meridian

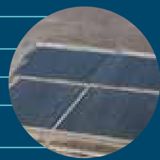
Meridian Energy Annual Report

for year ended 30 June 2010

How much power?

Meridian is the largest state-owned electricity generator in New Zealand, providing around 30% of New Zealand's total generation. We also retail electricity to more than 180,000 residential, rural and business customers.

NAME:	**CalRENEW-1**
NO. OF PV PANELS:	50,000
CAPACITY:	5MW
TOTAL GWh PRODUCED (2009/10)	2



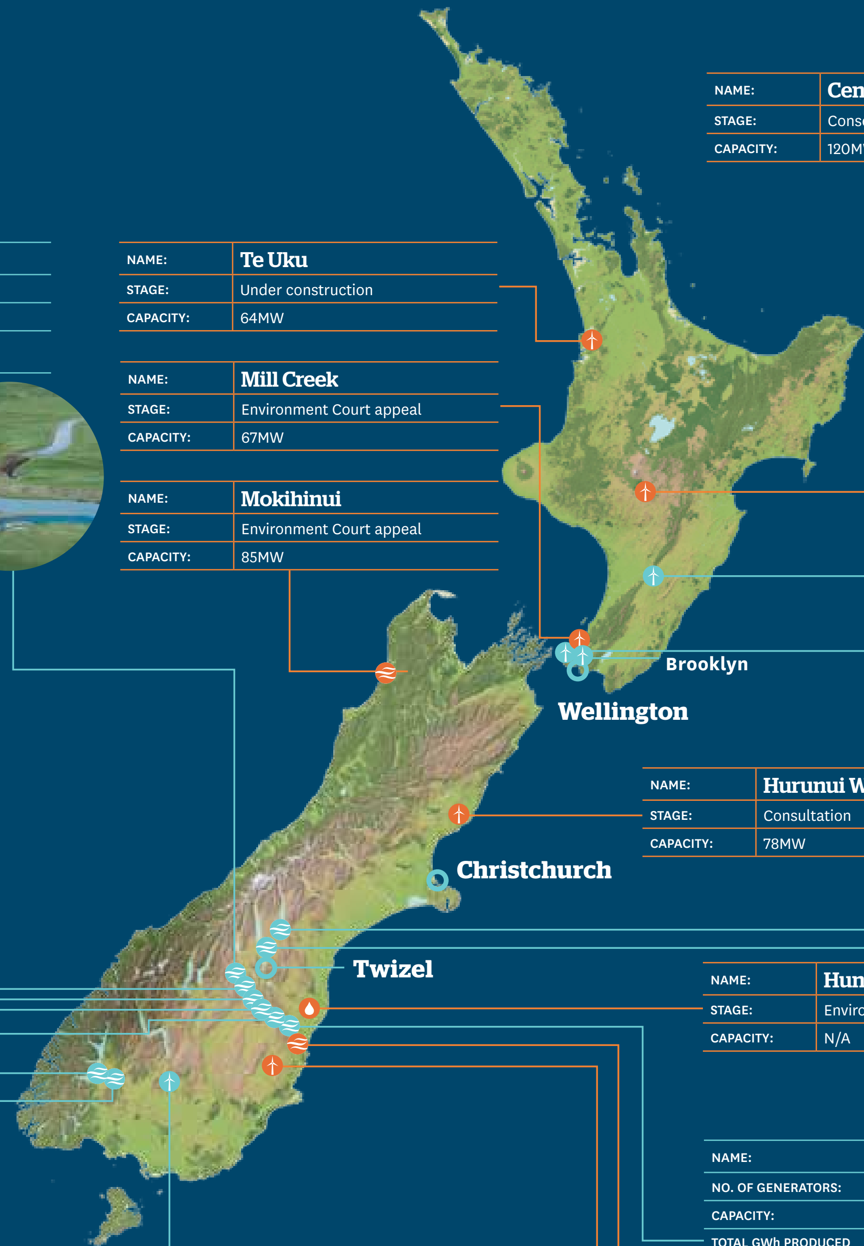
NAME:	**Mt Millar[3]**
NO. OF TURBINES:	35
CAPACITY:	70MW
TOTAL GWh PRODUCED (2009/10)	10

NAME:	**Macarthur[2]**
LOCATION:	Victoria
STAGE:	Pre-construction design
CAPACITY:	420MW

NAME:	**Mt Mercer**
LOCATION:	Victoria
STAGE:	Pre-construction design
CAPACITY:	130MW

NAME:	**Ross Island**
NO. OF TURBINES:	3
CAPACITY:	1MW

Front Cover: The Ross Island wind farm and Mt Erebus from Observation Hill, Antarctica. Courtesy of George Blaisdell, Antarctica NZ Pictorial Collection.



NAME:	Central Wind
STAGE:	Consented
CAPACITY:	120MW

NAME:	Te Āpiti
NO. OF TURBINES:	55
CAPACITY:	90MW
TOTAL GWh PRODUCED (2009/10)	325
TOTAL GWh PRODUCED (2008/09)	309

NAME:	Ohau A
NO. OF GENERATORS:	4
CAPACITY:	264MW
TOTAL GWh PRODUCED (2009/10)	1,134
TOTAL GWh PRODUCED (2008/09)	983

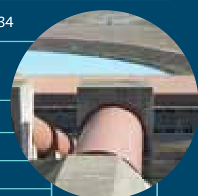
NAME:	Te Uku
STAGE:	Under construction
CAPACITY:	64MW

NAME:	Mill Creek
STAGE:	Environment Court appeal
CAPACITY:	67MW

NAME:	Mokihinui
STAGE:	Environment Court appeal
CAPACITY:	85MW

NAME:	West Wind
NO. OF TURBINES:	62
CAPACITY:	143MW
TOTAL GWh PRODUCED (2009/10)	497
TOTAL GWh PRODUCED (2008/09)	38

NAME:	Ohau B
NO. OF GENERATORS:	4
CAPACITY:	212MW
TOTAL GWh PRODUCED (2009/10)	948
TOTAL GWh PRODUCED (2008/09)	834



NAME:	Tekapo A
NO. OF GENERATORS:	1
CAPACITY:	25MW
TOTAL GWh PRODUCED (2009/10)	152
TOTAL GWh PRODUCED (2008/09)	124

NAME:	Ohau C
NO. OF GENERATORS:	4
CAPACITY:	212MW
TOTAL GWh PRODUCED (2009/10)	940
TOTAL GWh PRODUCED (2008/09)	828

NAME:	Hurunui Wind
STAGE:	Consultation
CAPACITY:	78MW

NAME:	Tekapo B
NO. OF GENERATORS:	2
CAPACITY:	160MW
TOTAL GWh PRODUCED (2009/10)	817
TOTAL GWh PRODUCED (2008/09)	833

NAME:	Benmore
NO. OF GENERATORS:	6
CAPACITY:	540MW
TOTAL GWh PRODUCED (2009/10)	2,284
TOTAL GWh PRODUCED (2008/09)	2,035

NAME:	Hunter Downs Irrigation
STAGE:	Environment Court appeal
CAPACITY:	N/A

NAME:	Aviemore
NO. OF GENERATORS:	4
CAPACITY:	220MW
TOTAL GWh PRODUCED (2009/10)	948
TOTAL GWh PRODUCED (2008/09)	890

NAME:	Waitaki
NO. OF GENERATORS:	6
CAPACITY:	90MW
TOTAL GWh PRODUCED (2009/10)	500
TOTAL GWh PRODUCED (2008/09)	483

Key

- Hydro Power Station
- Wind Farm
- Office
- Hydro Project
- Wind Farm Project
- Irrigation Project
- Solar Facility

NAME:	White Hill
NO. OF TURBINES:	29
CAPACITY:	58MW
TOTAL GWh PRODUCED (2009/10)	183
TOTAL GWh PRODUCED (2008/09)	169

NAME:	Manapouri
NO. OF GENERATORS:	7
CAPACITY:	730MW
TOTAL GWh PRODUCED (2009/10)	5,134
TOTAL GWh PRODUCED (2008/09)	4,711

NAME:	Manapouri Tailrace Amended Discharge
STAGE:	Consented
CAPACITY:	90MW (89GWh pa)

NAME:	North Bank Tunnel Concept[1]
STAGE:	Consented
CAPACITY:	220-280MW

NAME:	Hayes
STAGE:	Environment Court appeal / High Court
CAPACITY:	Up to 630MW

MW Megawatt
MWh Megawatt Hour
GWh Gigawatt Hour

Development project status
as at 30 June 2010

1. Water consents only
2. 50/50 Unincorporated Joint Venture with AGL Energy
3. Total GWh produced following acquisition 31 May 2010

Our Strategy

OUR VISION IS TO BE THE GLOBAL REFERENCE COMPANY IN RENEWABLE ENERGY.

OUR STRATEGY IS COMMUNICATED AND DELIVERED THROUGH FOUR CORE STRATEGIC THEMES. THEMES WHICH HAVE A STRONG PERFORMANCE IMPROVEMENT AND VALUE GROWTH FOCUS.

Sustainably improve our earnings

Improving and sustaining the profitability of our business by optimising and co-ordinating our generation, wholesale and retail operations

Deliver more renewable generation growth

Having the best renewable generation portfolio in Australasia by securing renewable energy development options and building generation assets that create long-term value across the Meridian group

Invest wisely in innovation

Being a leader in the adoption and commercialisation of new renewable energy technologies and solutions to create and capture future value

Lift our customer game

Delivering a profitable, differentiated offering to customers that transforms the way they think about, buy and consume electricity

The Meridian Way

The behaviours of The Meridian Way are the foundation for how we expect our people to work.

WORK LIKE YOU OWN THE COMPANY	RAPPORT	CHALLENGE	DREAM	SUSTAINING
We each take the same care as we would with our own business, money and reputation	We put energy into positive relationships, both inside and outside Meridian	We challenge ourselves to aim higher	We are powered by imagination	We make decisions with a long-term view

"The Meridian Way is one of our greatest strengths. It has served us well from the very start and is a touchstone inspiration for the innovation and team work that has made us successful." **Tim Lusk**

Meridian Staff at West Wind, Project Crimson tree planting to honour our commitment to plant over 2010 trees in 2010.

Contents

$641.7m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION AND FINANCIAL INSTRUMENTS
A 25% INCREASE

$251.9m

UNDERLYING PROFIT AFTER TAX,
AN INCREASE OF 29%

$200m

SUCCESSFULLY RAISED THROUGH NEW ZEALAND'S FIRST ON-LINE ISSUE OF RETAIL BONDS

$353.5m

RETURNED TO THE SHAREHOLDER IN DIVIDENDS

	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Profit after Tax	$184.0m	$89.3m	$128.6m	$241.2m
Underlying Profit after Tax	$251.9m	$195.0m	$104.5m	$207.7m
EBITDAF	$641.7m	$512.4m	$373.9m	$476.4m
EBITDAF per MWh	$46.29	$41.87	$31.40	$37.58

17% increase

in Meridian retail North Island customers

5MW utility-scale solar power facility, CalRENEW-1, commissioned, the first in CALIFORNIA, US

641% growth (14,211 customers) in Powershop on-line retail customers – fastest-growing retailer in 2010

Managed record high inflows into storage catchments, avoiding civil emergencies

143MW, 62 wind turbines commissioned at WEST WIND, in WELLINGTON

70MW, 35 turbines, purchase of MT MILLAR WIND FARM, in SOUTH AUSTRALIA

64MW, 28 wind turbines, construction commenced at TE UKU, near RAGLAN

3 TURBINES, CONSTRUCTED AND COMMISSIONED ON ROSS ISLAND IN ANTARCTICA – now providing clean, renewable power to New Zealand and US bases on the frozen continent

Consent granted for

120MW Central Wind project near Waiouru

& The 85–100MW Mokihinui[1] hydro project on the West Coast

↓ 50%

reduction in lost-time injuries

↑ 6%

increase in staff engagement

1. *Environment Court appeal.*

2009/10 WAS THE YEAR WE TOOK THE COMPANY THROUGH SIGNIFICANT CHANGE TO ENABLE US TO MEET THE CHALLENGES OF THE NEXT 10 YEARS. IN THE FACE OF UNUSUAL INTERNAL AND EXTERNAL CHALLENGES OUR PEOPLE DELIVERED AN OUTSTANDING PERFORMANCE THAT EXCEEDED OUR EXPECTATIONS.

Operating environment and financial performance

Meridian has delivered a strong financial result this year. This is an outstanding achievement in the context of a challenging operating environment.

The year started with hydro storage at very high levels for mid-winter and saw a prolonged period of high inflows combined with some significant thermal plant outages. Alongside the continuing impact of economic conditions on demand we saw record retail customer churn rates. We continue to be challenged by transmission issues, in particular the partial operation of the HVDC link and associated AC constraints. This year also saw considerable work to respond to the Government's Ministerial Review of the Electricity Industry.

We recorded a net profit after tax of $184.0 million for the period and an underlying profit after tax of $251.9 million.

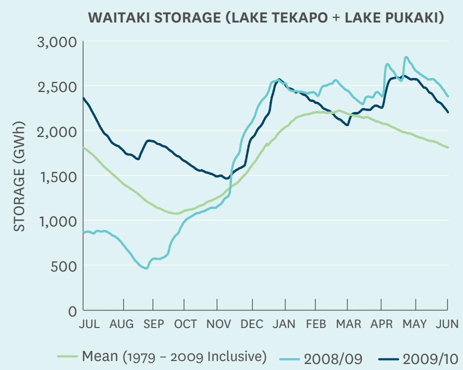
This represents a 106% improvement in our net profit after tax and a 29% improvement in our underlying profit after tax compared to last year.

During the year we implemented a series of organisational changes that arose out of our "Fit for Purpose" review. These included reducing our corporate headcount, the reorganisation of our retail business, a step change in our IT outsourcing arrangements and other cost reduction initiatives. We also heightened our commercial focus through a new performance management framework, enhanced capital allocation disciplines and a more integrated approach to making decisions across our retail and wholesale businesses.

Raising finance is increasingly important to support our investment programme, and we undertook a well-received bond issue with the Renewable Energy Bonds listed on the NZDX. We have maintained our BBB+ rating (outlook stable) from Standard and Poor's.

During the year Meridian became subject to the SOE disclosure rules, which partly emulate the strict continuous disclosure rules that apply to listed companies. This requirement meets with Meridian's intent to work towards greater transparency.

In addition, following the listing of our Renewable Energy Bonds, we have become subject to the NZX disclosure requirements for listed debt issues.



Investing in renewable generation

We remain confident in our renewables led strategy. The introduction of the Emissions Trading Scheme in New Zealand and stabilisation of the Renewable Energy Credits regime in Australia both strengthen this strategic direction.

Our wind programme has seen good progress during the year with the full commissioning of the 143MW West Wind wind farm in Wellington ahead of time and the start of construction of the 64MW Te Uku wind farm near Raglan. In the months since its commissioning West Wind has delivered the kind of performance to be expected from a site adjacent to the "windy city" and is making a significant contribution to continuity of supply in the lower North Island.

Wind is a good match for the hydro generation which makes up the bulk of our portfolio. The quality of our prospective development sites, coupled with the strength and depth of our development team, gives us confidence in this component of our renewables strategy.

A particular high point was the opening of the Ross Island wind farm in Antarctica. This successful development in a unique and sensitive environment has attracted international attention and showcased Meridian's expertise in wind generation development on demanding sites.

Adding to Meridian's international presence during the year has been the acquisition of the 70MW Mt Millar wind farm in South Australia and the commissioning of our first solar project, the 5MW CalRENEW-1 facility, California's first grid-connected solar photo voltaic power facility.

Wayne Boyd
Chairman

Tim Lusk
Chief Executive

Investment challenges

Investment in New Zealand's infrastructure can be challenging. This was illustrated by the decision of the Environment Court in November to reverse the resource consents granted for the Project Hayes development in Central Otago. Our appeal to the High Court was upheld, referring the case back to the Environment Court with specific directions, effectively putting the project back to where it was a year ago.

A lengthy appeals process is also a prospect for our Mokihinui hydro project on the West Coast. This was granted resource consent in April, but has been appealed by a number of parties. A timetable is being finalised for this to come before the Environment Court.

Project Hayes and Mokihinui are both exceptional renewable energy projects that can extend New Zealand's reputation for creating world class engineering, environmental and socially acceptable solutions. It is very important to our country's growth aspirations that projects like these are built and that decision making processes are inclusive and fully informed.

Innovation

Meridian has a strong portfolio of subsidiaries and business units operating innovatively beyond the standard electricity industry supply chain. These include new ways of retailing on-line, smart metering, demand management, industrial energy and energy-efficiency solutions.

We are able to report encouraging progress with these businesses. We have appointed independent Chairs and Directors who bring experience and commercial disciplines in the different markets in which each operates.

This, along with the focus of our subsidiary teams, has been effective in achieving improved business performance.

Our investment in these ventures also signals Meridian's strong commitment to energy efficiency and the development of a much stronger demand side participation in the electricity market.

Participating in electricity market reform

The second half of the year has seen a major focus on the measures set out in the Ministerial Review of the Electricity Market in December 2009. These include the sale of the Tekapo A and B power stations to Genesis and long-term swaps of energy between Meridian in the South Island and Genesis and Mighty River Power in the North Island, by way of financial contracts.

Meridian strongly supports the overall policy objectives of the Review and is committed to achieving a successful implementation of the measures. The overall aim of the Review is to improve both competition in the electricity market and security of supply.

The implementation and transition challenges that arise are extensive and we have endeavoured to engage key stakeholders with the highest quality analysis, due diligence processes and solution options to ensure the best possible outcome.

Final legislation is expected to be passed in September with any necessary government direction to the SOE boards following shortly.

Serving our customers

The period under review has seen an upsurge in competitive behaviour by retailers and record customer churn rates. Meridian has felt the impact in terms of customer losses in some markets but has had its share of success in other parts of the country, particularly in the North Island.

The retail business has risen to the rebalancing challenge presented by the Ministerial Review, with North Island customers increasing whilst overall customer numbers remained stable.

Our retail business has focused on getting the basics right and has seen call centre customer service levels reaching international benchmarks by year end.

We take particular satisfaction in the performance of our on-line retail subsidiary, Powershop, which is experiencing solid growth in customer numbers. It has also achieved an outstanding, market leading customer satisfaction result of 92%.

Meridian as a great place to work

The 6% improvement in the overall engagement of our people over the past nine months (as measured through the JRA Best Workplace Survey) will contribute measurably to making Meridian a great place to work.

A best practice reward framework was embedded within Meridian this year which includes rewarding our people for the delivery of extraordinary results based on company affordability, team, company and individual targets and leadership behaviour. The setting of strategically aligned objectives and regular performance coaching, coupled with peer review processes, is emerging as a material driver of both individual development and overall company performance.

We are pleased to report a much-improved Health and Safety performance this year after some disappointing results with lost-time injuries during 2008/09. We attribute our improvement to the clear emphatic accountability being taken by our leaders, at all levels, in concert with site Health and Safety committees for all activities taking place on our sites and in our buildings.

Meridian has committed to the Government's new "Zero Harm" workplace safety initiative with the aim of becoming a zero harm employer.

Being a good neighbour

Meridian acknowledges our responsibility to the communities where our assets are located, where our customers live and work and where we hope to develop generation facilities in the future.

After completing the initial three-year community funds programmes in our three key generation communities – Waitaki, Manapouri-Te Anau and Te Āpiti – we have extended the programme for another three years. The community funds programme has also been introduced into the Makara community near Wellington where West Wind is sited. The programme has seen a wide range of valuable new amenities, services and resources provided to our neighbours in the areas where we operate.

Whilst we are a well-established and long-standing member of some communities we know that in places where we are a relatively recent arrival we still have work to do to gain trust and support. Meridian will continue to work long-term with all communities to demonstrate our commitment to being a good neighbour. This goes beyond resource consent compliance.

Again this year we worked closely with Ngāi Tahu, joining forces through Right House in partnership with EECA and Te Puni Kōkiri to insulate a number of Ngāi Tahu homes.

Meridian continues to support a number of arts, environmental and sports organisations at a national and regional level through its sponsorship programme. Our partners include the Royal New Zealand Ballet, Project Crimson, Canterbury Rugby and South Island Rowing. All represent important and real opportunities to inspire our staff and generations of New Zealanders with things we love and don't easily get access to.

Looking ahead

We start the year in a more normal hydrology position than last year, but recognise that conditions can change rapidly if we encounter low inflows, particularly while the capacity of the HVDC link remains constrained. We will continue to reshape our portfolio in anticipation of the expected loss of the generating capacity of the Tekapo A and B generating stations. This will also have an impact on our future financial results.

We expect retail competition to remain strong and there to be increasing emphasis on innovation in the way that energy is delivered and consumed. We are well-placed to respond to these changes through our business units and our portfolio of subsidiaries, who are already actively delivering new products and services to our customers, and through other retailers to their customers.

We will continue our development of renewable generation, with Te Uku expected to produce first power in early 2011.

We have committed to a joint venture with AGL in Australia to develop the 420MW Macarthur wind farm in Victoria.

We have made progress this year in diversifying our funding base. This will need to continue in order to prevent funding becoming a constraining factor on our renewable growth programme.

In conclusion

Last year we took a hard look at our performance. We committed to lifting our game and embarked on a major organisational change programme.

This year saw the implementation of that programme.

Our people exceeded our expectations in their commitment to Meridian during this difficult time. We acknowledge the personal effort, collaboration and high degree of professionalism of our people and the support of the Board that has been demonstrated at all times.

We believe that Meridian is well-positioned with our technologies, our people and our positive attitude to strongly contribute to meeting the challenges faced by the New Zealand economy.

Board of Directors

Left to right standing: Catherine Drayton, Chris Moller, Stephen Reindler, Ray Watson, Mary Devine, (seated left to right) Wayne Boyd, Anne Urlwin, Brett Shepherd

Wayne Boyd/Chairman

Following careers in law and investment banking, Wayne is well known as a professional director.

Wayne is currently Chairman of Telecom Corporation of New Zealand Limited and Freightways Limited, and is a Director of Vulcan Steel Limited.

Previously he was Chairman of Auckland International Airport 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.

He has been Chair of Meridian's Board since April 2005.

Ray Watson/Deputy Chairman

Ray is the Principal of Ray Watson Associates Limited and was appointed Deputy Chair of Meridian in April 2006.

Ray was previously Chief Executive of Ngāi Tahu Development Corporation, and prior to that he held the position of Chief Executive of Lakeland Health Limited. Ray also has an extensive professional, clinical and management background in the health sector and is currently Commissioner of the Mental Health Commission.

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

He joined Meridian's Board in June 2005.

Mary Devine

A recent appointment to the Meridian Board, Mary is a professional director and business consultant.

She has had a 20-year career in managing director and executive roles in private New Zealand companies. Her most recent role was CEO of EziBuy Limited, spearheading the company's on-line strategy and growth in the Australian market. Her expertise in retail and brand execution is particularly relevant to Meridian.

She was appointed to the Board of Meridian in May 2010.

Catherine Drayton

Catherine is a chartered accountant with significant multi-cultural, multi-jurisdictional managerial and transactional experience, due largely to a former role as 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.

Catherine has a number of other directorships including Ngāi Tahu Holdings Corporation and Christchurch International Airport Limited.

Catherine joined the Board of Meridian in May 2006.

Chris Moller

Chris Moller is currently a non-executive director of a number of companies, including SkyCity Entertainment Group Limited, Rugby New Zealand 2011 Limited, Synlait Limited, and NZX Limited.

He is also a Director of New Zealand Cricket (Inc), the governing body for that sport in New Zealand, and is a former CEO of the New Zealand Rugby Union; co-leading New Zealand's successful bid to host the Rugby World Cup 2011.

A 15-year career in the dairy industry included roles as Deputy Chief Executive of Fonterra, and CFO of the New Zealand Dairy Board.

Chris has been on the Board of Meridian since May 2009.

Stephen Reindler

Steve Reindler is an engineer who brings to the Board a wealth of experience through his previous engineering leadership roles in New Zealand Steel and Auckland International Airport Limited, and through his industry position as inaugural Chairman of the Chartered Professional Engineers Council.

Steve was a Director of Waste Resource Limited, is currently a Director of Port of Napier Limited and the Stevenson Group Limited, is on the Advisory Board of Glidepath Limited and is an independent advisor to Transfield Services (NZ) Limited. He is also Deputy President of the Institution of Professional Engineers NZ.

Steve has been on the Board of Meridian since September 2008.

Brett Shepherd

Brett is the CEO of Deutsche Bank AG (New Zealand). He has been in investment banking for over 20 years, advising New Zealand and international corporates on many transformational deals.

Brett received the University of Auckland Maori Business Leader of the Year award in 2007. He is involved in a number of community and arts-based organisations, including the Black Grace Dance Company. Brett is also currently a member of the NZ Institute Board of Directors.

He joined the Meridian Board in May 2009.

Anne Urlwin

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

She is Chairman of New Zealand Blood Service, and also a Director of Naylor Love Enterprises Limited, Lakes Environmental Limited, Invest South Holdings Limited and New Zealand Cricket.

Her previous directorship roles have included chairmanship of New Zealand Domain Name Registry Limited, Red Bus Limited and Brackenridge Estate Limited, as well as deputy chairmanship of Landcare Research New Zealand Limited, and Airways Corporation of New Zealand Limited. Other governance roles have been in the forestry, banking, racing, tertiary education and performing arts arenas.

Anne is based in Wanaka and was appointed to the Board of Meridian in January 2005.

Management Team

Tim Lusk/Chief Executive

Tim has been Chief Executive of Meridian since May 2008.

Prior to that he was Chief Executive of the Post Office Welfare Trust after having served as General Manager Wholesale in Telecom NZ Ltd from 2002 until August 2006. Prior to Telecom, he held executive positions in Transpower NZ Ltd and Power NZ Ltd.

With a background in engineering, his electricity industry accountabilities ranged from engineering development, network pricing, system operations, marketing, customer relations and electricity market development.

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

Neal Barclay/General Manager, Markets and Production

Neal has headed up Markets and Production since October 2009. He joined Meridian in July 2008 as Chief Financial Officer. Prior to joining Meridian Neal, a chartered accountant (NZICA), held a number of general manager roles in a 13-year career with Telecom New Zealand.

Neal is accountable for the Company's New Zealand asset portfolio, comprising nine hydro power stations and three wind farms that deliver around 30% of New Zealand's electricity generation, and for the company's wholesale trading and risk position.

Paul Chambers/Chief Financial Officer

Before taking up his role at Meridian in 2009, Paul was Chief Financial Officer of Transfield Services New Zealand. Paul has extensive senior finance experience in a variety of industries, including ports, manufacturing and retail, both in the UK and France. Paul is a chartered accountant (NZICA and ICAEW).

Paul's team has responsibility for strategy coordination, performance measurement, external reporting, funding, risk management coordination, procurement and financial transaction services.

Garth Dibley/General Manager, External Relations

Prior to joining Meridian, Garth was employed by ECNZ with the Northern Generation Hydro group for two years as the Technical Manager.

Previous to that he has worked predominantly with thermal and gas turbine plants at Huntly Thermal Group where he ultimately became the Engineering Manager.

