"We have a vision for the kind of service that the New Zealand electricity consumer deserves to have and it is so much better than what they have been getting up to now. Actions, not just words."

Keith Turner, Chief Executive

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Welcome to Meridian's Annual Report for the year ended 30 June 2007.

"The last year has been yet another extraordinary year of progress for the company; we have made so much progress on so many fronts and I feel very positive about the future for Meridian."

Keith Turner, Chief Executive

Who are we?

Meridian is New Zealand's largest electricity generator, supplying electricity to the largest consumer, the Bluff Aluminium Smelter and over 180,000 residential, business and rural customers throughout the country. Our electricity is generated entirely from renewable resources. We are proud to be New Zealand's only certified supplier of carbon neutral electricity. As a State-Owned Enterprise we are owned by New Zealand and New Zealanders.

Our purpose is to be the global reference company in renewable energy.

About our report

Our report follows the Sustainable Reporting Guidelines set out in the Global Reporting Index (GRI) – a globally accepted framework for reporting on an organisation's economic, environmental and social performance.

Our report is in two parts. The printed document contains our financial information and an overview of our activities for the year, including the Chief Executive and Chairman's review. As part of our commitment to sustainability and to help reduce paper use, we have also created a website, www.meridianenergy.co.nz/annualreport. The website provides a more in-depth review of the year and contains a range of information including stories and video interviews with our customers, our staff and other stakeholders.

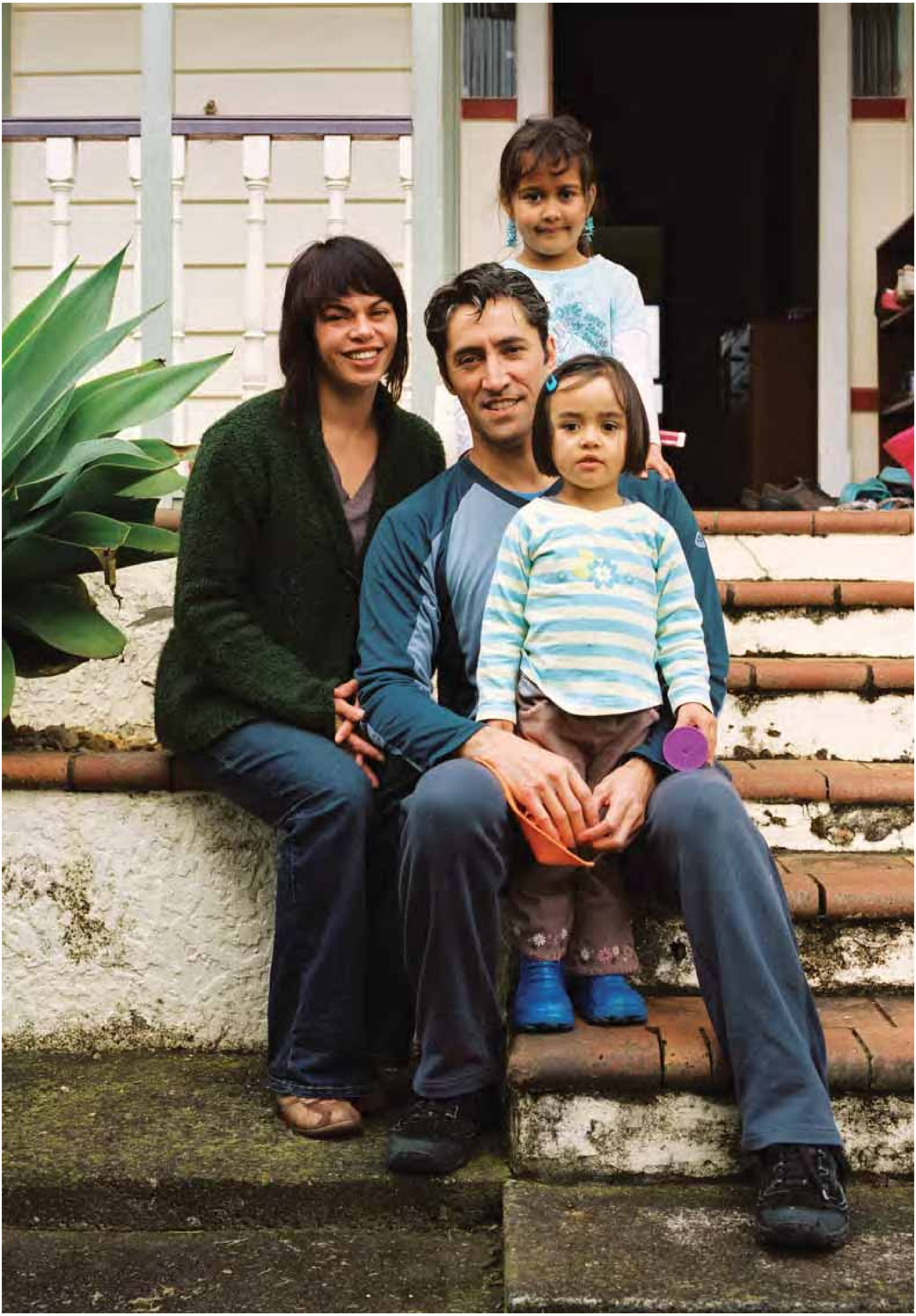
At our website you'll find all the information in the printed document, plus sections on:

- Our Performance – what we are doing for our customers, our products and services, and supply and demand issues.
- Our People – who we are, health, safety and wellness and learning and development.
- Environment – our response to climate change and our natural resource management.
- Community – our relationships with the communities we serve.

To see a full website index go to page 64.

“ If a client comes to us and needs power we have a facility that we use quite frequently at this time of year – we sit down with them, see what their needs are and we can actually put power on for them through Meridian within half an hour. No questions asked.”

Stephen Lapslie
Christchurch Consumers’ Advisory Panel

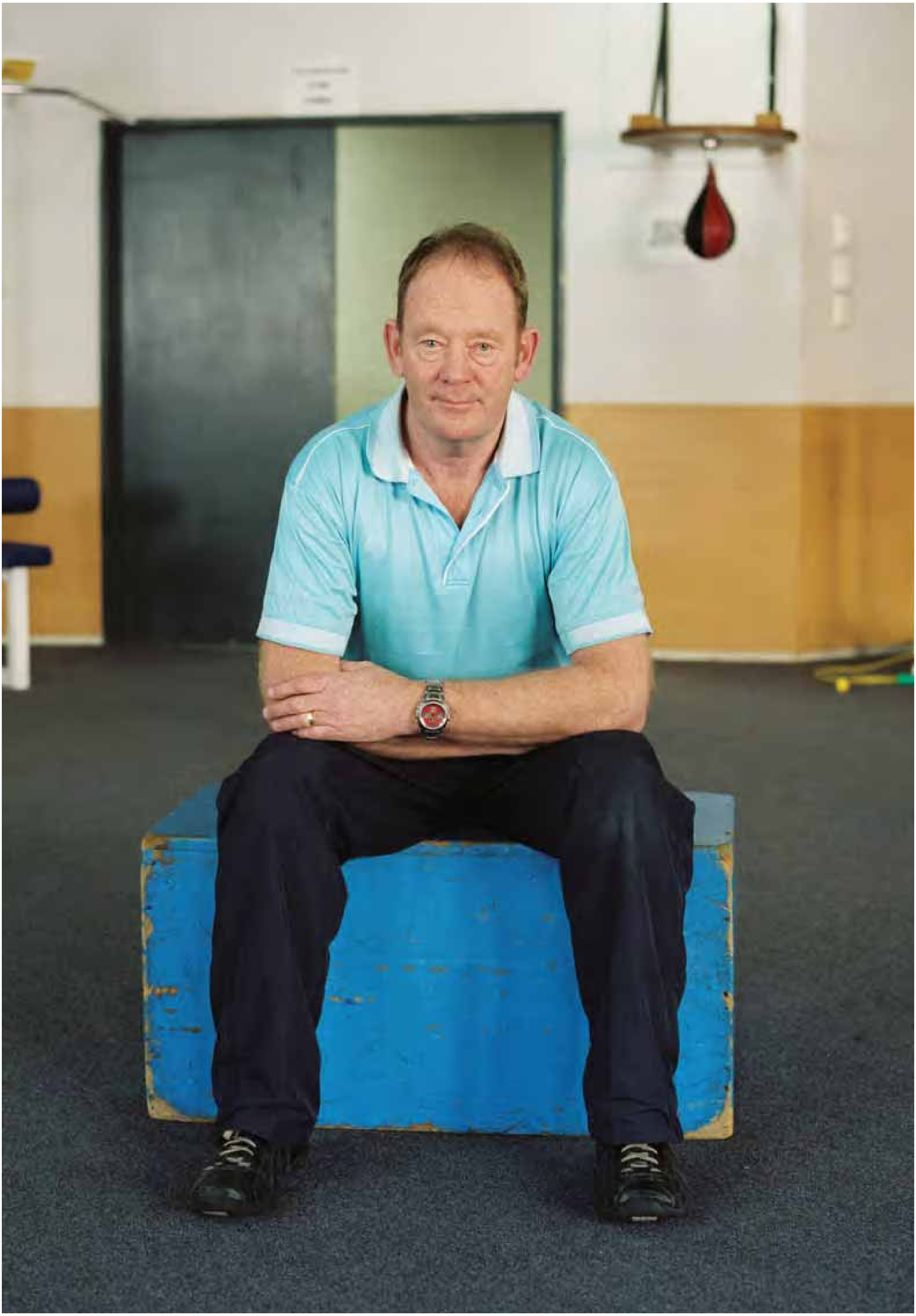


"The first thing that appealed to us was ten thousand dollars worth of energy efficiency, and we were thinking more for the future of us as a family and our children and, you know, ten grand goes a long way! We've put in underfloor insulation, energy efficient light bulbs, a heat pump and beautiful curtains. The benefits are immediate."

Jim, Kiri, Ruby and Mia Griffiths
Meridian customers and Home Makeover winners

"On the basic level Meridian are supplying us with electricity and we're obviously buying it from them. On a more complex level, we are developing a relationship in terms of a carbon zero company working with another carbon zero company. Philosophically we have got a lot in common. I think that's a pretty good basis to start with."

David Pearce
Meridian customer and Chief Winemaker, Grove Mill



" It came down to the cost, the other supplier came back with a package deal and we opted to go with that – bad choice, we ended up reverting back to Meridian. They had given us good service (in the past), so in my theory you are better off with the devil you know than the one you don't!"

Bill Parlane
Meridian customer and Maintenance Manager, Les Mills

Meet our customers...

The Griffiths family, David, Bill and Stephen are only a handful of our customers. To hear more about what our customers, stakeholders and staff have to say visit our website.

Thank you

We would like to thank all of the people who appear in our 2007 annual report, whether in this printed document or online in video interviews. We value your comments and appreciate your contribution.

We want your feedback

We would like to hear what you think of our report so that we can continue to make improvements. Please share your views by logging onto **www.meridianenergy.co.nz/annualreport**

www.meridianenergy.co.nz/annualreport

Highlights

- Achieved a net profit after tax of $199.8 million.
- Announced our status as New Zealand's first and only certified supplier of carbon neutral electricity.
- Paid a $300 million dividend to the New Zealand Government.
- Revalued our assets upwards by $1.455 billion.
- Created a Retail Directorate to support our new customer initiatives.
- Began the roll-out of smart meters in Christchurch. The installation of over 110,000 meters will be completed over the next two years.
- Opened the South Island's first wind farm at White Hill in Southland.
- Received confirmation from the Environment Court of resource consent for Project West Wind near Wellington.
- Established three Community Funds, to the total value of $1.6 million over three years, for the communities surrounding our generation operations.
- Started consultation on three new renewable generation projects.
- Became principal sponsor of Project Crimson, a trust established to protect and renew the pohutukawa and rata.
- Launched Irrigation Manager, a new tool for our rural customers to allow them to get the best value from their irrigation spend.
- Began the refurbishment of the Benmore station to improve its operating efficiency and output.
- Lodged water-only consents for the North Bank Tunnel Concept on the lower Waitaki River.
- Maintained the highest rating for our health and safety procedures under the ACC Workplace Safety Management Programme.

Statement Of Corporate Intent Comparison Table

	TARGET	**2006/2007**	2005/2006	2004/2005
Ratio Of Shareholders' Funds To Total Assets				
Equity to total assets (%)	77.6	**83.1**	79.4	56.8
Financial Performance Measures				
EBITDA per MWh produced ($NZ)	41.8	**38.0**	37.5	36.8
Return on average Equity (%)	12.8	**4.1**	25.6	9.0
Debt to Debt plus Equity (%)	13.4	**11.4**	10.6	35.4
EBITDA Interest Cover (times)	9.5	**7.7**	31.5	6.1
Non Financial Performance Measures				
Hydro Plant availability (%)	93	**93.47**	92.2	93.9
Hydro Forced outage factor (%)	0.45	**0.36**	0.36	0.14
Number of lost time incidents	0	**11**	4	3
Calls answered within 20 seconds (%)	80	**78.3**	80	83
Corporate customer satisfaction – excellent, very good (%)	57	**61**	45	52
Residential and small business customer satisfaction – excellent, very good (%)	53	**50**	47	49
Number of complaints per 10,000 customers	36	**37**	30	53
Staff satisfaction – (% of positive responses)	80	**95**	70*	-

* This figure was generated from different research than the 2006/07 year target. This figure includes all responses from staff who rated their satisfaction level as 'excellent' and 'very good'. If the figures of staff who recorded their satisfaction level as 'good' were added, staff satisfaction for the 2005/06 year would be 95%.

Note: Staff satisfaction was reported in 2004/05 but the reporting measures have changed significantly since then and the figures offer no basis for comparison.

“ The 2006/07 year will be looked back on as a turning point in the evolution of Meridian and our ambition to be a global reference company. It marks the beginning of a transformation for the Company and a new era of choice and control for our customers. We believe the outcome will be a revolution in the way New Zealanders buy, use and experience electricity.”

Keith Turner, Chief Executive

Keith Turner, Chief Executive (L)
Wayne Boyd, Chairman (R)

Chief Executive and Chairman's Review

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The Global Reference Company in Renewable Energy

At Meridian, we have a very clear purpose: to be the global reference company in renewable energy.

What does that mean? It means being an innovator in the products and services we offer our customers. It means earning a global reputation for operational excellence, in developing new generation projects and making the most of our existing assets. It means high quality relationships with the communities we serve. It means setting international benchmarks for the way we look after the natural resources we depend on, the planet we live on and the people we rely on.

It's a big challenge. But at Meridian we've never been afraid of big challenges.

The 2006/07 year will be looked back on as a turning point in the evolution of Meridian and our ambition to be a global reference company. It marks the beginning of a transformation for the Company and a new era of choice and control for our customers. We believe the outcome will be a revolution in the way New Zealanders buy, use and experience electricity.

In a speech to the National Power Conference this year, we announced our intention. "We have a vision for the kind of service that the New Zealand electricity consumer deserves and it is so much better than what they have been getting up to now." During the year we took some major steps towards turning that vision into reality.

Following strategic evaluation, the Company embarked on organisational change to create a separate Retail Directorate and increase our resources in the retail space to provide real focus on our customers. We also committed to rolling out the smart metering technology that provides the potential for completely new products and services for electricity consumers.

These developments, along with the introduction of leading edge innovations across our business, made the year a significant step forward towards our goal of becoming the global reference company in renewable energy.

The Year in Review

Financial Performance

In a year of significant change for Meridian, the Company continued to deliver a strong financial performance. The Company recorded a net profit of $199.8 million after tax, down from the previous year's $856.8 million which included an extraordinary one-off gain on the sale of Australian subsidiary Southern Hydro. Bottom line profit was impacted by a one-off adjustment arising from our controlling interest in WhisperGen acquired on 3 July 2006 and substantial upwards revaluation.

Operating results are significantly better than last year due to improved hydrology conditions. Earnings before interest and tax (EBIT) from continuing activities were $359.9 million, up 9% on last year's $330.7 million*. Net energy revenues improved significantly due to:

- Reduced cost of sales.
- Additional production sold into the wholesale market.

We continued to develop and commercialise technologies and services that will benefit customers and the New Zealand economy by acquiring a controlling interest in WhisperGen Limited. This resulted in increased net operating costs year on year of $24 million.

Depreciation, primarily as a result of last year's revaluation of Generation Structures and Plant, increased by $29 million.

