITIES SO ARE THEREFORE SPREAD THROUGHOUT THE SECTIONS.



22 GROWTH



24 CUSTOMERS



27 PEOPLE



30 ENVIRONMENT



33 RESPONSIBILITIES



37 REPUTATION



THE CD ATTACHED TO THE FRONT INSIDE COVER PROVIDES A GREATER INSIGHT INTO THE STORIES THAT ARE TOUCHED UPON IN THIS WRITTEN REPORT. YOU WILL SEE REFERENCES TO THE CD THROUGHOUT THE REPORT, SO THE TWO SHOULD IDEALLY BE VIEWED TOGETHER.

PROVIDING PART OF OUR ANNUAL REPORT DIGITALLY SUPPORTS OUR RENEWABLE ENERGY POSITION AND SUSTAINABILITY BELIEFS, AND PROVIDES THE READER WITH AN OPPORTUNITY TO INTERACT WITH MERIDIAN PEOPLE.

IF YOU WOULD LIKE TO COMMENT ON THIS NEW FORMAT, OR ANY OTHER ASPECT OF THE REPORT, PLEASE EMAIL TO ANNUAL.REPORT@MERIDIANENERGY.CO.NZ

AS WELL AS IMPROVING OUR MANAGEMENT OF EXISTING ASSETS TO EXTRACT MORE VALUE FROM THEM, WE HAVE COMPLETED SIGNIFICANT NEW RENEWABLE GENERATION MILESTONES AND ADVANCED THE PLANNING FOR POTENTIAL FUTURE PROJECTS.

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

PROGRESS

- Completing the Te Āpiti and Wattle Point wind farms, consenting the White Hill wind farm, and beginning public consultation for Project West Wind in Wellington
- Ongoing improvements to our Australian subsidiary, Southern Hydro, in the lead up to a possible sale in the year to come
- Significant success in portfolio optimisation workstreams, contributing to the year's excellent financial result
- Commissioning the first fully refurbished turbine with new runners and mechanics under the Manapouri Half-Life Refurbishment Project
- A forced outage factor of only 0.14 per cent for our hydro plant.

HIGHLIGHT

The Te Āpiti wind farm is Meridian Energy's first major wind project to be fully commissioned. Te Āpiti's 55 turbines produce 90MW of electricity – enough for up to 45,000 average homes.

FUTURE

Potential consenting of Project West Wind; continued focus on portfolio optimisation; further investigation of potential new generation projects; investment in business expansion.

NEW GENERATION

Wind

In a watershed year for the wind programme, Meridian Energy has completed wind farms in New Zealand (Te Āpiti) and Australia (Wattle Point) with a combined generating capacity of 181MW, consented the 70MW White Hill wind farm in Southland, and begun consultation for the 210MW Project West Wind.

Hydro

We have continued to investigate potential new hydro projects. Of particular note this year has been the completion of pre-feasibility studies for a North Bank Tunnel concept on the lower Waitaki River. This would involve a 36km tunnel carrying water from Lake Waitaki to an underground power station at Stone Wall, generating between 210 and 260MW of electricity. The proposal was advanced so that a hydro allocation could be considered for the lower Waitaki, something not previously included in the Waitaki Catchment Water Allocation Board's draft plan.

Our hydro expertise has also been brought to bear in our Australian subsidiary Southern Hydro. Adding value in the lead up to a possible sale of the company in the year to come, New Zealand staff provided engineering and commercial support for a number of Southern Hydro's developments. Southern Hydro recently completed the 30MW McKay Creek Power Station upgrade and has

almost completed the 12MW Banimboola Power Station that draws water from the Dartmouth regulating pond. The planned Bogong project would generate a further 130MW of power using water from the McKay Creek Station via a 5.7km tunnel.

Since the acquisition of Power Facilities (April 2001) and Southern Hydro (May 2003) and subsequent merger, Meridian Energy has extended the capacity and improved the performance of the assets of the Southern Hydro group. Southern Hydro has in turn been a contributor to the viability of Meridian Energy's New Zealand wind development programme, particularly through establishing economies of scale. Meridian Energy has also benefited from Southern Hydro's skill sets.

PORTFOLIO OPTIMISATION

Building on the work done to date on portfolio optimisation, we have made significant further progress this year. Portfolio optimisation involves determining how we can maximise the yield from our existing asset base through a range of strategies.

An example of this in practice is the refurbishment of Meridian Energy's Manapouri power station. When complete, the refurbishment of Manapouri will return the 33-year-old power station to near-to-new condition, improve utilisation of the available water resource and increase its generation capacity by up to 75 additional gigawatt hours per year. In May 2005, the first of



seven generators was recommissioned, with full mechanical refurbishment and runner installation, and a new hydrology management package developed – a significant milestone in the completion of the Manapouri Power Station Half-Life Refurbishment Project.

This year many of our asset management strategies came to fruition with an unprecedentedly low forced outage factor of 0.14 per cent. This is what Meridian Energy, and New Zealand, need as we approach a very tight period of supply.

With the full commissioning of Te Āpiti in October 2004, an important focus has been on evaluating how we can maximise synergies between the growth and operation of our wind assets and water storage and hydro operations. As we continue to develop a pipeline of new wind generation projects, this work will enable us to leverage our wind and hydro assets most effectively and maximise the market's utilisation of New Zealand's abundant wind resources.

Ongoing analysis of how and where we sell energy, balancing risks between the retail and wholesale markets, and further developing our trading strategies have also been integral to portfolio optimisation, and major contributors to the year's

excellent financial result. Through trading we have worked hard to manage risks in both energy and transmission security, and have promoted market liquidity by proactively seeking and selling wholesale contracts, particularly in the short-term hedging market.

ARC INNOVATIONS

Arc Innovations is a strategic business unit of Meridian Energy focused on developing and delivering advanced metering solutions and services to the New Zealand electricity market.

Arc Innovations has had an excellent year, progressing towards wider commercial deployments. This initial solution delivers measurable value improvements, both in the efficiency of the electricity retailers' operations and in the level of service provided to their consumers.