Garth has been with Meridian since its establishment, with leading roles in the field of asset management.

His External Relations team takes the lead in increasing Meridian's competitive edge by growing a positive perception of the company among its communities, partners and stakeholders.

Bill Highet/General Manager, Retail

Bill was Chief Operating Officer of Whisper Tech Limited from 2001 to 2008, having previously helped to establish the company while New Ventures Manager at Southpower (now Orion) in 1995.

Prior to joining Southpower in 1993, Bill held engineering, project management, commercial and business development roles, all in the electricity industry. He has also filled general manager roles at Enerco (a natural gas company) and at Telecom NZ.

Bill is a past director of Whisper Tech Limited, Network Waitaki Limited, Pulse Business Solutions Limited, CallSouth Limited and Connetics Limited. He was also a non-executive director of Meridian subsidiary, Arc Innovations, from its establishment in 2006 until early 2008.

Bill was CEO of Flight Experience Group Limited prior to taking up his appointment as General Manager for Retail, Meridian Energy in October 2009.

Bill's team is focused upon delivering a profitable and differentiated offer and service to our customers.

Glen McLatchie/General Manager, Information and Communications Technology

Glen joined Meridian as General Manager for Information Communication and Technology (ICT) in May 2010. Glen has an extensive background in delivering business and information technology change on a global scale, having held a number of general management positions on both the client and vendor side of ICT.

Just prior to joining he was the Director of ICT Transformation and Strategic Planning for Contact Energy. Glen has also held several senior management roles with global responsibility over a 13-year period with BP Oil International, with the majority of this time based out of Melbourne and London.

Glen and his team are responsible for ensuring Meridian has the ICT infrastructure, data, processes and applications to properly manage the business and its operations.

Kate Peterson/General Manager, Culture and Change

Kate Peterson joined the Meridian Management team in early 2009.

She brings to her role a strong background in people and operations management, having spent many years with Lion Nathan and more recently with PGG Wrightson and the Gough Group during periods of significant change.

At Meridian, Kate and her team have a particular focus on developing strategies to further build the capabilities and skills of Meridian's people, so that the company can deliver its business objectives and aspirations.

Andrew Robertson/General Manager, Business Development

Andrew has extensive experience in the New Zealand electricity industry. Prior to taking on his current role, Andrew operated in senior generation business development roles in Meridian's asset management and growth areas.

Before joining Meridian, Andrew held numerous roles with ECNZ, including management roles in finance and operations, before participating directly in the industry reform that led to the formation of Meridian.

As General Manager of Business Development, Andrew is responsible for leading the adoption and commercialisation of renewable energy technologies and solutions to create and capture future value.

Ken Smales/General Manager, Renewable Development

Ken has 40 years' experience in the New Zealand electricity generation industry, including design, construction, commissioning and operations and maintenance.

Ken was Generation Director from the Company's establishment until taking up his Renewable Development role in January 2004.

Ken's team has primary responsibility for delivering on Meridian's strategic goal of delivering more renewable generation growth, and cementing Meridian's place as the premier Australasian developer of renewable generation in New Zealand and overseas.

Performance Summary

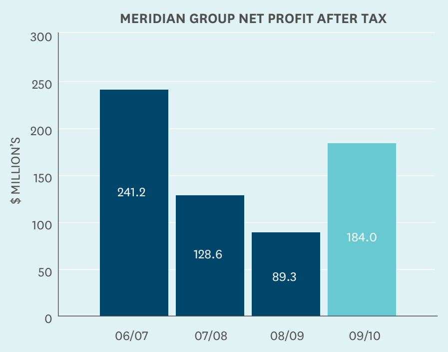
MERIDIAN GROUP INCOME STATEMENT HIGHLIGHTS ($ MILLION'S)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Energy & Related Services Sales	2,039.6	1,871.9	2,580.2	1,776.6
Other Revenue	22.3	20.5	19.8	14.1
Total Group Operating Revenue	**2,061.9**	**1,892.4**	**2,600.0**	**1,790.7**
Energy Related Costs	743.6	788.5	1,591.0	720.4
Energy Transmission, Distribution and Levies	426.0	373.0	413.7	376.3
Total Energy Related, Transmission and Distribution Costs	**1,169.6**	**1,161.5**	**2,004.7**	**1,096.7**
Employee Costs	87.2	76.0	69.1	55.3
Other Operating Costs	163.4	142.5	152.3	162.3
Total Employee and Other Costs	**250.6**	**218.5**	**221.4**	**217.6**
Total Group Operating Expenditure	**1,420.2**	**1,380.0**	**2,226.1**	**1,314.3**
EBITDAF	**641.7**	**512.4**	**373.9**	**476.4**
Net Change in Fair Value of Electricity, Aluminium and Foreign Exchange Derivatives	(48.0)	(114.1)	45.5	0.7
Depreciation, Amortisation, Impairments and Gain / (Losses) on Sale of Property, Plant & Equipment	(206.1)	(167.5)	(152.1)	(116.3)
Equity Accounted Earnings of Associates	(2.0)	(1.9)	(0.1)	-
Group Operating Profit	**385.6**	**228.9**	**267.2**	**360.8**
Net Finance Costs	(85.1)	(68.4)	(55.2)	(46.0)
Net Change in Fair Value of Treasury Derivatives	(23.3)	(32.5)	(14.3)	23.9
Group Profit before Tax	**277.2**	**128.0**	**197.7**	**338.7**
Income Tax	(93.2)	(38.7)	(69.1)	(97.5)
Group Net Profit After Tax	**184.0**	**89.3**	**128.6**	**241.2**

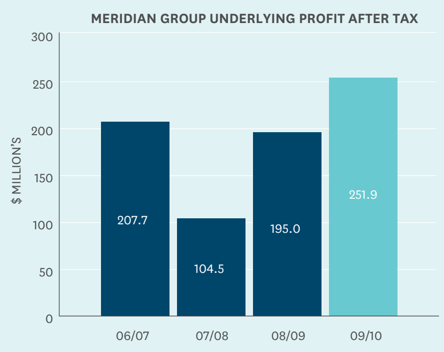
MERIDIAN GROUP UNDERLYING PROFIT AFTER TAX ($ MILLION'S)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Group Net Profit After Tax	184.0	89.3	128.6	241.2
Net Change in Fair Value of Financial Instruments	71.3	146.6	(31.2)	(24.5)
Net Gain on Sale of Property, Plant and Equipment	(0.3)	(4.8)	(0.5)	(1.0)
Impairments	18.3	9.2	-	0.5
Adjustments Before Tax	89.3	151.0	(31.7)	(25.0)
Income Tax	(26.8)	(45.3)	10.5	8.2
Buildings Tax Depreciation Deferred Tax Adjustment	14.8	-	-	-
Corporate Tax Rate Reductions	(9.4)	-	(2.9)	(16.7)
Adjustments After Tax	67.9	105.7	(24.1)	(33.5)
Group Underlying Profit After Tax	251.9	195.0	104.5	207.7

Income Statement

Meridian's Group net profit after tax (NPAT) was $184.0 million for the year ended 30 June 2010 – an increase of $94.7 million (106%). Underlying profit after tax, an adjusted net profit after tax removing the effects of fair value movements and other one-off items was $251.9 million, an increase of $56.9 million (29%) over last year, a year in which hydrology transmission constraints and reduction in demand were not representative of normal operating conditions.

This result was in-line with the target for the year and a satisfying performance, although with scope for future improvement.

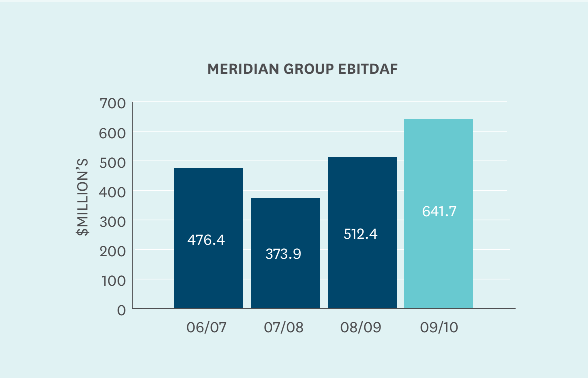


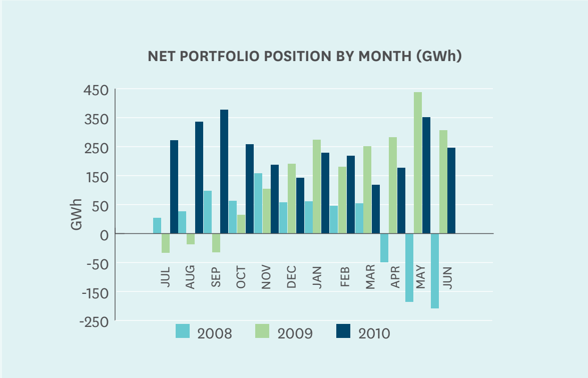


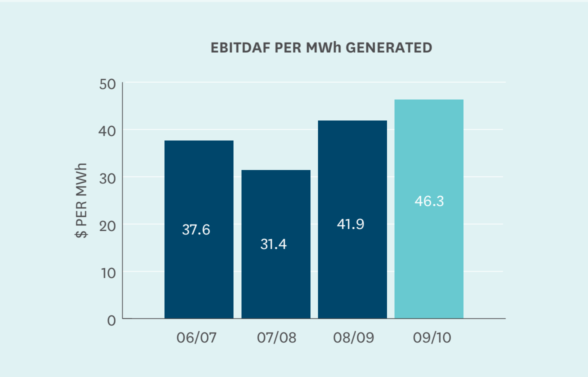
Performance Summary

Earnings before interest, tax, depreciation, amortisation and financial instruments (EBITDAF) improved by $129.3 million (25%) and our key productivity measure EBITDAF per MWh generated continued to improve, reaching $46.29 MWh. We continue to focus on growing this key measure. These improvements in financial results were driven by our better overall hydrology position, increased generation, and improved earnings from our retail business.

Our wholesale and retail businesses operate closely together to develop a net portfolio position (difference between volume generated and volume purchased to support electricity sales) that will optimise our potential earnings while maintaining an appropriate level of risk.







RATIO OF PURCHASE PRICE TO GENERATION PRICE

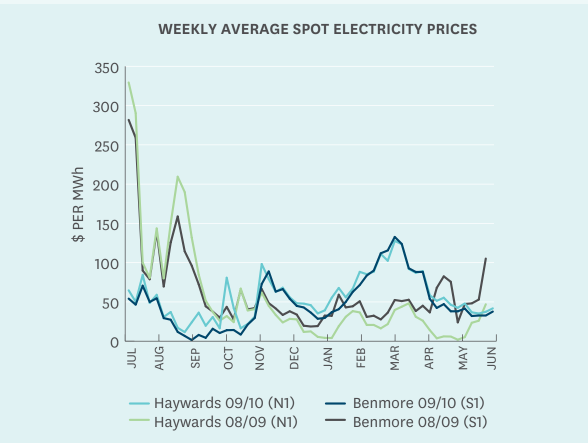
	09/10	08/09	VARIANCE
Quarter 1 – Sept '09	1.20	0.98	(0.22)
Quarter 2 – Dec '09	1.16	1.15	(0.01)
Quarter 3 – Mar '10	1.09	1.35	0.26
Quarter 4 – Jun '10	1.10	1.60	0.50
Annual Average	**1.13**	**1.25**	**0.12**

During the 2009 year there was an unusually high number of periods of price separation between the North and South Islands. This created a difference between our average generation price and average electricity purchase price, which was higher than normal. This year the differential between average generation and purchase prices reduced, improving our gross margin position.

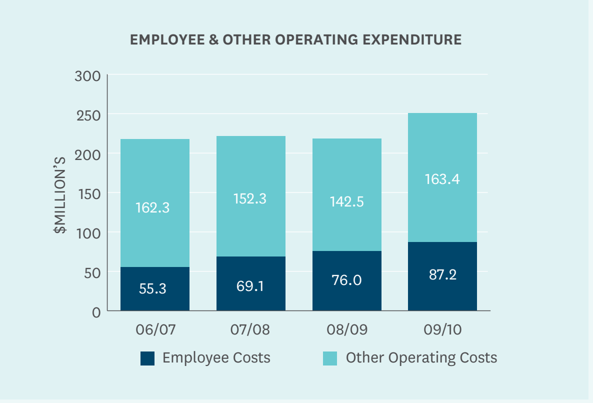
Electricity transmission, distribution and levies increased by $53.0 million, driven by two factors:

- as a consequence of price separation in 2009 we were the recipient of constraint rental rebates at a higher than usual level. These rebates have returned to a more normal level; and
- local distribution charges increased by 8% this year.

Electricity revenues rose by $167.7 million. A stronger water storage position permitted additional hydro generation. Additionally, the commissioning of West Wind has seen wind generation double. Our share of national generation grew by 1,625GWh, with average prices consistent with last year.



Retail sales volumes declined by 224GWh. However revenues continued to grow, despite price freezes, as we focus upon tuning our portfolio to better match our generation capabilities.



Employee and other operating expenditure has increased by $32.1 million (15%). Underlying expenditure has remained flat with the increase being driven by:

- restructuring costs, re-focusing retail operations and corporate functions – $8.6 million
- acquisition costs for Mt Millar and further development costs of Australian options including Macarthur and Mt Mercer wind developments – $7.0 million
- operating costs of the newly acquired Meridian Energy USA Inc. (formerly Cleantech America Inc.) and CalRENEW-1 – $2.1 million
- additional asset management costs following the commissioning of West Wind and the enhancement of other wind asset maintenance agreements – $6.7 million
- enhanced maintenance of our hydro generation structures, including remedial works at Gate 18 – $3.0 million
- costs to support the implementation of Ministerial Review findings and recommendations – $2.9 million.

During the year we completed our reorganisation following the "Fit for Purpose" review. This resulted in a reduced corporate centre headcount, retail cost reductions, a step change in our information technology outsourcing arrangements and other significant procurement initiatives. We expect the ongoing impact of these initiatives to reduce our underlying operating costs in the coming year.

Net change in the fair value of Electricity, Aluminium and Foreign Exchange Derivatives, have resulted from movements in electricity, aluminium and foreign exchange forward price curves.

Impairments of $18.3 million occurred during the year relating principally to two information technology projects. In both cases it became evident that the course of action chosen was not going to deliver the anticipated step change and benefits.

Income tax includes two deferred tax adjustments arising from this year's Budget. The first is the reduction of the corporate tax rate from 30% to 28%, lowering the deferred tax liability by $9.4 million. The second is the discontinued tax depreciation deduction available for buildings with a useful life greater than 50 years, increasing the deferred tax liability by $14.8 million.

Meridian assesses its performance in four operating segments: wholesale, retail, other and unallocated corporate overheads. The performance of the wholesale and retail segments are discussed in later sections of this report. The other segment includes our portfolio of venture subsidiaries along with Meridian's overseas generation subsidiaries. The EBITDAF of this segment was impacted by the costs associated with the acquisition of Mt Millar wind farm and Meridian Energy USA.

Balance Sheet

Meridian continues to maintain a strong balance sheet with total assets of $8,715.6 million and a gearing ratio of 22.4%.

A revaluation of generation structures and plant assets was undertaken this year by independent valuers. At 30 June 2010 PricewaterhouseCoopers (PwC) determined that asset values had increased by $1.2 billion.

Borrowings increased by $355.6 million, as Meridian continued to exercise generation development options in both New Zealand and offshore. This included the acquisition of the Mt Millar wind farm, from Transfield Services Infrastructure Fund, for A$191 million and the commencement of the construction of the Te Uku wind farm.

Meridian has committed bank facilities of $1,189 million, of which $686 million was undrawn at 30 June 2010. Additional funding has been made available through the successful continuation of our Renewable Energy Notes (REN's) ($134.6 million on issue at 30 June 2010) and issue of Renewable Energy Bonds (REB's) ($200.0 million). This makes us well-placed to undertake future investments and respond to hydrology risk.

Our current liabilities include $150 million of bank debt and $134 million of REN's. This represents debt due for renewal as part of our normal rolling programme.

We have maintained our BBB+ rating (outlook stable) from Standard and Poor's.

MERIDIAN GROUP FINANCIAL POSITION HIGHLIGHTS ($ MILLION'S)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Non-Current Assets	8,444.0	6,910.4	6,593.0	6,421.8
Current Assets	271.6	266.9	604.7	287.0
Total Assets	**8,715.6**	**7,177.3**	**7,197.7**	**6,708.8**
Non-Current Liabilities	3,087.9	2,536.4	2,247.5	2,085.6
Current Liabilities	557.0	356.8	745.6	221.4
Equity	5,070.7	4,284.1	4,204.6	4,401.8
Total Equity and Liabilities	**8,715.6**	**7,177.3**	**7,197.7**	**6,708.8**

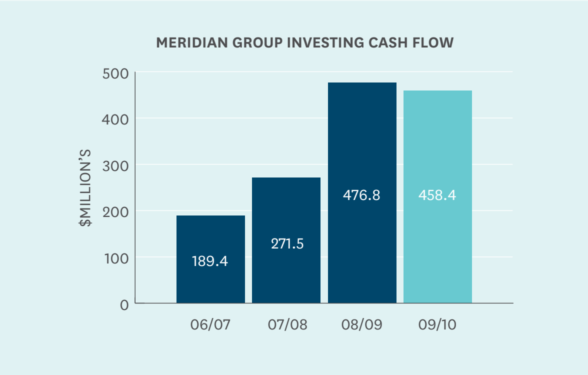
Cash Flow

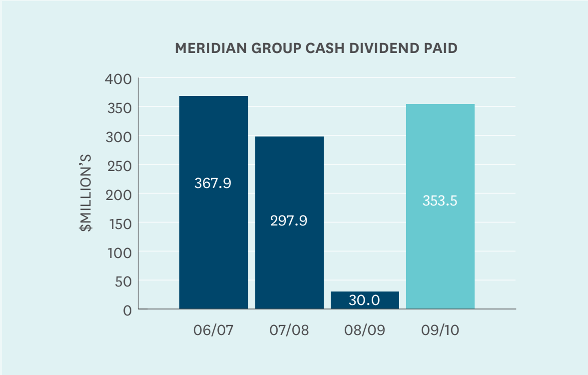
MERIDIAN GROUP SUMMARY CASH FLOW ($ MILLION'S)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Net Cash Flow from Operating Activities	451.8	313.5	342.6	354.4
Net Cash Flow from Investing Activities	(458.4)	(476.8)	(271.5)	(189.4)
Net Cash Flow from Financing Activities	13.1	139.4	(47.9)	(367.9)
Net Increase / (Decrease) in Cash Held	**6.5**	**(23.9)**	**23.2**	**(202.9)**

Cash flow from operating activities was positively impacted by improved earnings from our wholesale and retail businesses.

Investing activities included the completion of West Wind, commencement of construction at Te Uku, acquisition of Mt Millar and development of CalRENEW-1 in USA.

Dividends paid during the year were $353.5 million, namely a final dividend for the 2009 year of $263.9 million and an interim dividend for the 2010 year of $89.6 million. A final dividend of $68.5 million has been approved for distribution in respect of the year to 30 June 2010.





Financial Measures

MERIDIAN GROUP STATEMENT CORPORATE INTENT (SCI) FINANCIAL MEASURES	SCI ANNUAL TARGET	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Equity to Total Assets	54.2%	58.2%	59.7%	58.4%	65.6%
Return on Average Equity	5.6%	3.9%	2.1%	3.0%	5.6%
Underlying Return on Average Equity (excl. Revaluations)	20.1%	19.8%	15.6%	9.5%	14.6%
Net Debt / (Net Debt plus Equity)	27.4%	22.4%	20.9%	18.3%	14.0%
EBITDAF Interest Cover (# of times)	6.7	6.7	5.9	6.0	7.7
EBITDAF per MWh Generated ($ Per MWh)	$45.10	$46.29	$41.87	$31.40	$37.58
Free Funds from Operations (FFO) Interest Cover (# of times)	>5	5.7	5.4	5.0	5.9
FFO / Net Debt	NOT < 35%	29.9%	34.4%	26.8%	42.7%

Gearing was within target mainly driven by this year's strong cash flow performance despite our significant investment programme.

Return on average equity reflects our asset revaluation, which was not incorporated into our SCI target. Without this revaluation our return would have been 4.3%. In an industry where valuation is driven by an increasing future price path, effectively valuing the balance sheet on future higher earnings, this level of return is not unexpected.

Sustainably improving our earnings

One of the pillars of Meridian's strategy is to improve and sustain the productivity and profitability of our business. We aim to do this by optimising and co-ordinating our generation, wholesale and retail operations.

We have set ourselves some challenging targets in terms of managing operating costs, improving earnings per MWh, and optimising availability and reliability of our plant. The year has seen encouraging progress in this regard.

WHOLESALE SEGMENT SUMMARY ($ MILLION'S)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009
Electricity Revenue	1,024.1	889.8
Other Revenue	24.7	15.9
Wholesale Revenue	**1,048.8**	**905.7**
Wholesale Electricity Purchases	(264.5)	(286.3)
Electricity Transmission, Distribution and Levies	(98.3)	(74.4)
Other Wholesale Energy Costs	(10.5)	(4.2)
Employee Expenditure	(19.7)	(17.4)
Other Operating Expenditure	(53.0)	(34.4)
Wholesale Operating Expenditure	**(446.0)**	**(416.7)**
Wholesale EBITDAF	**602.8**	**489.0**
Wholesale EBITDAF per MWh Generated	**$43.49**	**$39.96**
Hydro Generation	12,857	11,721
Wind Generation	1,005	516
Total Generation (GWh)	**13,862**	**12,237**
Average Price per MWh Generated	**$48.33**	**$48.53**

Benmore Hydro Power Station visitor centre is enjoyed by thousands of tourists every year.

Te Āpiti wind farm near Palmerston North produced 325GWh for 2009/10, an increase of 16GWh from the previous year.

The machine hall at the Manapouri Power Station, New Zealand's largest hydro power station, which is located on the edge of Lake Manapouri's West Arm in the Fiordland National Park.

Wholesale

Availability of water in our hydro storage lakes is the single largest influence on Meridian's performance.

From early 2009 we experienced an extended period where hydro storage dropped below average just twice – and then only briefly. If anything we have had too much water, in stark contrast to a number of previous years where we have had to manage record low inflows.

Our major wholesale customer, Rio Tinto, returned to full load during 2009, after having to take a potline out of production due to a transformer outage at the Bluff aluminium smelter in November 2008. Operating on reduced load while it carried out repairs, it gradually increased its uptake as the repair work progressed, and returned to full load in September 2009.

Legal issues relating to this outage and the attendant negative impact on our wholesale financial result are currently in the process of arbitration. Costs associated with this are included in this year's other operating expenditure.

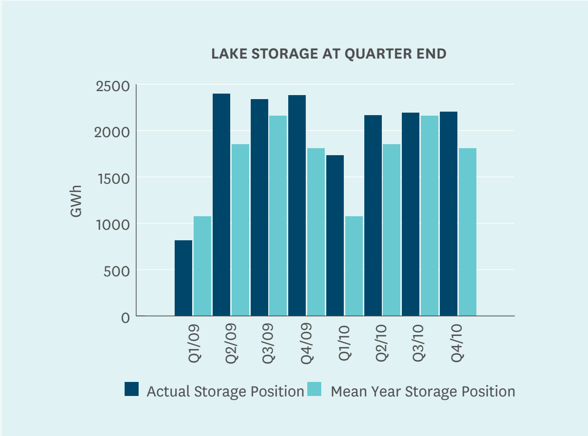
Wholesale EBITDAF has increased by $113.8 million (23%) over the last year. Better hydrology, the addition of West Wind and close management of our market share position combined to give us 1,625GWh of generation above last year. This resulted in an increase in electricity revenue of $134.3 million.

In recording this result we have delivered on our commitment to improve performance in this cornerstone of Meridian's business. This reflects our increasingly integrated way of doing business.

Transmission and levy expenditure increased by $23.9 million (32%), largely due to the reduction in constraint rental rebates we received. During last year these rebates reflected periods of significant price separation between the North and South Islands creating higher than normal levels of rebate. Underlying transmission expenditure was consistent with last year.

Increases in both other revenue and other wholesale energy costs include Energy for Industry completing a renewable bio solids drying plant for Christchurch City Council.

Employee and other operating expenditure increased by $20.9 million. A change in headcount mix and better performance resulting in a higher incentive scheme amount has increased employee expenditure. During the year additional wind maintenance expenditure has been added to support the newly commissioned West Wind and enhancement of other wind asset maintenance contracts. The maintenance of hydro assets includes expenditure associated with canal repair work at Gate 18.



AVERAGE WHOLESALE ELECTRICITY SALES PRICE (RECEIVED)	09/10 $/MWh	08/09 $/MWh	VARIANCE $/MWh
Quarter 1 – Sept '09	26.80	132.00	(105.21)
Quarter 2 – Dec '09	41.66	33.95	7.71
Quarter 3 – Mar '10	74.52	22.38	52.14
Quarter 4 – Jun '10	50.35	22.97	27.38
Annual	**48.33**	**48.53**	**(0.20)**

This year has been notable for some very large over-the-counter hedge trades with our counterparts in the industry. An example of this is an arrangement with Genesis under which we have access to a unit at the Huntly power station to help us manage our winter risk.

This is an indication of a growing maturity in the electricity market, with participants recognising that we can all benefit by helping each other manage risks. Another sign of the evolving market has been the efforts by the Government and the industry to establish a more liquid wholesale hedge market. We recognise that achieving this goal will take some time, but we are committed to playing our part in establishing a deeper market.

As we look ahead it is imperative we manage our changing risk position resulting from the outcomes of the Ministerial Review. We are working to rebalance our customer portfolio so that our retail load closely matches our generation, reflecting both the new shape of the company and the new market environment.


To help ensure that Benmore Hydro Dam continues to operate reliably and more efficiently for the next 40 years a five-year upgrade has been underway since January 2006.


The success of the Gate 18 Repair Project was not down to good luck – it was good people from right across our business and all the contractors involved.


West Wind near Wellington commissioned in October 2009.

Generation

We have continued a programme of upgrades at our power stations to ensure we get the best out of our assets. The centrepiece during the year has been the refurbishment of the generating turbines at the Benmore power station.

The $67 million, five-year upgrade project began in January 2006 and achieved an important milestone in April 2010 with the return to service of the fourth of the station's six generators. This will improve water efficiency by at least 3%.

The project is on track to complete all six units ahead of schedule and under budget by January 2011 and will help ensure that Benmore continues to operate reliably and more efficiently for the next 40 years.

Another notable achievement in November was the canal repair work carried out by 130 staff and contractors under extremely tight timeframes at the location known as Gate 18, where water from Lake Pukaki enters the Pukaki hydro canal before flowing further down the Waitaki chain. It was completed to a high standard within a week – inside the narrow window provided by a scheduled outage of the HVDC – with minimal revenue impact on the business.

A transformer outage at Manapouri impacted both hydro availability and the forced outage factor. However the number of occurrences of forced outages fell this year.