In December 2006, we received external recognition of our performance when we were awarded a Deloitte/Management Top 200 Award (for Most Improved Performance).

Dividend

In October, the Company paid a dividend of $300 million to our shareholders. This brought the total dividends paid by the Company in the 2006 calendar year to $1.1 billion.

Operating Conditions

After a very dry year in 2005/06, national hydro generation inflows were significantly improved in 2006/07, with rainfall much closer to average levels. Inflows were up over 18% compared to the previous year.

* Excludes interest income from proceeds of Southern Hydro sale and foreign exchange gains made on repatriating proceeds.

In February 2007 we announced that Meridian was New Zealand's first and only certified supplier of carbon neutral electricity.

During the year Meridian generated 12,679 GWh of electricity (a market share of approximately 32%), compared with 11,256 GWh in 2005/06. National demand grew by 0.4%, a relatively small increase which is likely to have been influenced by a mild winter. Storage at year end was marginally above the previous year's levels. On average, spot prices were significantly lower compared to the previous year, due to increased inflow and storage levels and the absence of any extended or unexpected plant or transmission outages. The average price per MWh (Benmore) was $51.74 for the year compared to an average price of around $97 MWh for 2005/06.

Transforming Customer Choice

Electricity retailing, and the customer's experience, are largely the same today as they have been for the last 100 years. Electricity has the power to improve lives, but consumers currently do not have the tools or services to make informed choices about how they use it. They don't buy electricity. They simply pay for it after they have used it.

Two factors in particular made this year significant as the start of a new era in electricity retailing. The arrival of smart meters provides the technology platform for innovation that has been missing until now. Meridian is leading the way by rolling out the meters to our customers. The second factor is the creation of our new Retail Directorate. We are working on a range of new ideas and innovations. It will take time to bring all of these to market, but we are confident that these new products and services will deliver the level of service and choice that New Zealand electricity consumers deserve.

Renewable Energy

In the draft New Zealand Energy Strategy, the Government places a high importance on renewable energy sources. In an environment where governments, businesses and consumers will increasingly bear the cost of carbon and other greenhouse gas emissions, renewable energy provides significant economic benefits. During the year Meridian made progress on new renewable generation projects, providing tangible evidence that renewable energy is a viable option for New Zealand.

Highlights

We celebrated a number of successes during the year. Among the most notable:

- The opening of the South Island's first wind farm at White Hill in Southland.
- Environment Court confirmation of resource consent for Project West Wind near Wellington.
- Becoming New Zealand's first certified supplier of carbon neutral electricity.
- The establishment of the three Meridian Community Funds which recognise and support the communities surrounding our generation operations.
- Commenced refurbishment of Benmore Power Station.
- Optimising and extending the life of key generation assets.

In the following sections we are pleased to provide a review of these and other highlights, key events and initiatives during the past year, and our strategies for the coming year.

Strategies

Business Direction

Our goal of becoming the global reference company in renewable energy is based on three key strategies:

- Value optimisation – making the best possible use of our existing assets, systems and customer relationships.
- Value growth – building more generation capacity and growing our customer base by offering products and services that deliver real value.
- Value evolution – leveraging our core expertise into new ideas and business opportunities.

During the year we enjoyed considerable success in each of these strategies. In particular, we took tangible steps towards growing value for the Company, the shareholders and our customers. We delivered new products and services and established a foundation for continued innovation that will enable us to deliver new levels of choice and control for our customers.

Smart Meters – The Future of Energy

Smart meters measure electricity use and automatically transmit the information via a communications network to electricity suppliers. They can also receive information, which means they can be used to offer special pricing plans and electricity supply in response to customer choices. In future, they could be used to manage household appliances, providing convenient solutions for customers.

Following a successful trial of smart meters in Hawke's Bay, Meridian committed itself to installing over 110,000 smart meters in Christchurch. The roll-out is a major logistical effort and is expected to take two years to complete. The smart meters are being installed at no cost to customers.

Meridian is leading the way in the introduction of this technology, which will fundamentally change the way electricity consumption is measured. Immediate benefits for customers include no more meter readers visiting their houses, no more estimates, and accurate bills based on actual consumption. In the future, smart meters will also allow customers to receive timely and accurate information on their energy use, including online access to consumption patterns which will help them manage their electricity costs better. The technology also opens the door to a range of new services. Our subsidiary company, Arc Innovations, is a leader in smart metering technology.

Certified Supplier of Carbon Neutral Electricity

In February 2007 we announced that Meridian was New Zealand's first certified supplier of carbon neutral electricity. Customers who buy electricity from Meridian now know we will take responsibility for ensuring that the carbon footprint of the electricity we sell is neutral. There is a growing number of New Zealanders who are concerned about climate change and Meridian can now offer them the choice to buy carbon neutral electricity.

Meridian Irrigation Manager

During the year the Company launched a new product for farming and horticultural customers who are large users of irrigation and purchase electricity by Time of Use (half hourly metering). Meridian Irrigation Manager provides easily accessible information about irrigation usage and costs, which allows customers to get the best value from their irrigation spend. As well as the potential for considerable savings on electricity costs, there are significant spin-off benefits. The information available from Meridian Irrigation Manager helps customers identify the optimal times to irrigate, which may result in less water and fertiliser use. The tool has the potential to add real value and productivity to a sector that is one of the major contributors to New Zealand's economy.

Business Online

During 2006/07 we launched more enhancements to our Business Online system for corporate, business and farming customers with Time of Use (half-hourly metering). Business Online provides online reports and graphs on customers' electricity usage and costs, allowing them opportunities to make the best use of their electricity spend. A range of new functions were rolled out which provided Business Online customers with more and easier access to critical information.

Energy Efficiency

We place considerable emphasis on helping our customers get the best value from the electricity they purchase. We have developed a range of tools and information to help customers save money and use electricity more efficiently. During the year we ran an Energy Efficiency Home Makeover initiative. Five Meridian customers each won a home energy efficiency audit and $10,000 to spend on energy efficiency products and installation. We sent brochures to all customers outlining a range of simple measures they could take to increase energy efficiency. We also continued to have a presence at Field Days and other events where we were able to talk to customers about energy efficiency.

Pricing

Meridian strives to be an efficient, low-cost producer of electricity. Our prices reflect the overall cost of supplying electricity to our customers and continue to be competitive. As a commercial enterprise we strive to provide a return to shareholders and to invest in new capacity to ensure security of supply for our customers – a strategy which is essential for the long-term sustainability of our business. Achieving these objectives while continuing to keep our prices for customers competitive is evidence of the rigour of our financial management.

Innovation

We take considerable pride in a culture which encourages new ideas. Many of these ideas have been turned into successful new business units or subsidiaries. We are currently investigating a number of new opportunities and actively working to realise their potential. We will continue to seek opportunities to fulfil the Government's stated desire for State-Owned Enterprises to use their expertise to create new business opportunities which benefit New Zealand. These innovations are also key to realising our vision of offering customers new levels of choice and control.

Right House

Right House is a new subsidiary business focusing on energy efficiency. We have created Right House to provide New Zealanders with the ability to build new homes with a very high standard of health and comfort, and low energy costs. Right House will offer architects, builders and house buyers technical knowledge and products to make new building projects more energy efficient. It will provide a unique, integrated approach providing new home buyers with a 'one-stop shop' energy efficiency solution. The business will focus initially on new houses, with the aim of extending the service to existing homes and commercial buildings in the future. It is meeting a clear need for New Zealand families while achieving commercial viability. It is also a demonstration of our commitment to our customers – our goal is to help customers get the best value from their electricity spend.

Arc Innovations

Our subsidiary, Arc Innovations, is a leader in the development and deployment of smart metering technology. It is currently rolling out smart meters to more than 110,000 Meridian customers in Christchurch. The technology platforms are paving the way for the transformation of the electricity retailing sector.

DamWatch Services

Over the last year DamWatch has enhanced its reputation as an established niche dam engineering consultancy, and consolidated its position as a "trusted advisor" to clients. Revenue and Net

Meridian is committed to generating electricity only from renewable energy sources. We will continue to build new capacity to meet the increasing electricity needs of New Zealanders over the long term. We are working on a range of projects with a focus on wind, as well as new hydro projects where they are cost effective and environmentally responsible.

Surplus Before Tax during the period 2006/07 were the highest ever achieved. These results were coupled with increased levels of client satisfaction, determined through an annual customer survey.

DamWatch is currently completing a very high profile dam foundation rehabilitation project that will attract widespread interest as publication of the work unfolds.

Energy for Industry

Our Energy for Industry business unit continues to provide industrial and institutional customers with efficient energy solutions. During the year construction began on a new heat plant burning wood residues and effluent sludges for PPCS' Finegand meat works near Balclutha. As well as providing an efficient and renewable source of heat, the project will provide an effective waste disposal solution for PPCS.

WhisperGen

Meridian acquired the majority of Orion's shares in WhisperGen on 3 July 2006 lifting its total shareholding to over 75%. Over the past year WhisperGen has made considerable progress in meeting technical and commercial milestones in anticipation of mass manufacture of the WhisperGen unit. This progress has included product reliability, technical performance, unit cost reduction and mass manufacturing prototype production. WhisperGen is well advanced in discussions with a mass manufacturer in Spain and is anticipating establishment of a manufacturing joint venture later in 2007.

The market environment remains very positive due to the challenge of reducing carbon emissions and increasing the efficiency of energy use, and WhisperGen is receiving rapidly increasing interest from a number of large scale distribution channels in Europe.

WhisperGen's progress underscores the ability of New Zealand engineers and entrepreneurs to take a novel technology to the world stage.

Managing our Assets

We are responsible for looking after some of New Zealand's most valuable electricity generation assets, and looking after those assets is one of our fundamental priorities. By achieving world class standards of asset management, we prove our capability to build new generation capacity. Over the year we made good progress on several key asset management and optimisation projects.

Benmore refurbishment

We are undertaking a major five-year programme of work to refurbish the Benmore Power Station, one of the country's most important electricity generation assets. Benmore has been delivering electricity to New Zealand's national grid since 1965.

The programme includes the overhaul of six generating units, an upgrade to the transformer and circuit breaker connection between the station and the national grid, new turbine runners and improvements to local services at the station. Work to date has focused on designing and specifying requirements for equipment including turbines, which have a significant lead time to manufacture and deliver. The refurbishment, which is expected to be completed by early 2011, will ensure the continued reliability of electricity supply from Benmore, and will also increase output by approximately 3% through more efficient use of water. This equates to a potential increase in Benmore's average annual output of around 65 gigawatt hours (GWh) – enough to power around 6,500 average households.

Manapouri

The half-life overhaul of the Manapouri power station is nearing completion with six of the seven units having been refurbished by the end of the last financial year. Completion of the last unit is scheduled for December 2007. The Manapouri half-life Refurbishment Project comprises replacement of the generator stators, excitation systems, automatic voltage regulators, isophase busbars and cooling water pumps, refurbishment of the generator rotors, a complete mechanical unit overhaul and the installation of new design turbine runners and guide vanes. The project will result in improved station reliability and availability and reduced maintenance costs. The station's water efficiency will be increased by approximately 2–3% which equates to a potential increase in output of 90 gigawatt hours (GWh) – enough to power around 9,700 average households. A consent to undertake a high flow trial was granted in 2006. During the trial the station peaked at 902.3 MW compared to its pre-second tailrace tunnel 585 MW nominal maximum.

Predictive Asset Management

The maintenance of existing assets has been greatly enhanced through the use of our Predictive Asset Management system, which provides our engineers with live information on the performance and condition of critical plant and equipment. The system constantly measures critical parameters such as temperature, vibration and oil chemistry in real time, and provides alerts when a parameter goes outside normal ranges. Developed in-house, the system is helping to put Meridian at the forefront of asset management practices worldwide.

Climate Change

A profound driver of change

The last year saw an increasing awareness of climate change and the threat it poses to our environment and economies. Since 2001 our Sustainable Development Policy has required us to take into account social, financial and environmental impacts when making decisions. This policy was recently updated to include climate change and was the starting document for the carbon neutral process.

We believe climate change issues will be a driver for fundamental changes in business practices, and we are at the forefront of the debate on the implications and options for New Zealand.

During the year we continued to have an input into the development of policy options on carbon pricing and emissions trading.

carboNZero certification

One of the key outcomes of Meridian's Sustainable Development Policy is becoming a carbon neutral company. In February, we announced that we had achieved carboNZero certification from Landcare Research Limited for our electricity and the generation and retail activities that support it. This means those activities do not contribute to the build-up of greenhouse gases in the atmosphere. We are now working towards achieving carboNZero certification for the rest of our business. Our leadership in this area is entirely consistent with our commitment to sustainable development and to generating electricity only from renewable resources.

Sale of carbon credits

During the year we successfully concluded negotiations on the sale of Kyoto credits from the White Hill wind farm worth more than $9 million over six years to the Swiss-based Climate Cent Foundation. The credits will be used to meet Switzerland's obligations under the Kyoto Protocol. The projected revenue from the sale of these credits was a key factor in our commitment to build White Hill.

New Capacity

Meridian is committed to generating electricity only from renewable energy sources. We will continue to build new capacity to meet the increasing electricity needs of New Zealanders over the long term. We are working on a range of wind projects as well as new hydro projects where they are cost effective and environmentally responsible.

White Hill wind farm

On 8 June 2007, our new wind farm at White Hill near Lumsden was officially opened on a dramatic Southland day. White Hill is the South Island's first wind farm and has a generation capacity of 58 MW – enough electricity to power around 20,000* average households. It will supply power to the distribution network in Southland. An earlier Open Day was attended by over 5,000 visitors from around the region who provided overwhelmingly positive feedback on the wind farm. Meridian extends its thanks to the local community for their support of the project.

Project West Wind

A significant milestone was achieved during the year for Project West Wind, a major wind farm development at Makara, near Wellington. The Environment Court confirmed resource consent for the project to proceed following an appeal.

When fully operational West Wind will have a generation capacity of 142.6 MW – enough electricity equivalent to power every household in Wellington City.

Project Hayes

During the year the Company lodged a resource consent application for Project Hayes, a proposed wind farm to be built in stages on the Lammermoor Range in northern Central Otago. The proposal is for up to 176 turbines generating up to 630 MW. The proposal received substantial support in the local area, although it has attracted some vocal opposition. We currently await the result of the resource consent hearing. If built, the project could make a significant contribution to meeting the South Island's increasing electricity demand.

North Bank Tunnel Concept

The Company has lodged water-only resource consent applications for a proposed hydro generation tunnel concept on the North Bank of the Waitaki River in North Otago. The concept would generate electricity by taking water from Lake Waitaki through a tunnel and discharging it back into the Waitaki River, about 34 kilometres downstream. The concept has a potential generation capacity of 200-280 MW (enough to power a city the size of Christchurch) and is one of the largest renewable generation opportunities available in New Zealand. We are taking a staged approach to resource consent, seeking access to water in the first stage before committing to the significant engineering investigation work that will be required in the next phase.

Community

We take our responsibilities as a corporate citizen operating under the State Owned Enterprises Act very seriously. Meridian is committed to making a contribution to the success of its generation communities, its customers and the wider New Zealand community.

Community Funds

The Meridian Community Funds were established to recognise the special contribution our generation communities make to the New Zealand electricity sector. Three funds have been established: the Waitaki Community Fund to the value of $1 million, the Manapouri Te Anau Community Fund to the value of $500,000 and the Te Āpiti Community Fund to the value of $100,000, all over three years. Funding decisions are made by an Advisory Panel which includes

* Household figure based on average consumption of 10,000 kWh per year

Becoming the global reference company in renewable energy is a bold vision. Our purpose is supported by a clear set of strategies, a strong and unique culture, extraordinary and committed people, and a determination to transform our customers' experience and deliver real value to their lives and businesses. We are confident and excited about the future for Meridian, for our customers and for New Zealand.

both Meridian and local community representatives. Grants from the funds have supported many local initiatives which are making a valuable contribution to the life and well-being of their community.

We are very grateful to the community fund members who have provided their time, skills and knowledge without remuneration.