Arc's smart products connect consumers' metering devices to Arc's service platform via dynamic two-way communications. This not only meets current market requirements but future-proofs electricity retailers for broader service offerings, and allows them to transform and differentiate their customer relationships.

| TABLE 1: WIND GENERATION MILESTONES 2004/05 | |
|---|---|
| Te Āpiti | Construction of the Te Āpiti wind farm in the Manawatu was completed in October 2004, and it was formally opened in December 2004. It delivers a peak capacity of 90MW of power, making it the country's largest wind farm. |
| Wattle Point | The Wattle Point wind farm in South Australia was completed in April 2005. Wattle Point has a generating capacity of 91MW, and is now owned and operated by Meridian Energy's subsidiary Southern Hydro. |
| White Hill | Consultation for the White Hill wind farm in Southland was completed, with resource consents granted in December 2004, a week after the hearings, with no appeals. |
| Dollar | Southern Hydro awaits a decision on the permitting of the 79MW Dollar wind farm in Victoria. |
| Project West Wind | Public consultation on Project West Wind began in June 2005. If it proceeds, West Wind will be the largest wind farm in the Southern Hemisphere, generating a peak 210MW of electricity. |



GO TO THE CD TO HEAR MORE ABOUT:

- PORTFOLIO OPTIMISATION
- WIND DEVELOPMENT
- ENERGY FOR INDUSTRY – DISTRIBUTED GENERATION

IMPROVING RELATIONSHIPS, DELIVERING INNOVATIVE NEW PRODUCTS AND ENGAGING WITH CUSTOMERS ON IMPORTANT ISSUES HAVE BEEN FOCUS POINTS FOR THE YEAR, RESULTING IN SERVICE IMPROVEMENTS AND POSITIVE CUSTOMER SATISFACTION RESULTS.

WE'RE NOT JUST BUILDING NEW GENERATION FOR FUTURE CUSTOMERS, WE'RE LOOKING AFTER THE CURRENT ONES AS WELL.

PROGRESS

- Expansion of our Energy Saver Vans scheme, providing free energy efficiency products to approximately 1,000 customers in Christchurch, Oamaru, Dannevirke and Waipukurau
- Introduction of our loyalty programme, Meridian Energy Rewards, including awarding two energy-efficient Toyota Prius cars
- Launch of Business Online, a web-based reporting service that allows corporate customers to view and report on their electricity consumption
- Piloting automated meter management systems through our strategic business unit, Arc Innovations
- Promotion of energy efficiency products for farming customers, including a calculator that helps dairy farmers to analyse energy usage, improve milk quality and reduce costs.

HIGHLIGHT

In July 2004 Meridian Energy's end-use energy and utility services business, Energy for Industry, commissioned an innovative on-site heat plant for Winstone Pulp International. The plant converts mill wood wastes into 12MW of process heat.

FUTURE

Ongoing communications activities to keep customers informed of electricity issues; continuing energy efficiency initiatives; further product development; growth in performance measures.

CUSTOMER RELATIONSHIPS

During the year we achieved an aggregate rise in customer satisfaction levels. Corporate satisfaction levels experienced a particularly significant improvement, with 52 per cent rating our service as very good or excellent, compared with 35 per cent last year. Residential customer satisfaction levels also rose, and overall, Meridian Energy's customer satisfaction levels increased to four per cent above the sector average.

Over the course of the year we have continued our commitment to helping customers to be more energy efficient. As well as providing information through newsletters and brochures, our Energy Saver Vans scheme was expanded to include twice as many residential customers as in previous years. Under the scheme approximately 1000 customers in Christchurch, Oamaru, Dannevirke and Waipukurau each received up to \$400 of free energy efficiency products.

To recognise customer loyalty we introduced a rewards programme for our residential customers, Meridian Energy Rewards. As part of the first initiative under Meridian Energy Rewards we have awarded two Toyota Prius cars during the year, with two more to be given away in the 2005/06 financial year.

A hybrid petrol-electric vehicle, the Prius was chosen because it mirrors Meridian Energy's commitment to clean, efficient renewable electricity generation.

During the year our customer call centre continued to provide a high level of service, with over 80 per cent of calls answered within 20 seconds. Meridian Energy was also recognised by local media in Christchurch for our contact centre's "excellent streamlined response".

On average Meridian took just over 14 working days to resolve customer complaints. While this is above our Statement of Corporate Intent target of <10, we are pleased with our performance in this area. As the electricity industry matures the complaints we receive tend to be fewer in number but more complex in nature. We are focused on taking the appropriate amount of time to ensure each complaint is dealt with properly (and within the timeframes of the Electricity and Gas Commission's scheme). We are focused on reducing the number of complaints that we receive, and in future years we will report on the number of complaints per 10,000 customers. In the past year we received 51 complaints per 10,000 customers.



CUSTOMER COMMUNICATION

Meridian Energy recognises that consistent communication with customers is an integral aspect of ensuring our customers are kept aware of energy related offers and issues. During the year we have continued a range of initiatives to engage regularly with customers at all levels. As well as providing practical information on energy efficiency and the different services we offer, we have actively communicated about key electricity sector issues that provide the context for price increases.

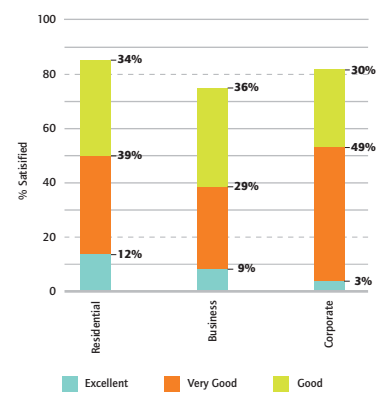
Key communications tools include our residential newsletter, *Currents*, the Meridian Energy website, regular media releases and one-off letters and brochures for special occurrences. For our business and corporate customers we have continued to provide email alerts on spot market pricing, a weekly market report and *The Meridian Report*, a quarterly newsletter on industry trends. We also engage with customers at all levels through activities such as stands at regional and national field days, A&P Shows, special articles in newsletters, and an ongoing series of breakfast forums (see page 38).