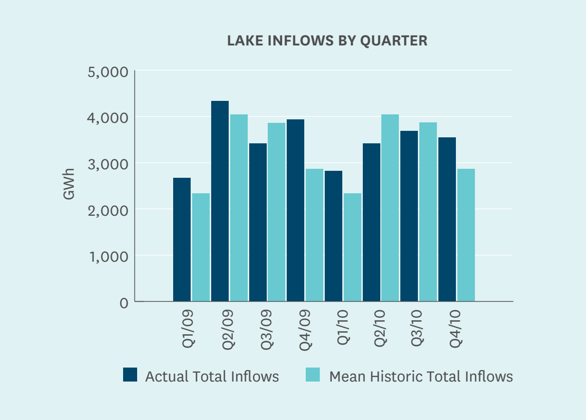
In a year when storage has been so high there have been occasions where inflow events have had to be accommodated by spill – a scenario we generally seek to avoid but which Civil Defence imperatives sometimes make inevitable.

In one such incident in May the extra capacity now available at Manapouri was put to good use in helping local Civil Defence deal with a looming flood threat during heavy rainfall.

As part of our drive for improvement we had commenced an upgrade of our generation control system. However as we progressed through the exercise we came to the view that our original course of action was not going to deliver the kind of step change improvements we have been seeking and that its full cost was disproportionate to the project benefits.

We have now conducted some remedial work on the current system which is considerably more robust as a result, and which has provided an opportunity to take more time in considering the best way forward. As a result, project costs to date of $8.1 million were written off during 2009/10.

PLANT PERFORMANCE	ANNUAL SCI TARGET	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009
Plant Availability – Hydro (SCI)	92.7%	91.3%	92.6%
Plant Forced Outage Factor – Hydro (SCI)	0.34%	1.47 %	0.43 %
Plant Availability – Wind	95.7%	96.0%	95.6%



			GENERATION GWh			
	YEAR END GENERATORS	YEAR END CAPACITY (MW)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Tekapo A	1	25	152	124	124	146
Tekapo B	2	160	817	833	743	838
Ohau A	4	264	1,134	983	1,047	1,084
Ohau B	4	212	948	834	872	909
Ohau C	4	212	940	828	862	902
Benmore	6	540	2,284	2,035	1,977	2,143
Aviemore	4	220	948	890	833	908
Waitaki	6	90	500	483	434	470
Manapouri	7	730	5,134	4,711	4,538	4,954
Total Hydo Generation	**38**	**2,453**	**12,857**	**11,721**	**11,430**	**12,354**
Te Āpiti – Palmerston North	55	90	325	309	323	323
White Hill – Southland	29	58	183	169	155	2
West Wind – Wellington	62	143	497	38	-	-
Total Wind Generation	**146**	**291**	**1,005**	**516**	**478**	**325**
Meridian Total Generation	**184**	**2,744**	**13,862**	**12,237**	**11,908**	**12,679**

Growing Generation

Meridian is committed to the delivery of a strong portfolio of renewable energy. We have renewable energy projects in various stages of completion: newly-commissioned, under construction, consented but not yet started, and those in the consenting process. Further projects are in the early stages of investigation.

Taken together, we believe these projects have the capacity to meet a significant proportion of this country's electricity demand growth for the next 15 to 20 years and to provide a platform for growth outside New Zealand.

Four milestones stand out during the year: the commissioning of the 143MW West Wind project in Wellington; the acquisition of the Mt Millar wind farm in South Australia; the commissioning of our first solar plant in California; and the successful construction of the Ross Island wind farm in Antarctica. These projects add total new capacity of 219MW.

New Zealand generation growth

Alongside a tranche of geothermal opportunities under investigation and development in the central North Island, wind and hydro developments represent the best-value suite of generation options likely to be available to the country in the short to medium future.

Looking ahead we see continuing upward pressure on prices, driven by the increasing long-term marginal cost of new generation and the global pressure on fossil fuel supplies and prices.

Fossil fuels will continue to have a role in New Zealand's energy supply for the foreseeable future and we expect to see continuing exploration and development in gas. Our renewables strategy assumes a continuing presence of gas in the national fuel mix as we move towards the Government's target of 90% renewable generation by 2025.

As important as fuel is, transmission is also key to the country's energy future, enabling the efficient connection of generation sources to the customer and allowing New Zealand to develop its most economic generation options.

We are encouraged by the investment we are seeing in transmission, particularly in relation to the South Island. The construction and commissioning of Pole 3 of the HVDC link is an important step, but it needs to be followed by further investment to remove constraints that limit the capacity of that link.

In the regulatory field we remain concerned about transmission pricing. The current regime acts as a disincentive to investing as much as we would like to in improving our South Island assets or building new ones.

We have made considerable progress in advancing our renewable growth strategy in New Zealand during the year.

West Wind was commissioned in October 2009, ahead of schedule. The performance of the wind farm to date has justified the effort that was required to realise the dream of generating electricity from Wellington's infamous wind. West Wind consistently registers a capacity factor of close to 50% – against a world average of 23% – with some turbines getting as high as 58%. While there are no official world records for wind farm capacity factors, the only other wind farm known to have approached similar figures is a five-turbine installation in the Shetland Islands.

In September 2009, during a major fire at the Haywards sub-station, West Wind made an important contribution to keeping the lights on in Wellington in a graphic demonstration of its importance to security of supply in the capital and in the lower North Island. The wind farm is expected to play an important role in dry year management by relieving southbound constraints on the transmission system between Wellington and Palmerston North.

Pleasing progress has been made with several other renewable energy developments in New Zealand during the year.

Te Uku wind farm near Raglan is well into construction with the roading completed and a third of the foundations poured. The wind farm will generate 64MW, enough power to provide the average annual electricity needs of around 30,000 homes.

We have a consent for the proposed 120MW Central Wind project near Waiouru and have been granted resource consent for the Mokihinui hydro proposal on the West Coast. This was always going to be a controversial project and, as expected, we are now into an appeal process.

Good progress has also been recorded with the North Bank Tunnel hydro proposal on the Lower Waitaki, securing water use consent before commencing the investment in engineering and geotechnical work that will be necessary to progress to applications for land use consent.

In March we announced plans for a 78MW wind farm between Omihi and Greta Valley in North Canterbury and are preparing to lodge consent applications for the development, which we are calling Project Hurunui.

Consent for the Manapouri Tailrace Amended Discharge (MTAD) proposal was granted in July 2010 and this will allow us to realise the full potential of the Manapouri hydro station, increasing our average generation output by 89GWh. This is a great result that reflects a constructive working relationship with local stakeholders.

Our successes must not be allowed to obscure the fact that consenting and building major renewable energy projects is no simple matter. This was emphasised by the Environment Court decision in November 2009 to reverse the consents granted for our proposed 630MW wind farm in the Lammermoor Ranges, Project Hayes. Our appeal was upheld and the High Court referred the case back to the Environment Court with specific directions, putting this back to where we were one year ago.

Australia generation growth

This year our Australian growth strategy has taken tangible form with the acquisition of the Mt Millar wind farm in South Australia from Transfield Services Infrastructure for A$191m. This 70MW facility was the largest, newest and highest-quality asset in the Transfield portfolio and is a proven performer with one of the better wind regimes in Australia. The wind farm has a power purchase agreement in place to the end of 2012.

The purchase is consistent with Meridian's plans in Australia to grow long-term shareholder value by investing in renewable energy assets and to leverage our existing skills in wind technology. The recent stabilisation of the Renewable Energy Credits regime has served to confirm the basis of our confidence in our Australian strategy.

Elsewhere in Australia we have announced our joint venture with Australia's largest renewable generator AGL to develop the 420MW Macarthur wind farm in Victoria, supplying power to AGL under a long-term off-take agreement. The project will cost approximately A$1 billion, which will be funded through around A$150 million of equity from each party, with the remaining financing to be through non-recourse project debt.

We are developing other wind farm options in Australia to add to our ability to service future renewable energy credit needs.

Solar generation growth

Renewable energy technology is evolving rapidly and for the last three years we have been paying particularly close attention to developments in solar development technology. This has led to a decision in August 2009 to acquire a small solar development company in the US, Cleantech America, now known as Meridian Energy USA Inc.

We have achieved an early success in this venture with the construction of a 5MW utility-scale grid-connected solar plant, CalRENEW-1 in California – the first such development in America's most populous state.

The US market, with its significant and stable incentive regime, provides an opportunity to develop our capabilities in solar technology. We see future solar opportunities in Australia and the Pacific as well as elsewhere in the US and we will be well-placed to bring the technology to New Zealand shores when the time is right to do so.

Other renewable developments

While the three-turbine Ross Island wind farm is small in scale, its completion in January 2010 attracted world-wide attention. The project provided some unique challenges in the harshest possible environment. The facility is now providing clean, renewable power to New Zealand's Scott Base and the US installation at McMurdo, displacing some 460,000 litres of diesel fuel annually.

First soil turning at Te Uku wind farm, near Raglan.

Mt Millar wind farm, Victoria, is an important step towards achieving scale and strengthens our evolving position in the Australasian renewables energy market. Our experience in developing and operating wind assets in New Zealand enables us to transfer our skills and expertise to contribute to the growth of this sector in Australia.

CalRENEW-1 is the largest grid-connected solar farm in California, consisting of over 50,000 solar panels spanning an area of 50 acres.

Ross Island wind farm, Antarctica, is now providing clean, renewable power displacing nearly half a million litres in diesel fuel which would otherwise have to be used to provide electricity to Scott Base and the nearby US base at McMurdo.

NEW ZEALAND GENERATION DEVELOPMENT OPTIONS

NAME	LOCATION	TURBINES/ PROJECT TYPE	SIZE	STAGE	TIMING	COST
CENTRAL WIND	WAIOURU	52	120MW, ~420GWh (C.F.39%)	CONSENT GRANTED	2011-2013	$340-$370M
HAYES	LAMMERMOOR RANGE, OTAGO	176	UP TO 630MW, 2200GWh, (C.F.39%)	ENVIRONMENT COURT – HIGH COURT	2011-2015	$1,700-$2,000M
HUNTER DOWNS IRRIGATION	NORTH OF LOWER WAITAKI RIVER, SOUTH CANTERBURY	-	UP TO 40,000 HA IRRIGATED (5 STAGES) 65% OF IRRIGABLE AREA	WATER RIGHTS CONSENT GRANTED – APPEALED TO ENVIRONMENT COURT	2014-2016	$190-$230M
HURUNUI	NORTH CANTERBURY	34	78MW, ~270GWh (C.F.40%)	CONSULTATION	2013-2014	$250-$300M
MILL CREEK	OHARIU VALLEY, NORTH OF WELLINGTON	29	67MW, ~265GWh (C.F.43%)	CONSENT GRANTED – APPEALED TO ENVIRONMENT COURT	2012-2013	$210-$250M
MOKIHINUI	MOKIHINUI RIVER, NEAR SEDDONVILLE	-	85MW, ~310GWh (C.F.45%)	CONSENT GRANTED – APPEALED TO ENVIRONMENT COURT	2012-2015	$250-$300M
NORTH BANK TUNNEL	LOWER WAITAKI RIVER, SOUTH CANTERBURY	-	220-280MW, 1050-1400GWh (C.F.60%)	LAND USE CONSENT PREPARATION	2013-2019	$1,300-$1,500M
TE UKU	WHARAUROA PLATEAU, 30KM WEST OF HAMILTON	28	64MW, ~240GWh (C.F.43%)	CONSTRUCTION	2009-2011	$200-$230M

C.F. = CAPACITY FACTOR

One of the 62 turbines being assembled at West Wind.

Ross Island wind farm, Antarctica, under construction.

Te Uku wind farm's 28 turbine foundations are set to be poured by the end of September 2010.

Retail Performance

Lifting our customer game

Meridian's emphasis this year has been on improving our basic retail delivery. There is a continuing focus on:

- improving customer service and satisfaction
- managing South Island risk
- growing our North Island customer base
- reducing cost-to-serve
- improving margins
- getting the basics right.

RETAIL SEGMENT SUMMARY ($ MILLION'S)	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009
Electricity Revenue	971.9	964.3
Other Revenue	7.8	5.2
Retail Revenue	**979.7**	**969.5**
Electricity Purchases	(453.7)	(495.0)
Electricity Transmission, Distribution and Levies	(321.9)	(298.4)
Employee Expenditure	(22.2)	(19.7)
Other Operating Expenditure	(40.0)	(42.1)
Retail Operating Expenditure	**(837.8)**	**(855.2)**
Retail EBITDAF	**141.9**	**114.3**
EBITDAF per MWh Electricity Sales ($ per MWh)	**$18.52**	**$14.50**
Fixed Price Electricity Sales (GWh)	5,823	6,034
Spot Electricity Sales (GWh)	1,835	1,848
Total Electricity Sales (GWh)	**7,658**	**7,882**
Average Retail Electricity Purchase Price ($ per MWh)	**$58.05**	**$62.13**

The Retail segment EBITDAF improved by $27.6 million (24%) in 2009/10. Electricity revenue improved despite a decline in electricity sales volumes and a residential price freeze. This reflects a significant reduction in revenue leakage, changes in customer mix and close coordination between our wholesale and retail positions.

Average electricity purchase prices of $58.05 per MWh, a reduction of 7% from last year, combined with lower volumes to support customer sales resulted in electricity purchase expenditure falling by $41.3 million (8%).

Local distribution charges increased during the year, increasing electricity, transmission, distribution and levies by 8%. These increases have been absorbed where they relate to our residential customer base.

Employee and other operating expenditure increased marginally over last year. After excluding reorganisation costs, this actually decreased. This was a good performance reflecting the steps taken to reduce costs, especially in providing metering services, despite heightened competition and increasing costs associated with attracting and retaining customers.

The year has seen good progress in some areas but we have experienced challenges in others which have required us to re-evaluate earlier decisions.

The prime example was Project BaseCamp which was aimed at implementing a completely new Customer Care and Billing system to dramatically improve our service offering.

By late last year it became apparent that the system we had opted for was not going to deliver the benefits we were seeking. The only prudent and responsible course of action was to put the project on hold and re-assess our priorities.

We have now opted for an upgrade of the existing Gentrack system which is right for the current and planned scale of the business, and which we are confident will deliver significant benefits in terms of improved billing accuracy and operating stability, as well as a better customer experience. Consequently we have written off project expenditure of $9.1 million.

AVERAGE ELECTRICITY PURCHASE PRICE	09/10 $/MWh	08/09 $/MWh	VARIANCE $/MWh
Quarter 1 – Sept '09	35.31	122.84	(87.53)
Quarter 2 – Dec '09	52.25	41.84	10.41
Quarter 3 – Mar '10	84.14	34.16	49.98
Quarter 4 – Jun '10	57.85	44.24	13.61
Annual	**58.05**	**62.13**	**(4.08)**

Retail Performance

An important lesson we have learned from the experience of previous years is that to get the basics right, we have to reduce the number of projects we have underway at any one time and focus our efforts on the vital few. As a result there is a greater emphasis on prioritising and achieving more with less.

During the year there has been considerable commentary on what are popularly described as "smart meters"; a great deal of it inaccurate and misinformed.

We remain strongly committed to the advanced metering solution we have rolled out to our major customer base through our metering services business, Arc Innovations, and its ability to deliver greater choice and value to consumers. In doing so we have streamlined operations and reduced costs. Arc Innovations is well-placed to offer advanced metering solutions to the wider industry.

Allied to advanced metering is the development of digital and on-line services which will enable us to interact in a more flexible, personalised way with our customers.

Since bringing our call centre in-house last year we have worked hard on our performance in this crucial area of direct interface with our customers and our performance has improved steadily during the year. All of our key metrics in areas, such as answering times and abandoned calls, are now at our target levels and showing an encouraging trend of continuing improvement.

We have empowered customer-facing staff to take a less prescriptive approach to dealing with customer queries, giving them greater autonomy to arrive at the appropriate resolution of issues. As a result we are achieving pleasing results in first-time engagement.

Our greater emphasis on customer-facing functions reflects the focus of a significant organisational change which has taken place across the retail team over the year. This has seen greater weight placed on functions that interact directly with customers as we seek to better understand their requirements and respond appropriately to them.

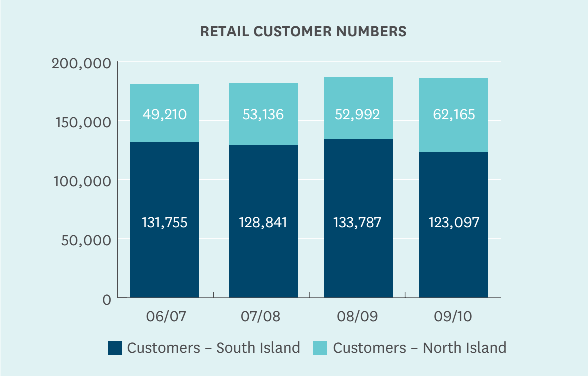
The combination of these initiatives, in conjunction with our renewables branding, gives Meridian a strong foundation from which to launch a compelling proposition to customers and to grow our market share.

However, in doing so we must take account of the changing shape of the market which is already becoming apparent as a result of the recommendations flowing from the Ministerial Review of the Electricity Industry.

One of the key implications of those recommendations for Meridian is the loss of a portion of its South Island generation capacity with the forthcoming sale of the Tekapo A and B power stations to Genesis, as well as virtual asset swaps (electricity hedge arrangements) with Genesis and Mighty River Power.

This has further heightened the upsurge in competitor activity we were observing prior to the Ministerial Review. We expect competition to remain fierce and that new entrants, including lines companies, will make their presence known in the near future.

While our South Island roots will always be important to us, the North Island is becoming an increasingly attractive place for us to do business in light of the Ministerial Review. This is especially taking into account our growing generation capacity with developments such as the Te Āpiti and West Wind wind farms and the Te Uku wind farm currently under construction in the Waikato region.



One of the successes of the year has been the pleasing growth of customers in the North Island. We are targeting further growth next year.

A considerable portion of our South Island sales effort has been targeted at the rural market and we have achieved a pleasing uplift in our share of that market, with its growing irrigation and dairying load.

Successfully rebalancing our customer profile in terms of geographical and sector spread will be crucial to the success of our retail business in the coming years and will be a continuing focus for the foreseeable future. Lack of liquidity in the wholesale market and transmission constraints add to the urgency of this task and the need to "get the balance right".

To maintain and improve our customer satisfaction ratings during a process like this is going to be a challenge. However we remain committed to setting ever-higher standards of service and offering a wider range and sophistication of products to the market.

CUSTOMER SATISFACTION	ANNUAL SCI TARGET	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009
Business	58%	53%	51%
Rural	52%	50%	50%
Residential	55%	51%	54%
Perceived Leadership in Sustainable Electricity Supply	50%	51%	51%
(Rating of "very good" or "excellent")			

Our performance on customer satisfaction this year has not met expectations, despite our price freeze and continuing service improvement. Industry-wide satisfaction statistics have suffered in-line with our own, suggesting that other economic factors and general sentiment towards the industry may have played a significant role. This only emphasises the challenges we face in improving our position.

The residential price freeze we have had in place since October 2009 comes to an end in October 2010. The rising cost of bringing new sources of generation on stream, combined with increasing distribution network charges, will mean higher prices for our customers.

We know this is never welcome news and will add to the pressures in many already hard-pressed households. We are committed to continuing our partnership with community organisations in order to deliver assistance to those most in need in our biggest customer base.

For all of our customers, there will be a greater emphasis on service and delivery – we want to become recognised as being great to do business with.

Investing wisely in innovation

We have been particularly pleased at the growing profile and customer base of our on-line retail subsidiary Powershop; delivering on its stated objective of bringing innovation and choice to retail customers.

Powershop has been working closely with Arc Innovations to offer some highly interactive products to its customers.

During the year Powershop has carved out its own special place in the retail electricity sector and is gaining a strong following, increasing its customer base by 14,211 to 16,440 customers. It has regularly topped surveys of consumer satisfaction with power retailers, achieving a 92% satisfaction score from the Consumer Institute. This is reflected in the numbers of customers signing up in an increasingly competitive and fluid market.

We have continued to develop our subsidiary businesses which range in scope from those that are closely aligned with our own core capabilities – such as Damwatch that was key to the successful repair of Gate 18 – or the future of the industry – such as Powershop – to others that take us into newer technology territories.

We are applying strong commercial disciplines to the decisions we make in the way we operate and develop these businesses, always with a view to maximising long-term shareholder value.

Energy For Industry (EFI), while active in an area where non-renewable fuels have a strong presence, continues to pursue valuable industrial projects that result in positive environmental outcomes and lower greenhouse gas intensities (GHG). During the year EFI completed a renewable bio solids drying plant for Christchurch City Council and established a wood energy business. EFI has also developed innovative demand side management options in the industrial market that enable better management of market reserves and dovetails well within our wholesale business.

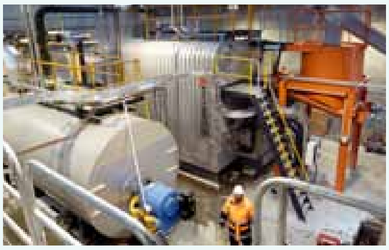
In order to increase focus EFI has been established as a subsidiary from 1 July 2010.

Our energy-efficiency subsidiary, Right House, has become an approved Energywise service provider for the Government-funded "Warm Up New Zealand: Heat Smart" programme. This programme was launched on 1 July 2009 and aims to retrofit more than 188,500 New Zealand homes over the next four years. Right House is still suffering the effects of the downturn in the building market which is showing only slow signs of recovery.

The joint venture between Meridian's Whisper Tech subsidiary and Spanish industrial group, Mondragon, known as Efficient Home Energy (EHE), has now moved to commercial production of the Whispergen combined heating and power units.

This is a major milestone for Whisper Tech, and, although early production always involves teething problems, production is now steadily ramping up. This comes amid strong signs of a firm market for the units with EHE's distributors signalling a requirement for considerably greater levels of supply as soon as higher production levels can be achieved.

Powershop has achieved a 92% customer satisfaction score from the Consumer Institute.



EFI completed a renewable bio solids drying plant for Christchurch City Council.

Whisper Tech entered a joint venture, Efficient Home Energy (EHE) for European markets, with Mondragon, a Spanish manufacturer. Production at EHE started in December 2009.

Demonstrating leadership

Meridian's staff understand they all have a role to play in shaping the organisation.

This has been of particular importance in a year that has seen the start of a realignment of our culture following the reorganisation of the company.

Key to the evolution of our culture is our focus on three areas – leadership, performance management and our core values.

Our individual objectives focus strongly on leadership competencies and we are providing the support to develop our leaders.

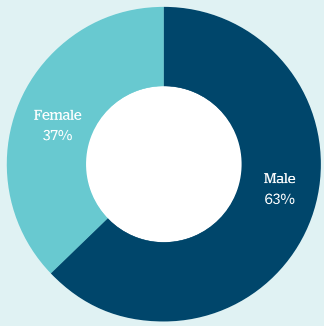
We have introduced much greater rigour to objective-setting and measurement with clear alignment to our strategy and business plan. Everybody in the company is involved in the process, and the greater visibility and transparency is providing clarity for all staff as to how their individual contribution impacts upon the achievement of company goals.

The role of our core values expressed in The Meridian Way has been reinforced. Meridian Way behaviours and values are specifically taken into account as an integral part of individual performance assessment.

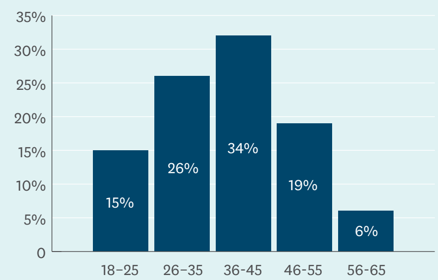
Our reorganisation, along with these three focus areas, is showing up in much higher coordination and integration of our business and a stronger focus on delivering sustainable value. It is great to see this progress accompanied by an improvement in our staff engagement survey results, increasing by 6%.

MERIDIAN EMPLOYEES	YEAR TO 30 JUNE 2010		YEAR TO 30 JUNE 2009	
	GROUP	PARENT	GROUP	PARENT
Permanent	701	510	681	501
Fixed Term	103	64	125	99
Total Employees	**804**	**574**	**806**	**600**

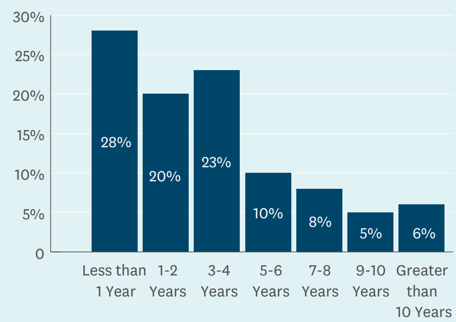
GENDER SPLIT MERIDIAN GROUP EMPLOYEES (%)



AGE OF MERIDIAN GROUP EMPLOYEES



LENGTH OF SERVICE OF MERIDIAN GROUP EMPLOYEES



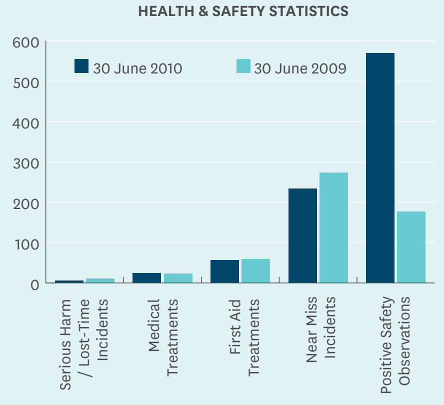
Health, safety and wellness

Meridian will only ever feel satisfied when it is able to report a year with zero workplace injuries.

Sadly that is not the case for the 2009/10 year, although we are encouraged that we have recorded five lost-time injuries during the period compared with 11 for the previous year.

This improvement is a reflection of the renewed emphasis we have placed on the well-being of our staff and contractors, and initiatives and procedures we have put in place to make our workplace healthier and safer.

We have experienced a significant upturn in reporting and in positive safety observations which is a demonstration of the increased profile of health, safety and wellness across the company. This upturn in awareness mirrors a decrease in the number of workplace injuries.



	YEAR TO 30 JUNE 2010	YEAR TO 30 JUNE 2009
Fatal	-	-
Serious Harm / Lost-Time Incidents	5	11
Medical Treatments	24	23
First Aid Treatments	56	59
Near Miss Incidents	233	273
Positive Safety Observations	569	177
Note: Totals include contractors engaged by Meridian		
Lost-Time Frequency Rates *(Meridian employee incidents per million hours worked)*	2.50	3.13

Meridian will only ever feel satisfied when it's able to report a year with zero workplace injuries.

Our staff engagement survey results increased by 6%.

Our aim is to ensure we have the right people, equipment, knowledge and information to do the job safely. If we can't do the job safely – stop immediately.

Being a good neighbour

We want to foster and maintain good relationships and to be a valued, contributing member of the communities we are part of.

Meridian is keenly aware of the impact of its presence in the communities where our generation assets are located. In some places we are a new neighbour; in others we are well-established with a long history.

It is fair to say in recent years our entry into some communities has not always been welcomed and we acknowledge in those instances that we have considerable work to do to prove ourselves.