Irrigation Projects

Our commitment to supporting local communities was also demonstrated by our involvement in projects with the potential to create wealth for their community. In North Otago Meridian was the catalyst for the Downlands Irrigation project by underwriting 25% of the scheme. The scheme brings water to 10,000 hectares around Oamaru, an outcome that farmers in the area have been seeking for over 100 years. We are also involved in the proposed Hunter Downs irrigation scheme in South Canterbury. Consents to take and use Waitaki River water sufficient to irrigate 40,000 ha have been applied for. The scheme is a joint initiative between Meridian and the South Canterbury Irrigation Trust. Meridian is proposing to develop the scheme on a build, own and operate basis. This offers farmers the opportunity to get irrigation for an annual fee – without the normal development risk or equity requirements. These two schemes will lead to significant productivity gains and make a positive contribution to the prosperity of those South Canterbury and North Otago regions.

Project Crimson

During the year Meridian became the principal sponsor of Project Crimson, a trust established to protect and renew two of New Zealand's iconic tree species, the pohutukawa and the rata. The sponsorship is particularly fitting given Meridian's commitment to protecting our natural environment and the prominent use of rata flowers in our advertising. Meridian staff have taken the Company's involvement with Project Crimson to heart, and have been actively involved in helping with new plantings of rata.

New Zealand Dairy Industry Awards

Our commitment to the rural sector was reinforced when we became a sponsor of the New Zealand Dairy Industry Awards, which bring together a range of industry awards under a single umbrella. We are also the sponsor of the Meridian Farm Environment Award, which recognises sustainable dairying practices.

People

As with any organisation, the success of Meridian is built on the exceptional skills, knowledge and commitment of our people. The organisation restructure we undertook placed considerable demands on our staff, and they responded magnificently to maintain business as usual during a period of significant change.

Meridian's new look

You will have noticed the 2007 Annual Report introduces Meridian's new visual identity. The company has changed significantly since it was established in 1999, and the identity needed to be updated to reflect that change. The creation of new subsidiaries also requires a parent identity that can be applied flexibly, now and in the future, and across many new media. Making the change now also meant that we could minimise production costs, as the move to new office space in Wellington required printing of new stationery, such as letterhead and business cards. This visual identity will be implemented over the next 18 months.

We are committed to the development of our people. Our goal is to provide an environment where our staff are fully engaged and have choice and control in their working lives.

Health, Safety and Wellness

Meridian places particular importance on health, safety and wellness. We maintained our tertiary status in the ACC's Workplace Management Safety Programme (the highest rating). Among Meridian staff there were two lost time injuries during the period. However, employees of contractors working on Meridian sites suffered one serious harm injury and nine lost time injuries. This is a significant concern, as the safety of everyone working on Meridian sites is extremely important to us. We are actively engaged with our contractors and subcontractors to help them improve and optimise their workplace safety processes.

Staff Satisfaction

During the year, staff satisfaction ratings continued to be at very high levels, with 95% of staff recording positive measures of satisfaction. These are extremely good results by any standards. However, compared with last year's results 9% fewer people said they were very or extremely satisfied. The Company is growing, and with growth comes an even greater need to manage our people professionally in all aspects of our business and provide a sense of meaning from the work they do. We are taking steps to address the issues that staff raised in the survey to ensure we maintain and improve staff satisfaction.

Capability Development

The Company took some significant steps to secure our capability in critical operational areas. Previously, 42 technicians at Twizel and Manapouri were employed by our contractor Transfield. They were brought in-house and are now Meridian employees. Transfield deserve considerable credit for the positive and constructive way they helped Meridian and their staff through the change. Meridian will gain more certainty in retaining and growing key technical skills. During the year we also began an engineering graduate recruitment programme and increased our commitment to electrical apprenticeships.

Energy Sector Issues

During the year New Zealand made some significant progress towards achieving security of supply to meet the country's growing electricity needs. Meridian welcomed the Electricity Commission's intention to approve Transpower's amended proposal to upgrade the electricity transmission supply into Auckland and Northland. We also welcomed the proposed New Zealand Energy Strategy (NZES) announced in December 2006, and its vision of New Zealand as an international leader in renewable energy. However, we are concerned that some key issues call into question New Zealand's ability to implement the proposed strategy. These include the High Voltage Direct Current (HVDC) charging methodology, the level of investment in the National Grid, the resource consent process and broader regulatory uncertainty.

High Voltage Direct Current (HVDC) Charges

The Minister of Energy's endorsement of the Electricity Commission's charging methodology for the HVDC link between the North and South Islands (better known as the Cook Strait Cable) is disappointing. The charging methodology assumes a flow of power from the South Island to the North. This is deemed to benefit South Island generators who must bear all HVDC costs. They must also fund 100% of the planned HVDC replacement and upgrade costs. This imposes significant costs on South Island renewable generators. One effect of this is likely to be that new renewable energy projects in the South Island are deferred. This outcome puts the proposed New Zealand Energy Strategy, which places a high importance on the development of renewable energy, at risk because the North Island alone cannot provide enough renewable energy to support New Zealand's growth.

The Cook Strait Cable is a core national asset. Indeed, last year power flowed from the North Island to the South in 10 out of 12 months. All other transmission is funded by electricity consumers who benefit from the reliability of supply that the grid delivers. So, this charging methodology is inconsistent and lacking in economic rationale. Future generation needs cannot be met by North Island generation alone.

Investment in the National Grid

The deregulation of the electricity sector has created considerable debate about how decisions are made on transmission infrastructure, in the absence of an integrated generation and transmission planning model. Competition requires a largely unconstrained national grid, so that electricity can be sourced from the most economic locations and technologies. However, continued under-investment in the grid means there are now significant constraints, which create the potential for pricing distortions.

A robust national grid is also particularly important for renewable energy generation, which cannot be relocated near centres of demand. A better grid means better renewable generation options.

For these reasons a programme of investment in the national grid is essential to achieving the vision laid out in the proposed New Zealand Energy Strategy.

Resource Consents

The current level of uncertainty around the consenting of renewable

Board of Directors

Left to right, top to bottom:
Wayne Boyd (Chairman),
Ray Watson (Deputy Chairman),
Tim Lusk,
Anne Blackburn,
Anne Urlwin,
Catherine Drayton,
David Shand

Wayne Boyd (Chairman)

"The association with renewable energy is exhilarating."

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

Wayne is a Director of Vulcan Steel Limited and Landco Limited. He is currently Chairman of Telecom Corporation of New Zealand Limited and Freightways Limited. In the past Wayne was a member of the Fairfax New Zealand Advisory Board and worked on Ngāi Tahu's commercial boards for more than 10 years.

Wayne has been involved in community organisations as a Director of Sports and Recreation New Zealand and Chairman of both the New Zealand Blood Service Limited and the New Zealand Hockey Federation.

Appointed: 5 April 2005

Ray Watson (Deputy Chairman)

"I particularly value the collective wisdom of the Board and the undeniable strength of the organisation."

Eharā tāku toa i te toa takitahi, ēkari he toa takatini - It is not by one person, it is by the multitude that the work will be done.

Ray was appointed Deputy Chair of Meridian in April 2006.

Ray Watson is the Managing Director of Ray Watson Associates Limited, he was Chief Executive of Ngāi Tahu Development Corporation from 2001 until early 2005 and prior to that he held the position of Chief Executive of Lakeland Health Limited from 1996. Ray is a Commissioner with the Mental Health Commission.

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

Appointed: 22 June 2005

Tim Lusk

"I feel hugely privileged to be part of a company that dares to innovate for NZ Inc."

Tim Lusk was General Manager Wholesale in Telecom New Zealand Limited from 2002 until August 2006. Prior to Telecom, he held executive positions in Transpower New Zealand Limited and Power New Zealand Limited.

His electricity industry accountabilities ranged from engineering development, network pricing, system operations, marketing, customer relations and electricity market development.

Tim is currently CEO of the Post Office Welfare Trust.

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

Appointed: 1 June 2005

Anne Blackburn

"Meridian is characterised by analytical rigour that supports its long-term investments, by deep practical experience to execute them, and by a culture that respects the natural and human environments where it works. It aspires to the highest standards – a demanding and rewarding workplace."

Following a twenty-year career in banking in New York, London and New Zealand, Anne now holds a portfolio of directorships and consulting roles.

She is currently a member of the Boards of the Export Credit Office, Wellington Regional Holdings and its subsidiaries, the Centre for Clinical Research and Effective Practice, the Royal New Zealand Ballet, Television New Zealand and Forsyth Barr. She also provides investment management advice to PKW, a pan-iwi Māori Incorporation in Taranaki.

Appointed: 1 June 2004

Anne Urlwin

''Meridian is a company that 'walks the talk' with its commitment to sustainable development encompassing economic, social, environmental and cultural goals. It's a privilege to be part of its journey to becoming a global reference company in renewable energy.''

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

She is Chair of New Zealand Domain Name Registry Limited, and Deputy Chair of Airways Corporation of New Zealand Limited and of Landcare Research New Zealand Limited.

Anne is currently a director of New Zealand Cricket, a member of the Board of New Zealand Blood Service and a director of Invest South Limited and Lakes Environmental Limited.

Anne is a former Chair of the 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.

Appointed: 1 January 2005

Catherine Drayton

"Words that come to mind when I think about being on the Meridian Board are challenging, inclusive, dynamic, colourful, focused, diligent and positive!"

Catherine Drayton is a chartered accountant with significant experience in mergers and acquisitions. She is the former partner in charge of the Assurance and Advisory practice of PricewaterhouseCoopers for Central and Eastern Europe (PwC CEE). She held this position from 2001 to late 2004: from the Russian crisis through to the accession of the first Central European Countries to the European Union. Prior to this executive management role, she was responsible for Transaction Services for PwC CEE.

As a consequence of these two roles, Catherine has significant multi-cultural, multi-jurisdictional managerial and transactional experience, supplemented by earlier work experience for PwC in both New York and London.

Catherine is also a director of the New Zealand Hockey Federation.

Appointed: 1 May 2006

David Shand

"Being on the Meridian Board gives me the opportunity to participate directly in the big issues of New Zealand's energy policy, as well as to participate in running this dynamic company."

David Shand returned to New Zealand in 2006 after a number of years living overseas. He has worked for three international organisations, most recently for over eight years as a public financial management specialist at both the World Bank and the IMF in Washington DC. This followed four years working with the OECD in Paris on public sector reform issues.

After joining the Treasury in the mid 1960's David taught accounting and public finance at Victoria University before moving to Australia in 1977. David left the Australian National University in 1981 and held a number of senior positions including Deputy Secretary of the Victorian Treasury, First Assistant Secretary in the Australian Department of Finance and Queensland Public Service Commissioner.

In the 1970's David spent six years in local politics as a Wellington City Councillor. His association with the electricity industry includes six years as a member of the Wellington City Council's Electricity Committee.

More recently David has chaired the Independent Commission of Inquiry into Local Government Rates established by the Minister of Local Government, and the Tertiary Education Commission.

Appointed: 1 May 2006

Management Team

Left to right, top to bottom:
Dr Keith Turner (Chief Executive), Chris Jones (People and Performance Director), Andrew Robertson (Strategy Director), James Hay (General Counsel Director), Ken Smales (Growth and Development Director), K-J Kells (Executive Advisor), Matthew Jansen (Communications Director), Paul Smart (Enterprise Services Director), Steve Ferguson, (Retail Director), Garth Dibley (Markets and Production Director)

Dr Keith Turner (Chief Executive)

Keith Turner has 38 years of experience in the electricity industry. He held several senior executive positions in the Electricity Corporation of New Zealand (ECNZ) before being appointed Meridian's first Chief Executive on its creation in 1999. He has been instrumental in the reform of the electricity industry including being a member of the Transpower Establishment Board, the Contact Energy Establishment Team, the Market Surveillance Committee and a Founding Director of M-Co.

Dr Turner is a passionate believer in sustainable development and the value of renewable energy for New Zealand. He is driven by a desire to make Meridian the global reference company for renewable energy and the opportunity to lead a team of people who share that desire.

As an engineer, Keith Turner likes to build things. He built his family home (using energy efficient principles), and also built his family's 38 foot yacht. He is a proud New Zealander and spends his summer holidays camping in the Coromandel Peninsula.

Chris Jones (People and Performance Director)

Meridian people are exceptional. They are the key to our success. It's the role of Meridian's People and Performance team supports the business by making sure that it continues to attract, develop and retain the very best people. Chris and his team work with Meridian's managers and support them in building relationships with their staff that allow Meridian people to achieve the goals they aspire to.

Chris joined Meridian from the UK where he worked both in the private and public sectors in senior management and consulting roles. He joined Meridian because he saw it as an organisation that was 'getting it right', and a culture that offered a good fit with his vision of how organisations could be.

Chris has had a lifelong obsession with rowing, both as a competitor and coach. He is currently involved with coaching at the Wellington Rowing Club.

Andrew Robertson (Strategy Director)

Andrew has been involved in the electricity industry for his entire working life – a background that makes him perfectly placed to lead Meridian's Strategy Team. Their role is to monitor what is happening in the industry, develop Meridian's business strategy and present options for the future of our business.

The Strategy Team is also responsible for identifying opportunities to extend our core business into new areas. One example is Meridian's new Right House subsidiary which offers energy efficiency solutions for homeowners. Right House was 'incubated' within the Strategy Team.

Andrew joined Meridian from ECNZ, where he was involved in the reform of the electricity industry that led to the creation of Meridian. He is a passionate believer in renewable energy as a secure, low cost energy source that underpins New Zealand's growth and future prosperity.

James Hay (General Counsel Director)

James has been Meridian's General Counsel and Company Secretary since it began operations in April 1999. He and his team provide advice to the business on legal matters and make sure appropriate governance structures are in place.

They also play a key role in Meridian's submissions on industry issues and our relationships with regulators and our shareholder – the Government. The General Counsel team leads climate change initiatives and policy contributions on behalf of the Group.

James joined Meridian from a leading New Zealand law firm, having also spent time on long term secondment to the Crown Company Monitoring and Advisory Unit and working on start-up telecoms ventures in the UK. He joined Meridian because the role offered the chance to be involved at the start of something important for New Zealand. The challenge now is being involved in projects that will really deliver results for electricity customers.

Ken Smales (Growth and Development Director)

As demand for electricity continues to grow, finding and building new sources of renewable electricity is key to the future of both Meridian and New Zealand. The role of Ken Smales and his team is to investigate, secure, design, build and commission those new renewable electricity generation sites. It's a complex role which includes obtaining environmental and resource consents as well as managing the design and engineering projects required to build new sites.

Ken began his career with the New Zealand Electricity Department, starting there in 1969 on the same day as Meridian Chief Executive Keith Turner. Ken is a former Group Manager for the Waikato Power Stations (now Mighty River Power). He has deep South Island roots and has an intimate knowledge of Meridian's assets and the areas they are located in. He is lucky enough to be working in what he describes as his dream role.

Ken is a passionate supporter of New Zealand and is also passionate about protecting its natural environment. In his spare time he's kept busy planting a 4000 square metre property in the Marlborough Sounds with native trees and creating a sanctuary for native birds.

K-J Kells (Executive Advisor)

As Executive Advisor, K-J (Kathryn-Jane) Kells is involved in many aspects of Meridian's business. She works closely with the Chief Executive to provide strategic analysis and support. She has a special interest and background in corporate strategy development.

K-J came to Meridian from Ernst & Young where she was involved in strategic consulting work in the US, Australia and New Zealand. She loves the challenge and variety of her role. She also values the opportunity to work in an environment where existing paradigms can be challenged and big ideas can be pursued. As part of her role K-J has been involved in several projects exploring new opportunities for Meridian.

Matthew Jansen (Communications Director)

The Communications team oversees Meridian's reputation and relationships with stakeholders – including our customers and communities close to Meridian's assets – to ensure they want to keep doing business with Meridian. As Communications Director, Matthew's role is to ensure that every part of the company has the support it needs to develop relationships that work for all parties.

With a background in corporate communications, Matthew joined Meridian because he wanted to be part of a New Zealand company that was going to do something very big – and do it very differently. As electricity plays such a critical part in modern society, he believes his role provides a real opportunity to contribute to a better future for all New Zealanders.

Paul Smart (Enterprise Services Director)

As Meridian's Enterprise Services Director Paul is responsible for supporting the organisation's strategic initiatives. This includes leading Meridian's financial accounting, knowledge and project management, sourcing and procurement teams. He also leads the teams responsible for Risk Management (ensuring business continuity and mitigating our key business risks), Treasury (funding and cash management), and Information Technology (both day to day operations and developing our future technology platform).

Paul joined Meridian following a successful business career including 12 years as Chief Financial Officer of Sky Network Television Limited. Meridian provided a large scale, multi-dimensional challenge and the chance to work in a sector of fundamental importance to New Zealand's future.