NEW PRODUCTS

We have continued to develop and launch new products. For our corporate customers, these included Business Online, a web-based reporting service. Meridian Energy is the first New Zealand electricity retailer to provide a service of this kind that incorporates pricing information to clearly show the financial implications of changing consumption. This enables customers to see the effects of changing usage and improved energy efficiency, and to make better-informed decisions on energy usage.

The advanced metering solutions technology, developed by our strategic business unit Arc Innovations, is being used in a pilot of automated meter management systems in Christchurch. This involved upgrading equipment at a number of customer sites with the eSmart metering technology developed

CUSTOMER SATISFACTION JULY 04 - JUNE 05



Our customer research programme undertakes interviews with residential and business customers continuously throughout the year. Results are aggregated and reported to Meridian quarterly and provide timely customer insights. Due to the smaller number of corporate customers, we research this group twice a year. The result shown is a combination of research done in November 2004 and May 2005.

BASE: All Meridian Energy customers - Residential n=810, Business n=786 (July 04-June 05), Corporate n=185 (Nov 04 and May 05).

by Arc Innovations, to improve efficiency and customer service standards. The technology enables exact electricity usage to be monitored and recorded remotely.

The benefit of the new technology for customers is a higher level of accuracy and information quality. Preliminary results of the trial have been positive, and a wider rollout of eSmart is planned. This is an initiative that will require significant technical innovation and will see Meridian Energy, through Arc Innovations, continue to take a lead role in developing advanced metering technology.



We are upgrading our prepay services platform for prepay customers using the eSmart technology to enable more flexibility and future-proof our offerings. Additionally, we have committed to a mass upgrade of our metering infrastructure in the central Hawke's Bay region to improve efficiency and customer service, also using the Arc Innovations advanced metering platform.

FARMING CUSTOMERS

For farming customers we have developed a Farm Dairy Calculator in association with Massey University that enables dairy farmers to analyse energy usage, improve milk quality and reduce costs. The calculator is available online, and was also provided to our existing dairy customer base as part of an energy efficiency pack.

Other products profiled in the farming packs include the Mahana Blue hot-water system, the Varivac vacuum pump controller software and initiatives to reduce stray voltage,

a major discomfort for dairy cows. The products were trialled on our dairy farms in North Otago, where they delivered a 27 per cent reduction in energy costs, shortened milking times, reduced somatic cell counts, and improved animal behaviour and health.

Meridian Energy's commitment to engaging with the farming sector was recognised during the year at the Royal Invercargill A&P Show, where we were awarded the show prize for best stand.

ENERGY FOR INDUSTRY

Formerly known as Meridian Solutions, our end-use energy and utility services business unit has rebranded to become Energy for Industry. During the year there have been key developments in a number of projects owned and operated by Energy for Industry, providing innovative and sustainable energy solutions for large customers (see Table 2 below).

TABLE 2: ENERGY FOR INDUSTRY PROJECT MILESTONES 2004/05

| | |
|-----------------------------|---|
| Winstone Pulp International | In July 2004 Energy for Industry commissioned an innovative on-site heat plant fuelled by mill wood wastes to supply WPI with up to 12MW of process heat for drying pulp. The partnership with WPI also includes a 20MW long-term electricity supply contract with Meridian Energy. |
| Auckland City Hospital | In commercial operation since April 2005, the Auckland City Hospital cogeneration plant provides 3.6MW of base load electricity, as well as providing 4.4MW of heat and 2.8MW of standby power for the hospital. Energy for Industry's investment in the project has saved the hospital \$2.4 million in capital expenditure. |
| Nelson Landfill Gas Project | This project will use landfill gas to fuel a new boiler system for Nelson Hospital. Recognising the contribution it will make to reducing greenhouse gas emissions, in May 2005 the project was awarded 28,000 internationally tradable emissions units under the Government's Projects to Reduce Emissions programme. |



CD SEARCH >

03

GO TO THE CD TO HEAR MORE ABOUT:

- BUSINESS ONLINE
- THE CHRISTCHURCH ENERGYWISE HOUSE
- THE ENERGY MANAGEMENT SYSTEM AT TYCO ELECTRONICS

THE 2004/05 YEAR HAS BEEN THE FIRST FULL FINANCIAL YEAR UNDER A NEW ORGANISATIONAL STRUCTURE, WHICH INCLUDED THE CREATION OF A PEOPLE AND PERFORMANCE DIRECTORATE. THIS IS A REFLECTION BOTH OF MERIDIAN ENERGY'S GROWTH AND OF THE VALUE WE PLACE ON OUR PEOPLE. THE KEY FOCUS FOR THE PEOPLE AND PERFORMANCE TEAM IS TO SUPPORT THE RELATIONSHIP BETWEEN MANAGERS AND THEIR PEOPLE.

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

PROGRESS

- Completion of the first full financial year for Meridian Energy's new People and Performance directorate
- Review of key processes to build a stronger emphasis on manager/staff relationships, including recruitment, induction, performance reviews and remuneration reviews
- Improved access to learning and development opportunities by bringing courses in-house
- Establishment of organisation-wide ownership of Meridian Energy's renewables-only position
- Review of Health, Safety and Wellness, and implementation of a new policy achieved tertiary status in ACC's Workplace Safety Management Practice programme.

HIGHLIGHT

A staff survey conducted during the year showed that 84.8 per cent of Meridian Energy staff are either very or quite satisfied – an outstanding result one year after our reorganisation.

FUTURE

Further implementation of new policies; maintaining our tertiary status in ACC's Workplace Safety Management Practice programme.

DEVELOPING CAPACITY

While external suppliers previously managed all recruitment, a proportion has now been brought in-house and service agreements with recruitment service providers renegotiated. This has resulted in cost savings, has given us more ownership of the recruitment process and has allowed us to develop specific recruitment tools.

Changes to the induction of new Meridian people include building and supporting strong relationships between them and their managers, and a comprehensive induction programme. The induction course and material are designed to provide new people with a thorough knowledge about Meridian Energy, our operations, our set of behaviours (known as the Meridian Way) and our people. The role of the People and Performance team is to provide the advice and tools to enable managers and staff to get the most out of this initial step.