We know, for example, that a large portion of the Makara community near Wellington has not been happy with the construction and commissioning of West Wind. This has been thrown into sharp focus over the issue of perceived noise levels from some of the turbines.

We have conducted exhaustive monitoring and measurement at residential sites around the community in an effort to understand and quantify the issues and to find solutions. In partnership with the turbine supplier, we have identified a solution to deal with tonal noise from the turbines closest to houses in the area and we have seen a marked decrease in complaints.

There are strict conditions in place under the resource consent for West Wind on noise levels and in late May we received confirmation from the Wellington City Council that the wind farm is compliant with those conditions. While that is cause for satisfaction, and a demonstration that we do meet the standards that we say we will, we are determined to go beyond compliance, and to work hard to find solutions in those individual cases where noise continues to be perceived as an issue.

As a contributing member of the community, we have instituted a community fund in Makara similar to those that have been in place for some years in Waitaki, Manapouri and Te Anau, White Hill and Te Āpiti.

We are heartened by the positive response of local communities in relation to the Mokihinui hydro proposal on the West Coast. Two district councils and their mayors, local iwi and other stakeholders have welcomed the granting of resource consents. Further afield there is, as expected, opposition to this proposal, which is now in an Environment Court appeals process.

We are keen to move towards true partnerships with our stakeholders and to work together for the benefit of everyone. In the case of iwi especially, we are looking to strengthen partnerships that recognise the long-term and significant role of iwi in areas such as water management.

Local school gets up close to our wind turbines.

Brian Sinclair – Meridian Maintenance Improvement Manager with Joanne Mcauther – Supporting Southland Families. They received a grant from the Meridian Manapouri Te Anau Community Fund to buy a collection of 26 books which have been donated to the Te Anau Public Library.

Graham McLean, Terry Welsh and Daniel Leopold, members of the Omarama Volunteer Fire Brigade. Also on display is the Brigade's Medical Co-response Unit, another community funded initiative.

Peter Mason, Meridian's White Hill Site Manager, hands over the new vehicle to Trust Coordinator Lynley Soper.

Sustainability

As a renewable energy company, natural resources underpin our financial success. We consider it our responsibility to use those resources wisely to ensure we achieve low impacts on the environment throughout our business.

Water reform has been a key strategic issue for us this year. Water and water infrastructure lies at the very heart of our business and we have been engaged at all levels in the dialogue on water reform which has emerged. We are an active participant in the National Land and Water Forum helping to identify the options for water reform. We are uniquely placed, given our history and experience, to help develop electricity and water infrastructure solutions.

We manage our operational footprint with annual emissions management plans. Since mid-2006, we have had external certification of this by Landcare Research through carboNZero[CertTM] certification of our electricity products. This involved measuring our emissions, reducing them, and then offsetting emissions that were unavoidable, and was seen as a way of differentiating ourselves from our competitors.

In practice this certification of electricity has proven difficult for Meridian to leverage. In 2008, a complaint was lodged with the Commerce Commission regarding our carboNZero certification. The outcome of the investigation in July 2009 was a warning, but no prosecution or fine, for our advertising of the product. This left us unclear as to the value of carboNZero to Meridian and to our customers. In discussions with our customers we have found that it is our overall commitment to sustainability and renewable generation that is important to them, rather than the offsetting of unavoidable emissions.

External certification is still important to us. We have therefore decided to move from carboNZero certification of our electricity product to CEMARS® certification of Meridian Energy Ltd, effective 1 July 2010. CEMARS stands for Certified Emissions Management And Reduction Scheme and is administered by Landcare Research. CEMARS will allow us to continue to focus on measuring, managing and reducing our emissions and to use our experience to help our customers with their own carbon footprints.

Total group emissions have increased by 11% from last year, however they have decreased by 24% from the base year of 2007/08.

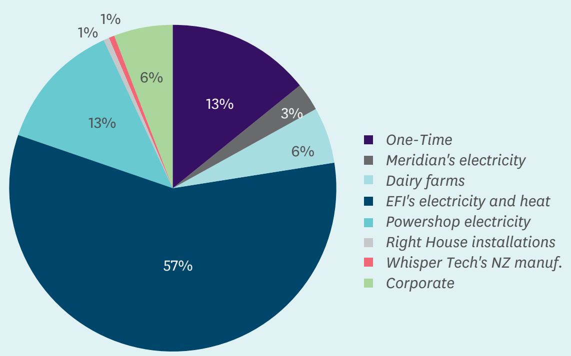
A core driver of this result is the expansion of activity at Powershop, where customer growth and the requirement to purchase wholesale electricity without direct generation capacity give rise to emissions by this subsidiary (despite being offset at a group level with Meridian renewable generation).

Corporate emissions have reduced (electricity, business travel, waste and HFC's) and we continue to look to reduce these further with a focus upon business travel.

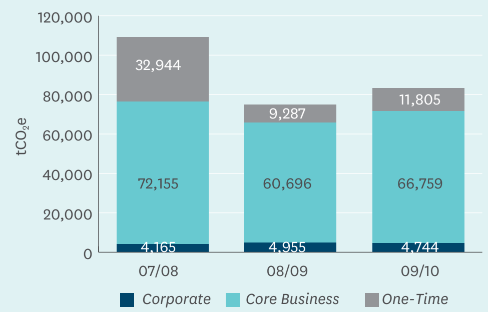
The majority of one-time emissions for this year were from the construction of the Te Uku wind farm.

A detailed summary of our inventory is included later in this report.

GROUP EMISSIONS BY BUSINESS ACTIVITY (%)



TOTAL MERIDIAN GROUP EMISSIONS



CONSISTENT WITH THE SOE ACT 1986, MERIDIAN'S PRINCIPAL OBJECTIVE IS TO OPERATE AS A SUCCESSFUL COMPANY

Meridian is a limited liability company and a State-Owned Enterprise under the State-Owned Enterprise Act 1986.

As an SOE, all of Meridian's shares are owned by the Crown; which are held in equal proportions by the Minister of Finance and the responsible Minister as appointed by the Prime Minister from time-to-time, currently the Minister of State-Owned Enterprises.

Consistent with the SOE Act, Meridian's principal objective is to operate as a successful company which is:

- as profitable and efficient as a comparable business not owned by the Crown
- a good employer
- an organisation that exhibits a sense of social responsibility, having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

The principal objective underpins the activities of the Company.

Meridian's Board has a responsibility to protect and enhance the value of the Group in the interests both of the Group and of the Crown as shareholder. It is the overall and final body for all decision-making within the Company.

The Board operates under the Crown Ownership Monitoring Unit Owners (COMU) Expectation Manual, which sets out the Minister's expectations of the Board, including the reporting and accountability expectations and financial governance expectations.

Each year the Meridian Board provides the shareholding Ministers with the draft Statement of Corporate Intent (SCI) and the Company's business plan. In accordance with the SOE Act, the SCI includes objectives of the Group, the nature and scope of activities and the key financial and non-financial performance targets and measures for the Company. The latest Meridian SCI is available on the Meridian and COMU websites.

Board of Directors

Role and responsibility of the Board

The Board is appointed to protect and enhance the value of the assets of Meridian in the interests of Meridian and its shareholders. The Companies Act 1993 and the Company Constitution govern the Board's role and responsibilities.

Appointment, remuneration and composition of Meridian's Board

The Board is appointed by shareholding Ministers and can comprise up to nine non-executive Directors, including the Chairman. As at 30 June 2010, there were eight non-executive Directors of the Company.

Under the Company's Constitution, shareholding Ministers may appoint Directors for a fixed term not exceeding three years and may choose to renew any Board appointments for further fixed terms of up to three years.

The shareholding Ministers set the expectations of Directors' roles, duties, term of appointment and remuneration.

In the 2009/10 financial year, there were changes in the composition of the Board. Anne Blackburn's term of appointment ended on 30 April 2010. Mary Devine was appointed with effect from 1 May 2010.

Biography details of all Board members are included in this report.

Role of the Chairman

Under the Company's Constitution, all Directors are non-executive. The role of the non-executive Chair is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive. Wayne Boyd is the current Chair and has held this role since mid-July 2005.

Board meetings

In the 2009/10 year the Board met 10 times. The Board meets to review and approve:

- strategic planning and corporate strategies
- the annual business plan and review of corporate performance
- business opportunities and risks
- financial and dividend policies
- risk management policies
- major investment decisions
- management's performance against established goals and plans.

In addition, the Board meets whenever necessary between the scheduled meetings for discussion on key strategic issues or urgent business.

Board membership and attendance details during the year were as follows:

MEMBER	APPOINTMENT	CURRENT TERM EXPIRES	ATTENDANCE: RESIGNED OR TERM EXPIRED	ATTENDANCE: BOARD 10 MEETINGS	ATTENDANCE: AUDIT & RISK 11 MEETINGS	REMUNERATION & HR 6 MEETINGS	2010 DIRECTORS FEE ($'000)
Wayne Boyd	April 2005	April 2011		9 (Chairman)			98.0
Ray Watson	June 2005	April 2011		7 (Deputy Chairman)		6	51.7
Anne Blackburn	June 2004	April 2010	April 2010	9		5 (Chairman to 30 April 2010)	45.1
Mary Devine	May 2010	April 2013		2			8.2
Catherine Drayton	May 2006	April 2012		10	11		49.0
Chris Moller	May 2009	April 2012		9		6 (Chairman from 1 May 2010)	49.4
Stephen Reindler	September 2008	April 2011		9	10		49.0
Brett Shepherd	May 2009	April 2012		10	6		49.0
Anne Urlwin	January 2005	October 2010		10	11 (Chairman)		53.8
						Total	453.2

Directors' conflicts of interest

The Board is conscious of its obligation to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to Meridian and their own interests.

In accordance with the Companies Act 1993 the Board maintains an up-to-date interests register to ensure that conflicts of interest are avoided. The register is received at each Board meeting. Changes in Directors' interests are listed in the financial statements.

No Director, or any member of the Director's immediate family, may accept gifts if they could influence or be perceived as influencing a business decision.

In accordance with shareholding Ministers' expectations, no Director may undertake consulting work for the company without shareholding Ministers' approval.

Board performance review

The Board conducts a self-evaluation each year. The evaluation examines the performance of the Chairman and each Director. Each committee also reviews its own performance against its terms of reference. The collective results of the evaluation are reported to the Board and confirmation is provided to shareholding Ministers.

Indemnities and insurance

As permitted by Meridian's Constitution, Deeds of Indemnity have been given to Directors for potential liabilities and costs they may incur for acts or omissions in their capacity as Directors. Directors' and Officers' liability insurance is in place to cover risks normally covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

Board committees

To ensure efficiency, the Board specifically delegates some of its roles to Board Committees. Board Committees observe the same rules of conduct and procedure as the Board unless the Board determines otherwise. They also act as standing committees to the full Board on specific issues.

Committee composition

The two standing committees of the Board are the Audit and Risk Committee and the Remuneration and Human Resources Committee.

AUDIT & RISK COMMITTEE	REMUNERATION AND HUMAN RESOURCES
Chairman	**Chairman**
Anne Urlwin	Chris Moller (from 1 May 2010) Anne Blackburn (to 30 April 2010)
Members	**Members**
Catherine Drayton, Stephen Reindler, Brett Shepherd	Ray Watson, Mary Devine
Role and Responsibilities	**Role and Responsibilities**
The Audit and Risk Committee set the principles and standards for internal controls, accounting policies and the nature, scope, objectives and functions of external and internal audit. The Committee ensures the efficient and effective management of all business risk and compliance with the relevant legal, market and group policy requirements.	The Remuneration and Human Resources Committee reviews and recommends to the Board the principles and standards with respect to human resource policy including leadership and development of people and remuneration structure, policy, procedure and practice for the Company.

External audit independence

Meridian's Board has adopted a strict policy to maintain the independence of the Company's external auditors. The Audit and Risk Committee is responsible for making recommendations to the Board concerning the appointment of Meridian's external auditors and their terms of engagement. Under section 29 of the Public Finance Act 1989, the Auditor-General appointed Jamie Schmidt of Deloitte to audit Meridian. External audit independence is ensured by requiring Board approval for any non-external audit work completed by our external auditors, or by companies directly related to, or controlled by Meridian's external auditors.

Internal audit

Internal audit at Meridian provides independent assurance to the Board and management that key risks are being adequately managed and the company's internal control framework is operating effectively. Meridian's internal audit function is provided via an outsourced arrangement with Ernst & Young and reports to the Board through the Audit and Risk Committee. The Committee approves the appointment and replacement of the internal audit function, and requires a change of provider after a maximum of six years of services. Meridian's internal audit function is independent from the activities and operations it audits, including risk management systems, and has unrestricted access to Meridian records and staff.

Promoting ethical behaviour

Meridian expects all of its Directors and staff to maintain the highest ethical standards. Meridian's Behavioural Commitment establishes the framework by which Meridian employees are expected to conduct themselves by facilitating behaviour and decision making that meets Meridian's business goals and is consistent with Meridian's values, policies and legal obligations.

Meridian's Behavioural Commitment addresses:

- conflicts of interest
- receipt of gifts
- confidentiality
- expected behaviours – including honesty
- use of Meridian assets and information
- compliance with laws and policies.

Internal policies and procedures

Compliance with the many legal, regulatory and electricity industry requirements is a priority for the Board. Meridian takes its obligations seriously in this regard and continually looks for ways to improve its standard of compliance.

Meridian employees are responsible for ensuring the Company carries out its business in a way that gives consideration to all applicable legal requirements, minimises the cost of legal risk and maximises business opportunities.

Managers are responsible for making sure their staff understand what compliance means in their particular areas, by ensuring appropriate training and compliance information is available.

Whistleblowing 'speaking up' policy

Meridian has a strong commitment to ensuring that all its business activities are carried out in a way that is both ethical and compliant. The Speaking Up Policy sets out the process for reporting serious wrongdoing in the organisation.

Disclosures can be made to our Chief Executive and other designated staff. In addition, disclosures can be made anonymously to external agencies by phone.

Political donations

Meridian does not make donations to political parties.

	NOTE	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Operating Revenue					
Energy Sales		**2,023,136**	1,865,340	**1,954,797**	1,839,391
Energy Related Services Revenue		**16,463**	6,595	**2,392**	460
Dividends Received		**-**	-	**199**	167
Other Revenue		**22,306**	20,500	**16,065**	14,423
Total Operating Revenue		**2,061,905**	1,892,435	**1,973,453**	1,854,441
Operating Expenses					
Energy Related Costs		**(743,625)**	(788,511)	**(728,777)**	(784,887)
Energy Transmission and Distribution		**(425,978)**	(373,004)	**(417,568)**	(370,615)
Employee Costs	4	**(87,258)**	(76,068)	**(70,975)**	(56,382)
Other Operating Expenses	4	**(163,364)**	(142,500)	**(127,599)**	(127,380)
		(1,420,225)	(1,380,083)	**(1,344,919)**	(1,339,264)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		**641,680**	512,352	**628,534**	515,177
Net Change in Fair Value of Financial Instruments Loss	27	**(14,872)**	(114,109)	**(12,710)**	(114,109)
Foreign Exchange Contracts ("FEC's") Reclassified to Profit or Loss[1]	27	**(33,087)**	-	**(33,087)**	-
Depreciation	20	**(174,318)**	(149,793)	**(132,983)**	(123,851)
Amortisation of Intangible Assets	19	**(13,712)**	(13,302)	**(10,942)**	(10,102)
Impairment of Property, Plant and Equipment	20	**(1,200)**	(6,428)	**(1,200)**	-
Impairment of Available for Sale Investments	18	**-**	(2,766)	**-**	(2,766)
Impairment of Intangible Assets	19	**(17,136)**	-	**(17,136)**	-
Gain on Sale of Property, Plant and Equipment		**275**	4,797	**331**	4,795
Equity Accounted Earnings of Joint Ventures	17	**(2,012)**	(1,883)	**-**	-
Operating Profit		**385,618**	228,868	**420,807**	269,144
Finance Costs and Other Finance Related Income/(Expenses)					
Finance Costs	5	**(86,816)**	(73,026)	**(91,697)**	(89,714)
Interest Income	6	**1,730**	4,600	**38,571**	30,808
Net Change in Fair Value of Financial Instruments Loss	27	**(23,296)**	(32,489)	**(23,296)**	(32,489)
Profit Before Tax		**277,236**	127,953	**344,385**	177,749
Income Tax Expense	7	**(93,187)**	(38,690)	**(108,754)**	(48,469)
Profit After Tax		**184,049**	89,263	**235,631**	129,280
Profit After Tax Attributable to:					
Shareholders of the Parent Company		**184,852**	90,209	**235,631**	129,280
Non-Controlling Interest		**(803)**	(946)	**-**	-
		184,049	89,263	**235,631**	129,280
Earnings Per Share from Operations Attributable to Equity Holders of the Company During the Year:					
Basic Earnings per Share ($)	8	**0.12**	0.06		
Diluted Earnings per Share ($)	8	**0.12**	0.06		

[1]*Includes losses on FEC's, previously deferred in the cash flow hedge reserve and not expected to be recovered in one or more future periods.*

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

	NOTE	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Profit After Tax for the Period		**184,049**	89,263	**235,631**	129,280
Other Comprehensive Income					
Revaluation Gain on Property, Plant and Equipment	20	**1,213,663**	-	**1,215,374**	-
Net (Loss)/ Gain on Cash Flow Hedges		**(24,279)**	26,896	**(24,269)**	26,968
FEC's Reclassified to Profit or Loss[1]	27	**33,087**	-	**33,087**	-
Net Gain on Available for Sale Investments	18	**8**	1,258	**8**	1,258
Exchange (Loss)/Gain Arising from Translation of Foreign Operations		**(3,060)**	255	**-**	-
Tax items:					
Effect of Corporate Tax Rate Reduction on Deferred tax	24	**103,299**	-	**101,839**	-
Income Tax Relating to Other Comprehensive Income	24	**(366,738)**	(8,274)	**(367,255)**	(8,295)
Other Comprehensive Income for the Period Net of Tax		**955,980**	20,135	**958,784**	19,931
Total Comprehensive Income for the Period Net of Tax		**1,140,029**	109,398	**1,194,415**	149,211
Total Comprehensive Income for the Period Attributable to:					
Shareholders of the Parent Company		**1,140,832**	110,344	**1,194,415**	149,211
Non-Controlling Interest		**(803)**	(946)	**-**	-
		1,140,029	109,398	**1,194,415**	149,211

[1]Includes losses on FEC's, previously deferred in the cash flow hedge reserve and not expected to be recovered in one or more future periods.

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

	NOTE	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Shareholders' Equity					
Share Capital	9	**1,600,000**	1,600,000	**1,600,000**	1,600,000
Reserves		**3,468,979**	2,681,639	**3,432,506**	2,591,583
Equity Attributable to Shareholders of the Parent		**5,068,979**	4,281,639	**5,032,506**	4,191,583
Share Options Vested in Whisper Tech Limited	9	**1,098**	1,079	**-**	-
Non-Controlling Interest		**607**	1,410	**-**	-
Total Equity		**5,070,684**	4,284,128	**5,032,506**	4,191,583
Represented by:					
Current Assets					
Cash and Cash Equivalents	11	**54,394**	47,877	**39,234**	35,297
Accounts Receivable and Prepayments	12	**199,114**	188,156	**187,684**	181,594
Inventories	13	**6,029**	7,299	**3,064**	3,646
Finance Lease Receivable	14	**683**	-	**683**	-
Assets Classified as Held for Sale	15	**350**	10,519	**350**	10,519
Derivative Financial Instruments	27	**11,004**	13,033	**13,690**	13,023
Total Current Assets		**271,574**	266,884	**244,705**	244,079
Non-Current Assets					
Finance Lease Receivable	14	**4,984**	-	**4,984**	-
Investments in Subsidiaries	16	**-**	-	**106,003**	96,263
Equity Accounted Joint Ventures	17	**294**	2,211	**-**	-
Available for Sale Investments	18	**6,077**	6,993	**6,077**	6,993
Advances to Subsidiaries		**-**	-	**1,209,682**	937,187
Derivative Financial Instruments	27	**171,891**	113,983	**171,442**	113,983
Intangible Assets	19	**50,053**	43,633	**17,117**	19,578
Deferred Tax Asset	24	**3,399**	449	**-**	-
Property, Plant and Equipment	20	**8,207,327**	6,743,115	**7,006,908**	5,889,957
Total Non-Current Assets		**8,444,025**	6,910,384	**8,522,213**	7,063,961
Total Assets		**8,715,599**	7,177,268	**8,766,918**	7,308,040
Current Liabilities					
Payables and Accruals	21	**201,614**	170,472	**180,464**	148,752
Provisions	22	**736**	1,372	**233**	514
Current Tax Payable		**31,633**	28,041	**31,525**	28,467
Current Portion of Term Borrowings	23	**284,417**	123,166	**284,417**	123,166
Advances from Subsidiaries		**-**	-	**341,933**	272,986
Liabilities Classified as Held for Sale	15	**15**	194	**15**	194
Derivative Financial Instruments	27	**38,592**	33,567	**38,666**	33,567
Total Current Liabilities		**557,007**	356,812	**877,253**	607,646
Non-Current Liabilities					
Term Borrowings	23	**1,323,058**	1,128,695	**1,143,384**	1,128,695
Term Payables		**52,954**	-	**52,954**	-
Derivative Financial Instruments	27	**152,389**	106,402	**152,389**	106,402
Deferred Tax Liability	24	**1,559,507**	1,301,231	**1,508,432**	1,273,714
Total Non-Current Liabilities		**3,087,908**	2,536,328	**2,857,159**	2,508,811
Total Liabilities		**3,644,915**	2,893,140	**3,734,412**	3,116,457
Net Assets		**5,070,684**	4,284,128	**5,032,506**	4,191,583

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

Wayne Boyd
Chairman
23 August 2010

Anne Urlwin
Chair of Audit and Risk Committee
23 August 2010

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

	GROUP						
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000
Balance at 1 July 2008	**1,600,000**	**2,737,795**	**85**	**(24,352)**	**(673)**	**(111,560)**	**4,201,295**
Profit for the Period	-	-	-	-	-	90,209	90,209
Cash Flow Hedges:							
Net Gain Taken to Equity	-	-	-	26,896	-	-	26,896
Available for Sale Reserve:							
Net Gain Taken to Equity	-	-	-	-	1,258	-	1,258
Exchange Differences Arising from Translation of Foreign Operations	-	-	255	-	-	-	255
Asset Revaluation Reserve Transferred to Retained Earnings	-	(1,004)	-	-	-	1,004	-
Income Tax Relating to Other Comprehensive Income	-	301	-	(8,069)	(205)	(301)	(8,274)
Total Comprehensive Income for the Period	**-**	**(703)**	**255**	**18,827**	**1,053**	**90,912**	**110,344**
Share Options Vested	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	(30,000)	(30,000)
Balance at 30 June 2009	**1,600,000**	**2,737,092**	**340**	**(5,525)**	**380**	**(50,648)**	**4,281,639**

	GROUP			
	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000	SHARE OPTIONS VESTED $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
Balance at 1 July 2008	**4,201,295**	**981**	**2,356**	**4,204,632**
Profit for the Period	90,209	-	(946)	89,263
Cash Flow Hedges:				
Net Gain Taken to Equity	26,896	-	-	26,896
Available for Sale Reserve:				
Net Gain Taken to Equity	1,258	-	-	1,258
Exchange Differences Arising from Translation of Foreign Operations	255	-	-	255
Asset Revaluation Reserve Transferred to Retained Earnings	-	-	-	-
Income Tax Relating to Other Comprehensive Income	(8,274)	-	-	(8,274)
Total Comprehensive Income for the Period	**110,344**	**-**	**(946)**	**109,398**
Share Options Vested	-	98	-	98
Dividends Paid	(30,000)	-	-	(30,000)
Balance at 30 June 2009	**4,281,639**	**1,079**	**1,410**	**4,284,128**

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

Meridian Energy Limited – Statement of Changes in Equity for the year ended 30 June 2010

	GROUP						
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000
Balance at 1 July 2009	**1,600,000**	**2,737,092**	**340**	**(5,525)**	**380**	**(50,648)**	**4,281,639**
Profit for the Period	-	-	-	-	-	184,852	184,852
Revaluation Gain on Property, Plant and Equipment	-	1,213,663	-	-	-	-	1,213,663
Cash Flow Hedges:							
Net Loss Taken to Equity	-	-	-	(24,279)	-	-	(24,279)
FEC's Reclassified to Profit or Loss	-	-	-	33,087	-	-	33,087
Available for Sale Reserve:							
Net Gain Taken to Equity	-	-	-	-	8	-	8
Exchange Differences Arising from Translation of Foreign Operations	-	-	(3,060)	-	-	-	(3,060)
Asset Revaluation Reserve Transferred to Retained Earnings	-	(4,680)	-	-	(14)	4,694	-
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	103,270	-	18	11	-	103,299
Income Tax Relating to Other Comprehensive Income	-	(362,694)	-	(2,642)	2	(1,404)	(366,738)
Total Comprehensive Income for the Period	**-**	**949,559**	**(3,060)**	**6,184**	**7**	**188,142**	**1,140,832**
Share Options Vested	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	(353,492)	(353,492)
Balance at 30 June 2010	**1,600,000**	**3,686,651**	**(2,720)**	**659**	**387**	**(215,998)**	**5,068,979**

	GROUP			
	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000	SHARE OPTIONS VESTED $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
Balance at 1 July 2009	**4,281,639**	**1,079**	**1,410**	**4,284,128**
Profit for the Period	184,852	-	(803)	184,049
Revaluation Gain on Property, Plant and Equipment	1,213,663	-	-	1,213,663
Cash Flow Hedges:				
Net Loss Taken to Equity	(24,279)	-	-	(24,279)
FEC's Reclassified to Profit or Loss	33,087	-	-	33,087
Available for Sale Reserve:				
Net Gain Taken to Equity	8	-	-	8
Exchange Differences Arising from Translation of Foreign Operations	(3,060)	-	-	(3,060)
Asset Revaluation Reserve Transferred to Retained Earnings	-	-	-	-
Effect of Corporate Tax Rate Reduction on Deferred tax	103,299	-	-	103,299
Income Tax Relating to Other Comprehensive Income	(366,738)	-	-	(366,738)
Total Comprehensive Income for the Period	**1,140,832**	**-**	**(803)**	**1,140,029**
Share Options Vested	-	19	-	19
Dividends Paid	(353,492)	-	-	(353,492)
Balance at 30 June 2010	**5,068,979**	**1,098**	**607**	**5,070,684**

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

	PARENT					
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance at 1 July 2008	**1,600,000**	**2,680,274**	**(24,410)**	**(673)**	**(161,949)**	**4,093,242**
Profit for the Period	-	-	-	-	129,280	129,280
Cash Flow Hedges:						
Net Gain Taken to Equity	-	-	26,968	-	-	26,968
Available for Sale Reserve:						
Net Gain Taken to Equity	-	-	-	1,258	-	1,258
Asset Revaluation Reserve Transferred to Retained Earnings	-	(1,004)	-	-	1,004	-
Income Tax Relating to Other Comprehensive Income	-	301	(8,090)	(205)	(301)	(8,295)
Total Comprehensive Income for the Period	**-**	**(703)**	**18,878**	**1,053**	**129,983**	**149,211**
Retained Earnings on Amalgamation of Arc Innovations Limited	-	-	-	-	(20,870)	(20,870)
Dividends Paid	-	-	-	-	(30,000)	(30,000)
Balance at 30 June 2009	**1,600,000**	**2,679,571**	**(5,532)**	**380**	**(82,836)**	**4,191,583**