In addition Paul is a director and chair of the audit committee of the publicly listed Postie Plus Group based in Christchurch.

Steve Ferguson (Retail Director)

As Retail Director, Steve is charged with delivering Meridian's customer experience vision. The Retail team is responsible for bringing new and innovative choices and solutions to our customers. This incorporates all aspects of the retail experience including customer service, via direct channels such as the call centre, online capability, billing, switching and process improvements.

Steve joined Meridian from Kiwibank where, with responsibility for Distribution, he was involved in the development of a number of new products and services, including Mobile Phone Banking – the first application of its kind in New Zealand. He is passionate about customers and the opportunity to transform the way New Zealanders buy, use and experience electricity.

Garth Dibley (Markets and Production Director)

Meridian's Markets and Production team works on both sides of the electricity supply and demand spectrum. They are responsible for operating and maintaining Meridian's hydro and wind generation assets, and selling the electricity we produce through the wholesale market. The team balances Meridian's generation capacity with market demands in a way that maximises value and minimises risk.

Garth has been involved with managing Meridian's Generations assets since the company's creation. He was previously the Engineering Manager at both the Electricity Corporation of New Zealand's Northern Generation Hydro group and Northern Thermal Group. He joined Meridian because of its focus on engineering excellence and the chance to help manage some of New Zealand's largest and most iconic assets.

"The customer is my focus, my team supports business and corporate customers in every way and that's anywhere from Kaitaia to Bluff. Without the customer we wouldn't have a business."

Jill Rudings
Business Customers Manager, Meridian

Meridian Group – Financial Highlights

Profitability (year-on-year decrease of $657.0m, $43.3m year-on-year decrease from continuing operations)

- The previous year's financial results included the net gain on sale from the divestment of Southern Hydro ($625.6m).
- Net Surplus from continuing operations of $199.8m compared to last year of $243.1m.
- The Group operating result (EBITDA from continuing activities) of $479.4m compares favourably with last year's result ($483.4m). Major factors were:
  - Improved hydrology conditions.
  - The previous year included interest income and foreign exchange gains related to the Southern Hydro divestment ($67m).
  - WhisperTech companies fully consolidated for the first time and incorporation of Post-Acquisition Assessed Retained Earnings and 2007 operating expenses of those companies contributed to an increase of $24m year-on-year in net operating expenses.
- Depreciation increased this year by $29m primarily as a result of last year's $1,800m revaluation of Generation Structures and Plant.
- Financing costs include one-off costs of $12m for foreign exchange options to protect project economics.
- Income tax benefited by $15.9m after reflecting the effect of the reduction in the corporate tax rate on the Group's deferred tax liability.

Operating Revenue (year-on-year decrease of $448m)

- Generation volumes increased from the previous year as hydrology conditions improved, however generation and wholesale revenues decreased by $411m, primarily as a consequence of a lower average generation price of $51/MWh ($97/MWh last year) received for sales to the market.
- Overall, retail energy revenues decreased by $40m. Much of this decrease resulted from reduced revenues from large corporate customers where physical supply prices are referenced to the spot market.

Operating Expenses (year-on-year decrease of $405m)

- With lower average wholesale prices, the cost of supplying customers decreased by $459m from last year.
- The energy cost decrease has been offset by increased depreciation and the inclusion of the WhisperTech companies' costs in the Group consolidation (see above).

Financial Position

- Revaluation of Generation Structures and Plant in the 2006/07 year of $1,455m contributed to an increase in the value of the company's total assets to $6,668m.
- Our cash position at the end of last year and strong cash flows from operating activities allowed a further $300m dividend payment to be made to the shareholder.

Cash Flows

- Operating cash flows increased on the previous year by $60m, mainly due to the improved trading performance.
- Increased wind farm construction activity (Project White Hill) contributed towards higher outflows for investment activities. Payment of $367m in cash dividends was the only outflow of cash for financing activities.
- Cash balance at year end of $44.8m.

Overview

Meridian Energy Limited's core business is the generation of electricity (including the management of related assets) and the marketing, trading and retailing of energy and wider complementary products and solutions within New Zealand and Australia.

TREND STATEMENT for year ended 30 June	2007 $MILLION	2006 $MILLION	2005 $MILLION
Financial Performance			
Gross Revenue	**1,775.1**	2,222.8	1,656.1
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**479.4**	1,134.7	553.7
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) from Continuing Activities	**479.4**	483.4	489.2
Earnings Before Interest and Tax (EBIT)	**359.9**	1,027.1	424.2
Earnings Before Interest and Tax (EBIT) from Continuing Activities [1]	**359.9**	397.2	400.1
Net Surplus After Tax	**199.8**	856.8	218.2
Net Surplus After Tax from Continuing Activities[1]	**199.8**	243.1	239.2
Funds Employed			
Shareholders' Equity [2]	**5,542.1**	4,237.4	2,469.1
Term Borrowings, Deferred Tax and Lease Liability	**907.6**	906.7	1,208.2
Current Portion of Term Borrowings	**-**	-	370.1
	6,449.7	5,144.1	4,047.4
Utilisation of Funds			
Non-Current Assets	**6,381.6**	4,850.3	4,014.7
Net Working Capital [3]	**68.1**	293.8	32.7
	6,449.7	5,144.1	4,047.4

RATIOS	%	%	%
Return on Average Equity [4]	**4.8**	25.6	9.0
Net Surplus After Tax from Continuing Activities to Average Equity [4]	**4.8**	7.3	9.8
EBIT to Average Total Assets [5]	**6.8**	21.2	10.0
Weighted Average Cost of Interest	**7.9**	7.6	7.0

STATEMENT OF CORPORATE INTENT [6]		2007 ACTUAL	2007 TARGET	2006 ACTUAL
EBITDA Interest Cover	**Times**	**7.7**	9.5	31.5
Return on Average Equity Including Revaluation	**%**	**4.1**	12.8	25.6
Net Debt to Net Debt Plus Equity Ratio	**%**	**11.4**	13.4	10.6
EBITDA per MWh Produced (NZ)	**$**	**38.0**	41.8	37.5

1 The 2007 amount represents the results for the year of the continuing operating entities of the Group existing at 30 June 2007. The 2006 and 2005 comparatives reflect the results for those years for the same continuing operating entities. Continuing operating entities exclude Southern Hydro operating results, gains on disposal of Southern Hydro and costs relating to this disposal.

2 Shareholders' Equity includes a revaluation uplift of $1,455 million effective 30 June 2007, and $1,800 million uplift effective 30 June 2006.

3 Net Working Capital excludes the current portion of term borrowings.

4 Average Equity excludes a revaluation uplift of $1,455 million effective 30 June 2007. The Average Equity for the comparative years include the effect of previous revaluations. Previous years revaluations comprise $1,800 million on 30 June 2006 and $600 million on 30 June 2003.

5 Average Total Assets excludes a revaluation uplift of $1,455 million effective 30 June 2007. The Average Total Assets for the comparative years include the effect of previous revaluations.

6 Targets for the 2007 Statement of Corporate Intent do not include the effects of the $1,455 million revaluation on 30 June 2007, the $1,800 million revaluation on 30 June 2006, Board-approved investments in Arc Innovations and WhisperGen, and investments relating to the restructuring of Meridian's Retail and Wholesale operating groups.

Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors confirm that proper accounting records have been kept which enable the determination of the financial position of the Company and the Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date to ensure compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors have pleasure in presenting the financial statements of Meridian Energy Limited and the Group for the year ended 30 June 2007, as set out on pages 29 to 56.

The annual financial statements were authorised for issue by the Board on 3 September 2007.

For and on behalf of the Board.

Wayne Boyd
Chairman

3 September 2007

Anne Urlwin
Chair of Audit and Risk Committee

3 September 2007

Meridian Energy Limited – Statement of Financial Performance for the year ended 30 June 2007

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Operating Revenue	2	**1,775,077**	2,222,795	**1,766,768**	2,578,010
Operating Expenses	3	**(1,415,144)**	(1,819,881)	**(1,369,330)**	(1,776,227)
Financing Costs	4	**(56,323)**	(69,424)	**(56,323)**	(39,719)
Equity Accounting of Associate		**-**	(1,430)	**-**	-
Operating Surplus Before Non Recurring Items		**303,610**	332,060	**341,115**	762,064
Gain on Disposal of Subsidiary		**-**	652,516	**-**	-
Costs Relating to Disposal of Subsidiary		**-**	(26,879)	**-**	(22,717)
Net Surplus Before Tax After Non Recurring Items		**303,610**	957,697	**341,115**	739,347
Income Tax	5	**(103,761)**	(100,861)	**(112,339)**	(118,727)
Net Surplus After Tax		**199,849**	856,836	**228,776**	620,620
Net Surplus After Tax comprises:					
Net Surplus from Continuing Activities		**199,849**	243,110	**228,776**	244,760
Net Surplus from Discontinued Activities		**-**	613,726	**-**	375,860
Total		**199,849**	856,836	**228,776**	620,620
Net Surplus after Tax attributable to:					
Shareholders of the Company		**199,063**	856,836	**228,776**	620,620
Minority Interest	10	**786**	-	**-**	-
Net Surplus after Tax		**199,849**	856,836	**228,776**	620,620

Meridian Energy Limited – Statement of Movements in Equity for the year ended 30 June 2007

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Equity at Beginning of Year		**4,237,351**	2,469,080	**4,094,396**	2,553,182
Recognition of Minority Interest on Acquisition of Controlled Entities	17(b)	**10,824**	-	**-**	-
Effect of Acquisition of Controlled Entities		**-**	-	**716**	-
Restated Equity at Beginning of Year		**4,248,175**	2,469,080	**4,095,112**	2,553,182
Net Surplus After Tax attributable to:					
– Shareholders of the Company		**199,063**	856,836	**228,776**	620,620
– Minority Interest		**786**	-	**-**	-
Movement in Revaluation Reserve	15	**1,455,000**	1,800,000	**1,455,000**	1,800,000
Post-Acquisition Assessed Revaluation Reserve of Subsidiary	17(b)	**7,005**	-	**-**	-
Movement in Foreign Currency Translation Reserve	9	**(2)**	(9,159)	**-**	-
Total Recognised Revenues and Expenses		**1,661,852**	2,647,677	**1,683,776**	2,420,620
Dividends to Shareholders	8	**(367,893)**	(879,406)	**(367,893)**	(879,406)
Equity at End of Year		**5,542,134**	4,237,351	**5,410,995**	4,094,396

The Statement of Accounting Policies and the Notes to the Financial Statements form an integral part of these financial statements.

Meridian Energy Limited – Statement of Financial Position as at 30 June 2007

		GROUP		PARENT	
	NOTE	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Equity					
Shareholders of the Company	7	**5,530,524**	4,237,351	**5,410,995**	4,094,396
Minority Interest	10	**11,610**	-	**-**	-
Total Equity		**5,542,134**	4,237,351	**5,410,995**	4,094,396
Liabilities					
Non-Current Liabilities					
Term Borrowings	11	**754,649**	754,649	**754,649**	754,649
Deferred Tax	12	**152,979**	152,089	**152,787**	152,224
Total Non-Current Liabilities		**907,628**	906,738	**907,436**	906,873
Current Liabilities					
Payables and Accruals	13	**214,381**	193,137	**199,494**	185,633
Provisions	14	**3,440**	-	**1,290**	-
Current Tax Payable		**-**	2,085	**-**	1,961
Advances from Subsidiaries		**-**	-	**220,867**	221,021
Total Current Liabilities		**217,821**	195,222	**421,651**	408,615
Total Liabilities		**1,125,449**	1,101,960	**1,329,087**	1,315,488
Total Equity and Liabilities		**6,667,583**	5,339,311	**6,740,082**	5,409,884
Assets					
Non-Current Assets					
Investments	17	**14,439**	23,395	**102,873**	65,067
Advances to Subsidiaries		**-**	-	**171,342**	15,390
Prepayments		**7,179**	8,288	**7,179**	8,288
Intangible Assets	18	**23,948**	172	**96**	172
Customer Acquisition Costs	19	**16,144**	22,808	**16,144**	22,808
Property, Plant and Equipment	15	**6,319,903**	4,795,590	**6,150,171**	4,795,297
Total Non-Current Assets		**6,381,613**	4,850,253	**6,447,805**	4,907,022
Current Assets					
Cash and Bank Balances	20	**44,755**	251,824	**39,366**	245,916
Accounts Receivable and Prepayments	21	**221,702**	234,128	**214,304**	230,432
Current Tax Receivable		**8,548**	-	**8,678**	-
Advances to Subsidiaries		**-**	-	**26,660**	23,408
Inventories	22	**10,965**	3,106	**3,269**	3,106
Total Current Assets		**285,970**	489,058	**292,277**	502,862
Total Assets		**6,667,583**	5,339,311	**6,740,082**	5,409,884

The Statement of Accounting Policies and the Notes to the Financial Statements form an integral part of these financial statements.

Meridian Energy Limited – Statement of Cash Flows for the year ended 30 June 2007

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		**1,778,906**	2,177,015	**1,770,534**	2,147,149
Net GST Received		**-**	1,145	**925**	937
Interest Received		**10,296**	39,488	**10,341**	38,804
Dividends Received		**-**	-	**585**	396,668
		1,789,202	2,217,648	**1,782,385**	2,583,558
Cash was Applied to:					
Payments to Suppliers and Employees		**1,283,295**	1,755,320	**1,251,966**	1,721,625
Net GST Paid		**45**	-	**-**	-
Interest Paid		**44,113**	68,969	**44,267**	38,550
Income Tax Paid		**111,570**	103,170	**111,367**	102,923
		1,439,023	1,927,459	**1,407,600**	1,863,098
Net Cash Inflows from Operating Activities	26	**350,179**	290,189	**374,785**	720,460
Investing Activities					
Cash was Provided from:					
Net Cash Proceeds on Disposal of Subsidiary		**-**	1,492,766	**-**	-
Sale of Property, Plant and Equipment		**9,664**	5,314	**153,661**	5,314
Sale of Investments		**192**	2,181	**192**	2,181
Advances from Subsidiaries		**-**	-	**-**	466,784
		9,856	1,500,261	**153,853**	474,279
Cash was Applied to:					
Purchase of Property, Plant and Equipment		**184,016**	75,980	**167,807**	71,581
Capitalised Interest	15	**1,258**	2,003	**1,258**	2,003
Acquisition of Controlled Entities	17(b)	**13,138**	-	**-**	-
Advances to Subsidiaries		**-**	-	**168,290**	-
Purchase of Intangible Assets		**211**	-	**-**	-
Purchase of Investments		**588**	6,700	**29,940**	460
		199,211	84,683	**367,295**	74,044
Net Cash (Outflows)/Inflows from Investing Activities		**(189,355)**	1,415,578	**(213,442)**	400,235
Financing Activities					
Cash was Applied to:					
Term Borrowings		**-**	615,364	**-**	7,000
Dividends Paid	8	**367,893**	879,406	**367,893**	879,406
		367,893	1,494,770	**367,893**	886,406
Net Cash (Outflows) from Financing Activities		**(367,893)**	(1,494,770)	**(367,893)**	(886,406)
Net (Decrease)/Increase in Cash Held		**(207,069)**	210,997	**(206,550)**	234,289
Cash at Beginning of Year		**251,824**	40,827	**245,916**	11,627
Cash at End of Year		**44,755**	251,824	**39,366**	245,916
Composition of Cash					
Cash and Bank Balances	20	**44,755**	251,824	**39,366**	245,916
		44,755	251,824	**39,366**	245,916

The Statement of Accounting Policies and the Notes to the Financial Statements form an integral part of these financial statements.

1. Statement of Accounting Policies

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

The financial statements comply with the Financial Reporting Act 1993 and comprise statements of the following: Accounting Policies, Financial Performance, Movements in Equity, Financial Position, Cash Flows, as well as the notes to these statements.

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

The financial statements are prepared on the basis of historical cost modified to include the revaluation of Generation Structures and Plant, with the exception of certain items for which specific accounting policies are identified.

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

Basis of Preparing Group Financial Statements

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

Subsidiaries
Subsidiaries are those entities controlled directly or indirectly by the Group. Subsidiaries are consolidated under the purchase method on a line-by-line basis. All material intercompany transactions are eliminated on consolidation.

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

Meridian Energy Limited – Notes to the Financial Statements (continued)

Acquisition or Disposal During the Year

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

Discontinued Activities

A discontinued activity is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued activity occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued activity, the net surplus after tax and operating revenue are disclosed separately.

Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company and the group as part of their day-to-day cash management.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.
- Financing activities are those activities relating to changes in the equity and debt capital structure of the company and group and those activities relating to the cost of servicing the company's and the group's equity capital.

Goodwill Arising on Acquisition

Goodwill, representing the excess of purchase consideration over the fair value of the net assets acquired at the date of acquisition, is shown as an intangible asset. Goodwill is amortised on a straight-line basis over the period of expected benefit, which does not exceed ten years. The carrying amount of goodwill is reviewed annually by the Directors and adjusted for impairment where it is considered necessary.

Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Differences are accounted for through the Statement of Financial Performance.

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

Financial Instruments

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

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

Operating Revenue

Operating revenue reported in the Statement of Financial Performance includes amounts received and receivable for electricity sold into the wholesale and retail markets together with energy related goods and services.

Taxation

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

A reduction in the corporate tax rate from 33% to 30% was announced in the 2007 Budget and has been passed and received Royal Assent. For the Group, this reduction will be effective 1 July 2008. Timing differences expected to reverse before this date are recognised at 33%. Timing differences expected to reverse on or after this date are recognised at 30%. The effect of this change is recognised in the Statement of Financial Performance.

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

Non-Current Assets

Property, Plant and Equipment

Generation Structures and Plant assets (including land and buildings) and Other Freehold Land are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. All other classes of Property, Plant and Equipment are stated in the Statement of Financial Position at cost, less any subsequent accumulated depreciation and subsequent impairment losses.

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

Additions to Property, Plant and Equipment assets are recorded at cost including costs directly attributable to bringing the asset to the location and condition necessary for its intended service. The cost of assets constructed includes all expenditure directly related to specific contracts including financing costs where these meet certain time and materiality limits. Financing costs for major projects are capitalised at the average cost of borrowing. Costs cease to be capitalised as soon as the asset is ready for use.

Depreciation of Property, Plant and Equipment assets, other than Freehold Land, is calculated on a straight line basis to allocate the cost or fair value amount of an asset, less any residual value, over its useful life. Straight line depreciation reflects the base load usage of the underlying assets.

The following depreciation and amortisation rates have been applied:

Generation Structures and Plant	Up to 80 years
Other Freehold Buildings	Up to 67 years
Other Plant and Equipment	Up to 20 years
Resource Consents	Up to 50 years

Formal reviews of the carrying value of Property, Plant and Equipment are carried out annually, and when deemed appropriate the Directors will ensure the amendment of the carrying value of the relevant assets is reflected in the Statement of Financial Position.

Investments

Investments are stated at cost, except where there is an impairment in value, in which case the lower of cost or fair value is adopted. Changes in the value of investments are recognised in the Statement of Financial Performance.

Intangibles

Customer Acquisition Costs

Customer acquisitions and the costs of organic marketing campaigns directly attributable to acquiring customers are capitalised. These costs are amortised over a period between 5 and 10 years from the date of acquisition. The carrying value is reviewed annually by the Directors and adjusted for impairment when it is considered necessary.

Patents and Trademarks

Patents and Trademarks are stated at cost and amortised to the Statement of Financial Performance on a straight line basis over their estimated useful lives. The estimated useful lives are between 7 and 20 years.

Licence Agreement

The value of a Licence Agreement has been recognised on acquisition of controlled entities. It is stated at cost and amortised to the Statement of Financial Performance on a straight line basis over a period of 20 years.

Impairment of Assets

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

Current Assets

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Receivables

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

Cash and Cash Equivalents

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

Liabilities

Provisions

All provisions are recorded at the best estimate of the expenditure required to settle the obligation at balance date. Where the effect is material, the expected expenditures are discounted to their present value using pre-tax discount rates.

Warranties

A Provision for Warranties is recognised as a liability when the underlying products or services are sold. The amount of the liability is estimated using historical warranty data, management estimation of return rate and industry information where available.

Restructuring

Restructuring is a programme planned and controlled by management that materially changes the scope of a business undertaken by the Group or the manner in which that business is conducted by the Group. The Group recognises a provision for restructuring when the Directors have approved a detailed formal plan, and the restructuring has commenced or a public announcement regarding the restructuring has been made. Costs and expenditures related to ongoing operations are not included in the provision for restructuring.

Debt

Debt incurred is stated at face value less unamortised discounts, premiums and prepaid interest. Discounts, premiums and prepaid interest and borrowing costs such as origination, commitment and transaction fees are amortised to interest expense over the period of the borrowing.

Operating Leases

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

Comparatives

Where necessary to facilitate comparison, comparative figures have been adjusted to conform with changes in presentation in the current year.

Meridian Energy Limited – Notes to the Financial Statements (continued)

2. Operating Revenue

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Trading Revenue				
Energy Related Revenue	**1,757,111**	2,176,848	**1,748,308**	2,136,189
Other Revenue				
Interest Income	**10,296**	39,488	**10,341**	38,804
Gain on Sale of Property, Plant and Equipment	**1,086**	-	**1,086**	-
Dividend Income	**-**	-	**585**	396,668
Other	**6,584**	6,459	**6,448**	6,349
Operating Revenue	**1,775,077**	2,222,795	**1,766,768**	2,578,010
Operating Revenue comprises:				
Revenue from Continuing Activities	**1,775,077**	2,184,067	**1,766,768**	2,181,342
Revenue from Discontinued Activities	**-**	38,728	**-**	396,668
	1,775,077	2,222,795	**1,766,768**	2,578,010

3. Operating Expenses

		GROUP		PARENT	
	NOTE	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Operating Expenses include the following:					
Continuing Activities:					
Amortisation					
- Customer Acquisition Costs		**6,664**	7,227	**6,664**	7,227
- Goodwill		**246**	-	**-**	-
- Licence Agreement		**1,119**	-	**-**	-
- Licences		**77**	77	**77**	77
- Patents/Trademarks		**140**	-	**-**	-
Auditor's Fees					
- Audit Fees		**275**	229	**224**	208
- Fees Paid for Other Assurance Services		**181**	94	**70**	31
Bad and Doubtful Debts					
- Bad Debts Written Off		**3,296**	2,378	**3,296**	2,378
- (Decrease)/Increase in Provision for Doubtful Debts		**(612)**	276	**(612)**	276
Depreciation					
- Freehold Buildings		**261**	250	**261**	250
- Generation Structures and Plant		**97,993**	68,771	**97,993**	68,771
- Other Plant and Equipment		**10,930**	8,245	**8,603**	8,139
- Resource Consents		**180**	170	**180**	170
Directors' Fees		**341**	261	**305**	249
Foreign Exchange Loss/(Gain)		**19**	(33,695)	**12**	(33,948)
Impairment of Investments		**487**	7,191	**487**	2,021
Loss on Sale of Property, Plant and Equipment		**46**	149	**11**	149
Operating Lease Expenses		**1,965**	2,252	**1,677**	2,252
Post-Acquisition Assessed Retained Earnings of Controlled Entities	17(b)	**10,282**	-	**-**	-

3. Operating Expenses (continued)

	GROUP	
	2007 $'000	2006 $'000
Discontinued Activities:		
Amortisation of Fair Value at Acquisition		
- Derivatives	-	10,367
- Land Leases	-	1,717
- Licences	-	108
Depreciation		
- Freehold Buildings	-	11
- Generation Structures and Plant	-	5,760
- Other Plant and Equipment	-	279
Directors' Fees	-	60
Foreign Exchange Loss	-	2,603
Operating Lease Expenses	-	2,091

4. Financing Costs

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Foreign Exchange Option Premiums	**12,006**	-	**12,006**	-
Interest on Term Borrowings	**45,575**	71,427	**45,575**	41,722
Less Capitalised Interest	**1,258**	2,003	**1,258**	2,003
Total Financing Costs	**56,323**	69,424	**56,323**	39,719
Financing Costs comprise:				
Financing Costs from Continuing Activities	**56,323**	37,395	**56,323**	39,719
Financing Costs from Discontinued Activities	**-**	32,029	**-**	-
	56,323	69,424	**56,323**	39,719

Meridian Energy Limited – Notes to the Financial Statements (continued)

5. Income Tax

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
(A) Income Tax Expense					
Net Surplus Before Tax After Non Recurring Items		**303,610**	957,697	**341,115**	739,347
Permanent Differences					
Expenditure Not Deductible for Tax		**4,713**	19,255	**4,713**	17,472
Depreciation/Amortisation of Revaluation		**41,207**	13,629	**41,196**	11,750
Inter-company Dividend Received		**-**	-	**(585)**	(396,668)
Gain on Disposal of Subsidiary		**-**	(652,516)	**-**	-
Adjustment to Previous Periods		**-**	(16,326)	**-**	-
Post-Acquisition Assessed Retained Earnings of Controlled Entities	17(b)	**10,282**	-	**-**	-
Other		**2,895**	(16,101)	**2,166**	(12,123)
Surplus Subject to Tax		**362,707**	305,638	**388,605**	359,778
Tax at 33%		**119,693**	100,861	**128,240**	118,727
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability		**(15,932)**	-	**(15,901)**	-
Total Income Tax Expense		**103,761**	100,861	**112,339**	118,727
Attributable to Continuing Activities		**103,761**	116,693	**112,339**	118,727
Attributable to Discontinuing Activities		**-**	(15,832)	**-**	-
Total Income Tax Expense		**103,761**	100,861	**112,339**	118,727
Comprising					
Current Period Tax		**102,871**	104,359	**111,776**	97,563
Deferred Tax	12	**890**	(3,498)	**563**	21,164
		103,761	100,861	**112,339**	118,727

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
(B) Imputation Credits				
Balance at Beginning of Year	**85,671**	64,404	**84,877**	63,736
Net Income Tax	**111,532**	103,148	**111,331**	102,900
Credits Attached to Dividends Received	**-**	-	**193**	122
Credits Attached to Dividends Paid	**(96,585)**	(81,881)	**(96,585)**	(81,881)
Balance at End of Year	**100,618**	85,671	**99,816**	84,877

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

	GROUP 2007 $'000	GROUP 2006 $'000
Through		
Shareholding in Parent Company	**99,816**	84,877
Indirect Interests in Subsidiaries	**802**	794
	100,618	85,671

6. Share Capital

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

All shares are fully paid and have equal voting rights. All shares participate equally in any dividend distribution or any surplus on the winding up of the company.

7. Shareholders' Equity

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Share Capital		**1,600,000**	1,600,000	**1,600,000**	1,600,000
Retained Earnings		**(9,287)**	159,543	**(121,621)**	16,780
Revaluation Reserve		**3,939,807**	2,477,802	**3,932,616**	2,477,616
Foreign Currency Translation Reserve	9	**4**	6	**-**	-
Shareholders' Equity at End of Year		**5,530,524**	4,237,351	**5,410,995**	4,094,396

8. Dividends

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
2007 Interim Dividend Paid	**67,893**	-	**67,893**	-
2006 Final Dividend Paid	**300,000**	-	**300,000**	-
2006 Interim Dividend Paid	**-**	800,000	**-**	800,000
2005 Final Dividend Paid	**-**	79,406	**-**	79,406
Total Dividends	**367,893**	879,406	**367,893**	879,406

9. Foreign Currency Translation Reserve

	GROUP 2007 $'000	GROUP 2006 $'000
Balance at Beginning of Year	**6**	(17,724)
Movement in Translation of Foreign Operations	**(2)**	(9,159)
Transfers to Retained Earnings on Disposal of Subsidiary	**-**	26,889
Balance at End of Year	**4**	6

The foreign currency translation reserve results from the translation of the financial statements of independent foreign operations denominated in Australian dollars at the closing rate at balance date. The closing rate at 30 June 2007 was 0.91 (30 June 2006 0.82).

Transfers from the Foreign Currency Translation Reserve to Retained Earnings resulting from the disposal of foreign operations are in line with treatment prescribed by FRS 21: *Accounting for the Effects of Foreign Currency Exchange Rates.* These transfers have no effect on the total Equity of the Group.

Meridian Energy Limited – Notes to the Financial Statements (continued)

10. Minority Shareholders' Interest

	GROUP	
	2007 $'000	2006 $'000
Balance at Beginning of Year	**-**	-
Increase due to Acquisition of Controlled Entities	**10,824**	-
Share of Net Surplus after Tax	**786**	-
Balance at End of Year	**11,610**	-

11. Term Borrowings

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Borrowings Due within 1 Year	**-**	-	**-**	-
Borrowings Due between 1-2 Years	**50,000**	-	**50,000**	-
Borrowings Due between 2-7 Years	**285,862**	274,789	**285,862**	274,789
Borrowings Due after 7 Years	**418,787**	479,860	**418,787**	479,860
Total Borrowings	**754,649**	754,649	**754,649**	754,649

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Non-Current Portion of Borrowings	**754,649**	754,649	**754,649**	754,649
Total Borrowings	**754,649**	754,649	**754,649**	754,649

Security

The borrowings are unsecured but subject to a negative pledge arrangement. Under this arrangement each of the lenders rank equally for security purposes.

12. Deferred Tax

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Balance at Beginning of Year	**152,089**	179,168	**152,224**	131,060
Deferred Tax On Surplus for Year	**890**	(3,498)	**563**	21,164
Foreign Translation of Deferred Tax Balance	**-**	(716)	**-**	-
Disposal of Subsidiary	**-**	(22,865)	**-**	-
Balance at End of Year	**152,979**	152,089	**152,787**	152,224

The income tax effect of timing differences originating from the fair value review of assets and liabilities that has not been recognised in the deferred tax account is a liability of $45 million at 30 June 2007 (2006 $173 million asset). The effect of the $1,455 million revaluation uplift of the Generation Structures and Plant on deferred tax has not been quantified and could increase the unrecognised deferred tax liability.

13. Payables and Accruals

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Trade Creditors	**18,508**	9,347	**7,593**	5,882
Employee Entitlements	**8,592**	6,510	**6,790**	6,130
Unearned Income	**5,603**	5,596	**5,214**	2,524
Accrued Expenses	**175,200**	165,161	**172,933**	165,058
GST	**6,478**	6,523	**6,964**	6,039
Total Payables and Accruals	**214,381**	193,137	**199,494**	185,633

14. Provisions

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Provisions				
Warranties	**2,150**	-	**-**	-
Restructuring	**1,290**	-	**1,290**	-
	3,440	-	**1,290**	-
Provision for Warranties				
Balance at Beginning of Year	**-**	-	**-**	-
Warranty Provision Recognised on Acquisition of Controlled Entities	**1,096**	-	**-**	-
Amount Utilised	**(868)**	-	**-**	-
Additional Provision Recognised	**1,922**	-	**-**	-
Balance at End of Year	**2,150**	-	**-**	-
Comprising				
Current	**2,150**	-	**-**	-
	2,150	-	**-**	-

The provision relates to goods sold and is estimated using historical warranty data, management estimation of return rate, and industry information where available. The amount and timing of cash flows relating to this provision is uncertain, however it is expected this warranty provision will be utilised during the next financial year.

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Provision for Restructuring				
Balance at Beginning of Year	**-**	-	**-**	-
Restructuring Provision Recognised	**1,742**	-	**1,742**	-
Amount Utilised	**(452)**	-	**(452)**	-
Balance at End of Year	**1,290**	-	**1,290**	-
Comprising				
Current	**1,290**	-	**1,290**	-
	1,290	-	**1,290**	-

The Parent is in the process of restructuring, impacting the Retail and Wholesale operating groups and several enabling functions which support these groups. It is expected the restructuring will be completed during the next financial year.

Meridian Energy Limited – Notes to the Financial Statements (continued)

15. Property, Plant and Equipment

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Generation Structures and Plant				
Fair Value	**6,129,388**	4,609,257	**5,985,385**	4,609,257
Less: Accumulated Depreciation	**-**	-	**-**	-
Closing Balance	**6,129,388**	4,609,257	**5,985,385**	4,609,257
Other Freehold Land				
Fair Value	**36,354**	35,013	**36,354**	35,013
Other Freehold Buildings				
Cost	**10,496**	9,806	**10,496**	9,806
Less: Accumulated Depreciation	**1,484**	1,229	**1,484**	1,229
Closing Balance	**9,012**	8,577	**9,012**	8,577
Other Plant and Equipment				
Cost	**108,188**	87,212	**88,057**	86,353
Less: Accumulated Depreciation	**56,313**	46,038	**49,850**	45,472
Closing Balance	**51,875**	41,174	**38,207**	40,881
Resource Consents				
Cost	**8,596**	7,851	**8,596**	7,851
Less: Accumulated Depreciation	**1,331**	1,151	**1,331**	1,151
Closing Balance	**7,265**	6,700	**7,265**	6,700
Total Property, Plant and Equipment				
Fair Value or Cost	**6,293,022**	4,749,139	**6,128,888**	4,748,280
Less: Accumulated Depreciation and Amortisation	**59,128**	48,418	**52,665**	47,852
Capital Work In Progress	**86,009**	94,869	**73,948**	94,869
Total Closing Balance	**6,319,903**	4,795,590	**6,150,171**	4,795,297

Generation Structures and Plant assets (including land and buildings) were revalued at 30 June 2007 resulting in an uplift of $1,455 million (2006 $1,800 million) to the asset revaluation reserve.