DEVELOPING CAPABILITY

With the establishment of a learning and development team, access to development opportunities has been improved. Courses are developed and held in-house by our own people. Training sessions are tailored according to specific requirements and cover topics such as coaching, leadership, and communication and consultation skills. Comprehensive materials and a calendar of in-house and external learning and

development opportunities have been developed and are now available online. Staff feedback on the calendar and the enhanced learning and development opportunities has been very positive.

A range of initiatives specifically to support and develop managers has been introduced, including in-house courses that provide opportunities for managers across directorates to build collegial relationships. One of the year's highlights has been the introduction of a University of Auckland Management Development Programme tailored specifically for Meridian Energy and aimed at experienced middle tier managers and first time managers. These opportunities help to reinforce the value the company places on people management skills as well as technical skills.

We have developed and implemented a new performance review process that has shifted from a one-way "appraisal" to a two-way review-based model. As a result, all staff have received a performance review and are currently in the process of finalising their objectives for the coming year to support the Company's strategy and business plan.

The People and Performance directorate has provided training in this process to all managers to provide them with the confidence to engage with staff in this way and to achieve consistency across the organisation.



The key focus has been to support our people and facilitate communication between managers and staff. The next step is the rollout of a comprehensive competence framework, which is well under way.

Complementing the changes to the performance review process, we have also completed a remuneration review and developed new tools to help managers through the process. These tools have compressed a procedure that took days of managers' time into one that takes minutes. As well as creating capacity by saving time, the new process has improved transparency, consistency and fairness.

A people managers' forum was established to encourage discussion and ensure key messages from the business are communicated in team meetings.

DEVELOPING STRUCTURE

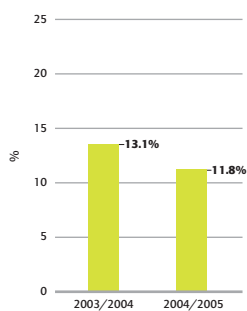
Another of the functions of the People and Performance directorate is to develop policies and procedures with the aim of providing guidance to managers without adding bureaucracy.

Keeping our people healthy, safe and well has been a particular focus this year. After a thorough review of existing health and safety policy and procedures, a new programme was developed that included 'wellness' and resulted in a team of people across the company implementing the new Health, Safety and Wellness (HS&W) programme on all sites.

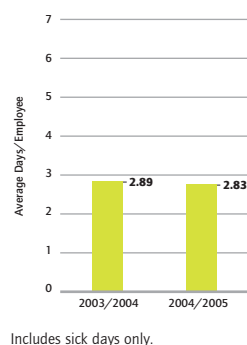
TABLE 3: APPROXIMATE NUMBER OF PEOPLE WORKING FULLTIME AT MERIDIAN ENERGY AT 30 JUNE 2005

| | Wellington | Christchurch | Twizel | Manapouri | Tapanui | Dunedin | Ohakune | Auckland | Te Āpiti | Total ex Aust | Australia | TOTAL |
|----------------|------------|---------------|-------------|-----------|----------|----------|----------|----------|----------|---------------|------------|---------------|
| Meridian staff | 154.15 | 168.55 | 36 | 4 | 1 | 6 | 1 | 1 | 2 | 373.7 | 106 | 479.7 |
| Contractors | 9.85 | 13.5 | 6.8 | 5 | | | | | | 35.15 | | 35.15 |
| HP | 4 | 2 | 1 | | | | | | | 7 | | 7 |
| ABB | | 5 | 9 | | | | | | | 14 | | 14 |
| Transfield | | | 28 | 13 | | | | | | 41 | | 41 |
| Zelko | | | 12 | 7 | | | | | | 19 | | 19 |
| Teletech | | 63 | | | | | | | | 63 | | 63 |
| TOTAL | 168 | 252.05 | 92.8 | 29 | 1 | 6 | 1 | 1 | 2 | 552.85 | 106 | 658.85 |

VOLUNTARY STAFF TURNOVER



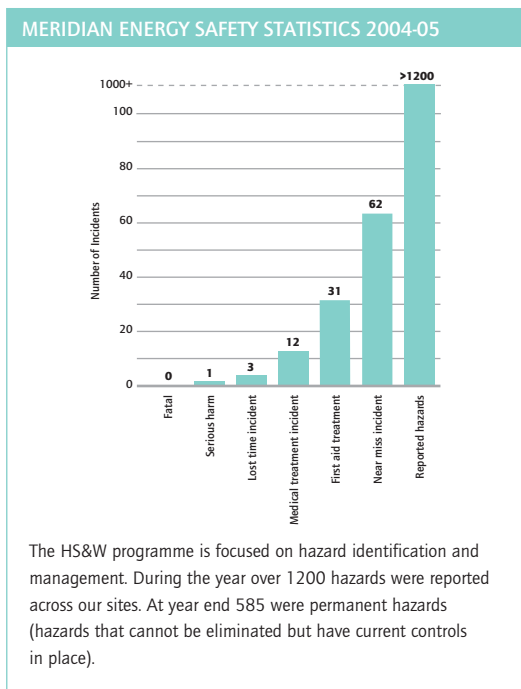
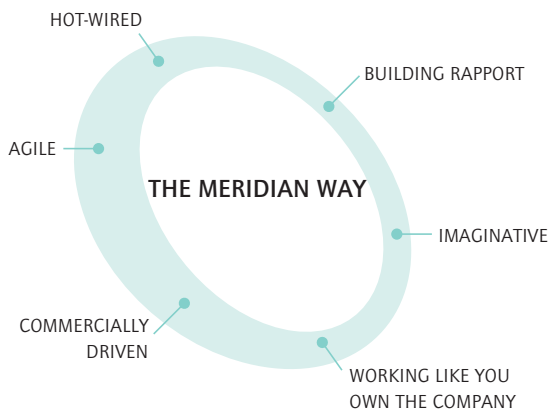
UNSCHEDULED ABSENCE RATE





External auditing (by an ACC approved auditor) in August 2005 confirmed our core HS&W policy, process and systems have been deployed and are operating successfully, with Meridian Energy achieving tertiary status in the ACC's Workplace Management Safety Practices framework. This is the highest status level available in the framework.