	PARENT					
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance at 1 July 2009	**1,600,000**	**2,679,571**	**(5,532)**	**380**	**(82,836)**	**4,191,583**
Profit for the Period	-	-	-	-	235,631	235,631
Revaluation Gain on Property, Plant & Equipment	-	1,215,374	-	-	-	1,215,374
Cash Flow Hedges:						
Net Loss Taken to Equity	-	-	(24,269)	-	-	(24,269)
FEC's Reclassified to Profit or Loss	-	-	33,087	-	-	33,087
Available for Sale Reserve:						
Net Gain Taken to Equity	-	-	-	8	-	8
Asset Revaluation Reserve Transferred to Retained Earnings	-	(4,680)	-	(14)	4,694	-
Effect of Corporate Tax Reduction on Deferred Tax	-	101,810	18	11	-	101,839
Income Tax Relating to Other Comprehensive Income	-	(363,208)	(2,645)	2	(1,404)	(367,255)
Total Comprehensive Income for the Period	**-**	**949,296**	**6,191**	**7**	**238,921**	**1,194,415**
Dividends Paid	-	-	-	-	(353,492)	(353,492)
Balance at 30 June 2010	**1,600,000**	**3,628,867**	**659**	**387**	**(197,407)**	**5,032,506**

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

	NOTE	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		**2,050,950**	2,171,797	**1,970,837**	2,135,348
Net GST Received		**1,009**	4,345	**-**	3,604
Interest Received		**1,730**	4,600	**38,571**	28,561
Dividends Received		**-**	-	**199**	167
		2,053,689	2,180,742	**2,009,607**	2,167,680
Cash was Applied to:					
Payments to Suppliers and Employees		**(1,420,472)**	(1,757,508)	**(1,347,497)**	(1,716,349)
Net GST Paid		**-**	-	**(54)**	-
Interest Paid		**(80,512)**	(71,608)	**(85,393)**	(86,524)
Income Tax Paid		**(100,881)**	(38,102)	**(100,730)**	(37,980)
		(1,601,865)	(1,867,218)	**(1,533,674)**	(1,840,853)
Net Cash Inflows from Operating Activities	28	**451,824**	313,524	**475,933**	326,827
Investment Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment		**11,092**	19,876	**11,084**	19,855
Sale of Investments		**924**	3,612	**924**	3,612
Sale of Intangible Assets		**-**	22	**-**	-
		12,016	23,510	**12,008**	23,467
Cash was Applied to:					
Purchase of Property, Plant and Equipment		**(196,944)**	(465,621)	**(55,155)**	(87,656)
Capitalised Interest		**(10,082)**	(18,460)	**(4,170)**	(1,772)
Advances to Subsidiaries		**-**	-	**(239,829)**	(387,184)
Purchase of Subsidiaries		**(245,828)**	-	**-**	-
Purchase of Intangible Assets		**(17,523)**	(14,553)	**(8,481)**	(13,361)
Purchase of Investments		**(8)**	(1,630)	**(9,757)**	(30,047)
		(470,385)	(500,264)	**(317,392)**	(520,020)
Net Cash Outflows from Investing Activities		**(458,369)**	(476,754)	**(305,384)**	(496,553)
Financing Activities					
Cash was Provided from:					
Proceeds From Borrowings		**564,281**	575,790	**384,607**	575,790
		564,281	575,790	**384,607**	575,790
Cash was Applied to:					
Dividends Paid	10	**(353,492)**	(30,000)	**(353,492)**	(30,000)
Term Borrowings Paid		**(197,727)**	(406,425)	**(197,727)**	(406,425)
		(551,219)	(436,425)	**(551,219)**	(436,425)
Net Cash Inflows/(Outflows) from Financing Activities		**13,062**	139,365	**(166,612)**	139,365
Net Increase/(Decrease) in Cash and Cash Equivalents		**6,517**	(23,865)	**3,937**	(30,361)
Cash and Cash Equivalents at Beginning of Year		**47,877**	71,742	**35,297**	64,045
Cash on Amalgamation from ARC Innovations Limited		**-**	-	**-**	1,613
Cash and Cash Equivalents at End of Year	11	**54,394**	47,877	**39,234**	35,297

The Statement of Accounting Policies and Notes to the Financial Statements on pages 35 to 85 form an integral part of these Financial Statements.

1. Summary of Accounting Policies

Reporting Entity and Statement of Compliance

Meridian Energy Limited is domiciled in New Zealand and registered under the Companies Act 1993. The registered office of the Company is Level 1, 33 Customhouse Quay, Wellington. 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.

Meridian Energy Limited's core business is the generation of electricity (including the management of related assets) and the trading and retailing of electricity and wider complementary products and solutions.

The consolidated financial statements comprise those of Meridian Energy Limited (the "Parent" or the "Company") and its subsidiaries (together referred to as "Meridian" or the "Group").

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and are prepared in accordance with the requirements of the Financial Reporting Act 1993. For the purposes of financial reporting Meridian is a profit-oriented entity.

These consolidated financial statements comply with International Financial Reporting Standards (IFRS). The Parent entity financial statements also comply with IFRS.

The reporting period for these financial statements is the year ended 30 June 2010.

The financial statements were authorised for issue by the Directors on 23 August 2010.

Basis of Preparation

The consolidated financial statements of Meridian have been prepared in accordance with NZ IFRS. The financial statements have been prepared on the basis of historical cost modified by the revaluation of certain assets and liabilities as identified in the following accounting policies.

These financial statements are presented in New Zealand dollars rounded to the nearest thousand ($'000).

The same accounting policies, presentation and methods of computation have been applied consistently to all periods presented in these consolidated financial statements except for the adoption of NZ IAS 1 (revised): *Presentation of Financial Statements*, effective for annual periods beginning on or after 1 January 2009, and additional new Standards as listed below. The revised NZ IAS 1 has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure, including the inclusion of a new Statement of Comprehensive Income. The revised NZ IAS 24 has been early-adopted in the current year, and simplifies some of the disclosure requirements in relation to transactions with the Crown reporting entity. The revised Standard has had no impact on the reported results or financial position of Meridian.

The additional new Standards and IFRIC interpretations are as follows:

- NZ IFRS 2 (Amendment) *Share Based Payments: Vesting Conditions and Cancellations* – effective 1 January 2009
- NZ IFRS 3 (Amendment) *Business Combinations* – effective 1 July 2009
- NZ IFRS 4 (Amendment) *Insurance Contracts* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IFRS 7 (Amendment) *Financial Instruments* – effective 1 January 2009
- NZ IAS 19 (Amendment) *Employee Benefits* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 23 (Amendment) *Borrowing Costs* – effective 1 January 2009
- NZ IAS 27 (Amendment) *Consolidated and Separated Financial Statements* – effective 1 July 2009
- NZ IAS 31 (Amendment) *Interests in Joint Ventures* – effective for annual reporting periods beginning on or after 1 January 2009
- Revised Amendments to NZ IAS 32 *Financial Instruments: Presentation* – effective 1 January 2009
- NZ IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* – effective for annual reporting periods beginning on or after 1 July 2009
- NZ IFRIC 15 *Agreements for the Construction of Real Estate* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* – effective for annual reporting periods beginning on or after 1 October 2008
- NZ IFRIC 17 *Distributions of Non-Cash Assets to Owners* – effective for annual reporting periods beginning on or after 1 July 2009
- NZ IFRIC 18 *Transfers of Assets from Customers* – effective for annual reporting periods beginning on or after 1 July 2009
- Improvements to NZ IFRS (2008) – effective 1 January 2009

The impact of NZ IFRS 3 and NZ IAS 27 is that acquisition costs are now expensed and the treatment of future changes of contingent consideration has also changed. The impact on the financial statements for the period ended 30 June 2010 is $4.4 million in acquisition costs expensed in relation to the acquisition of Meridian Energy USA Inc. (formerly named Cleantech America Inc.) and Mt Millar Wind Farm Pty Ltd (refer Note 16). The impact of NZ IFRS 7 is the requirement of additional disclosures in respect of fair value hierarchies and liquidity, which have been reported in Notes 25 and 26. The other standards identified above do not have an impact on the reported results or financial position of Meridian.

The accrual basis of accounting has been used unless otherwise stated.

Adoption Status of Relevant Financial Reporting Standards

Meridian has elected not to early adopt the following NZ IFRS that have been issued but are not yet effective for application:

- NZ IFRS 2 (Amendment) *Share-Based Payments*: *Group Cash settled share based payment transactions* – effective for annual reporting periods beginning on or after 1 January 2010
- NZ IFRS 9 *Financial Instruments* – effective for annual reporting periods beginning on or after 1 January 2013
- NZ IAS 32 (Amendment) *Financial Instruments: Presentation – Classification of Rights Issues* – effective for annual reporting periods beginning on or after 1 February 2010
- NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for annual reporting periods beginning on or after 1 July 2010
- NZ IFRIC 14 (Amendment) *Prepayment of a Minimum Funding Requirement* – effective for annual reporting periods beginning on or after 1 January 2011
- Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009 – effective for annual reporting periods beginning on or after various dates
- Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010 – effective for annual reporting periods beginning on or after various dates:
  - Improvement to NZ IFRS 3 and NZ IAS 27 – effective 1 July 2010
  - Other improvements – effective 1 January 2010.

NZ IFRS 9 requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. This may impact the valuation of certain available for sale investments in the financial statements. The adoption of these other standards is not expected to have a material impact on Meridian's income statement, statement of comprehensive income, statement of financial position and cash flow statement.

Judgements and Estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or, in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in relation to forecast earnings and multiples used to value the generation structures and plant assets and price path estimates, including electricity, aluminium and estimates for inflation and discount rates, which have been used to fair value the energy derivatives. In addition, accounting judgements are made in respect of the hedge designation of certain financial instruments, assessment of hedge effectiveness and the impact of tax rate changes on deferred tax balances.

Where material, information on the major assumptions is provided in the relevant accounting policy or in the relevant note. Refer to:

- Property, Plant and Equipment – Accounting Policy PPE and Note 20
- Financial Instruments – Accounting Policy Fair Value Estimation and Notes 25,26, 27
- Intangible Assets Goodwill – Accounting Policy Goodwill and Note 19
- Intangible Assets Other than Goodwill – Accounting Policy Impairment of Non-financial Assets other than Goodwill and Note 19
- Revenue Recognition – Accounting Policy Sale of Energy and Other Related Services
- Warranties – Accounting Policy Warranties and Note 22
- Income Tax Expense – Note 7

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

Basis of Consolidation

Subsidiaries

Subsidiaries are those entities controlled directly or indirectly by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activity.

The purchase method is used to account for the acquisition of subsidiaries by the Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All material intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations that occurred prior to the date of transition to NZ IFRS have not been re-stated retrospectively.

Common Control Amalgamation Transactions

Under a business combination where entities under common control are amalgamated, the carrying values of the assets and liabilities of the entities are combined, with any gain or loss on amalgamation recognised in equity.

Operating Segments

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive.

Joint Ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest and which are subject to joint control (unanimous decision making) by the venturers are referred to as jointly controlled entities. Meridian reports its interest in jointly controlled entities using the equity method of accounting.

Under the equity method, investments in joint ventures are carried in the consolidated Statement of Financial Position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Company's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture) are not recognised unless there is a legal or constructive obligation incurred by Meridian on behalf of the joint venture.

Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities at reporting date are translated at the exchange rate prevailing at reporting date.

Assets and liabilities of overseas entities, whose functional currency is other than NZD, are translated at the closing rate at balance date. The revenues and expenses of these entities 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 these entities are recorded in the foreign currency translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Property, Plant and Equipment

Meridian's generation structures and plant assets (including land and buildings) 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. Revaluations are performed by an independent valuer with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.

As disclosed in Note 20, the fair value of generation assets at 30 June 2010 was determined using an income approach. In using the income approach, consideration was given to application of either net present value of expected future cash flows or capitalisation of earnings approach, whichever was more appropriate.

Significant assumptions applied in estimating the fair values are disclosed in Note 20.

Any revaluation increase arising on the revaluation is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged to the income statement to the extent it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

Subsequent additions to generation structures and plant assets are recorded at cost, which is considered fair value, 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 appropriate.

Financing costs for qualifying assets are capitalised at the average cost of borrowing. Costs cease to be capitalised as soon as the asset is ready for use.

All other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

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 estimated remaining useful life. The following depreciation and amortisation rates have been applied:

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

The residual value and the useful lives of assets are reviewed, and if appropriate adjusted, at each balance date.

Assets Classified as Held for Sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.

Immediately before classification as held for sale, the assets (or disposal group) are re-measured in accordance with Meridian's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Finance Lease Receivable

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Meridian recognises assets held under finance lease arrangements as a receivable at an amount equal to the present value of the minimum lease payments. Finance lease receipts are apportioned between principal repayments, relating to the lease receivable, and interest revenue. The interest revenue reflects a constant periodic rate of return on Meridian's net investment over the term of the lease. Finance leases are classified as loans and receivables.

Intangible Assets

Customer Acquisition Costs

Customer acquisition costs are finite life intangibles and represent the capitalisation of costs incurred to acquire retail customers. Amortisation is calculated using the straight-line method to allocate the cost over a period not greater than 10 years from the date of acquisition.

Computer Software

Acquired computer software licences, that are not considered an integral part of related hardware, are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives (three years) on a straight-line basis.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs directly associated with the production of identifiable and unique software products that will generate economic benefits beyond one year are recognised as intangible assets and amortised over their estimated useful lives (not exceeding three years) on a straight-line basis.

Patents and Trademarks

Patents and Trademarks are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful lives are between seven and 20 years.

Licence Agreement

The value of a Licence Agreement has been recognised on acquisition of controlled entities. The Agreement is a finite life intangible and is recorded at fair value less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over a period of 10 years.

Other licences are also amortised on a straight-line basis over their useful lives (six years).

Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

An intangible asset arising from Meridian's development activity is recognised only if all of the following conditions are met: an asset is created that can be recognised; it is probable that the asset created will generate future economic benefits; and the cost can be measured reliably.

Development costs that meet these criteria are amortised on a straight-line basis over their estimated useful lives. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs incurred that cannot be separately identified from the physical asset are included in the item of property, plant and equipment being developed and depreciated over the useful life of the asset. If the recognition criteria are not met, development expenditure is recognised as an expense as incurred.

Impairment of Non-Financial Assets other than Goodwill

At each balance date, Meridian reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

In determining the recoverable amount of customer acquisition costs management has exercised judgement in the following significant valuation assumptions: sales forecasts, customer numbers, customer churn, discount rates and forecast of future electricity prices.

In determining the recoverable amount of the Whisper Tech licence agreement management has exercised judgment in the following significant valuation assumptions: sales forecasts (including volumes and pricing) and discount rates.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised in the income statement and is not subsequently reversed. For the purpose of assessing impairment goodwill is allocated to cash generating units.

The recoverable amount of goodwill in respect of Whisper Tech is value in use (the net present value of expected future cash flows) of the cash generating units. Key assumptions used in the valuation model that require management estimation and judgement include sales forecasts (including volumes and pricing) and discount rates.

The recoverable amount of goodwill in respect of Meridian Energy USA Inc. (formerly named Cleantech America Inc.) and Mt Millar Windfarm Pty Ltd is fair value less costs to sell.

Financial Instruments

Financial assets and financial liabilities are recognised on Meridian's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument (trade date).

Financial Assets

Meridian classifies its financial assets as either loans and receivables, or assets available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-Sale Investments

Certain shares held by Meridian are classified as being available-for-sale and stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the income statement for the period. Dividend income is recognised separately from other changes in fair value.

Investments in shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost, less any impairment loss to reflect irrecoverable amounts.

Investments in Subsidiaries and Joint Ventures

In the financial statements of the Parent the cost method is used to account for investments in subsidiaries and joint ventures.

Trade Receivables

Trade receivables are measured on initial recognition at fair value, and are subsequently carried at amortised cost. Appropriate allowances for estimated unrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Construction Work in Progress

Construction work in progress is stated at cost plus profit recognised to date, less progress billings and any provision for foreseeable losses. Cost includes all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the company's contract activities based on normal operating capacity.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial Liabilities

Meridian classifies its financial liabilities as either borrowings and payables, or liabilities held for sale. Financial liabilities are classified as held for sale when the related business meets the requirements to be held for sale under NZIFRS 5. The classification of other financial liabilities depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings not designated as hedged items are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings designated as hedged items are subject to measurement under hedge accounting requirements.

Trade Payables

Trade and other accounts payable are recognised when Meridian becomes obligated to make future payments resulting from the purchase of goods and services, and are subsequently carried at amortised cost.

Emission Rights

Meridian receives tradable emission rights from specific energy production levels of certain renewable generation facilities. The future revenue arising from the sale of these emission rights is a key matter in deciding whether to proceed with construction of the generation facility and is considered to be part of the value of the generation assets recorded in the Statement of Financial Position. Proceeds received on the sale of emission rights are recorded as deferred income in the Statement of Financial Position until the committed energy production level pertaining to the emission right sold has been generated.

Emission rights produced are recognised as inventory if the right has been verified, it is probable that expected future economic benefits will flow to Meridian, and the rights can be reliably measured. Inventory is measured at the lower of cost (which is a nominal amount) and net realisable value (current carrying value nil).

Derivative Financial Instruments and Hedge Accounting

Derivatives include cross currency interest rate swaps ("CCIRS's"), interest rate swaps ("IRS's") (including forward rate agreements and interest rate options, foreign exchange contracts (including currency options ("FEC's")) and electricity contracts for differences ("CfD's")).

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured on a periodic basis at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Meridian designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

Some derivatives are not in a designated hedging relationship. For derivatives designated in a hedge relationship Meridian documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. Meridian also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement in unrealised net change in fair value of financial instruments within other finance related expenses in respect of CCIRS's, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Interest expense on the loans designated as hedged items in fair value hedges is recognised in finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in unrealised net change in fair value of financial instruments within operating profit in respect of FEC and unrealised net change in fair value of financial instruments within other finance related expenses in respect of CCIRS's. Cash settlements on derivatives in a cash flow hedge relationship are recognised in the income statement as an adjustment to the selling price (or cost) of the hedged item.

Amounts accumulated in other comprehensive income are recycled in the income statement in the periods when the hedged item affects Profit or Loss (for instance when the forecast transaction that is hedged takes place). The realised gain or loss relating to the effective portion of derivatives is recognised in the income statement.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability as a "basis adjustment".

However, if Meridian expects that all or a portion of a deferred loss previously deferred in equity will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified into profit or loss immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Other Derivatives

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting or for which hedge accounting is not actively sought are recognised immediately in the income statement within operating profit in respect of CfD's and FECs or within finance costs in respect of IRS's. Cash settlements on such derivatives will adjust the price of the underlying item to which they relate. Where relevant the cost of an electricity option is recognised within "Net Change in Fair Value of Financial Instruments".

Day 1 Adjustment

A Day 1 adjustment arising when an electricity derivative is entered into at a fair value determined to be different to the transaction price is amortised to profit and loss as electricity volumes contracted in the derivative expire. The carrying value of the derivative is disclosed net of the Day 1 adjustment. Meridian has elected to use the amortisation method in respect of the NZAS Pricing Agreement.

Difference Between Fair Value at Initial Recognition and Amount that would be Recognised Using a Valuation Technique

Where a valuation technique that incorporates unobservable inputs is used to value electricity derivatives, and this value results in a value at inception that is different to its cost, the valuation model is recalibrated by a fixed percentage to result in a value at inception equal to the transaction price (fair value). This recalibration adjustment is then applied to future valuations over the life of the contract. Meridian applies the recalibration method to the electricity derivative portfolio.

Fair Value Estimation

The fair value of financial assets and financial liabilities, including derivative instruments, must be estimated for recognition and measurement, or for disclosure purposes.

The fair value of instruments traded in active markets (such as electricity futures traded on commodity markets) is based on closing market prices at balance date.

The fair value of instruments that are not traded on an active market (IRS's, CCIRS's, FEC's, CfD's) is determined using various valuation techniques which include assumptions on both observable data when such data is available (IRS's, CCIRS's, FEC's, some CfD's) and non-observable data (some CfD's) in all other instances. The fair value of IRS's, CCIRS's, FEC's and CfD's is based on the discounted value of future cash flows. Assumptions on the determination of future cash flows are based on the publicly available forecast prices where available and internal models approved by the Board when a forecast price is not available.

In relation to forecast prices used to determine future cash flows for CfD's for non-observable periods, the following significant assumptions are used where relevant:

- Forecast of the forward wholesale electricity price for the non-observable period based on a fundamental analysis of expected demand and cost of new supply
- Forecast of the aluminium price (based on the London Metal Exchange (LME)) for the non-observable period using a historical trend analysis to form future price expectations
- Forecast of the forward emissions trading scheme ('ETS') unit price based on the New Zealand Government indicated prices
- Forecast CPI or proxy for price inflation
- All CfD's run to full term
- In the case of one CfD, 572 MW continuous consumption.

The forecast electricity price path is used to determine a best estimate of the expected cash flows to be settled on CfD's. The expected cash flows are then discounted to determine a fair value of the CfD. The discount rates used are based on Government Bond Rates adjusted for additional risks including credit risk and the remaining term of the CfD. In relation the NZAS Pricing Agreement, the discount rate used is Meridian's weighted average cost of capital.

The fair value of FEC's is determined using forward exchange market rates at balance date discounted to present value. The fair value of currency options is determined using appropriate binomial models or the Black-Scholes model.

The fair value of financial liabilities in a fair value hedge relationship and for the purpose of disclosure is estimated by discounting the future designated cash flows at current market interest rates applicable to the risks being hedged.

The valuations determined for instruments not traded on an active market, particularly in respect to CfD's, can vary significantly based on assumptions in relation to the forecast electricity price and interest rates and in the case of one CfD the ETS unit price. In addition, the fair value of the NZAS Pricing Agreement, can also vary based on the price of aluminium published on the LME.

The sensitivity to changes in assumptions is quantified in Note 25 – Financial Risk Management.

Reserves

The revaluation reserve arises on the revaluation of generation structures and plant and from the revaluation of certain intangible assets as part of the step acquisition of Whisper Tech Group on 3 July 2006. Where revalued generation structures or plant assets are sold, that portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained earnings. Where a revalued intangible asset is sold that portion of the reserve which relates to that intangible asset, and is effectively realised, is transferred directly to retained earnings. Where a revalued intangible asset is impaired the impairment is recognised in the reserve to the extent of any surplus for that asset, otherwise the impairment is recognised in the income statement.

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of independent foreign operations.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the transaction impacts the profit and loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

The available-for-sale revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued asset is sold that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in the income statement. Where a revalued financial asset is impaired, the impairment is recognised in the reserve to the extent of any surplus for that asset, otherwise the impairment is recognised in the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where Meridian is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Meridian intends to settle its current tax assets and liabilities on a net basis.

Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and employee incentives when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured using the remuneration rate expected to apply at the time of settlement.

Goods and Services Tax (GST)

The income and cash flow statements 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.

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. Net realisable value represents the estimated selling price less estimated selling expenses.

Provisions

Provisions are recognised when Meridian has a present obligation as a result of a past event, and it is probable that Meridian will be required to settle that obligation and the amount has been reliably estimated. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material.

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 Meridian or the manner in which that business is conducted by Meridian. Meridian recognises a provision for restructuring when the Directors have approved a detailed formal plan, and 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.

Operating Leases

Operating leases are leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease.

Revenue Recognition

Sale of Energy and Other Related Services

Revenue comprises amounts received or receivable in the ordinary course of business for the sale of electricity sold into the wholesale electricity market and to retail customers and for energy related goods and services provided.

Revenue from a contract to provide dam-related services is recognised by reference to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

Management have exercised judgement in determining estimated retail sales for unread electricity meters at balance date. Specifically this involves an estimate of consumption for each unread meter, based on the customer's past consumption history.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

Interest Income

Interest income is recognised on a time proportionate basis using the effective interest rate method.

Energy Related Costs

Energy-related costs reported in the income statement include amounts payable for electricity purchased from the wholesale market and energy-related services purchased from suppliers.

Construction Contracts

When earnings on construction contracts can be reliably estimated, contract revenue and costs are determined using the percentage-of-completion method at balance date. This is measured as the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. The company uses its professional judgement to assess both the physical completion and the forecast financial result of the contract. Provision is made for estimated future losses on the entire contract from the date it is first recognised that a contract loss may be incurred.

Share-Based Payments

Equity-settled share-based payments are measured at fair value at grant date. This value is expensed on a straight-line basis over the vesting period, based on Meridian's estimate of shares that will eventually vest.

Cash Flow Statement

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the income statement. The GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority is classified as operating cash flow.

The following are definitions of the terms used in the cash flow statement:

- Cash comprises cash on hand and demand deposits
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value
- Cash flows are inflows and outflows of cash and cash equivalents
- Operating activities are the principal revenue-producing activities of Meridian and other activities that are not investing or financing activities
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of Meridian.

2. Segment Reporting

Management has determined the operating segments based on the reports reviewed by the Chief Executive to assess performance, allocate resources and make strategic decisions.

The Chief Executive assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment without the allocation of central administration costs, Directors' fees, share of profits of joint ventures, change in fair value of financial instruments, finance costs and income tax expense.

The Chief Executive considers the business from a Wholesale/Retail perspective. The Wholesale segment encompasses activity associated with Meridian's New Zealand generation and sale of electricity into the wholesale electricity market, the wholesale sale of electricity to large industrial customers and activities such as risk management. The Retail segment encompasses activity associated with the purchase of electricity from the wholesale electricity market, the retail sale of electricity to customers and metering services.

Other segments, that are not considered reportable segments, include Meridian's portfolio of subsidiaries that provide micro combined heat and power technologies, home energy efficiency products and services, dam consultancy services as well as Meridian's overseas generation subsidiaries. The results of these segments are included in the 'other segments' column.

Unallocated corporate encompasses Meridian's business functions that provide support to the Wholesale and Retail segments, and Meridian's non-operating subsidiaries.

Liabilities and Depreciation and Amortisation are no longer reported by segment to the Chief Executive and as a result are now not included in segment reporting.

Revenues are derived from external customers within New Zealand. Meridian sells approximately 34% (2009:40%) of its generation output to a single customer. The revenues received from this customer are attributable to the Wholesale segment.

The accounting policies of the reportable segments are the same as Meridian's accounting policies described in Note 1.

Wholesale revenues received from generation reflect the spot price received from the wholesale electricity market at the relevant grid injection point, and revenue received from large industrial customers. The Retail segment purchases electricity from the wholesale electricity market at spot prices at the relevant grid exit point. The revenue from external parties reported to the Chief Executive is measured in a manner consistent with that in the income statement.