The valuation was performed by independent valuers PricewaterhouseCoopers, who are experienced valuers of commercial businesses in the New Zealand electricity sector. The basis of the valuation is the net present value of future earnings of the assets on an existing use basis, excluding disposal and restoration costs. As there is no readily observable market for these assets and the assets are not for sale, the valuation is derived with reference to an internally generated wholesale electricity price path reflecting a range of views of current and future market conditions.

As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil at 30 June 2007 in line with treatment prescribed under FRS 3: *Accounting For Property, Plant and Equipment*. There is no depreciation impact of this revaluation in the Statement of Financial Performance.

Finance costs totalling $1.26 million (2006: $2.00 million) have been capitalised in relation to refurbishment of certain Generation Structures and Plant assets.

16. Commitments

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Capital Expenditure				
Commitments – Contracts for Capital Expenditure	**13,101**	74,414	**4,389**	74,414
Operating Lease Commitments				
The Group leases premises, motor vehicles, plant and equipment. Non Cancellable operating lease rentals are payable as follows:				
Due within 1 Year	**2,503**	1,677	**1,837**	1,677
Due between 1-2 Years	**1,932**	1,288	**1,329**	1,288
Due between 2-5 Years	**1,868**	1,144	**1,414**	1,144
Later than 5 Years	**320**	-	**320**	-
Total Operating Lease Commitments	**6,623**	4,109	**4,900**	4,109

The operating leases are of a rental nature and are on normal commercial terms and conditions. There are varying renewal options ranging from 13 December 2009 to 19 December 2018.

17. Investments

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Investment in Subsidiaries	**-**	-	**88,434**	50,537
Investment in Associates	**-**	716	**-**	-
Other Investments	**14,439**	22,679	**14,439**	14,530
Total Investments	**14,439**	23,395	**102,873**	65,067

Meridian Energy Limited – Notes to the Financial Statements (continued)

17(a). Investments in Subsidiaries and Controlled Entities

Subsidiaries

Investments in subsidiaries comprise shares at cost.

Name of Entity	Date [1]	Principal Activity	Interest Held by Parent 2007	Interest Held by Parent 2006
Arc Innovations Limited		Technology Company	**100%**	100%
DamWatch Services Limited		Professional Services	**100%**	100%
Energy for Industry Limited		Non-Trading Entity	**100%**	100%
MEL Holdings Limited	03/08/06	Non-Trading Entity	**100%**	-
Meridian Limited		Non-Trading Entity	**100%**	100%
Meridian Energy Captive Insurance Limited		Insurance Company	**100%**	100%
Meridian Energy International Limited		Non-Trading Entity	**100%**	100%
Meridian (Whisper Tech) Limited		Non-Trading Entity	**100%**	100%
Orion (Whisper Tech) Limited	03/07/06	Non-Trading Entity	**100%**	-
Right House Limited	26/06/07	Non-Trading Entity	**100%**	-
Whisper Tech Limited	03/07/06	Non-Trading Entity	**75.3%**	31.3%
Woodville Windfarm Limited		Non-Trading Entity	**100%**	100%

Controlled Entities

Name of Entity	Date [1]	Principal Activity	Interest Held by Group 2007	Interest Held by Group 2006
DamWatch Pty Limited [2]		Professional Services	**100%**	100%
MEL (Te Āpiti) Limited	16/03/07	Non-Trading Entity	**100%**	-
MEL (West Wind) Limited	16/03/07	Non-Trading Entity	**100%**	-
MEL (White Hill) Limited	16/03/07	Non-Trading Entity	**100%**	-
Three River Holdings (No.1) Limited	16/03/07	Non-Trading Entity	**100%**	-
Three River Holdings (No.2) Limited	16/03/07	Non-Trading Entity	**100%**	-
Three River Holdings Pty Limited [2]	16/03/07	Non-Trading Entity	**100%**	-
Three River Australia Pty Limited [2]	16/03/07	Non-Trading Entity	**100%**	-
WhisperGen Limited	03/07/06	Technology Company	**100%**	40%
WhisperGen (UK) Limited [3]	03/07/06	Technology Company	**100%**	-

[1] The date the controlled entity was registered or became part of the Group during the reporting period.
[2] Incorporated in Australia.
[3] Incorporated in United Kingdom.

Whisper Tech Limited, WhisperGen Limited and WhisperGen (UK) Limited all changed their reporting date from 31 March to 30 June to align with the Parent.

In the prior year MEA Limited Partnership was dissolved on 29 October 2005 and ceased to be part of the Group.

The Group disposed of its entire interest in Meridian Energy Australian Holdings Limited on 30 November 2005. This included the following controlled entities:

Meridian Energy Australia Investments Pty Limited
SHP 1 Pty Limited
SHP 2 Pty Limited
SHP 3 Pty Limited
SHP 3 Holdings Pty Limited
Southern Hydro Pty Limited
Southern Hydro Maintenance Services Pty Limited
Southern Hydro Operations Pty Limited
Wattle Point Wind Farm Pty Limited
Dollar Wind Farm Pty Limited
Macarthur Wind Farm Pty Limited

MEA General Partner Pty Limited and MEA Finance Pty Limited were deregistered on 20 February 2006 and ceased to be part of the Group.

17(b). Acquisition of Controlled Entities – Whisper Tech Group

At 30 June 2006 the Company held a 31.3% investment in Whisper Tech Limited which was equity accounted as an associate and a 40% investment in the Whisper Tech joint venture held at fair value.

On 3 July 2006 the Parent purchased the remaining 60% of the Whisper Tech joint venture from Orion NZ Limited and all but 5% of Orion NZ Limited's interest in Whisper Tech Limited (44%) for $13.362m.

From this date equity accounting for this investment ceased and the Whisper Tech group of companies became controlled entities of the Group. As a consequence these companies are now consolidated as part of the Group financial statements. The effect on the Group financial statements is summarised below:

Summary of the Effect on Investment in Associates

	GROUP	
	2007 $'000	2006 $'000
Carrying Amount at Beginning of Year	**716**	2,146
Share of Total Recognised Revenues and Expenses	**-**	(1,430)
Effect of Acquisition of Controlled Entities	**(716)**	-
Carrying Amount at End of Year	**-**	716

Summary of the Effect of Acquisition of Controlled Entities

	GROUP
	2007 $'000
Assets and Liabilities acquired at fair value:	
Cash and Bank Balances	**224**
Accounts Receivable and Prepayments	**1,985**
Property, Plant and Equipment	**2,027**
Intangibles	
- Licence Agreement	**22,380**
- Patents and Trademarks	**307**
Inventories	**6,101**
Current Tax Receivable	**1,934**
Payables and Accruals	**(7,404)**
Net Assets Acquired	**27,554**
Acquisition of Control Adjustments	
Investment in Whisper Tech Joint Venture	**(8,149)**
Gain Recognised on Investment in Whisper Tech Joint Venture	**(239)**
Investment in Associate – Whisper Tech Limited	**(716)**
Post Acquisition Assessed Revaluation Reserve of Subsidiary	**(7,005)**
Post Acquisition Assessed Retained Earnings of Subsidiary	**10,282**
Recognition of Minority Interest	**(10,824)**
Total Acquisition of Control Adjustments	**(16,651)**
Goodwill Arising on Acquisition	**2,459**
Total Cash Paid	**13,362**
Cash Included in Net Assets Acquired	**(224)**
Net Cash Paid on Acquisition	**13,138**

Meridian Energy Limited – Notes to the Financial Statements (continued)

17(c). Investment in Controlled Entities – Arc Innovations Limited

On 1 July 2006 the net assets of Arc Innovations, previously a business unit of the Parent, were transferred to Arc Innovations Limited a newly formed subsidiary. The effect on the Parent's financial statements is summarised below:

	PARENT
	2007 $'000
Consideration	
Ordinary Shares Acquired by Parent	**9,876**
	9,876
Assets and Liabilities transferred at fair value:	
Current Assets	
Accounts Receivable	**224**
Non-Current Assets	
Property, Plant & Equipment	**9,567**
Internally Generated Intellectual Property	**1,331**
Current Liabilities	
Accounts Payable	**(1,246)**
Net Assets Transferred	**9,876**

Internally-generated Intellectual Property is eliminated from the Group Statement of Financial Position.

17(d). Other Investments

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Nth Power Technologies	**4,216**	3,920	**4,216**	3,920
Fonterra Co-Operative Group Limited	**6,845**	6,552	**6,845**	6,552
Whisper Tech Joint Venture	**-**	8,149	**-**	-
North Otago Irrigation Company Limited	**3,378**	3,571	**3,378**	3,571
Canterbury TX	**-**	487	**-**	487
Total Other Investments	**14,439**	22,679	**14,439**	14,530

The above investments do not give rise to consolidated or equity accounting treatment.

The ownership interest in Whisper Tech Joint Venture was 40% at 30 June 2006. On 3 July 2006 the Parent purchased the remaining 60% of the Whisper Tech joint venture from Orion NZ Limited resulting in the joint venture becoming a controlled entity. As a consequence this is now consolidated as part of the Meridian Energy Limited Group financial statements.

The investment in Fonterra Co-Operative Group Limited arises from ownership of land. The market value of this investment at 30 June 2007 was $9.9 million (2006 $9.13 million).

The Group also has interests in Ceramic Fuel Cells Limited and in Superlink Developments Limited. These interests were assigned to the Group from ECNZ at no cost and, as such, the carrying value of the interests is nil. Ceramic Fuel Cells Limited is listed on the Australian Stock Exchange. The market value of this investment at 30 June 2007 was $0.71 million (2006 $0.51 million).

18. Intangible Assets

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Goodwill		**2,213**	-	**-**	-
Licence Agreement		**21,261**	-	**-**	-
Patents & Trademarks		**378**	-	**-**	-
Licences		**96**	172	**96**	172
Total Intangible Assets		**23,948**	172	**96**	172
Goodwill					
Cost					
Cost at Beginning of Year		**-**	-	**-**	-
Goodwill Recognised on Acquisition of Controlled Entities	17(b)	**2,459**	-	**-**	-
Balance at End of Year		**2,459**	-	**-**	-
Accumulated Amortisation					
Balance at Beginning of Year		**-**	-	**-**	-
Amortisation During the Year		**246**	-	**-**	-
Balance at End of Year		**246**	-	**-**	-
Goodwill is amortised over a period of 10 years					
Licence Agreement					
Cost					
Cost at Beginning of Year		**-**	-	**-**	-
Licence Agreement Recognised on Acquisition of Controlled Entities	17(b)	**22,380**	-	**-**	-
Balance at End of Year		**22,380**	-	**-**	-
Accumulated Amortisation					
Balance at Beginning of Year		**-**	-	**-**	-
Amortisation During the Year		**1,119**	-	**-**	-
Balance at End of Year		**1,119**	-	**-**	-
The Licence Agreement is amortised over a period of 20 years					
Patents & Trademarks					
Cost					
Cost at Beginning of Year		**-**	-	**-**	-
Patents & Trademarks Recognised on Acquisition of Controlled Entities		**855**	-	**-**	-
Additions During the Year		**211**	-	**-**	-
Balance at End of Year		**1,066**	-	**-**	-
Accumulated Amortisation					
Balance at Beginning of Year		**-**	-	**-**	-
Accumulated Amortisation Recognised on Acquisition of Controlled Entities		**548**	-	**-**	-
Amortisation During the Year		**140**	-	**-**	-
Balance at End of Year		**688**	-	**-**	-

Patents are amortised over the life of the registration ranging from 7 to 20 years

Meridian Energy Limited – Notes to the Financial Statements (continued)

19. Customer Acquisition Costs

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Customer Acquisition Costs (at cost)	**67,375**	67,375	**65,174**	65,174
Accumulated Amortisation	**(51,231)**	(44,567)	**(49,030)**	(42,366)
Total Carrying Value	**16,144**	22,808	**16,144**	22,808
Reconciliation				
Balance at Beginning of Year	**22,808**	30,035	**22,808**	30,035
Amortisation During Year	**(6,664)**	(7,227)	**(6,664)**	(7,227)
Balance at End of Year	**16,144**	22,808	**16,144**	22,808

20. Cash and Bank Balances

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current Account	**6,300**	11,192	**2,761**	6,642
Money Market Account	**37,944**	111,405	**36,605**	110,558
Short Term Deposits	**-**	128,716	**-**	128,716
Government Stock	**511**	511	**-**	-
Total Cash and Bank Balances	**44,755**	251,824	**39,366**	245,916

21. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Billed and Accrued Receivables	**219,208**	230,433	**212,595**	226,772
Less: Provision for Doubtful Debts	**3,057**	3,730	**3,118**	3,730
Net Trade Receivables	**216,151**	226,703	**209,477**	223,042
Prepayments	**5,551**	7,425	**4,827**	7,390
Total Accounts Receivable and Prepayments	**221,702**	234,128	**214,304**	230,432

22. Inventories

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Consumable Spares and Stores	**3,412**	3,106	**3,269**	3,106
Work In Progress and Components	**6,416**	-	**-**	-
Finished Goods	**1,137**	-	**-**	-
Total Inventories	**10,965**	3,106	**3,269**	3,106

23. Borrowings and the Use of Financial Instruments

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

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

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Cross Currency Interest Rate Swaps	**704,649**	704,649	**704,649**	704,649
Forward Exchange Contracts	**241,275**	81,274	**241,275**	81,274
Interest Rate Swaps	**630,500**	735,500	**630,500**	735,500
Interest Rate Options	**65,500**	20,000	**65,500**	20,000
Foreign Exchange Options	**337,972**	-	**337,972**	-

(a) Foreign Currency Risk

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

The Group also incurs foreign currency risk from the revaluation of the net assets of overseas subsidiaries (denominated in Australian dollars) for external financial reporting purposes. Current Group policy is not to hedge foreign currency denominated assets on the consolidated Statement of Financial Position.

The Group has accessed foreign capital markets to secure long dated financing and uses cross currency interest rate swaps to manage foreign exchange risk in relation to these borrowings.