Our challenge for the coming year is to achieve and sustain this high level of performance across all of the company.



GO TO THE CD TO HEAR MORE ABOUT:

- HEALTH SAFETY AND WELLNESS AT MERIDIAN ENERGY
- EMERGENCY RESPONSE AT MANAPOURI
- A YEAR IN THE LIFE OF A MERIDIAN ENERGY PEOPLE MANAGER
- PEOPLE AND PERFORMANCE

POSITIVE OUTCOMES IN ALL AREAS OF OUR ENVIRONMENTAL PERFORMANCE WERE UNDERPINNED BY CLOSE STAKEHOLDER RELATIONSHIPS AS WE CONTINUED TO DELIVER ON OUR COMMITMENT TO KEEPING NEW ZEALAND NEW.

OUR POWER COMES FROM NATURAL, RENEWABLE RESOURCES

PROGRESS

- Completion of the seven-year review of environmental monitoring programmes attached to our resource consents for the Manapouri power station
- Successful trials of a national branding campaign "Stop the Spread", as part of our partnership to contain the aquatic weed, *Lagarosiphon major*
- Official opening of a project with Ngāi Tahu and Te Waiiau Mahika Kai Trust to restore culturally and environmentally significant wetlands in the Jericho Valley
- Development of a new adaptive monitoring and management programme for Doubtful Sound, a National Park with World Heritage status
- Comprehensive activities as part of Project River Recovery to protect the braided river habitat in the upper Waitaki Basin, including the removal of willow stands along 50 kilometres of the Ahuriri riverbed.

HIGHLIGHT

Close stakeholder partnerships in a wide range of projects played a key role in all of the year's major achievements, and were fundamental to the completion of the seven-year review of the monitoring programmes for the Manapouri power station.

FUTURE

Continued involvement in initiatives to protect and enhance the environment; ongoing projects with stakeholders; expansion of adaptive monitoring and management programmes.

PROTECTING AND ENHANCING THE ENVIRONMENT

Project River Recovery

As part of our relationship with the Department of Conservation we continued to fund Project River Recovery, a project focused on protecting the braided river habitat in the Upper Waitaki Basin. Highlights for the year include removing willow stands along 50 kilometres of the Ahuriri riverbed, talks and lectures to a range of school and university groups, weed control and surveillance in approximately 30,000 hectares of braided river habitat, and the first year of a long term predator control experiment in the Tasman River, jointly funded with the Kaki recovery group.

Lagarosiphon containment

We partner with Land Information New Zealand (LINZ) to control the aquatic weed *Lagarosiphon major*, found in Lake Benmore two years ago. Our collaborative partnership with a number of other parties conducted a range of activities over the summer, including a successful public awareness campaign about the weed. A key element of this was trialling a new national branding campaign, "Stop the Spread", based on a similar campaign in the United States.

Environmental and Cultural trusts

We have continued to work with many environmental trusts in the South Island linked to our hydro generation assets: the Maori Rock Art Charitable Trust, the Te Waiiau Mahika Kai Trust, the Tuatapere Amenities Trust, and the Waiiau Fisheries and Habitat Enhancement Trust. A highlight was the official opening in February of a project with Ngāi Tahu and the Te Waiiau Mahika Kai Trust to restore culturally and environmentally significant wetlands in the Jericho Valley.



STOP THE SPREAD



Spawning enhancement project

A new initiative for the year was the Scott's Creek Spawning Enhancement Project in the Waitaki, funded by Meridian Energy and managed by Fish and Game New Zealand. The project involved restoring shingle beds for spawning trout and managing the movement of fish in the stream to aid spawning. The project supersedes a previous initiative, demonstrating our commitment to ongoing effective environmental mitigation.

MONITORING

To ensure that our generation assets meet operating conditions outlined in their resource consents, Meridian Energy has a comprehensive set of environmental monitoring programmes. A major milestone for the year was the completion of the seven-year review of the monitoring programmes attached to our resource consents for the Manapouri Power Station. Highlights from ongoing projects initiated as part of the review are outlined in Table 4. Highlights for other assets include:

- In partnership with local rununga, the completion of a two-year pilot study into eel lifecycles in the mid and upper Waitaki catchment, where eight of Meridian Energy's hydro stations are located.
- The development and introduction of a responsible surveillance and reporting programme for the Te Āpiti wind farm.

For all of our generation assets, a key focus for the year has been the continued development of adaptive monitoring and management programmes. This involves working with experts and stakeholders to actively look for ways to apply the results of monitoring to improve the management of our generating assets. A highlight in this area has been the initial development of a new adaptive monitoring and management programme for Doubtful Sound, a National Park with World Heritage status.

Working closely with a range of stakeholders including local communities, iwi and leading research organisations has continued to be the cornerstone of our monitoring programmes, and Meridian Energy would like to acknowledge the valuable partnerships we have with them (see Table 5).

RESPONSIBLE OPERATOR

We continue to maintain very high environmental standards across our operations. In our Waitaki and Manapouri hydro assets we again marked a very good year with no significant non-compliance events. The Te Āpiti wind farm was completed with an excellent environmental compliance record, demonstrating our commitment to best practice in developing new assets.

Maintaining high levels of consent compliance during both development and operation of our assets ensures we remain an owner and developer of choice for renewable energy generation.

Under our new structure we have expanded our focus on environmental performance. We have staff to oversee the performance of existing programmes and monitor the environmental implications of proposed new developments, and to ensure that we continue to maintain high levels of consent compliance and remain a developer of choice.

WORKING WITH REGIONAL AND LOCAL AUTHORITIES

Meridian Energy works closely with regional and local authorities, contributing to the development of resource management plans and partnering in environmental initiatives.

Plans we have been involved with during the year include Environment Canterbury's Natural Resources Regional Plan (NRRP) and Environment Southland's Freshwater Plan Variations and District Plan Variations for both Southland and Mackenzie Districts. We continue to work with Environment Southland and the Mararoa Working Party on a project to remove willow stands along the Mararoa riverbed to restore the river's natural flood carrying qualities.