2. Segment Reporting (continued)

The segment information provided to the Chief Executive for the reportable segments for the year ended 30 June 2010 is as follows:

	WHOLESALE $'000	RETAIL $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	TOTAL $'000
Segment Information					
Total Segment Revenue	1,048,760	979,700	34,175	4,551	2,067,186
Inter-Segment Revenue	-	-	(5,281)	-	(5,281)
Revenue from External Customers	1,048,760	979,700	28,894	4,551	2,061,905
EBITDAF	**602,841**	**141,862**	**(30,388)**	**(72,635)**	**641,680**
Equity Accounted Earnings of Joint Ventures	-	-	(2,012)	-	(2,012)
Additions to Non-Current Assets	129,609	267	295,481	38,491	463,848
Total Assets	7,812,380	171,923	416,345	314,951	8,715,599

The segment information provided to the Chief Executive for the reportable segments for the year ended 30 June 2009 is as follows:

	WHOLESALE $'000	RETAIL $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	TOTAL $'000
Segment Information					
Total Segment Revenue	905,692	969,521	11,164	9,314	1,895,691
Inter-Segment Revenue	-	-	(3,256)	-	(3,256)
Revenue from External Customers	905,692	969,521	7,908	9,314	1,892,435
EBITDAF	**489,000**	**114,322**	**(21,400)**	**(69,570)**	**512,352**
Equity Accounted Earnings of Joint Ventures	-	-	(1,883)	-	(1,883)
Additions to Non-Current Assets	373,336	40,608	30,591	46,256	490,791
Total Assets	6,507,950	188,454	106,014	374,850	**7,177,268**

Information Relating to Foreign Country Operations (all within Other Segments)	GROUP 2010 $'000	GROUP 2009 $'000
Total Revenue in:		
Australia	**1,060**	-
United States of America	**642**	-
Non Current Assets Held:		
Australia	**235,512**	-
United States of America	**42,713**	-

2. Segment Reporting (continued)

Reconciliation of EBITDAF to Profit Before Tax Provided as Follows:

	GROUP 2010 $'000	GROUP 2009 $'000
EBITDAF for Reportable Segments	744,703	603,322
Other Segments EBITDAF	(30,388)	(21,400)
Unallocated EBITDAF	(72,635)	(69,570)
Total Group EBITDAF	641,680	512,352
Net Change in Fair Value of Financial Instruments Loss	(38,168)	(146,598)
FEC's Reclassified to Profit or Loss	(33,087)	-
Depreciation	(174,318)	(149,793)
Amortisation of Intangible Assets	(13,712)	(13,302)
Impairment of Property Plant and Equipment	(1,200)	(6,428)
Impairment of Available for Sale Investments	-	(2,766)
Impairment of Intangible Assets	(17,136)	-
Gain on Sale of Property, Plant and Equipment	275	4,797
Equity Accounted Earnings of Joint Ventures	(2,012)	(1,883)
Finance Costs and Other Finance Expenses	(85,086)	(68,426)
Group Profit before Tax	277,236	127,953

Reportable Segments' Assets are Reconciled to Total Group Assets as Follows:

	GROUP 2010 $'000	GROUP 2009 $'000
Segment Assets for Reportable Segments	7,984,303	6,696,404
Other Segment Assets	416,345	106,014
Unallocated Assets:		
Cash and Cash Equivalents	33,739	33,683
Finance Lease Receivables	5,667	-
Assets Classified as Held for Sale	350	10,519
Derivative Financial Instruments	83,387	110,680
Available for Sale Investments	6,069	6,993
Intangible Assets	11,957	10,667
Property, Plant and Equipment	207,755	224,111
Other Assets	6,272	223
Intercompany Loans included in Other Segment Assets	(40,245)	(22,026)
Total Assets	8,715,599	7,177,268

The amounts provided to the Chief Executive with respect to assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment.

3. NZAS Agreement

On 1 October 2007, Meridian and New Zealand Aluminium Smelters ("NZAS") entered into an electricity price agreement (which includes a CfD) based on 572MW of continuous consumption at the smelter. The agreement is for a period of up to 18 years and will take effect from 1 January 2013.

Under an existing contract which expires in 2012, Meridian is responsible for delivered energy supply to the smelter. This means Meridian is responsible for the electricity, its quality, and its transmission to the smelter.

The new agreement is a pricing agreement rather than a supply agreement. NZAS will be responsible for purchasing electricity from the national market itself, and Meridian will provide NZAS with price certainty for that electricity.

The agreed base price under the new agreement is significantly higher than under the current electricity supply contract. This base price is subject to escalation with reference to a multi-year average market price for electricity in New Zealand, the world price for aluminum (as determined by an independent benchmark), and a component as a proxy for price inflation.

Meridian considers this formula will best ensure that the electricity price NZAS pays will remain competitive for electricity demand of the unique type created by the smelter, while recognising both the commodity-price driven cycles of NZAS's business environment and the wholesale electricity price cycles to which Meridian is exposed.

The increase in price and reduction in transmission risk under the new agreement results in a substantial improvement in the core pricing and risk profile when compared to the existing supply contract.

Accounting Treatment of NZAS Contract

The new agreement with NZAS includes a CfD which will be accounted for at fair value in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Subsequent fair value changes are recognised in the income statement.

The application of NZ IAS 39 only considers the CfD part of the agreement and does not consider the value of the agreement to Meridian as a whole.

At 30 June 2010, the Carrying Value of the CfD is as Follows:

	30 JUNE 2010 $'000	30 JUNE 2009 $'000	1 OCTOBER 2007 $'000
Present Value of Estimated Cash Flows	**(602,175)**	(583,014)	**(514,970)**
Less: Day 1 Adjustment[1]	**514,970**	514,970	**514,970**
Carrying Value	**(87,205)**	(68,044)	-

Whilst there are projected negative cash flows on the CfD against Meridian's forecast forward price curve, it is expected that the entire arrangement with NZAS will have a positive impact on Meridian's cash flows which will more than offset the settlements expected under the CfD.

[1]A Day 1 adjustment, arising when an electricity derivative is entered into at a fair value determined to be different to the transaction price, is amortised to profit and loss as electricity volumes contracted in the derivative expire. The carrying value of the derivative is disclosed net of the Day 1 adjustment.

4. Expenses

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Employee Costs include:				
Contributions to Defined Contribution Plans	**2,043**	1,554	**1,818**	1,407
Restructuring Costs	**4,387**	-	**4,387**	-
Share-Based Payments	**19**	98	**-**	-
Other Operating Expenses include:				
Auditors Remuneration to Deloitte for:				
- Audit of Financial Statements	**507**	457	**430**	402
- Other Assurance Services	**111**	61	**111**	61
Operating Lease Payments	**4,735**	4,194	**3,875**	4,035
Research and Development Expenditure	**3,132**	4,262	**-**	-
Restructuring Costs	**4,258**	-	**4,258**	-
Unrealised Foreign Exchange Losses / (Gains)	**966**	208	**(173)**	185

4. Expenses (continued)

In addition to the audit of the Financial Statements, Deloitte performed Other Assurance Services as follows:

- Review of interim financial statements
- Audit of carbon emissions
- Review of prospectus documents
- Trustee reporting.

5. Finance Costs

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Interest on Borrowings	**96,898**	91,486	95,867	91,486
Less Capitalised Interest	**(10,082)**	(18,460)	(4,170)	(1,772)
	86,816	73,026	91,697	89,714

Total interest expense for financial liabilities at amortised cost is $27.2 million (2009: $24.5 million).

6. Interest Income

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Interest Income on Financial Assets at Amortised Cost:				
- Cash and Cash Equivalents	**1,511**	4,600	**1,275**	4,034
- Finance Lease Receivable	**219**	-	**219**	-
- Loans to Subsidiaries	**-**	-	**37,077**	26,774
	1,730	4,600	**38,571**	30,808

7. Income Tax Expense

	NOTE	GROUP		PARENT	
		2010 $'000	2009 $'000	2010 $'000	2009 $'000
(A) Income Tax Expense					
Current Tax		**103,913**	74,538	**139,452**	96,649
Deferred Tax	24	**(10,726)**	(35,848)	**(30,698)**	(48,180)
Income Tax Expense		**93,187**	38,690	**108,754**	48,469
Income Tax Expense can be Reconciled to Accounting Profit as follows:					
Profit Before Tax		**277,236**	127,953	**344,385**	177,749
Income Tax at 30%		**83,171**	38,386	**103,316**	53,325
Tax Effect of Expenditure Not Deductible for Tax		**4,292**	160	**1,171**	142
Tax Effect of Income Not Subject to Tax		**(34)**	(643)	**(334)**	(394)
Income Tax Over Provided in Prior Year		**(381)**	(1,154)	**(854)**	(1,156)
Tax Credits Transferred from Subsidiary		**-**	-	**(2,866)**	(3,031)
Inter-company Dividend Received Not Subject to Tax		**-**	-	**-**	(50)
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	24	**(9,442)**	(720)	**(7,373)**	(689)
Effect of Change in Building Tax Depreciation on Deferred Tax	24	**14,748**	-	**14,748**	-
Other		**833**	2,661	**946**	322
Income Tax Expense		**93,187**	38,690	**108,754**	48,469

7. Income Tax Expense (continued)

A reduction in the corporate tax rate from 30% to 28% was announced in the 2010 Budget and has been passed and received Royal Assent. For the Group, this reduction will be effective 1 July 2011. Management has used judgement with regard to determining timing differences expected to reverse before this date and therefore recognised at 30%. The effect of this change is recognised in the income statement and statement of comprehensive income.

Also announced in the 2010 budget was the discontinuation of tax depreciation on buildings with a useful life of greater than 50 years effective for the Group on 1 July 2011. The effect of this change is reflected in the Income Statement. Management has used judgement in regard to the tax definition of buildings with the above ground structure of Powerhouse Structures and Plant being treated as buildings.

In addition to the income tax charge to the income statement, a deferred tax charge of $263.4 million for the Group and $265.4 million charge for the Parent (2009: Group $8.3 million credit, Parent $8.3 million credit) has been recognised in equity for the year (see Note 24 – Deferred Tax Liability).

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
(B) Imputation Credits				
Balance at Beginning of Year	**54,595**	32,650	**53,829**	32,009
Net Income Tax Paid	**100,622**	34,802	**100,471**	34,605
Credits Attached to Dividends Received	**-**	-	**-**	72
Credits Attached to Dividends Paid	**(118,391)**	(12,857)	**(118,391)**	(12,857)
Balance at End of Year	**36,826**	54,595	**35,909**	53,829

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

	GROUP	
	2010 $'000	2009 $'000
Through		
Shareholding in Parent Company	**35,909**	53,829
Indirect Interest in Subsidiaries	**917**	766
	36,826	54,595

8. Earnings per Share

Basic and Diluted Earnings Per Share	GROUP	
	2010 $'000	2009 $'000
Profit After Tax Attributable to Shareholders of the Parent Company	**184,852**	90,209
Weighted Average Number of Ordinary Shares on Issue (units)	**1,600,000,002**	1,600,000,002
Basic Earnings per Share ($)	**0.12**	0.06
Diluted Earnings per Share ($)	**0.12**	0.06

9. Equity

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. There have been no movements in share capital during the year.

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.

Changes to the Companies Act in 1993 abolished the authorised capital and par value concept in relation to share capital from 1 July 1994. Therefore the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Whisper Tech Limited Share Options Convertible to Ordinary Shares

Whisper Tech Limited has share option schemes which entitle key management personnel and senior employees to purchase shares in the Company. Each option converts into one ordinary share on exercise, following payment of the exercise price by the holder.

EXERCISE PRICE	2010 NUMBER ISSUED	2010 NUMBER FORFEITED	2010 NUMBER VESTED	2010 VESTED VALUE $ 000	2009 NUMBER ISSUED	2009 NUMBER FORFEITED	2009 NUMBER VESTED	2009 VESTED VALUE $ 000
$750	-	-	-	-	1,226	389	837	-
$1	2,308	-	2,308	-	2,563	-	2,563	-
$366.83	14,115	1,500	10,765	1,098	14,115	900	8,915	1,079
	16,423	1,500	13,073	1,098	17,904	1,289	12,315	1,079

The final exercise date for the $750 options was 31 December 2009. None of the holders of these options chose to take up their entitlements and as a result the options have lapsed.

On 31 March 2008 Whisper Tech Limited issued 7,350 $366.83 options to existing key management personnel. All these options vest in three equal tranches with 5,550 options becoming fully vested by 1 July 2010 and the remaining 1,800 options becoming fully vested by 31 March 2011. The final exercise date for all of the $366.83 options is 31 March 2013.

The $1 options are all fully vested with a final exercise date of 31 December 2013. On 3 December 2009 Whisper Tech Limited varied the terms of these options, extending the exercise date from 2009 to 2013. In recognition of this time extension, the holders of these options agreed to reduce the number of options that each held.

NZ IFRS 1 grants an exemption from valuing options that were granted on or before 7 November 2002. Meridian has chosen to take this exemption in relation to its $750 and $1 options. No vesting of these options occurred during the year ended 30 June 2010 or the comparative year.

The fair value of the options is calculated by applying the Black-Scholes option pricing model. The model inputs were the share price at grant date of $366.83, exercise price of $366.83, expected volatility range of 25% to 40%, no expected dividends, three years to the maturity date of the option, and a risk-free interest rate range of 4.75% p.a. to 4.81% p.a.

Number of Options Vested

	2010 $750 OPTIONS	2010 $1 OPTIONS	2010 $366.83 OPTIONS	2009 $750 OPTIONS	2009 $1 OPTIONS	2009 $366.83 OPTIONS
Opening Balance	837	2,563	8,915	837	2,563	6,765
New Fully Vested Options Created	-	-	-	-	-	-
Options Forfeited 31 March 2008	-	(255)	-	-	-	-
Options Forfeited Prior Years	(837)	-	-	-	-	-
Options Vested	-	-	1,850	-	-	2,150
Closing Balance	-	2,308	10,765	837	2,563	8,915

The weighted average exercise price of options vested at 30 June 2010 is $87.59 (2009: $87.59).

9. Equity (continued)

Number of Options Still Subject to Vesting

	2010 $750 OPTIONS	2010 $1 OPTIONS	2010 $366.83 OPTIONS	2009 $750 OPTIONS	2009 $1 OPTIONS	2009 $366.83 OPTIONS
Opening Option Balance	-	-	4,300	-	-	7,350
Created or Vested During Year	-	-	-	-	-	-
Less Forfeited	-	-	(600)	-	-	(900)
Less Fully Vested	-	-	(1,850)	-	-	(2,150)
Subject to Future Vesting	-	-	1,850	-	-	4,300

All of these options (2009: 600) become fully vested by 1 July 2010.

10. Dividends

	GROUP & PARENT		GROUP & PARENT	
	2010 $'000	2009 $'000	2010 CENTS PER SHARE	2009 CENTS PER SHARE
2010 Interim Dividend Paid	89,580	-	5.60	-
2009 Final Dividend Paid	263,912	-	16.49	-
2009 Interim Dividend Paid	-	30,000	-	1.87
	353,492	30,000	22.09	1.87

11. Cash and Cash Equivalents

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current Account	25,339	16,710	11,488	5,187
Money Market Account	29,055	31,167	27,746	30,110
	54,394	47,877	39,234	35,297

There are no cash and cash equivalent balances that are not available for use by the Group.
All cash and cash equivalents are held with money market dealers and banks.

12. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current				
Billed and Accrued Receivables	**198,663**	188,933	**185,030**	182,724
Less: Provision for Doubtful Debts	**(3,024)**	(3,239)	**(2,932)**	(2,997)
Net Trade Receivables	**195,639**	185,694	**182,098**	179,727
Prepayments	**3,475**	2,462	**5,586**	1,867
Total Accounts Receivable and Prepayments	**199,114**	188,156	**187,684**	181,594

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Movement in Provision for Doubtful Debts				
Opening Provision for Doubtful Debts	**(3,239)**	(2,839)	**(2,997)**	(2,839)
Provision Made During the Year	**-**	(557)	**-**	(315)
Provision Released During the Year	**215**	157	**65**	157
Provision Used During Year	**-**	-	**-**	-
Closing Provision for Doubtful Debts	**(3,024)**	(3,239)	**(2,932)**	(2,997)

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Trade Receivables				
Not Past Due	**175,421**	157,407	**163,549**	153,076
Past Due 1-30 days	**14,846**	18,680	**13,913**	18,026
Past Due 31-60	**1,979**	6,275	**1,667**	6,215
Past Due 61-90	**1,111**	1,233	**871**	1,061
Past Due > 91 days	**5,306**	5,338	**5,030**	4,346
	198,663	188,933	**185,030**	182,724

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2010 trade receivables of $20.5 million (2009: $28.3 million) were past due but not impaired. These relate to energy sales to a number of independent customers for whom there is no recent history of default.

Receivables more than 90 days overdue relate mainly to retail customers of which some of the balance is disputed. It is assessed that a portion of these receivables is likely to be recovered.

Meridian maintains a doubtful debt provision that reflects the limited likelihood of payment defaults. Meridian considers that the carrying amount of accounts receivable approximates their fair values. Trade receivables written off during the year were $4.9 million for the Group (2009: $3.7 million) and $4.7 million for the Parent (2009: $3.9 million).

Within Accounts Receivable is an amount due in relation to a construction contract, disclosed as follows:

	GROUP AND PARENT	
	2010 $'000	2009 $'000
Construction Contracts		
Contracts in Progress at Balance Date:		
Gross Construction Work in Progress Plus Margin to Date	**5,205**	-
Amounts Due from Construction Contract Customers Included in Accounts Receivable	**5,205**	-

Included in sales is $0.6 million of net contract revenue (2009: $nil).

No retentions are held by customers for any construction work in progress. All amounts included in Accounts Receivable and arising from construction contracts are due for settlement within the following 12 months.

13. Inventories

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Inventories				
Consumable Spares and Stores	3,713	3,959	3,064	3,646
Work in Progress and Components	3,579	3,962	-	-
Finished Goods	181	486	-	-
	7,473	8,407	3,064	3,646
Less Provision for Obsolescence	(1,444)	(1,108)	-	-
	6,029	7,299	3,064	3,646
Provision for Obsolescence				
Opening Provision	1,108	1,188	-	-
Provision Raised During the Year	485	180	-	-
Released During the Year	(149)	(260)	-	-
Closing Provision	1,444	1,108	-	-

In 2010, consumables and changes in finished goods and work in progress recognised as other operating expenses in the Group were $1.1 million and in the Parent were $0.03 million (2009: Group $1.3 million, Parent ($0.02) million). Consumables and changes in finished goods and work in progress recognised as energy-related costs in the Group were $9.3 million and in the Parent $0.2 million (2009: Group $3.3 million, Parent $nil).

Certain inventory items are subject to retention of title clauses.

14. Finance Lease Receivable

Meridian has entered into an arrangement with the New Zealand Antarctic Institute to provide lease finance for the Ross Island wind farm. The lease is for a period of 20 years.

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Minimum Lease Payments:				
Not Later than One Year	683	-	683	-
Later than One Year and Not Greater than Five Years	2,530	-	2,530	-
Later than Five Years	9,486	-	9,486	-
	12,699	-	12,699	-
Add: Unguaranteed Residual Value	-	-	-	-
Gross Investment in Finance Lease	12,699	-	12,699	-
Less: Unearned Finance Income	(7,032)	-	(7,032)	-
Present Value of Minimum Lease Payments	5,667	-	5,667	-
Analysed as:				
Not Later than One Year	683	-	683	-
Later than One Year and Not Greater than Five Years	415	-	415	-
Later than Five Years	4,569	-	4,569	-
	5,667	-	5,667	-
Add: Unguaranteed Residual Value	-	-	-	-
Total Finance Lease Receivable	5,667	-	5,667	-
Comprising				
Current	683	-	683	-
Non-Current	4,984	-	4,984	-
	5,667	-	5,667	-

15. Assets and Liabilities Classified as Held for Sale

Assets classified held for sale are land, buildings and land improvements originally purchased for anticipated hydro projects. These assets are no longer required and Meridian has initiated a plan to locate purchasers. These assets are expected to be sold within 12 months of balance date.

Liabilities classified as held for sale represent the estimated disposal costs of the assets classified as held for sale.

16. Investments in Subsidiaries

Investments in subsidiaries comprise shares at cost.

Name of Entity	DATE[1]	PRINCIPAL ACTIVITY	INTEREST HELD BY PARENT	
			2010	2009
DamWatch Services Limited		Professional Services	100%	100%
Energy for Industry Limited		Non-Trading Entity	100%	100%
MEL Holdings Limited		Non-Trading Entity	100%	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%
Meridian (Whisper Tech No.2) Limited		Non-Trading Entity	100%	100%
Powershop New Zealand Limited		Electricity Retailer	100%	100%
Right House Limited		Professional Services	100%	100%
Woodville Windfarm Limited		Non-Trading Entity	-	100%
MEL Solar Holdings Limited		Non-Trading Entity	100%	-

Controlled Entities (Other Subsidiaries)

Name of Entity	DATE[1]	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
			2010	2009
DamWatch Pty Limited[2]		Professional Services	100%	100%
MEL (Te Āpiti) Limited		Electricity Generation	100%	100%
MEL (Te Uku) Limited		Electricity Generation	100%	100%
MEL (West Wind) Limited		Electricity Generation	100%	100%
MEL (White Hill) Limited		Electricity Generation	100%	100%
MEL (Central Wind) Limited	17/08/2009	Electricity Generation	100%	-
MEL (Mill Creek) Limited	17/08/2009	Electricity Generation	100%	-
Blue Green Windfarm Limited	24/12/2009	Electricity Generation	100%	-
Three River Holdings (No.1) Limited		Non-Trading Entity	100%	100%
Three River Holdings (No.2) Limited		Non-Trading Entity	100%	100%
Meridian Energy Australia Pty Limited[2]		Electricity Generation	100%	100%
Meridian Wind Macarthur Pty Limited[2]		Electricity Generation	100%	100%
Meridian International No. 1 Limited		Non-Trading Entity	100%	100%
Meridian International No. 2 Limited		Non-Trading Entity	100%	100%
Meridian Australia Holdings Pty Limited[2]		Non-Trading Entity	100%	100%
Meridian Wind Australia Holdings Pty Limited[2]		Non-Trading Entity	100%	100%
Meridian Wind Australia Pty Limited[2]		Non-Trading Entity	100%	100%
Meridian Wind Farm JV Pty Limited[2]		Non-Trading Entity	100%	50%
Meridian Wind Monaro Range Holdings Pty Limited[2]		Non-Trading Entity	100%	100%
Meridian Wind Monaro Range Pty Limited[2]		Non-Trading Entity	100%	100%
Mt Mercer Wind Farm Pty Limited[2]		Electricity Generation	100%	100%
Meridian Renewables Pty Limited[2]	7/05/2010	Management Services	100%	-
MEL Meridian Australia Partnership[2]	14/05/2010	Non-Trading Entity	100%	-
Meridian Finco Pty Limited[2]	20/05/2010	Finance Company	100%	-
Mt Millar Windfarm Pty Limited[2]	31/05/2010	Electricity Generation	100%	-
WhisperGen Limited[5]		Non-Trading Entity	100%	100%
Whisper Tech Limited[5]		Technology Company	93.23%	93.23%

16. Investments in Subsidiaries (continued)

WhisperGen (UK) Limited[3]		Technology Company	**100%**	100%
Meridian Energy USA Incorporated[4, 6]	19/08/2009	Development	**100%**	-
Cal Renew – 1 LLC[4]	19/08/2009	Electricity Generation	**100%**	-
Jacob Canal Solar Farm LLC[4]	19/08/2009	Non-Trading Entity	**100%**	-
Laurel West Solar Farm LLC[4]	19/08/2009	Non-Trading Entity	**100%**	-
Laurel East Solar Farm LLC[4]	19/08/2009	Non-Trading Entity	**100%**	-
Hatteson Solar Farm LLC[4]	19/08/2009	Non-Trading Entity	**100%**	-
San Luis Valley Solar Farm LLC[4]	29/04/2010	Non-Trading Entity	**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 UK.
[4]Incorporated in the US.
[5]The Parent holds 23% of Whisper Tech Limited with WhisperGen Limited holding 70.23%.
[6]During the reporting period Meridian Energy USA Incorporated changed its name from Cleantech America Incorporated.

All subsidiaries have a balance date of 30 June except for Meridian Energy USA Incorporated that has a balance date of 31 December. These results have been incorporated through 30 June 2010.

On 30 June 2009 Arc Innovations Limited ("Arc") was amalgamated into the Parent. Until the date of the amalgamation Arc had been a wholly owned subsidiary of the Parent. Under the amalgamation the Parent took control of all of the assets of Arc and assumed responsibility for its liabilities. Arc has been removed from the New Zealand register of companies.

Summary of the Effect of Amalgamation of Arc:

	PARENT	
	2010 $'000	2009 $'000
Assets and Liabilities Amalgamated:		
Assets	-	66,738
Liabilities (Includes Intercompany Loan from Meridian)	-	(4,617)
	-	62,121
Carrying Amount of Shares in Amalgamated Subsidiary	-	(33,545)
Carrying Amount of Intercompany Loan	-	(49,446)
Balance Recognised in the Statement of Changes in Equity	-	(20,870)

The assets and liabilities have been bought into the Parent's financial statements at their carrying amounts and there was no cash effect. The operating results of Arc after the amalgamation have been included in the income statement of the Parent since 30 June 2009. The balance on amalgamation has been recognised in the statement of changes in equity of the Parent.

There was no effect on the Group's financial statements.

Acquisition of Meridian Energy USA Inc. (formerly named Cleantech America Inc.)

On 19 August 2009, Meridian acquired 100% of the outstanding shares of Meridian Energy USA Inc. a US-based solar development company. The acquisition provided Meridian with a high quality solar development team and a pipeline of future solar development opportunities. The development pipeline included the CalRENEW-1 project, a 5MW solar development in Mendota, California. Construction of this project was completed in April 2010.

The acquisition date fair value of the total consideration transferred was US$5.4 million (NZ$8.3 million).

Further consideration of up to US$6.0 million is payable, subject to the achievement of future milestones. These contingent milestones relate to the execution of several Power Purchase and Interconnection Agreements within a two-year timeframe. The basis for determining the payment is a specified amount per megawatt of power purchase contract capacity or interconnection provided.

The amount of contingent consideration, based on management's best estimate, recognised at acquisition date was US$2.0 million (NZ$3.1 million).

16. Investments in Subsidiaries (continued)

The total consideration paid and contingent consideration recognised in the accounts is as follows:

	GROUP 2010 $'000
Cash	8,284
Contingent Consideration	3,068
	11,352

The provisional allocation of purchase price is as follows:

	GROUP 2010 $'000
Net Assets Acquired	2,895
Goodwill	8,457
	11,352

The net assets acquired on 19 August 2009 consisted of the following:

	GROUP 2010 $'000
Prepaid Expenses and Other Current Assets	42
Work In Progress	3,020
Fixed Assets	107
Total Assets Acquired	3,169
Accounts Payable	(21)
Accrued Expenses	(253)
Total Liabilities Acquired	(274)
Net Assets Acquired	**2,895**

Meridian has allocated $8.5 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. This goodwill balance is made up of intangible assets that do not qualify for separate recognition such as contracts under negotiation, identified business development opportunities and assembled workforce. Goodwill arising from the acquisition is not deductible for tax purposes.