(b) Interest Rate Risk

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

(c) Repricing Analysis

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

Meridian Energy Limited – Notes to the Financial Statements (continued)

23. Borrowings and the Use of Financial Instruments (continued)

Repricing 2007 Group

	EFFECTIVE INT RATE	TOTAL $'000	6 MONTHS OR LESS $'000	6-12 MONTHS $'000	1-2 YEARS $'000	2 OR MORE YEARS $'000	NON-INTEREST BEARING $'000
Financial Assets							
Cash Balances	7.47%	44,755	44,755	-	-	-	-
Net Trade Receivables		216,151	-	-	-	-	216,151
Current Tax Receivable		8,548	-	-	-	-	8,548
Investments		14,439	-	-	-	-	14,439
Total Financial Assets		**283,893**	**44,755**	**-**	**-**	**-**	**239,138**
Financial Liabilities							
Term Borrowings*	7.85%	754,649	-	-	50,000	704,649	-
Trade Creditors and Accrued Expenses		193,708	-	-	-	-	193,708
Total Financial Liabilities		**948,357**	**-**	**-**	**50,000**	**704,649**	**193,708**
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		630,500	48,000	-	100,000	482,500	-
Interest Rate Options		65,500	23,000	-	20,000	22,500	-
Total Off Balance Sheet		**1,400,649**	**71,000**	**-**	**120,000**	**1,209,649**	**-**

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

Repricing 2006 Group

	EFFECTIVE INT RATE	TOTAL $'000	6 MONTHS OR LESS $'000	6-12 MONTHS $'000	1-2 YEARS $'000	2 OR MORE YEARS $'000	NON-INTEREST BEARING $'000
Financial Assets							
Cash Balances	6.77%	251,824	251,824	-	-	-	-
Net Trade Receivables		226,703	-	-	-	-	226,703
Investments		23,395	-	-	-	-	23,395
Total Financial Assets		**501,922**	**251,824**	**-**	**-**	**-**	**250,098**
Financial Liabilities							
Term Borrowings*	7.63%	754,649	-	-	-	754,649	-
Trade Creditors and Accrued Expenses		174,508	-	-	-	-	174,508
Current Tax Payable		2,085	-	-	-	-	2,085
Total Financial Liabilities		**931,242**	**-**	**-**	**-**	**754,649**	**176,593**
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		735,500	125,000	25,000	23,000	562,500	-
Interest Rate Options		20,000	-	-	-	20,000	-
Total Off Balance Sheet		**1,460,149**	**125,000**	**25,000**	**23,000**	**1,287,149**	**-**

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

23. Borrowings and the Use of Financial Instruments (continued)

Repricing 2007 Parent

	EFFECTIVE INT RATE	TOTAL $'000	6 MONTHS OR LESS $'000	6-12 MONTHS $'000	1-2 YEARS $'000	2 OR MORE YEARS $'000	NON-INTEREST BEARING $'000
Financial Assets							
Cash Balances	7.47%	39,366	39,366	-	-	-	-
Net Trade Receivables		209,477	-	-	-	-	209,477
Current Tax Receivable		8,678	-	-	-	-	8,678
Advances to Subsidiary		198,002	-	-	-	-	198,002
Investments		102,873	-	-	-	-	102,873
Total Financial Assets		**558,396**	**39,366**	**-**	**-**	**-**	**519,030**
Financial Liabilities							
Term Borrowings*	7.85%	754,649	-	-	50,000	704,649	-
Trade Creditors and Accrued Expenses		180,526	-	-	-	-	180,526
Advances from Subsidiary		220,867	-	-	-	-	220,867
Total Financial Liabilities		**1,156,042**	**-**	**-**	**50,000**	**704,649**	**401,393**
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		630,500	48,000	-	100,000	482,500	-
Interest Rate Options		65,500	23,000	-	20,000	22,500	-
Total Off Balance Sheet		**1,400,649**	**71,000**	**-**	**120,000**	**1,209,649**	**-**

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

Repricing 2006 Parent

	EFFECTIVE INT RATE	TOTAL $'000	6 MONTHS OR LESS $'000	6-12 MONTHS $'000	1-2 YEARS $'000	2 OR MORE YEARS $'000	NON-INTEREST BEARING $'000
Financial Assets							
Cash Balances	6.73%	245,916	245,916	-	-	-	-
Net Trade Receivables		223,042	-	-	-	-	223,042
Advances to Subsidiary		38,798	-	-	-	-	38,798
Investments		65,067	-	-	-	-	65,067
Total Financial Assets		**572,823**	**245,916**	**-**	**-**	**-**	**326,907**
Financial Liabilities							
Term Borrowings*	7.84%	754,649	-	-	-	754,649	-
Trade Creditors and Accrued Expenses		170,940	-	-	-	-	170,940
Current Tax Payable		1,961	-	-	-	-	1,961
Advances from Subsidiary		221,021	-	-	-	-	221,021
Total Financial Liabilities		**1,148,571**	**-**	**-**	**-**	**754,649**	**393,922**
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		735,500	125,000	25,000	23,000	562,500	-
Interest Rate Options		20,000	-	-	-	20,000	-
Total Off Balance Sheet		**1,460,149**	**125,000**	**25,000**	**23,000**	**1,287,149**	**-**

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

Meridian Energy Limited – Notes to the Financial Statements (continued)

23. Borrowings and the Use of Financial Instruments (continued)

(d) Credit Risk

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

The Group does not have any significant concentrations of credit risk. Amounts owed by trade receivables are unsecured but evaluations are performed for significant levels of credit. In limited cases securities are held where credit risks are perceived to be above normal.

There is no requirement to hold collateral or security to support financial instruments, owing to the high credit rating of the financial institutions dealt with. The Group further limits its credit exposure by limiting the amount of funds placed with any one financial institution at any one time. The Group does not anticipate the non-performance of any obligations that existed at balance date.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position and the fair value of financial instruments as shown in the table at part (f).

(e) Revenue Risk

The Group utilises electricity derivatives to manage exposure to electricity price risk. Under these contracts, the Group sells and buys electricity forward at a fixed price (hedge price). Differences between the hedge price and the spot price are settled between the parties, irrespective of the supply of electricity. The contracts are for various periods out to 2013.

The fair value of outstanding electricity hedge contracts at 30 June 2007 is $110 million (30 June 2006 $8.4 million). The face value of outstanding electricity hedge contracts at 30 June 2007 is $265.7 million (30 June 2006 $153.8 million). As the New Zealand secondary market for electricity derivatives is not sufficiently active to enable a mark to market valuation a discounted cash flow valuation technique has been used to calculate the fair values.

(f) Fair Values

Fair values are estimated using the mark to market value methodology except for short-term and other investments where the carrying value of these items is equivalent to their fair value. The valuations were provided by the Group's bankers and/or other independent advisors. For cash at bank, receivables, weather derivatives and trade creditors the fair values are equivalent to their carrying values and therefore have been excluded from the table below. The fair values for the Group and Parent are consistent except for advances to and from subsidiaries where it is impracticable to calculate the fair value.

	GROUP AND PARENT			
	2007 $'000		2006 $'000	
	FAIR VALUE	**CARRYING VALUE**	FAIR VALUE	CARRYING VALUE
Assets				
Investments in unlisted shares*	**14,439**	**14,439**	25,973	23,395
Liabilities				
Term Borrowings**	**754,649**	**754,649**	754,649	754,649
Off Balance Sheet Financial Instruments				
Forward Exchange Contracts	**6,770**	**-**	7,514	-
Interest Rate Swaps	**26,248**	**-**	4,834	-
Interest Rate Options	**679**	**-**	64	-
Foreign Exchange Contracts	**21**	**-**	-	-

* It is not practical to estimate the fair value of the investments in unlisted shares, with the exception of Fonterra Co-Operative Group Limited where the fair value has been disclosed at Note 17(d).

** For term borrowings, including bonds with associated cross currency interest rate swaps, the fair values are equivalent to their carrying values and have been included in the above table.

(g) Facilities

The Group has cash advance facilities of $700 million which were undrawn at 30 June 2007. The expiry of these facilities ranges from 21 December 2007 to 21 December 2011.

24. Land

The Group is not yet formally registered as proprietor under the Land Transfer Act of significant portions of its land assets. However the Group has full beneficial ownership rights and the benefit of an obligation from the Crown to create titles under the Land Transfer Act and transfer them to the Group. This is also the basis on which ECNZ owned these assets prior to transfer to the Group. Titles will be issued once land title processes have been completed. Transfer and issue of freehold titles from the Crown to the Group has been proceeding steadily since the first title was issued in May 2006.

25. Related Party Transactions

The beneficial shareholder of the Group is the Crown. The Group undertakes many transactions with the Crown, state-owned companies and other Government entities, all of which are carried out on a commercial and arm's length basis. It is not practical to disclose all related party transactions with the Crown.

Some Directors of the Group may be Directors or Officers of other companies or organisations with whom members of the Group may transact. Such transactions are all carried out independently on an arm's length basis.

Entity	Transaction	$'000	Relationship
Royal New Zealand Ballet	Sponsorship grant	$250	Anne Blackburn, a Director of Meridian Energy Limited, is a trustee of the Royal New Zealand Ballet in her own personal capacity.
Airways Corporation of New Zealand Limited	Sales of Electricity to Airways Corporation of New Zealand Limited	$199	Anne Urlwin, a Director of Meridian Energy Limited, is also a director of Airways Corporation of New Zealand Limited.
New Zealand Blood Service	Sales of electricity to New Zealand Blood Service	$264	Anne Urlwin, a Director of Meridian Energy Limited, is also a director of New Zealand Blood Service.
Landcare Research New Zealand Limited	carboNZero certification Consulting advice	$203 $76	Anne Urlwin, a Director of Meridian Energy Limited, is also a director of Landcare Research New Zealand Limited.

Other Transactions involving a Related Party

During the financial year the following transactions occurred between the Parent entity, Meridian Energy Limited and its subsidiaries. All transactions are carried out on a commercial and arm's length basis.

Entity	Transaction	$'000	Relationship
Meridian Energy Captive Insurance Limited	Insurance premium	$4,139	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties.
MEL (White Hill) Limited	Sale of assets	$144,000	On 16 May 2007 Meridian Energy Limited sold assets (primarily consisting of property, plant and equipment relating to the White Hill wind farm) to MEL (White Hill) Limited.
DamWatch Services Limited	Consultancy Services	$2,400	DamWatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $2.4 million (2006 $1.2 million). Such transactions were all carried out independently on an arm's length basis.
Arc Innovations Limited	Meter Leasing Services	$8,200	Arc Innovations Limited provided meter leasing services to Meridian Energy Limited during the year totalling $8.2 million. Such transactions were all carried out independently on an arm's length basis.

Meridian Energy Limited – Notes to the Financial Statements (continued)

26. Net Cash Flow from Operating Activities

	GROUP		PARENT	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Reconciliation with Net Surplus After Tax				
Net Surplus After Tax	**199,849**	856,836	**228,776**	620,620
Items Not Involving Operating Cash Flows				
Depreciation Expense	**109,364**	83,486	**107,037**	77,330
Amortisation	**8,246**	19,496	**6,741**	7,304
Deferred Tax	**890**	(2,167)	**563**	21,164
Transfer of Tax Losses to (from) Parent	**-**	-	**11,048**	(6,516)
Net (Gain)/Loss on Sale of Property, Plant and Equipment	**(1,040)**	149	**(1,074)**	149
Gain on Disposal of Subsidiary	**-**	(652,516)	**-**	-
Impairment of Investments	**487**	7,191	**487**	2,021
Equity Accounting of Associate	**-**	1,430	**-**	-
Post-Acquisition Assessed Retained Earnings of Controlled Entities	**10,282**	-	**-**	-
Other Non-Cash items	**(241)**	-	**(379)**	-
	127,988	(542,931)	**124,423**	101,452
Changes in Working Capital Items				
Accounts Receivable and Prepayments	**13,535**	57,549	**17,237**	5,547
Inventory	**(7,859)**	272	**(163)**	91
Payables and Accruals	**21,244**	(113,017)	**13,861**	(8,406)
Provisions	**3,440**	-	**1,290**	-
Current Tax Payable	**(10,633)**	(172)	**(10,639)**	1,156
Net Working Capital of Subsidiary Disposed	**-**	31,652	**-**	-
Net Working Capital of Subsidiary Acquired	**2,615**	-	**-**	-
	22,342	(23,716)	**21,586**	(1,612)
Net Cash Flow from Operating Activities	**350,179**	290,189	**374,785**	720,460

27. Segment Information

Industry Segments

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

Geographical Segments

As at and for the year ended 30 June 2007

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2007 $'000	**2007 $'000**	**2007 $'000**	**2007 $'000**
Operating Revenue Derived from Outside Group	1,774,977	100	-	1,775,077
Operating Revenue	1,774,977	100	-	1,775,077
Segment Net Surplus Before Tax and Finance Costs	359,951	(18)	-	359,933
Segment Total Assets	**6,667,512**	**71**	**-**	**6,667,583**

In 2007, there were no items of an unusual nature included in Net Surplus before Tax and Finance Costs.

As at and for the year ended 30 June 2006

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2006 $'000	**2006 $'000**	**2006 $'000**	**2006 $'000**
Operating Revenue Derived from Outside Group	2,183,948	38,847	-	2,222,795
Operating Revenue	2,183,948	38,847	-	2,222,795
Segment Net Surplus Before Tax and Finance Costs	1,024,158	2,373	590	1,027,121
Segment Total Assets	**5,338,543**	**88**	**680**	**5,339,311**

Except for the Gain on Disposal of Subsidiary in 2006 of $652,516,000 and the Costs Relating to the Disposal of the Subsidiary in 2006 of $26,879,000, there were no items of an unusual nature included in the Net Surplus Before Tax and Finance Costs.

28. Events Occurring After Balance Date

On 1 July 2007 Meridian Energy Limited sold net assets of $258 million to its wholly owned subsidiaries MEL (Te Āpiti) Limited and MEL (West Wind) Limited. The assets primarily consisted of property, plant and equipment relating to the Te Āpiti wind farm, and capital costs associated with resource consents and land relating to the proposed West Wind wind farm.

The transfer of assets resulted in a gain to the Parent of $11.7 million and has no impact on the results of the Group.

Meridian Energy Limited – Notes to the Financial Statements (continued)

29. Contingent Assets and Liabilities

The Group has been the subject of an Inland Revenue audit and some positions have been disputed by Inland Revenue. However, the Board are of the opinion that the approach taken in calculating the Group's tax liability as reflected in these financial statements is acceptable. The Group is defending the adjustments that Inland Revenue has proposed.

30. Impact of adopting New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS")

The Group will adopt NZ IFRS for the year ending 30 June 2008. Transition from existing NZ GAAP to NZ IFRS will be made in accordance with NZ IFRS *1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. Upon adoption of NZ IFRS, comparative information will be restated to conform to the requirements of NZ IFRS and the impact that adoption of NZ IFRS has had on the Group's financial statements will be disclosed.

The Group is well advanced in evaluating the impact of NZ IFRS on its financial statements. The key areas identified that have a significant impact on the opening NZ IFRS balance sheet (1 July 2006) and the comparative period of the Group (30 June 2007) are outlined in the tables below.

The impact of adopting NZ IFRS will only be finalised when the first complete set of NZ IFRS Financial Statements is prepared for the year ending 30 June 2008. Until this time, the NZ IFRS standards and the application of those standards may be subject to change.

While every effort has been made to quantify and disclose the potential impacts of adopting NZ IFRS, the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

The following table outlines the estimated impact on the Group's Equity, Total Liabilities and Total Assets on transition to NZ IFRS at 1 July 2006.

	NOTE	SHARE CAPITAL $m	RESERVES $m	RETAINED EARNINGS $m	TOTAL EQUITY $m	TOTAL LIABILITIES $m	TOTAL ASSETS $m
Total Reported under NZ GAAP		1,600	2,478	160	4,238	1,101	5,339
NZ IFRS Adjustments							
Joint Ventures	a	-	-	(8)	(8)	-	(8)
Investments	b	-	2	-	2	-	2
Financial Instruments	c	-	21	3	24	28	52
Deferred Tax	d	-	(828)	14	(814)	814	-
Total NZ IFRS Adjustments		-	(805)	9	(796)	842	46
Restated Totals under NZ IFRS		**1,600**	**1,673**	**169**	**3,442**	**1,943**	**5,385**

The following table outlines the estimated impact on the Group's Equity, Total Liabilities and Total Assets and Net Income of transition to NZ IFRS at 30 June 2007.

	NOTE	SHARE CAPITAL $m	RESERVES $m	RETAINED EARNINGS $m	MINORITY INTEREST $m	TOTAL EQUITY $m	TOTAL LIABILITIES $m	TOTAL ASSETS $m	NET INCOME $m
Total Reported under NZ GAAP		1,600	3,940	(9)	12	5,543	1,125	6,668	200
NZ IFRS Adjustments									
Joint Ventures	a	-	-	-	-	-	-	-	10
Investments	b	-	2	-	-	2	-	2	-
Financial Instruments	c	-	3	28	-	31	3	34	25
Deferred Tax	d	-	(1,194)	19	-	(1,175)	1,179	4	6
Total NZ IFRS Adjustments		-	(1,189)	47	-	(1,142)	1,182	40	41
Restated Totals under NZ IFRS		**1,600**	**2,751**	**38**	**12**	**4,401**	**2,307**	**6,708**	**241**

30. Impact of adopting New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") (continued)

Changes in key accounting policies on Transition to NZ IFRS

a. Joint Ventures

Under current NZ GAAP the Group has carried its interest in Whisper Tech Joint Venture at fair value. NZ IAS 31: *Interests in Joint Ventures*, requires the Group to account for its investment in the Whisper Tech Joint Venture as a jointly controlled entity and apply equity accounting.

The key impact of this change in accounting principle is to recognise the Group's share of post acquisition deficit up to its investment in the joint venture.