TABLE 4: MANAPOURI POWER STATION MONITORING PROGRAMME HIGHLIGHTS

| PROJECT | OUTCOMES |
|--|--|
| Eel research programme | In a partnership with NIWA, further studies undertaken in the 04/05 migration season used an innovative system of tagging and acoustic tracking. Results are expected in October. |
| Bird research programme | Continued research, including sponsorship with the Department of Conservation of PhD student Rachel McClellan. Good progress has been made in the first full season of study: the project will involve two more years of research. |
| Waiau Arm ecosystems and monitoring programmes | Studies almost complete, with a good understanding of Waiau Arm ecosystems emerging. |
| Doubtful Sound marine monitoring programme | Following an extensive scientific and operational review, we are working with the Cawthron Institute to implement an adaptive management programme focused on monitoring the Doubtful Sound marine environment, demonstrating Meridian Energy's commitment to this protected area. |

TABLE 5: KEY STAKEHOLDERS WORKING WITH MERIDIAN ENERGY FOR OUR ENVIRONMENT

| | | | |
|---|---|---------------------------------|--|
| Department of Conservation | Mararoa Working Party | Environment Canterbury | Ministry of Fisheries |
| Environment Southland | Te Rununga o Ngāi Tahu and the representative rununga | Fish & Game New Zealand | Te Waiau Mahika Kai Trust |
| Guardians of Lakes Manapouri, Monowai and Te Anau | Tuatapere Amenities Trust | Horizons Regional Council | Waiau Fisheries and Wildlife Habitat Enhancement Trust |
| Land Information New Zealand | Waiau Working Party | Maori Rock Art Charitable Trust | Waitaki Native Fish Committee |



CD SEARCH >
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GO TO THE CD TO FIND OUT MORE ABOUT:

- MERIDIAN ENERGY'S RELATIONSHIP WITH THE WAIUAU TRUST
- THE EEL RECOVERY PROGRAMME AT MANAPOURI
- CONSENT PROJECTS IN GENERATION AREAS
- HYDROLOGICAL OPERATING COMPLIANCE INCIDENTS

RESULTS FOR THE YEAR SHOW THAT MERIDIAN ENERGY HAS DELIVERED ON ITS RESPONSIBILITIES AS A STATE-OWNED ENTERPRISE TO BE AS PROFITABLE AND EFFICIENT AS COMPARABLE BUSINESSES NOT OWNED BY THE CROWN, AND TO EXHIBIT A SENSE OF SOCIAL RESPONSIBILITY. OUTSTANDING PERFORMANCE HAS BEEN ACHIEVED DESPITE DIFFICULT OPERATING CONDITIONS, INCLUDING SUB-OPTIMAL HYDROLOGY, INCREASING REGULATION AND TRANSMISSION RISKS.

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

PROGRESS

- Excellent financial performance, with an after-tax profit of \$218.2 million, representing a 9 per cent return on shareholder's equity
- Improved credit rating, improving our access to capital and positioning Meridian Energy well for future opportunities
- Introduction of a paperless financial management system
- Completion of a major Asset Management Plan, providing a 20-year forward plan to maintain and extend the life of our New Zealand hydro assets
- CO₂ emissions from company operations down 5 per cent from last year

HIGHLIGHT

Winning the National Business Review Sponsorship of the Arts Award for our sponsorship of the Royal New Zealand Ballet recognised our ongoing commitment to the arts. Judges commented on our level of engagement, and the creative way that Meridian Energy was linked with the Ballet in promotional material.

FUTURE

Careful management of lake storage levels; developing sponsorship relationships; response to Water Allocation Board regional plan; implementation of a new structure to manage sponsorships.

FINANCIAL RESULTS

Meridian Energy achieved an after-tax profit of \$218.2 million for the year, up from \$132.9 million for the previous year.

The financial year started with above average storage in our lakes as a result of favourable hydrology in the last quarter of fiscal 2004. Even though inflows into our lakes for the 2005 fiscal year were low, at around 87 per cent of average, careful management of our contract position, water and a strong focus on cost management resulted in the achievement of a much improved financial result.

During the year Meridian Energy also increased its New Zealand generation capacity through the commissioning of the Te Āpiti wind farm and focusing its Growth and Development directorate on delivering New Zealand wide new generation opportunities.

CREDIT RATING

As a result of Meridian Energy's strong performance and financial position, in December 2004 credit rating agency Standard & Poors removed the negative credit watch it had placed on Meridian Energy in 2003/04 following our acquisition of Southern Hydro, restoring the BBB+ rating. This improves Meridian Energy's access to capital and positions us well for future growth opportunities.

FINANCIAL MANAGEMENT

This year saw the implementation of a new, user-friendly, paperless financial management system, known as Navision. The new system reduces bureaucracy by automating approvals and reducing paper flows. In this way, it is more consistent with the 'Meridian Way' than the process it replaced.

ASSET MANAGEMENT PLAN

A major highlight for this year was the completion of a comprehensive Asset Management Plan, which provides a 20-year forward plan of work required to maintain and extend the life and performance of the New Zealand hydro generating assets.

SPONSORSHIPS

Meridian Energy contributes to the community through a broad range of sponsorships, ranging from the performing and visual arts to team and individual sports, outdoor pursuits and community activities.

Our commitment to New Zealand arts was recognised in September 2004 when Meridian Energy was named the overall winner of the National Business Review's Sponsorship of the Arts Award, for our partnership with the Royal New Zealand Ballet. We are proud to be a part of the Ballet's renaissance, and a high point was a creative campaign by Meridian Energy that led to the



Meridian Energy Season of *Saltarello*'s attendance figures being 30 per cent higher than forecast.

We also support a large number of community activities. Highlights for the year include the Wellington City Council Summer City Festival, the Waimate Strawberry Fare, and a special tramping package for the Tuatapere Hump Ridge Track as part of the Meridian Energy Celebrity Walk Week. The tramping package was an example of our innovative approach, with surprise New Zealand celebrities joining trampers each day.