The results of Meridian Energy USA Inc. have been included in Meridian's consolidated results from 20 August 2009 (Revenue $0.6 million and Net Loss after Tax of $4.7 million).

If the acquisition of Meridian Energy USA Inc. had occurred as of the beginning of the annual reporting period Meridian would have reported consolidated revenue of $2,061.9 million and Net Profit after Tax of $183.0 million.

The acquisition related costs of $0.8 million are recognised as "Other Operating Expenses" in the Income Statement.

Mt Millar Wind Farm Pty Ltd

On 31 May 2010, Meridian acquired 100% of the outstanding shares of Mt Millar Wind Farm Pty Ltd. The acquisition provided Meridian a fully operational wind farm with a generating capacity of 70MW, enough to power on average 36,000 Australian households per year.

The acquisition date fair value of the total consideration transferred was AUD$191.2 million (NZD$237.5 million).

The total consideration related to the acquisition is as follows:

	GROUP 2010 $'000
Cash	237,544
Total Purchase Consideration	**237,544**

Under the purchase method of accounting, we allocated the total purchase price shown in the table above to Mt Millar Wind Farm Pty Ltd's net tangible assets, based on their fair values as of 31 May 2010.

16. Investments in Subsidiaries (continued)

The provisional allocation of the purchase price is as follows:

	GROUP 2010 $'000
Net Assets Acquired	172,518
Property, Plant and Equipment	65,026
Deferred Tax Liability	(2,613)
Goodwill	2,613
Total Purchase Consideration	**237,544**

The carrying value of the net assets acquired on 31 May 2010 consisted of the following:

	GROUP 2010 $'000
Accounts Receivable	1,395
Prepaid Expenses and Other Current Assets	86
Property Plant and Equipment	173,937
Total Assets Acquired	**175,418**
Accounts Payable	(2,715)
Accrued Expenses	(185)
Total Liabilities Assumed	**(2,900)**
Net Assets Acquired	**172,518**

Meridian has allocated $2.6 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible assets acquired. Goodwill arising from the acquisition is not deductible for tax purposes.

The carrying value of the accounts receivable are the gross contractual amounts and considered to be the fair value of the receivables acquired.

Upon acquisition Mt Millar has adopted Meridian's Group accounting policies in respect of generation assets and financial instruments carried at fair value. The impact of adopting these policies is a fair value adjustment to Property, Plant and Equipment of $65.0 million and no change to the carrying value of financial instruments.

The results of Mt Millar Wind Farm Pty Ltd have been included in Meridian's consolidated results from 31 May 2010 (Revenue $1.1 million, Net Profit after Tax $0.2 million).

If the acquisition of Mt Millar Wind Farm Pty Ltd had occurred as of the beginning of the annual reporting period then Meridian would have reported consolidated revenue of $2,079.0 million and Net Profit after Tax of $209.5 million, based on the completion accounts of the acquired entity.

The acquisition related costs of $3.6 million are recognised within "Other Operating Expenses" in the Income Statement.

17. Equity Accounted Joint Ventures

Details of the Group's Equity Accounted Joint Ventures are as follows:

NAME OF ENTITY	DATE	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
			2010	2009
Efficient Home Energy, S.L.[1]	11/01/08	Manufacturing	40%	40%
Elemental Energy Limited[2]	19/11/07	Electricity Generation Systems	50%	50%

[1] *Incorporated in Spain.*
[2] *Incorporated in New Zealand. Ceased trading and in process of liquidation. The Group's carrying value of the investment in the Joint Venture is nil.*

Summarised financial information in respect of the Group's investments in Joint Ventures is set out below:

	GROUP	
	2010 $'000	2009 $'000
Current Assets	5,736	3,744
Non-Current Assets	6,897	6,857
Total Assets	12,633	10,601
Current Liabilities	(5,305)	(3,300)
Non-Current Liabilities	(5,753)	(1,753)
Total Liabilities	(11,058)	(5,053)
Net Assets	1,575	5,548
Group's Share of Net Assets of Joint Ventures	630	2,211
Foreign Exchange Translation effect	(336)	-
	294	2,211
Total Revenue	3,468	2,661
Total Expenses	(8,660)	(7,341)
Total Loss for the Period	(5,192)	(4,680)
Group's Share of Losses of Joint Ventures	(2,012)	(1,883)

	GROUP	
	2010 $'000	2009 $'000
Balance at Beginning of Year	2,211	2,811
New Investments	704	1,297
Share of Losses of Joint Ventures	(2,012)	(1,883)
Foreign Exchange	(609)	(14)
Balance at End of Year	294	2,211

The Group has no share of any capital commitments or contingent liabilities from these Joint Ventures.

18. Available for Sale Investments

	CURRENCY	GROUP AND PARENT 2010 $'000	GROUP AND PARENT 2009 $'000
Listed Securities			
Ceramic Fuel Cells Limited	AUD	128	141
Comverge, Inc	USD	378	538
Unlisted Securities			
Nth Power Technologies Fund II, L.P.	USD	1,770	1,606
Fonterra Co-operative Group Limited	NZD	3,261	4,176
North Otago Irrigation Company Limited	NZD	-	-
Carbon Flow Inc.	USD	532	532
EnergyHedge Limited	NZD	8	-
		6,077	6,993

	GROUP AND PARENT 2010 $'000	GROUP AND PARENT 2009 $'000
Balance at Beginning of Year	6,993	11,780
Additions	8	333
Disposals	(932)	(3,612)
Impairment Loss on Nth Power Technologies Fund II, L.P.	-	(2,766)
Net Gains Taken to Equity	8	1,258
Balance at End of Year	6,077	6,993
Comprising:		
Non-Current	6,077	6,993

Available-for-sale assets are carried at fair value except for the investments in Carbon Flow Inc, North Otago Irrigation Company Limited and EnergyHedge Limited. These investments consist of shares in privately owned companies for which there are no market or quoted prices. Therefore the fair value of these shares cannot be measured reliably and the carrying amount has been determined by the cost of acquiring the shares in the company.

19. Intangible Assets

	GROUP						
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS & TRADEMARKS $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2008	20,276	6,883	22,380	1,266	401	65,174	116,380
Acquisitions	14,179	98	-	276	-	-	14,553
Transfer From Property, Plant and Equipment	117	-	-	-	-	-	117
Reclassified to Accumulated Amortisation	-	-	-	(310)	-	-	(310)
Disposals	-	-	-	(22)	-	-	(22)
Balance at 30 June 2009	34,572	6,981	22,380	1,210	401	65,174	130,718
Balance at 1 July 2009	34,572	6,981	22,380	1,210	401	65,174	130,718
Acquisitions	8,761	11,120	-	256	-	-	20,137
Transfer From Property, Plant and Equipment	17,136	-	-	-	-	-	17,136
Disposals	(44)	-	-	-	-	-	(44)
Balance at 30 June 2010	**60,425**	**18,101**	**22,380**	**1,466**	**401**	**65,174**	**167,947**
Accumulated Amortisation and Impairment							
Balance at 1 July 2008	(13,428)	-	(4,476)	(612)	(381)	(55,125)	(74,022)
Amortisation during Year	(7,260)	(25)	(2,238)	(121)	(20)	(3,638)	(13,302)
Transfer From Property, Plant and Equipment	(71)	-	-	-	-	-	(71)
Reclassified from Cost	-	-	-	310	-	-	310
Balance at 30 June 2009	(20,759)	(25)	(6,714)	(423)	(401)	(58,763)	(87,085)
Balance at 1 July 2009	(20,759)	(25)	(6,714)	(423)	(401)	(58,763)	(87,085)
Amortisation during Year	(7,564)	(124)	(2,238)	(147)	-	(3,639)	(13,712)
Impairment	(17,136)	-	-	-	-	-	(17,136)
Disposals	39	-	-	-	-	-	39
Balance at 30 June 2010	**(45,420)**	**(149)**	**(8,952)**	**(570)**	**(401)**	**(62,402)**	**(117,894)**
Net Book Value							
Net Book Value 30 June 2008	6,848	6,883	17,904	654	20	10,049	42,358
Net Book Value 30 June 2009	13,813	6,956	15,666	787	-	6,411	43,633
Net Book Value 30 June 2010	**15,005**	**17,952**	**13,428**	**896**	**-**	**2,772**	**50,053**

19. Intangible Assets (continued)

	PARENT				
	SOFTWARE	LICENCES	CUSTOMER ACQUISITION COSTS	PATENTS & TRADEMARKS	TOTAL
	$'000	$'000	$'000	$'000	$'000
Cost or Fair Value					
Balance at 1 July 2008	16,041	401	65,174	-	81,616
Acquisitions	13,361	-	-	-	13,361
Effect of Amalgamation of Arc	4,274	-	-	-	4,274
Balance at 30 June 2009	33,676	401	65,174	-	99,251
Balance at 1 July 2009	33,676	401	65,174	-	99,251
Acquisitions	8,461	-	-	19	8,480
Transfer From Property, Plant and Equipment	17,136	-	-	-	17,136
Balance at 30 June 2010	**59,273**	**401**	**65,174**	**19**	**124,867**
Accumulated Amortisation and Impairment					
Balance at 1 July 2008	(12,292)	(381)	(55,125)	-	(67,798)
Amortisation During Year	(6,444)	(20)	(3,638)	-	(10,102)
Effect of Amalgamation of Arc	(1,773)	-	-	-	(1,773)
Balance at 30 June 2009	(20,509)	(401)	(58,763)	-	(79,673)
Balance at 1 July 2009	(20,509)	(401)	(58,763)	-	(79,673)
Amortisation During Year	(7,302)	-	(3,638)	(1)	(10,941)
Impairment	(17,136)	-	-	-	(17,136)
Balance at 30 June 2010	**(44,947)**	**(401)**	**(62,401)**	**(1)**	**(107,750)**
Net Book Value					
Net Book Value 30 June 2008	3,749	20	10,049	-	13,818
Net Book Value 30 June 2009	13,167	-	6,411	-	19,578
Net Book Value 30 June 2010	**14,326**	**-**	**2,773**	**18**	**17,117**

Impairment of Software

During the year Meridian recognised impairment of $16.7 million in respect of two IT system upgrade/replacement projects.

The Generation Control System upgrade project was discontinued, due to the project not delivering the intended benefits, resulting in an impairment of $7.6 million in the Wholesale segment. The impairment relates to project costs incurred to date that will have no future benefit to Meridian.

The Retail Billing System replacement project currently underway was reviewed and an alternative decision was made to instead commence with an upgrade of the current billing system, Gentrack, resulting in an impairment of $9.1 million in the Retail segment. The impairment relates to procurement and design costs incurred to date that will have no future benefit to Meridian.

Goodwill

The goodwill balance represents $6.8 million in relation to Whisper Tech Ltd, $8.5 million in relation to the acquisition of Meridian Energy USA Inc. (formerly named Cleantech America Inc.) and $2.6 million in relation to the acquisition of Mt Millar Windfarm Pty Ltd.

19. Intangible Assets (continued)

Whisper Tech Ltd

For the purpose of impairment testing, all goodwill is allocated to the cash generating unit of Whisper Tech Ltd that includes its interest in Efficient Home Energy S.L., the European-based manufacturing and distribution joint venture for the AC WhisperGen micro-CHP device. The impairment test is based on a value in use discounted cash flow valuation. Cash flow projections are based on Whisper Tech's five-year financial forecast. Key assumptions in the value in use calculation for the Whisper Tech cash generating unit are:

Assumptions	Method of determination
Sales volumes	Minimum volumes as agreed in signed distribution agreements complimented with forecast volumes for additional distribution agreements. The forecast element is based on volume growth to 3.0% - 5.0% of the European boiler market
Sales price	Prices as agreed in signed distribution agreements complemented with forecast volumes in the latter years
Costs	Review of actual costs of production and consideration of impact in a mass production environment
Discount rates	Cash flow projections are discounted using post-tax discount rate scenarios of 12.5% – 20.0%

Meridian Energy USA Inc. (formerly named Cleantech America Inc.)

On 19 August 2009, Meridian acquired 100% of the outstanding shares of Meridian Energy USA Inc., a US-based solar development company (see Note 16).

Meridian has allocated $8.5 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible assets acquired and relates to the development pipeline, including contracts under negotiation. For the purpose of impairment testing, the goodwill is allocated to the Meridian Energy USA Inc. Group. The impairment test is based on comparing the carrying amount of goodwill to the recoverable amount, which is fair value less costs to sell. Fair value is with reference to the arm's length market transaction relating to the purchase of Meridian Energy USA Inc.

Mt Millar Windfarm Pty Ltd

On 31 May 2010, Meridian acquired 100% of the outstanding shares of Mt Millar Windfarm Pty Ltd, a 70MW windfarm in South Australia (see Note 16).

Meridian has allocated $2.6 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible assets acquired.

For the purpose of impairment testing, the goodwill is allocated to the Mt Millar windfarm. The impairment test is based on comparing the carrying amount of goodwill to the recoverable amount, which is fair value less costs to sell. Fair value is with reference to the arm's-length market transaction relating to the purchase of the windfarm.

20. Property, Plant and Equipment

	GROUP						
	GENERATION STRUCTURES & PLANT AT FAIR VALUE	FREEHOLD LAND AT COST	FREEHOLD BUILDINGS AT COST	RESOURCE CONSENTS AT COST	OTHER PLANT AND EQUIPMENT AT COST	CAPITAL WORK IN PROGRESS AT COST	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or Fair Value							
Balance at 1 July 2008	6,135,215	33,744	10,882	8,586	117,978	309,589	6,615,994
Additions	-	-	-	-	106	476,132	476,238
Transfers from Capital Work in Progress	29,522	9,800	2,479	-	59,701	(101,424)	78
Transfers to Assets Classified as Held For Sale	-	(8,265)	(1,225)	-	(224)	-	(9,714)
Disposals	(123)	356	(141)	-	(3,133)	-	(3,041)
Transfer to Intangible Assets	-	-	-	-	(117)	-	(117)
Impairment of Property, Plant and Equipment	-	-	-	-	(111)	(6,317)	(6,428)
Balance at 30 June 2009	**6,164,614**	**35,635**	**11,995**	**8,586**	**174,200**	**677,980**	**7,073,010**
Balance at 1 July 2009	6,164,614	35,635	11,995	8,586	174,200	677,980	7,073,010
Additions	-	-	-	-	134	207,108	207,242
Additions from Business Combinations	236,410	-	-	-	60	-	236,470
Transfers from Capital Work in Progress	542,971	5,988	869	-	34,602	(584,430)	-
Transfers to Assets Classified as Held For Sale	-	2,865	323	-	81	-	3,269
Transfer to Intangible Assets	-	-	-	-	-	(17,136)	(17,136)
Disposals	(2,352)	(2,562)	-	-	(2,424)	-	(7,338)
Reclassifcation	2,362	(1,481)	(372)	-	(509)	-	-
Revaluation Increase	805,813	-	-	-	-	-	805,813
Impairment of Property, Plant and Equipment	-	-	-	-	-	(1,200)	(1,200)
Balance at 30 June 2010	**7,749,818**	**40,445**	**12,815**	**8,586**	**206,144**	**282,322**	**8,300,130**
Accumulated Depreciation and Impairment							
Balance at 1 July 2008	(129,256)	-	(1,600)	(1,501)	(51,047)	-	(183,404)
Depreciation Expense	(131,157)	-	(471)	(179)	(17,986)	-	(149,793)
Disposals	19	-	13	-	2,898	-	2,930
Transfer to Assets Classified as Held For Sale	-	-	165	-	136	-	301
Transfer to Intangible Assets	-	-	-	-	71	-	71
Balance at 30 June 2009	**(260,394)**	**-**	**(1,893)**	**(1,680)**	**(65,928)**	**-**	**(329,895)**
Balance at 1 July 2009	(260,394)	-	(1,893)	(1,680)	(65,928)	-	(329,895)
Depreciation Expense	(150,756)	-	(406)	(175)	(22,981)	-	(174,318)
Additions from Business Combinations	-	-	-	-	(3)	-	(3)
Disposals	2,254	-	-	-	1,372	-	3,626
Reclassification	(56)	-	17	-	39	-	-
Transfer to Assets Classified as Held For Sale	-	-	(39)	-	(24)	-	(63)
Offset of Accumulated Depreciation on Revalued Assets	407,850	-	-	-	-	-	407,850
Balance at 30 June 2010	**(1,102)**	**-**	**(2,321)**	**(1,855)**	**(87,525)**	**-**	**(92,803)**
Net Book Value							
Net Book Value 30 June 2008	6,005,959	33,744	9,282	7,085	66,931	309,589	6,432,590
Net Book Value 30 June 2009	5,904,220	35,635	10,102	6,906	108,272	677,980	6,743,115
Net Book Value 30 June 2010	**7,748,716**	**40,445**	**10,494**	**6,731**	**118,619**	**282,322**	**8,207,327**

20. Property, Plant and Equipment (continued)

	PARENT						
	GENERATION STRUCTURES & PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2008	5,757,822	32,262	10,509	8,586	76,176	153,665	6,039,020
Additions	-	-	-	-	-	83,972	83,972
Transfers from Capital Work in Progress	29,099	9,800	2,479	-	34,469	(76,408)	(561)
Transfers to Assets Classified as Held For Sale	-	(8,265)	(1,225)	-	(224)	-	(9,714)
Disposals	(123)	356	(141)	-	(3,208)	-	(3,116)
Effect of Amalgamation of Arc Innovations Limited	-	-	-	-	57,902	10,309	68,211
Balance at 30 June 2009	**5,786,798**	**34,153**	**11,622**	**8,586**	**165,115**	**171,538**	**6,177,812**
Balance at 1 July 2009	5,786,798	34,153	11,622	8,586	165,115	171,538	6,177,812
Additions	-	-	-	-	-	53,695	53,695
Transfers from Capital Work in Progress	38,378	5,988	869	-	28,975	(74,555)	(345)
Transfers to Assets Classified as Held For Sale	-	2,865	323	-	81	-	3,269
Transfers to Intangible Assets	-	-	-	-	-	(17,136)	(17,136)
Disposals	(2,351)	(2,562)	-	-	(2,059)	-	(6,972)
Revaluation Increase	884,944	-	-	-	-	-	884,944
Impairment of Property, Plant and Equipment	-	-	-	-	-	(1,200)	(1,200)
Balance at 30 June 2010	**6,707,769**	**40,444**	**12,814**	**8,586**	**192,112**	**132,342**	**7,094,067**
Accumulated Depreciation and Impairment							
Balance at 1 July 2008	(110,465)	-	(1,594)	(1,501)	(44,457)	-	(158,017)
Depreciation Expense	(111,299)	-	(460)	(179)	(11,913)	-	(123,851)
Disposals	19	-	13	-	2,843	-	2,875
Transfer to Assets Classified as Held For Sale	-	-	165	-	136	-	301
Effect of Amalgamation of Arc Innovations Limited	-	-	-	-	(9,163)	-	(9,163)
Balance at 30 June 2009	**(221,745)**	**-**	**(1,876)**	**(1,680)**	**(62,554)**	**-**	**(287,855)**
Balance at 1 July 2009	(221,745)	-	(1,876)	(1,680)	(62,554)	-	(287,855)
Depreciation Expense	(110,940)	-	(406)	(175)	(21,462)	-	(132,983)
Disposals	2,255	-	-	-	1,057	-	3,312
Transfer to Assets Classified as Held For Sale	-	-	(39)	-	(24)	-	(63)
Elimination of Accumulated Depreciation on Revalued Assets	330,430	-	-	-	-	-	330,430
Balance at 30 June 2010	**-**	**-**	**(2,321)**	**(1,855)**	**(82,983)**	**-**	**(87,159)**
Net Book Value							
Net Book Value 30 June 2008	5,647,357	32,262	8,915	7,085	31,719	153,665	5,881,003
Net Book Value 30 June 2009	5,565,053	34,153	9,746	6,906	102,561	171,538	5,889,957
Net Book Value 30 June 2010	**6,707,769**	**40,444**	**10,493**	**6,731**	**109,129**	**132,342**	**7,006,908**

20. Property, Plant and Equipment (continued)

The fair value of generation structures and plant assets is determined by using independent valuers in accordance with the property, plant and equipment accounting policy.

Generation structures and plant assets (including land and buildings) were valued at 30 June 2010 by PricewaterhouseCoopers ("PwC"). The generation structures and plant assets are stated at fair value. The valuation resulted in an increase of $874.0 million net of tax (gross $1,214.0 million) to the asset revaluation reserve.

PwC calculated values for Meridian as at 30 June 2010 using both the capitalisation of earnings methodology, applied to Meridian as a whole, and the discounted cash flow ("DCF") methodology.

The capitalisation of earnings methodology calculates value by reference to an assessment of future maintainable earnings and capitalisation multiples observed from comparable publicly traded companies.

The DCF methodology calculates value based on the present value of the cash flows that the asset or entity can be expected to generate in the future.

In preparing the capitalisation of earnings valuation, PwC analysed a range of companies with broadly comparable operations to Meridian to determine an EBITDAF[1] multiple range at which to capitalise Meridian's historical and forecast earnings. The EBITDAF multiples used by PwC were in the range of 10.0x to 12.5x EBITDAF, and were applied to the business as a whole.

In forming their view on the value of the generation structures and plant assets, PwC considered the valuations calculated using both the DCF methodology and capitalisation of earnings methodology, applied to Meridian as a whole, the general movement in the market prices of listed companies, and the potential performance of the New Zealand economy in the near term. PwC's view was that a value weighted more towards the capitalisation of earnings range was appropriate to determine fair value.

PwC concluded that the value of the generation structures and plant assets as at 30 June 2010 was in the range of $7.4 billion to $7.7 billion.

The Directors have adopted a fair value of $7.7 billion at 30 June 2010. The value is allocated amongst the physical assets on the basis of their relative cash flows.

As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil at 30 June 2010 in line with treatment prescribed under NZ IAS 16: *Property, Plant and Equipment*. There is no depreciation impact of this revaluation in the Income Statement.

Finance costs totalling $10.1 million (2009: $18.5 million) have been capitalised in relation to new builds and refurbishment of certain generation structures and plant assets. A capitalisation rate of 8.16% p.a. was used during the year (2009: 8.16% p.a.).

Comparative Period

The generation assets were last revalued at 30 June 2007. This valuation was based on the net present value of future earnings of the assets on an existing use basis ("DCF"), excluding disposal and restoration costs. The fair value was derived with reference to an internally generated wholesale electricity price path reflecting a range of views of current and future economic conditions.

At 30 June 2010 had the generation structures and plant been carried at historical cost less accumulated depreciation and accumulated impairment losses their carrying amount would have been approximately $2.9 billion (2009: $2.2 billion).

Impairment

In 2010 an impairment loss of $1.2 million has been recognised in the income statement (2009: $6.4 million). The impairment reflects the partial write-off of expenditure in the unallocated corporate segment in relation to the application for the consent of Project Hayes, a wind farm project in North Otago, following the Environment Court declining Meridian's resource consent application. The 2009 impairment loss arose in the retail cash generating unit (CGU) as a result of obsolescence of specific assets due to Arc's unsuccessful execution of its international growth strategy. These assets no longer have any value in use to the retail CGU.

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 Electricity Corporation of New Zealand ("ECNZ") owned these assets prior to transfer to the Group. Titles will be issued once land title processes have been completed.

[1] *Earnings before interest, tax, depreciation, amortisation and fair value movements.*

21. Payables and Accruals

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Trade Creditors	**11,065**	6,218	**10,489**	2,612
Accruals	**155,636**	134,421	**139,309**	121,034
GST	**10,731**	9,722	**11,059**	11,166
Employee Entitlements	**14,582**	10,595	**13,228**	9,240
Unearned Income	**4,873**	5,163	**3,311**	4,700
Deferred Consideration	**4,727**	4,353	**3,068**	-
	201,614	170,472	**180,464**	148,752

22. Provisions

	GROUP			PARENT	
	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000	RESTRUCTURING $'000	TOTAL $'000
Balance at 1 July 2008	-	1,940	1,940	-	-
Additional Provision Recognised	514	321	835	514	514
Amount Utilised	-	(1,403)	(1,403)	-	-
Balance at 30 June 2009	**514**	**858**	**1,372**	**514**	**514**
Balance at 1 July 2009	514	858	1,372	514	514
Additional Provision Recognised	8,215	-	8,215	8,215	8,215
Amount Utilised	(8,496)	(355)	(8,851)	(8,496)	(8,496)
Balance at 30 June 2010	**233**	**503**	**736**	**233**	**233**

The warranty provision relates to goods sold and is estimated using historical warranty data, management estimation of return rate, and industry information where available. The timing of expected payments under this provision is uncertain.

The restructuring provision reflects the restructuring of Meridian's Corporate Services and Retail Operating segment that occurred during the year following reviews of both areas that focused on improving services. The opening provision related to the restructuring of the business operations of ARC, which was amalgamated with the Parent on 30 June 2009 (refer Note 16 – Investments in Subsidiaries).

23. Borrowings

				GROUP			
	CURRENCY	INTEREST RATE	YEAR OF MATURITY	FACE VALUE 2010 $'000	CARRYING VALUE 2010 $'000	FACE VALUE 2009 $'000	CARRYING VALUE 2009 $'000
Current Portion of Term Borrowings							
Unsecured Bank Funding	NZD	3.16%	-	150,000	150,000	-	-
Unsecured Renewable Energy Notes	NZD	4.86%	2010-2011	134,639	134,417	123,533	123,166
Total Current Portion of Term Borrowings				284,639	284,417	123,533	123,166
Term Borrowings							
Unsecured Bank Funding	NZD	4.15%	2011-2026	175,000	175,000	345,000	345,000
Unsecured Bank Funding	AUD	5.54%	2013	179,674	179,674	-	-
Unsecured Floating Rate Notes	AUD	5.39%	2012	123,000	122,600	123,000	122,997
Fixed Rate Bond Issue	USD	5.22%	2012-2019	581,649	649,177	581,649	659,866
Unsecured Renewable Energy Bonds	NZD	7.30%	2015-2017	200,000	196,607	-	-
Unsecured Renewable Energy Notes	NZD	5.25%	2011	-	-	832	832
Total Term Borrowings				1,259,323	1,323,058	1,050,481	1,128,695
Total Borrowings				1,543,962	1,607,475	1,174,014	1,251,861

				PARENT			
	CURRENCY	INTEREST RATE	YEAR OF MATURITY	FACE VALUE 2010 $'000	CARRYING VALUE 2010 $'000	FACE VALUE 2009 $'000	CARRYING VALUE 2009 $'000
Current Portion of Term Borrowings							
Unsecured Bank Funding	NZD	3.16%	-	150,000	150,000	-	-
Unsecured Renewable Energy Notes	NZD	4.86%	2010-2011	134,639	134,417	123,533	123,166
Total Current Portion of Term Borrowings				284,639	284,417	123,533	123,166
Term Borrowings							
Unsecured Bank Funding	NZD	4.15%	2011-2026	175,000	175,000	345,000	345,000
Unsecured Floating Rate Notes	AUD	5.39%	2012	123,000	122,600	123,000	122,997
Fixed Rate Bond Issue	USD	5.22%	2012-2019	581,649	649,177	581,649	659,866
Unsecured Renewable Energy Bonds	NZD	7.30%	2015-2017	200,000	196,607	-	-
Unsecured Renewable Energy Notes	NZD	5.25%	2011	-	-	832	832
Total Term Borrowings				1,079,649	1,143,384	1,050,481	1,128,695
Total Borrowings				1,364,288	1,427,801	1,174,014	1,251,861

The foreign currency denominated term borrowings are reported in the financial statements at fair value and are hedged by Cross Currency Interest Rate Swaps (CCIRS's). The NZD equivalent of these borrowings after the effect of foreign exchange hedging of the borrowings is $771.8 million (30 June 2009: $782.9 million). If we were to incorporate movements in credit margins, this would result in a fair value decrease of $28.4 million (30 June 2009: $32.3 million).