Note: On 3 July 2006 the Group purchased all of the remaining interest in the joint venture. As a result of change in ownership to a controlling interest the Group will account for its interest in Whisper Tech as a subsidiary and will consolidate the entity's results from this date.

The key impact under NZ IFRS after the increase in ownership is to reclassify the post acquisition assessed retained earnings of controlled entities from the profit and loss statement to retained earnings.

b. Investments

Under current NZ GAAP the Group has carried its equity investments at cost less impairment.

NZ IAS 39: *Financial Instruments Recognition and Measurement* requires equity investments to be initially measured at fair value, if the fair value can be reliably measured. If a reliable fair value estimate cannot be made the equity investment should be carried at cost less impairment.

The classification of the investment determines the subsequent accounting treatment. The Group has classified its equity investments as "available for sale financial assets". Under this classification subsequent changes to fair value are reported in equity, unless there is objective evidence that the asset is impaired, then the cumulative loss that has been previously recognised in equity is recognised in the income statement.

The key impact of this change in accounting principle is to recognise the Group's equity investments at fair value, where fair value can be reliably measured.

Financial Instruments

The Group enters into derivatives primarily to manage exposure to interest rate, foreign exchange and electricity price risk. Under current NZ GAAP the Group accounts for such derivatives on a cash settled basis.

NZ IAS 39: *Financial Instruments Recognition and Measurement* governs the recognition requirements for derivatives. On transition to NZ IFRS the Group is required to record derivatives on the balance sheet at their fair value. Subsequently these derivatives are accounted for at fair value at each accounting period, with changes in fair value reflected in the income statement, or deferred in equity if NZ IAS 39 cash flow hedge accounting criteria can be met. The Group has designated certain derivatives as either:

Fair Value Hedges – hedges of the fair value of recognised assets or liabilities or commitment or;
Cash Flow Hedges – hedges of highly probable forecast transactions.

To the extent that hedge accounting does not apply, there is potential for profit volatility resulting from the application of NZ IFRS.

The key impact of this change in accounting principle is to recognise fair value of financial instruments on the balance sheet classified accordingly as assets or liabilities.

Deferred Tax

Under current NZ GAAP income tax expense is calculated based on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting, are recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under NZ IAS 12: *Income Taxes*, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The key impact of the balance sheet approach is the recording of an additional deferred tax liability on the fair value adjustments made in respect of property, plant and equipment, financial instruments and intangibles carried at fair value.

Report from the Audit Office

AUDIT REPORT TO THE READERS OF MERIDIAN ENERGY LIMITED AND GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

The Auditor-General is the auditor of Meridian Energy Limited (the "Company") and Group. The Auditor-General has appointed me, Ian C Marshall, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on his behalf, for the year ended 30 June 2007.

Unqualified Opinion

In our opinion:

The financial statements of the Company and Group on pages 28 to 56:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of:
  - the Company and Group's financial position as at 30 June 2007; and
  - the results of their operations and cash flows for the year ended on that date.

Based on our examination the Company and Group kept proper accounting records.

The audit was completed on 3 September 2007, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2007. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Report from the Audit Office (continued)

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit, we have carried out assurance assignments for the Company and Group in the areas of reviewing the half year financial statements and reviewing the New Zealand Equivalents to International Financial Reporting Standards accounting policies, which is compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the Company or any of its subsidiaries.

Ian C Marshall
DELOITTE
On behalf of the Auditor-General
WELLINGTON, New Zealand

Statutory Information

Group Directors

Wayne Boyd
Chairman (from 01/07/05)
Appointed 05/04/05

Raymond Watson
Deputy Chair (from 01/05/06)
Appointed 22/06/05

Anne Blackburn
Director
Appointed 01/06/04

Anne Urlwin
Director
Appointed 01/01/05

Timothy Lusk
Director
Appointed 01/06/05

Catherine Drayton
Director
Appointed 01/05/06

David Shand
Director
Appointed 01/05/06

Subsidiary Company Directors

DamWatch Services Limited
Keith Turner (Chairman)
Murray Gillon (Managing Director)
Kenneth Smales
Peter Menzies
Michael Campbell
Timothy Densem

DamWatch Pty Limited
Murray Gillon
Stan Brogan

Meridian Limited
Keith Turner
Paul Smart

Meridian Energy International Limited
Keith Turner
Paul Smart

Right House Limited
Keith Turner
Jason McDonald
Paul Smart

MEL Holdings Limited
Keith Turner
James Hay

MEL (West Wind) Limited
Keith Turner
James Hay

Three River Holdings (No.1) Limited
Keith Turner
James Hay
Kenneth Smales

Three River Holdings (No. 2) Limited
Keith Turner
James Hay
Kenneth Smales

WhisperGen Limited
Keith Turner
James Hay
Jason McDonald
Paul Smart

Three River Australia Pty Limited
Keith Turner
James Hay
Kenneth Smales
Peter Lowe

Meridian (Whisper Tech) Limited
Keith Turner
Paul Smart
James Hay

Energy for Industry Limited
Keith Turner
Paul Smart

Meridian Energy Captive Insurance Limited
Keith Turner
Paul Smart

Woodville Windfarm Limited
Keith Turner

Arc Innovations Limited
Keith Turner
Paul Smart
Bill Highet
Phil Lough
Jason McDonald

Whisper Tech Limited
Keith Turner
James Hay
Jason McDonald
David Moriarty
Bruce Boehm

Orion (Whisper Tech) Limited
Keith Turner
James Hay

MEL (Te Āpiti) Limited
Keith Turner
James Hay

MEL (White Hill) Limited
Keith Turner
James Hay

Three River Holdings Pty Limited
Keith Turner
James Hay
Kenneth Smales
Peter Lowe

WhisperGen (UK) Limited
Bill Highet
David Moriaty

General Disclosures

Disclosure of Directors' Interests

Declaration of general interest by directors for the Year Ended 30 June 2007 in accordance with Section 140 (2) of the Companies Act 1993:

Wayne Boyd
Telecom Corporation of New Zealand Limited, Chairman
Freightways Limited, Chairman
Vulcan Steel Limited, Director
Landco Limited, Director

Anne Blackburn
Wellington Regional Council Holdings Limited (and subsidiaries Pringle House Limited and Port Investments Limited), Director
Technical Advisory Board of the Export Credit Office, Director
Contact Energy Limited, Shareholder
Chinese Language Foundation, Advisory Trustee
Ten Gracie Square Limited, Director/Shareholder
Royal New Zealand Ballet, Trustee
Centre for Clinical Research & Effective Practice, Chair
Television New Zealand, Director
Forsyth Barr, Director
PKW Investments, Investment Director
Wellington Regional Holdings Subsidiary Companies, Director
Greater Wellington Rail Limited, Director
Greater Wellington Infrastructure Limited, Director
Greater Wellington Transport Limited, Director

Anne Urlwin
Airways Corporation of New Zealand Limited, Director/Deputy Chairman
Landcare Research New Zealand Limited, Director/Deputy Chairman
New Zealand Domain Name Registry Limited, Director/Chairman
New Zealand Cricket, Director
Urlwin Associates Limited, Director/Shareholder
Maigold Holdings Limited, Director/ Shareholder
Clifton Creek Limited, Director/Shareholder
New Zealand Blood Service, Board Member
Babcock & Brown Infrastructure Group, Shareholder (through Maigold Holdings Limited)
Trustpower Limited, Bondholder (through Maigold Holdings Limited)
Invest South Limited, Director
Lakes Environmental Limited, Director

Timothy Lusk
CEO Post Office Welfare Trust

Raymond Watson
Ngāi Tahu Associates Limited, Director/Shareholder
Ray Watson Associates Limited, Director/Shareholder
Omni Consulting 2005 Limited, Director/Shareholder
Mental Health Commission, Commissioner

Catherine Drayton
New Zealand Hockey Federation, Director

David Shand
No disclosures

There were no specific disclosures of interest under Section 140 (1) of the Companies Act 1993, in addition to those general disclosures set out above.

Information Used by Directors

No member of the Board of Meridian Energy Limited, or any subsidiary, issued a notice requesting the use of information received in their capacity as director which would not otherwise have been available to them.

Indemnification and Insurance of Officers and Directors

Meridian Energy Limited indemnifies its directors and current executive officers against all liabilities which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, Meridian has Directors & Officers indemnity insurance.

Directors' Remuneration – Meridian Energy Limited

	PARENT 2007 DIRECTORS' FEE ($'000)
Wayne Boyd	74.0
Anne Blackburn	40.0
Anne Urlwin	40.0
Timothy Lusk	40.0
Raymond Watson	37.0
Catherine Drayton	37.0
David Shand	37.0
TOTAL	305.0

Directors' Remuneration – Subsidiaries

	SUBSIDIARIES 2007 DIRECTORS' FEE ($'000)
Peter Menzies (DamWatch Services Limited)	6.0
Phil Lough (Arc Innovations Limited)	12.1
Bill Highet (Arc Innovations Limited)	13.0
Tim Lusk (Arc Innovations Limited consultancy work as part of the Independent Advisory Committee)	5.0
TOTAL	36.1

It should be noted that Meridian executives appointed Directors of subsidiaries do not receive any Director's fees.

Statutory Information (continued)

Shareholders

Shareholder Information

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

Employees

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

Executive Remuneration

In accordance with Section 211(1)(g) of the Companies Act 1993, the number of employees or former employees, not being directors of the company, who during the year received remuneration and any other benefits, the value of which exceeded $100,000 is outlined in the table below.

	2007	
	PARENT	SUBSIDIARIES
$100,000 – 109,999	31	7
$110,000 – 119,999	31	6
$120,000 – 129,999	22	6
$130,000 – 139,999	9	-
$140,000 – 149,999	21	1
$150,000 – 159,999	13	-
$160,000 – 169,999	8	-
$170,000 – 179,999	8	2
$180,000 – 189,999	6	2
$190,000 – 199,999	3	2
$200,000 – 209,999	1	2
$210,000 – 219,999	2	1
$220,000 – 229,999	2	-
$230,000 – 239,999	1	1
$240,000 – 249,999	3	-
$260,000 – 269,999	1	-
$270,000 – 279,999	1	-
$280,000 – 289,999	2	-
$290,000 – 299,999	2	2
$330,000 – 339,999	1	-
$350,000 – 359,999	1	-
$360,000 – 369,999	2	-
$390,000 – 399,999	1	-
$400,000 – 409,999	-	1
$420,000 – 429,999	1	-
$470,000 – 479,999	1	-
$1,040,000 – 1,049,999	1	-

Meridian Energy Facility

This page contains the emissions inventory report for the Meridian Energy Facility for the 2006/07 period. The Meridian Energy Facility captures emissions that occur due to the generation and retail of energy from renewable sources in New Zealand, including all corporate head office and support office activities.

For further information on the development of boundaries for facilities within the Meridian Energy Group, please read the Carbon emissions management section on **www.meridianenergy.co.nz/annualreport**

GREENHOUSE GAS EMISSIONS (t CO_2)	TONNES OF CO_2
Direct Emissions (scope 1) [1]	
Emissions from Meridian owned boats	591
Emissions from Meridian owned (back up) generators	49
Emissions from Meridian owned vehicles	401
	1,041
Energy Indirect (scope 2) emissions [2]	
Indirect Emissions from Purchased Electricity	2,987
Other Indirect (scope 3) emissions [3]	
Indirect Emissions from Rental Cars	124
Indirect Emissions from Air Travel	908
Indirect Emissions from the Generation of Electricity that is Purchased and then Resold to End Users	-
	1,032
Total CO_2 emissions for Meridian Energy Facility	**5,060**

Notes

1 Direct Greenhouse Gas Emissions arise from sources that the Meridian Energy facility owns or controls. This includes emissions from stationary combustion, such as diesel used in back-up generators, and emissions from mobile combustion, such as fuel used in Meridian owned boats, and Meridian owned vehicles.

2 Energy Indirect Emissions refers to electricity, heat or steam that is consumed by Meridian from the national grid. This covers all electricity purchased for consumption by Meridian from Meridian in an "arm's length" transaction.

3 Other Indirect Emissions capture emissions required to be disclosed by the carboNZero standard requirements (air travel and car hire), and other emissions that are deemed to be relevant to the company's operations, large relative to scope 1 and scope 2 emissions, critical to key stakeholders, and potentially able to deliver significant emissions reductions that could be undertaken or influenced by the company. In Meridian's case, we have chosen to cover electricity purchased for resale to end users.

4 The following emissions are excluded from the emissions inventory report prepared for the Meridian Energy Facility for 2006/7: waste, contractors, embodied emissions in concrete, embodied emissions in turbines.

5 Our emissions inventory report for the period has yet to be audited. We are in a 'greenfields' environment and we are breaking new ground on the establishment of best practice for carbon accounting in New Zealand. We apply best practice as we understand it but recognise the need to review our approach constantly. The volume of emissions reported for the year may change prior to finalisation.

For further information on the development of boundaries for facilities within the Meridian Energy Group, please read the Carbon Emissions Management section on the website.

Verification Statement

ERM Independent Verification Report to Meridian Energy Limited

Environmental Resources Management NZ Limited (ERM) was engaged by Meridian Energy Limited (Meridian Energy) to provide independent verification of its Annual Report 2007 (Report), to the scope of work outlined below.

Scope of Work

The Report covers Meridian Energy's operations for the 12 months to 30 June 2007, unless stated otherwise in the text. ERM performed this work in accordance with ERM's verification methodology, which is based on the international assurance standards: ISAE 3000, AA 1000 AS and ISO 19011. ERM reviewed Meridian Energy's use of the AA1000 Principles, namely Completeness and Materiality, in reporting performance. To do this, ERM interviewed a number of personnel and reviewed relevant documentation at Meridian Energy's office in Wellington, regarding:

1. Data accuracy, including data trails from original site-based data retrieval to the final Report, for a representative sample of material parameters.
2. Robustness of data capture processes, including collation, transcription, internal reporting and controls in place, such as internal data verification checks.
3. Adequacy and relevance of key statements made throughout the Report, including cross-checking of reported data, for a representative sample of key statements.
4. Effectiveness of mechanisms in place for Report preparation.
5. Information provided in the GRI Content Index with respect to the G3 Guidelines.

The audit excluded data and statements relating to financial information, data relating to previous financial years, and data relating to greenhouse gas emissions, all of which have been independently audited.

ERM's Independence

Meridian Energy was responsible for preparing the Report, including the collection and presentation of data and statements within it. ERM's responsibility was to express verification conclusions in line with the scope of work agreed with Meridian Energy. The data and statements in the Report reviewed by ERM did not include any work with which ERM had been involved. The ERM team was not involved in the design or compilation of the Report (except by way of this independent verification engagement). During 2006/07, ERM did not work with Meridian Energy on other consulting engagements. In addition, ERM operates a strict conflict of interest check to ensure that the independence of the company and ERM personnel involved in the independent verification engagement are not compromised.

Our Conclusion

On the basis of its scope of work, and in consideration of the limitations of the verification engagement presented above, ERM concludes, in all material respects, that Meridian Energy's Annual Report 2007 appropriately addresses the AA1000 Principles of Completeness and Materiality, for the 12-month period to 30 June 2007. In conjunction with this Independent Verification Report, ERM will provide a more detailed Management Report to Meridian Energy.

Key Observations and Recommendations

Based on its scope of work, and without affecting the verification conclusion noted above, ERM provides the following key observations relating to good practice observed:

- The integration of stakeholder feedback in Report development, and the inclusion of stakeholder interviews in final Report information.
- Evidence of the range of community programmes Meridian is involved with, and the variety of mediums used to communicate products and services to the public.
- ERM commends Meridian Energy for the withdrawal of claims that customers who buy Meridian electricity can now say that their own electricity consumption is carbon neutral.

ERM also provides the following key recommendations for improvement:

- The development of a central system for the progressive collection of Report data, along with contributor guidelines indicating specific performance measures to be reported and data sources to be utilised.

ERM congratulates Meridian Energy on its continued commitment to sustainability reporting.

ERM

Environmental Resources Management Limited (ERM)
24 September 2007
Auckland, New Zealand

ERM is an independent global provider of environmental, social and corporate responsibility consulting and verification services. Over the past four years we have worked with over half of the world's 500 largest companies, in addition to numerous governments, international organisations and NGOs.

Website Contents

As part of our commitment to sustainability and to help reduce paper use, we have created an annual report website, www.meridianenergy.co.nz/annualreport

The website provides a more in-depth review of the year and contains a range of information including stories and video interviews with our customers, our staff and other stakeholders.

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