We continue to sponsor sport at different levels. We are especially proud of our association with Melissa Moon, the current World Mountain Running Champion. We look forward to helping Melissa in the year ahead, including when she competes for the World Mountain Running Trophy in Wellington in September 2005.

CO₂ FOOTPRINT

This year we have again used Landcare's EBEX21 model to calculate our CO₂ footprint. The calculation covers all of Meridian Energy's New Zealand operations, including subsidiary Damwatch and business unit Energy for Industry (formerly Meridian Solutions).

This year is the first year that the energy inputs for Energy for Industry's operations have been included. Energy for Industry supplies end-use energy and utility products and services, and its operations have grown substantially in the past 18 months.

When we first began reporting our CO₂ footprint, it operated one biomass operation using wood waste from renewable forests, and was considered a closed loop with zero emissions. However, with its growth has come an increase in the range of fuels used including coal, lignite and natural gas.

The table below outlines our CO₂ footprint for the year. When making a direct comparison with last year's company operations, we made a 5 per cent reduction in the amount of CO₂ emitted. This reflects a substantial reduction in the amount of air travel, particularly international, and less car travel.

This is a generally pleasing result, particularly as the emissions per FTE figure has fallen from 4.7 to 4.0 tonnes CO₂. However, when the emissions from Energy for Industry are factored in our total emissions have increased by over 2000% to 51,410 tonnes. While one of the key objectives of Energy for Industry is to help customers become more energy efficient, we cannot escape the fact that the fuels used have a large impact on the environment. In the coming year we will be looking at the best way to offset these emissions.

We have recently invested in Landcare's E-Manage online tool to report on CO₂ emissions quarterly, which will provide staff with more regular indications of trends to encourage more responsible use of energy and resources.

TABLE 6: CO₂ FOOTPRINT CALCULATION

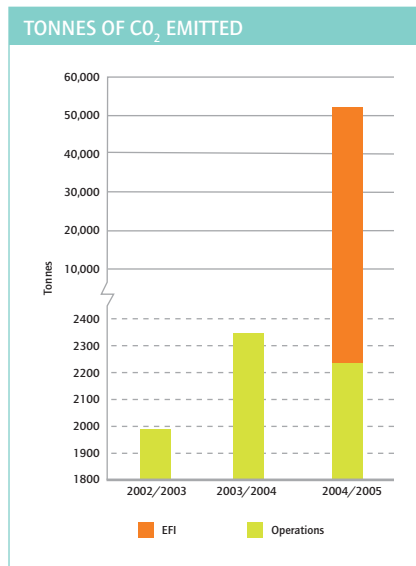
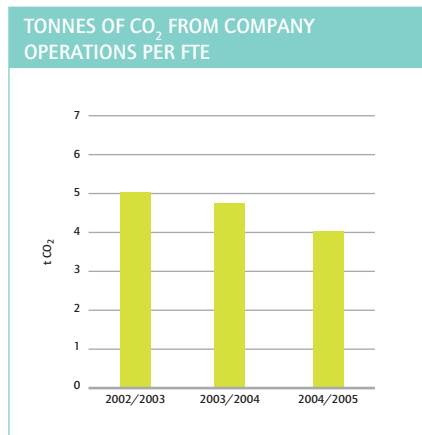
| Energy type | 2005/05 (tonnes CO ₂) | 2003/04 (tonnes CO ₂) | % change |
|--|--------------------------------------|--------------------------------------|--------------|
| Electricity | 464 | 390 | 19 |
| Air travel – total | 773 | 860 | -10 |
| Petrol/diesel total | 1,001 | 1,099 | -9 |
| Total for office operations (excluding Energy for Industry) | 2,237 | 2,349 | -5 |
| Energy for Industry generation | 49,173 | - | |
| Total CO₂ emissions | 51,410 | 2,349 | 2,089 |



OUTLOOK FOR 2005/06

The 2005/06 financial year began with below average lake storage levels, which we are managing cautiously. Other factors that may influence next year's financial result include outcomes from the Water Allocation Board, transmission and regulation issues, and the commercialisation of technologies developed by Whisper Tech, a company in which Meridian Energy is a 31 per cent shareholder.

The possible sale of Southern Hydro may also have an impact on the financial result for next year. The sale process has highlighted the international market's appetite for renewable energy, providing further endorsement of Meridian Energy's decision to adopt a renewable-only business strategy.



GO TO THE CD TO FIND OUT MORE ABOUT:

- ASSET MANAGEMENT AT MANAPOURI
- MERIDIAN ENERGY'S INTERNAL RECYCLING SCHEME
- MERIDIAN ENERGY'S INVESTMENTS
- DETAILED ANALYSIS OF ENERGY AND RESOURCE USE



RELATIONSHIPS



CD SEARCH >

07

"WE'RE ASPIRING TO BE A COMPANY THAT PEOPLE WANT TO WORK WITH. BY THAT WE MEAN PEOPLE WHO WANT TO WORK IN MERIDIAN ENERGY AND WORK WITH MERIDIAN ENERGY. THIS INCLUDES OUR SUPPLIERS AND THE PEOPLE WITH ENGAGE WITH IN THE COMMUNITY. WE'RE SUPPORTING OUR PEOPLE TO BE THE BEST IN TERMS OF WHAT THEY CAN OFFER IN THEIR INTERACTIONS WITH OTHERS." CRAIG SCOTT-HILL

IN A CHALLENGING YEAR FOR THE INDUSTRY, MERIDIAN ENERGY HAS CONTINUED A RANGE OF INITIATIVES AND TAKEN NEW STEPS TO MANAGE OUR REPUTATION AND DEMONSTRATE LEADERSHIP.

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

PROGRESS

- Launch of an integrated brand campaign supporting Meridian Energy's commitment to developing new generation that uses only renewable resources
- Comprehensive public consultation on Project West Wind in Wellington
- Launch of the Te Āpiti Community Fund, providing \$100,000 for projects in Ashhurst and Woodville over the next three years
- Involvement in major irrigation projects in South Canterbury, North Otago and the Mackenzie region
- Winning the Supreme Award at the Institute of Chartered Accountants of New Zealand's Annual Report Awards
- Active stakeholder engagement through a wide range of initiatives, including Electricity Future Forums in Wellington, Christchurch and Auckland.

HIGHLIGHT

The feedback and research results regarding the brand campaign show that customers and the general public support our commitment to renewable energy.

FUTURE

Further advocacy for the development of renewable resources; ongoing engagement with stakeholders; continuing to foster debate on New Zealand's electricity future; developing the approach used in the Te Āpiti community in other generation communities.

RENEWABLES BRAND CAMPAIGN

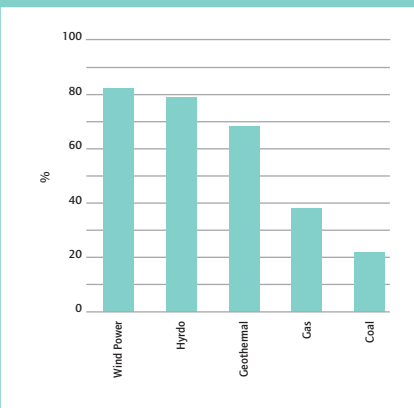
In November 2004 Meridian Energy announced a commitment to generating electricity from renewable sources. New Zealand has an abundance of natural resources, and we believe that new renewable generation should make up a key element of our future electricity supply. This view is supported by research from the Energy Efficiency and Conservation Authority (EECA) which demonstrates that New Zealanders mostly prefer renewable energy sources such as hydro and wind (see graph).

To show that we offer a clear competitive point of difference to New Zealanders, we launched an integrated branding campaign in March 2005. This has included television, print and cinema advertising, as well as customer communications.

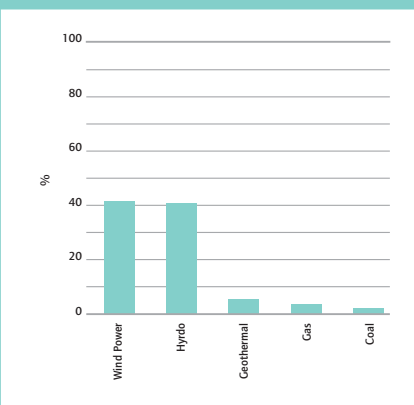
The television advertisements in particular have had a very positive impact. Feedback has been very positive, rewarding our decision to place greater weight on quality than quantity when developing media strategy and commercials.

The ongoing brand-monitoring research has demonstrated the overall success of the campaign, with results showing improvements in our overall performance and reputation scores. Analysis has also shown that Meridian Energy's desired position is reflected in the media.

WHAT NEW ZEALANDERS APPROVE OF:



WHAT NEW ZEALANDERS WANT MORE OF:



We anticipate that improved awareness and support for renewables will play an important role in developing new renewable generation proposals, as well as enhancing loyalty from our existing customers.

COMMUNITY RELATIONS

In areas where we have generation assets we have continued to foster relationships based on mutual respect. This includes areas where new projects have been developed or are proposed, with highlights for the year including celebrating the completion of the Te Āpiti wind farm with the communities of Woodville and Ashhurst, and successfully consulting on, and consenting, the White Hill wind farm in Southland.

Project West Wind Consultation

Our commitment to open and thorough consultation has continued with Project West Wind, a proposed wind farm in Wellington. We worked closely with key stakeholders to arrive at a proposal that took into account important local, historical and ecological considerations, prior to commencing public consultation in June 2005. Public consultation included:

- 21 project open days at 10 locations throughout Wellington, advertised in *The Dominion Post* and community newspapers
- providing information through a project brochure, fact sheets, newsletters, email, an 0800 number, the Internet and a short video available on DVD and video cassette
- a 'wind tunnel' information stand at Wellington airport, a display centre open during the submissions period and weekend information stands at shopping malls
- an integrated online and print advertising campaign calling for submissions.

Through the public consultation for Project West Wind, we are seeking to engage with and listen to the concerns raised by some people who feel they may be adversely affected by the project.

Community Funds

A key change in the way that we support generation communities came with the launch of the Meridian Energy Te Āpiti Community Fund, which will be a model for how we interact with other generation communities. The fund will provide a total of \$100,000 for projects in Ashhurst and Woodville over the next three years, recognising their contribution to the development and operation of the

Te Āpiti wind farm, commissioned in October 2004. Funds will be allocated by an advisory board of community members and Meridian Energy representatives, signalling a continuation of the partnership relationships with communities developed in consenting, constructing and operating assets.

Irrigation

In South Canterbury, North Otago and the Mackenzie region we have partnered with communities to work towards irrigation solutions that do not compromise our responsibilities as a generator. In both this and in our contribution to the Water Allocation Board we have focused on sharing our research and explaining how the Waitaki generation scheme operates, showing a clear commitment to maximising the value of the resource and achieving mutually beneficial outcomes.

WIDER STAKEHOLDER RELATIONS

Maintaining positive stakeholder relationships remained a key priority for the year. We have focused on communicating the necessity of price increases to make new generation projects economically viable, and providing customers with the information they need to be energy efficient and control costs (see Customers section, page 24).

Our commitment to providing stakeholders with clear, relevant information about our business was recognised when Meridian won both the Public Sector Commercial Organisation category and the Supreme Award at the Institute of Chartered Accountants of New Zealand's (ICANZ) Annual Report Awards. The report was rewarded for the high quality of its management commentary, comprehensive financial statements, and the way it addressed future issues and encouraged public debate.

We have also continued our programme of Electricity Future Forums to stimulate understanding and debate about New Zealand's electricity issues. With three held this financial year in Wellington, Christchurch and Auckland respectively, subjects covered included how we invest in new generation and the urgent need for investment in transmission infrastructure. By bringing together experts from the industry and fostering dialogue among stakeholders, Meridian has made a demonstrable commitment to helping New Zealand arrive at informed, constructive solutions to these issues.



GO TO THE CD TO FIND OUT MORE ABOUT:

- WORKING WITH MERIDIAN ENERGY – THE VIEW OF THE NORTH OTAGO IRRIGATION COMPANY
- THE RENEWABLE ENERGY COMMUNICATION CAMPAIGN