The NZD denominated borrowings are reported at amortised cost, which is considered to approximate fair value given their term and nature. If we were to incorporate movements in credit margins, this would result in a fair value decrease of $5.7 million (30 June 2009: $16.4 million).

The AUD denominated borrowings reported at amortised cost have had no change to credit margins since the borrowings were taken out.

For more information about Meridian's exposure to interest rate and foreign currency risk, see Note 25 – Financial Risk Management.

Security

Meridian borrows under a negative pledge arrangement, which does not permit it to grant any security interest over its assets, unless it is an exception permitted within the negative pledge.

23. Borrowings (continued)

Credit Facilities

Meridian has committed bank facilities of $1,189.0 million ($755.0 million at 30 June 2009) of which $686.0 million were undrawn at 30 June 2010 ($410.0 million at 30 June 2009). The expiry of these facilities range from December 2010 to April 2026.

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements which provide credit support of $68.9 million to support the collateral requirements of Meridian's trading business. Of the $68.9 million, $2.4 million expires in 2011, $41.9 million expires in 2012 with the balance having no expiry date. Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

24. Deferred Tax Liability

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	NOTE	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Balance at Beginning of Period		**1,300,782**	1,328,356	**1,273,714**	1,312,807
Movement in Temporary Differences Recognised in:					
- Income Statement	7	**(16,032)**	(35,128)	**(38,073)**	(47,491)
- Equity		**366,738**	8,274	**367,255**	8,295
- Deferred Tax on Acquisition of Subsidiary		**2,613**	-	**-**	-
Effect of Corporate Tax Rate Reduction on:					
- Income Tax Expense	7	**(9,442)**	(720)	**(7,373)**	(689)
- Revaluation Reserve		**(103,270)**	-	**(101,810)**	-
- Cash Flow Hedge Reserve		**(18)**	-	**(18)**	-
- Available for Sale Reserve		**(11)**	-	**(11)**	-
Effect of Building Tax Depreciation Change	7	**14,748**	-	**14,748**	-
Acquired on Amalgamation of ARC		**-**	-	**-**	792
Balance at End of Period		**1,556,108**	1,300,782	**1,508,432**	1,273,714
Consisting of Temporary Differences on the following:					
Property, Plant and Equipment		**1,607,115**	1,326,830	**1,565,106**	1,307,348
Financial Instruments		**(23,505)**	(27,977)	**(22,792)**	(27,980)
Term Payables		**(22,595)**	-	**(22,595)**	-
Other		**(4,907)**	1,929	**(11,287)**	(5,654)
		1,556,108	1,300,782	**1,508,432**	1,273,714

The movement in temporary differences recognised in the income statement consists of the following:

	NOTE	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Property, Plant and Equipment		**19,403**	5,914	**(8,082)**	(7,061)
Financial Instruments		**(21,438)**	(43,461)	**(20,722)**	(43,461)
Other		**(8,691)**	1,699	**(1,894)**	2,342
	7	**(10,726)**	(35,848)	**(30,698)**	(48,180)

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) for Statement of Financial Position purposes:

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Deferred Tax Liability	**1,559,507**	1,301,231	**1,508,432**	1,273,714
Deferred Tax Asset	**(3,399)**	(449)	**-**	-
	1,556,108	1,300,782	**1,508,432**	1,273,714

25. Financial Risk Management

Meridian's activities expose it to a variety of financial risks: market risk (including electricity and other price risk, currency risk, interest rate risk, cash flow risk), credit risk and liquidity risk. Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. Meridian uses derivative financial instruments to hedge certain risk exposures such as:

- Foreign Exchange Contracts and Options ("FEC's")
- Cross Currency Interest Rate Swaps ("CCIRS's")
- Interest Rate Swaps ("IRS's") including forward rate agreements and interest rate options
- Electricity Contracts for Differences ("CfD's") to hedge certain risk exposures.

Meridian uses sensitivity analysis to measure the amount of risk it is exposed to for:

- price risk
- foreign exchange risk
- interest rate risk
- aging analysis for credit risk.

Risk management for interest rate risk and currency risk is carried out by the Group Treasury function under policies approved by the Board. Electricity price risk management is carried out by a centralised electricity risk management group. These groups identify, evaluate and economically hedge financial risks in close co-operation with the Group's operating units. Hedges are undertaken on an economic basis based on net exposures and cash flows. The Board provides written principles for overall risk management, as well as policies covering specific areas such as electricity price risk, interest rate risk, foreign exchange risk and credit risk.

Market Risk

a) Foreign Exchange Risk

Meridian borrows in foreign currencies and is exposed to foreign exchange risks, primarily in respect of the US and Australian dollar. In addition, the Group incurs capital and operating expenditure denominated in foreign currencies which exposes the Group to foreign exchange risk primarily in respect of US dollars, Japanese yen, Australian dollars and the Euro. Meridian does not enter into FEC's for speculative purposes.

In respect of overseas borrowings, the Group's policy is to hedge 100% of the foreign currency exposure of both interest and principal repayments. This is achieved through CCIRS's which swap all foreign currency denominated interest and principal repayments with New Zealand denominated payments over the life of the borrowings. The combination of the foreign denominated debt and the CCIRS's result in a Group exposure to New Zealand floating interest rates and a fixed New Zealand denominated principal repayment. The New Zealand floating interest rate risk is managed as part of the New Zealand interest rate risk as described in the following section.

Meridian establishes a combination of both cash flow and fair value hedges for the CCIRS's and the foreign denominated borrowings (refer to Note 27 – Derivative Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRS's at 30 June 2010 was $0.705 billion (30 June 2009: $0.705 billion).

In respect of foreign exchange exposures on capital and operating expenditures denominated in foreign currencies, Meridian hedges the foreign exchange risk through a combination of foreign exchange forward contracts and options "FEC's". Capital projects which are approved by the Board are hedged 100% whilst capital projects which are anticipated but not approved are hedged up to 50% based on Treasury limits. All committed foreign currency exposures of greater than $100 thousand NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FEC's at 30 June 2010 was $0.139 billion (30 June 2009: $0.188 billion).

In cases where the capital expenditure qualifies as a highly probable transaction, Meridian establishes a combination of both cash flow and fair value hedges. To the extent these hedges are effective, gains and losses on the derivatives are included as a component of the cost of the capital expenditure. In instances where the forecast capital expenditure does not meet the highly probable requirements, hedge accounting is not sought and the derivatives are classified as held for trading (refer to Note 27 – Derivative Financial Instruments).

The Group has monetary assets and liabilities denominated in Australian and US dollars as at 30 June 2010. These monetary assets and liabilities have been converted to New Zealand dollars at closing exchange rates of 0.81361 and 0.6925 respectively (30 June 2009: AUD 0.8046, USD n/a).

The value of foreign currency derivatives are sensitive to changes in the forward prices for currencies. The table below summarises the impact of a 10% increase/decrease in the New Zealand dollar against the forward price of the US dollar and the Euro as at 30 June, on the Group's profit and equity on the assumption that all other variables are held constant.

As previously noted, Meridian's CCIRS and foreign denominated borrowings are in a combination of a fair value hedge and cash flow hedge relationship. A 10% increase/decrease in movement in currency does not materially impact NPAT or Equity.

25. Financial Risk Management (continued)

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2010 $'000	2009[1] $'000	2010 $'000	2009[1] $'000
NZ Dollar / US Dollar	-10%	**1,049**	-	**1,236**	1,191
	+10%	**(858)**	-	**(1,011)**	(975)
NZ Dollar / EURO	-10%	**6,124**	27	**6,616**	10,958
	+10%	**(5,011)**	(44)	**(5,413)**	(9,036)

[1]*Comparatives have been updated to be on the same basis as 2010.*

b) Cash Flow and Interest Rate Risk

Meridian's main interest rate risk arises from long-term borrowings which are sourced at both fixed interest rates and floating interest rates. In addition, as described in the section above, the combination of foreign denominated borrowings and the CCIRS's result in an exposure to floating New Zealand interest rates. Borrowings in floating New Zealand interest rates expose Meridian to cash flow risks whilst borrowings issued at fixed interest rates expose Meridian to risk of changes in the fair value of the debt issued. Meridian does not enter into interest rate hedges for speculative purposes.

Meridian manages its interest rate exposure on a net grouped basis by using a two step approach. The first step is to enter into a number of "fixed to floating" IRS's to reflect a floating interest rate exposure for all borrowings. The second step is to fix interest rates on portions of the borrowings (in relation to both face amounts and tenor) by entering into a number of "floating to fixed" IRS's. Interest rate risk is managed on a dynamic basis and various scenarios are simulated taking consideration of existing finance, expected refinancing, existing positions and interest rates and alternative financing and hedging. Meridian considers that the net interest cost to the Group from this approach is less than would be available to the Group if all its borrowings were taken out as fixed New Zealand debt.

Meridian's policy is to achieve a fixed interest rate exposure for between 60% and 100% of the face value of debt with an age profile of less than one year, and 15% to 60% for debt with an age profile of greater than one year.

Meridian does not designate the IRS's as hedging instruments and therefore classifies them as held for trading. The aggregate notional principal amounts of the outstanding IRS's at 30 June 2010 was $1.428 billion (30 June 2009: $1.052 billion).

The table below summarises the impact of increases/decreases in the forward price of interest, using the benchmark bank bill rate ("BKBM"), as at 30 June, on Meridian's profit and equity on the assumption that all other variables are held constant.

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2010 $'000	2009[1] $'000	2010 $'000	2009[1] $'000
New Zealand BKBM	-100 BPS	**(32,187)**	(29,159)	**(32,187)**	(29,159)
	+100 BPS	**30,108**	27,127	**30,108**	27,127

[1]*Comparatives have been updated to be on the same basis as 2010.*

25. Financial Risk Management (continued)

The tables below analyse Term Borrowings showing by maturity periods the amounts repayable in that year together with a summary of the interest rates on those amounts for the year.

		GROUP - 2010						
	CURRENCY	TOTAL FACE VALUE		1-2 YEARS		2-5 YEARS		GREATER THAN 5 YEARS
		$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:								
Unsecured Bank Funding	NZD	**175,000**		-	4.15%	150,000	4.64%	25,000
Unsecured Bank Funding	AUD	**179,674**		-	5.54%	179,674		-
Unsecured Floating Rate Notes	AUD	**123,000**	5.39%	123,000		-		-
Fixed Rate Bond Issue	USD	**581,649**	4.64%	101,789	5.06%	61,073	5.39%	418,787
Unsecured Renewable Energy Bonds	NZD	**200,000**		-	7.15%	125,000	7.55%	75,000
Total Term Borrowings		**1,259,323**		**224,789**		**515,747**		**518,787**

		GROUP - 2009						
	CURRENCY	TOTAL FACE VALUE		1-2 YEARS		2-5 YEARS		GREATER THAN 5 YEARS
		$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:								
Unsecured Bank Funding	NZD	**345,000**	3.18%	170,000	3.18%	175,000		-
Unsecured Floating Rate Notes	AUD	**123,000**		-	3.53%	123,000		-
Fixed Rate Bond Issue	USD	**581,649**		-	3.70%	162,862	3.77%	418,787
Unsecured Renewable Energy Notes	NZD	**832**	5.25%	832		-		-
Total Term Borrowings		**1,050,481**		**170,832**		**460,862**		**418,787**

		PARENT - 2010						
	CURRENCY	TOTAL FACE VALUE		1-2 YEARS		2-5 YEARS		GREATER THAN 5 YEARS
		$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:								
Unsecured Bank Funding	NZD	**175,000**		-	4.15%	150,000	4.64%	25,000
Unsecured Floating Rate Notes	AUD	**123,000**	5.39%	123,000		-		-
Fixed Rate Bond Issue	USD	**581,649**	4.64%	101,789	5.06%	61,073	5.39%	418,787
Unsecured Renewable Energy Bonds	NZD	**200,000**		-	7.15%	125,000	7.55%	75,000
Total Term Borrowings		**1,079,649**		**224,789**		**336,073**		**518,787**

		PARENT - 2009						
	CURRENCY	TOTAL FACE VALUE		1-2 YEARS		2-5 YEARS		GREATER THAN 5 YEARS
		$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:								
Unsecured Bank Funding	NZD	**345,000**	3.18%	170,000	3.18%	175,000		-
Unsecured Floating Rate Notes	AUD	**123,000**		-	3.53%	123,000		-
Fixed Rate Bond Issue	USD	**581,649**		-	3.70%	162,862	3.77%	418,787
Unsecured Renewable Energy Notes	NZD	**832**	5.25%	832		-		-
Total Term Borrowings		**1,050,481**		**170,832**		**460,862**		**418,787**

25. Financial Risk Management (continued)

c) Price Risk

Meridian is exposed to movements in the spot price of electricity arising through the sale and purchase of electricity to and from the market. Meridian manages this exposure by entering into CfD's to manage the net risk. Meridian does not enter into CfD's for speculative purposes.

The CfD's include both forward contracts traded with reference to the short-term energy hedge market and bi-lateral CfD's with other electricity generators and major customers. Meridian estimates both expected generation and electricity purchase requirements and determines its net position of generation less sales. Based on this net position, Meridian enters into CfD's to protect against price volatility within trading parameters set and monitored by the Board. Although Meridian considers itself economically hedged in relation to electricity price risk, it has decided, effective 1 January 2009 to no longer meet the requirements to enable it to adopt hedge accounting for any of its CfD's. Consequently, for accounting purposes, from 1 January 2009 all of the CfD's are classified as held for trading with movements in fair value recognised in the income statement.

For the first six months of the 2009 reporting period Meridian applied hedge accounting to a portion of the hedge book. These contracts were considered as part of an effective cash flow hedge relationship with the effective portion of the gains and losses deferred in a cash flow hedge reserve until the forecast electricity sales/purchases designated as the hedged item are transacted (refer to Note 27 - Derivative Financial Instruments). Upon cessation of hedge accounting the balance in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

The aggregate notional volume of the outstanding electricity derivatives at 30 June 2010 is 82,683Gwh (Group) and 82,513Gwh (Parent) (2009: 77,860Gwh and 77,827Gwh).

The value of the CfD's is sensitive to changes in the forward prices for electricity, interest rates and, in the case of one CfD (NZAS contract), the aluminium price published on the London Metal Exchange (LME). The table below summarises the impact of increases /decreases in changes to these assumptions as at 30 June on Meridian's profit and equity, on the assumption that all other variables are held constant and Meridian's current accounting policies are followed as stated.

Post-tax profit would increase (decrease) as shown in the table below due to unrealised gains/losses on CfD's held for trading, as well as any potential ineffectiveness for CfD's in hedge relationships, whilst equity would increase (decrease) for all changes in the value of all CfD's.

		GROUP			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2010 $'000	2009 $'000	2010 $'000	2009 $'000
Electricity Prices	-10%	106,177	119,169	106,177	119,169
	+10%	(106,188)	(119,166)	(106,188)	(119,166)
Interest Rates	-100 BPS	(38,265)	(41,766)	(38,265)	(41,766)
	+100 BPS	33,988	36,958	33,988	36,958
Aluminium LME	-10%	(42,238)	(34,747)	(42,238)	(34,747)
	+10%	42,238	34,748	42,238	34,748

		PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2010 $'000	2009 $'000	2010 $'000	2009 $'000
Electricity Prices	-10%	105,239	119,169	105,239	119,169
	+10%	(105,251)	(119,166)	(105,251)	(119,166)
Interest Rates	-100 BPS	(38,260)	(41,766)	(38,260)	(41,766)
	+100 BPS	33,983	36,958	33,983	36,958
Aluminium LME	-10%	(42,238)	(34,747)	(42,238)	(34,747)
	+10%	42,238	34,748	42,238	34,748

25. Financial Risk Management (continued)

As noted earlier in the report, in the case of the NZAS Contract Meridian is exposed to movements in the spot price of aluminium as published on the London Metal Exchange ("LME"). Meridian is mitigating this exposure through the use of Aluminium Commodity Swaps ("ACS") as economic hedges against the aluminium price component of the NZAS contract. These swaps are not designated as hedging instruments and are therefore classified as held for trading.

The aggregate notional principal amount of the outstanding ACS at 30 June 2010 was $252.7 million (30 June 2009: $116.0 million).

The values of the ACS's are sensitive to changes in the forward Aluminium Cash Settlement Price as published by LME. The table below summarises the impact of increases/decreases in changes to the LME price as at 30 June on Meridian's profit and equity, on the assumption that all other variables are held constant.

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2010 $'000	2009 $'000	2010 $'000	2009 $'000
Interest Rates	-100 BPS	**(191)**	(155)	**(191)**	(155)
	+100 BPS	**177**	145	**177**	145
Aluminium Commodity Swap	-10 %	**12,105**	268	**12,105**	268
	+10 %	**(12,105)**	(268)	**(12,105)**	(268)

Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including derivatives which have a positive value, outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits by wholesale customers is regularly monitored by line management. Credit risk surrounding the sales to retail customers is predominately mitigated by the accounts being settled on a monthly basis. Retail credit management continually monitors the size and nature of the exposure and acts to mitigate the risk deemed to be over acceptable levels.

The carrying amounts of financial assets recognised in the Statement of Financial Position best represents Meridian's maximum exposure to credit risk at the date of this report.

Meridian does not have any significant concentrations of credit risk with any one financial institution.

Liquidity Risk

Meridian maintains sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions as part of its management of liquidity risk. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed surplus credit lines available. Details are included in Note 23 – Borrowings.

The tables below analyse Meridian's financial liabilities, and net settled or gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, except for IRS's, CCIRS's, forward exchange contracts and CfD's which are the undiscounted settlements expected under the contracts. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. As the amounts included in the tables are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the Statement of Financial Position.

25. Financial Risk Management (continued)

	GROUP 2010				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	200,477	200,477	-	-	-
Borrowings	2,031,435	528,507	291,633	501,355	709,940
Net Settled Derivative Financial Liabilities:					
CfD's (Including Long-Term Payables)	(108,166)	(12,978)	(25,116)	(70,072)	-
IRS's	11,486	10,751	5,885	2,237	(7,387)
NZAS CfD	(115,799)	-	2,033	(3,739)	(114,093)
Aluminium CfD	6,740	-	-	(476)	7,216
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts - Cash Flow Hedges					
-Inflow	128,456	128,398	58	-	-
-Outflow	94,053	94,006	47	-	-
Forward Exchange Contracts - Held For Trading					
-Inflow	1,668	1,668	-	-	-
-Outflow	1,441	1,441	-	-	-
CCIRS's					
-Inflow	922,928	37,677	261,694	135,413	488,144
-Outflow	925,769	30,916	256,572	142,029	496,252

	GROUP 2009				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	160,956	160,956	-	-	-
Borrowings	1,486,558	514,378	39,732	391,018	541,430
Net Settled Derivative Financial Liabilities:					
CfD's	(3,395)	(2,370)	(1,393)	368	-
IRS's	(10,460)	15,840	7,528	(12,534)	(21,294)
NZAS CfD	59,863	-	3,681	1,216	54,966
Aluminium CfD	(6,519)	-	-	(2,572)	(3,947)
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts - Cash Flow Hedges					
-Inflow	134,759	114,620	20,104	35	-
-Outflow	119,072	101,595	17,444	33	-
Forward Exchange Contracts - Held For Trading					
-Inflow	1,195	1,195	-	-	-
-Outflow	1,081	1,081	-	-	-
CCIRS's					
-Inflow	1,010,479	38,298	39,732	391,018	541,431
-Outflow	981,408	23,943	37,657	392,529	527,279

25. Financial Risk Management (continued)

	PARENT 2010				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	179,367	179,367	-	-	-
Borrowings	1,849,276	346,348	291,633	501,355	709,940
Net Settled Derivative Financial Liabilities:					
CfD's (Including Long-Term Payables)	(110,556)	(15,372)	(25,329)	(69,855)	-
IRS's	11,486	10,751	5,885	2,237	(7,387)
NZAS CfD	(115,799)	-	2,034	(3,739)	(114,094)
Aluminium CfD	6,740	-	-	(476)	7,216
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts - Cash Flow Hedges					
-Inflow	128,456	128,398	58	-	-
-Outflow	94,053	94,006	47	-	-
Forward Exchange Contracts - Held For Trading					
-Inflow	1,668	1,668	-	-	-
-Outflow	1,441	1,441	-	-	-
CCIRS's					
-Inflow	922,930	37,679	261,694	135,413	488,144
-Outflow	925,769	30,916	256,572	142,029	496,252

	PARENT 2009				
Financial Liabilities:	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Trade and Other Payables	144,051	144,051	-	-	-
Borrowings	1,486,558	514,378	39,732	391,018	541,430
Net Settled Derivative Financial Liabilities:					
CfD's	(3,395)	(2,370)	(1,393)	368	-
IRS's	(10,460)	15,840	7,528	(12,534)	(21,294)
NZAS CfD	59,863	-	3,681	1,216	54,966
Aluminium CfD	(6,519)	-	-	(2,572)	(3,947)
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts - Cash Flow Hedges					
-Inflow	134,759	114,620	20,104	35	-
-Outflow	119,072	101,595	17,444	33	-
Forward Exchange Contracts - Held For Trading					
-Inflow	1,195	1,195	-	-	-
-Outflow	1,081	1,081	-	-	-
CCIRS's					
-Inflow	1,010,479	38,298	39,732	391,018	541,431
-Outflow	981,410	23,945	37,657	392,529	527,279

25. Financial Risk Management (continued)

Capital Risk Management Objectives

Meridian's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Meridian may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, Meridian monitors capital on the basis of the gearing ratio. The ratio is calculated as Net Debt divided by Total Capital.

Net Debt is calculated as total borrowings less Cash and Cash Equivalents.

Total Capital is calculated as "equity attributable to shareholders of the Parent" as shown in the Statement of Financial Position, adjusted for the effect of the Fair Value of Financial Instruments, plus Net Debt.

During 2010 Meridian's strategy, which was unchanged from 2009, was to maintain the gearing ratio below 35% and a BBB+ credit rating. The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	GROUP	
	2010 $'000	2009 $'000
Borrowings - NZD Equivalent Net of Foreign Exchange Hedging	**1,543,962**	1,174,014
Less: Cash and Cash Equivalents	**54,394**	47,877
Net Debt	**1,489,568**	1,126,137
Equity Attributable to Shareholders of the Parent	**5,068,979**	4,281,639
Adjust for Net Change in Fair Value of Certain Financial Instruments	**85,942**	(14,592)
Adjusted Shareholders' Equity	**5,154,921**	4,267,047
Total Capital	**6,644,489**	5,393,184
Gearing Ratio	**22.42%**	20.88%

Meridian's debt facilities have externally imposed capital requirements that relate to the Guaranteeing Group.

During the year all capital requirements relating to Meridian's debt facilities have been complied with and a BBB+ credit rating maintained.

26. Fair Value of Financial Instruments

IFRS 7 provides a three-level Fair Value Hierarchy of valuation data inputs that requires financial instruments inputs to be categorised as follows:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs – Either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs other than quoted prices included in Level 1
- Level 3 Inputs – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The tables below shows the Fair Value Hierarchy of the financial assets and financial liabilities measured at fair value by the Group.

Fair Value Hierarchy:	GROUP - 2010			
	30 JUNE 2010 $'000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000
Held for Trading Financial Assets				
CfD's	99,256	(1)	1,873	97,384
IRS's	9,178	-	9,178	-
CCIRS's	74,208	-	74,208	-
FEC's	253	-	253	-
Available for Sale Financial Assets				
Listed Securities	506	506	-	-
Unlisted Securities	5,031	-	5,031	-
Held for Trading Financial Liabilities				
CfD's	(106,229)	-	(10,763)	(95,466)
IRS's	(50,732)	-	(50,732)	-
CCIRS's	-	-	-	-
FEC's	(34,020)	-	(34,020)	-
Fair Value through Profit or Loss Financial Liabilities				
Term Borrowings	(771,777)	-	(771,777)	-

Fair Value Hierarchy:	PARENT - 2010			
	30 JUNE 2010 $'000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000
Held for Trading Financial Assets				
CfD's	101,493	(1)	2,857	98,637
IRS's	9,178	-	9,178	-
CCIRS's	74,208	-	74,208	-
FEC's	253	-	253	-
Available for Sale Financial Assets				
Listed Securities	506	506	-	-
Unlisted Securities	5,031	-	5,031	-
Held for Trading Financial Liabilities				
CfD's	(106,303)	-	(10,763)	(95,540)
IRS's	(50,732)	-	(50,732)	-
CCIRS's	-	-	-	-
FEC's	(34,020)	-	(34,020)	-
Fair Value through Profit or Loss Financial Liabilities				
Term Borrowings	(771,777)	-	(771,777)	-

26. Fair Value of Financial Instruments (continued)

The tables below shows the Fair Value Movements for the period in Level 3 items held by the Group.

Fair Value Movements in Level 3 Items for the Period	GROUP HELD FOR TRADING FINANCIAL NET ASSETS / (LIABILITIES) CFD'S $'000
Opening balance	(68,232)
Total Gains or Losses – In Profit or Loss	(7,497)
Purchases	77,646
Closing balance	1,917

Fair Value Movements in Level 3 Items for the Period	PARENT HELD FOR TRADING FINANCIAL NET ASSETS / (LIABILITIES) CFD'S $'000
Opening balance	(68,232)
Total Gains or Losses – In Profit or Loss	(6,320)
Purchases	77,647
Closing balance	3,095

Post-tax profit would increase (decrease) as shown in the tables below due to unrealised gains/losses on Level 3 item CfD's whilst equity would increase (decrease) by the same amounts for all changes in the value of all Level 3 items.

		GROUP	
		IMPACT ON AFTER TAX PROFIT 2010 $'000	IMPACT ON EQUITY 2010 $'000
Electricity Prices	-10%	106,163	106,163
	+10%	(106,175)	(106,175)
Interest Rates	-100 BPS	(38,259)	(38,259)
	+100 BPS	33,982	33,982
Aluminium LME	-10%	(42,238)	(42,238)
	+10%	42,238	42,238

		PARENT	
		IMPACT ON AFTER TAX PROFIT 2010 $'000	IMPACT ON EQUITY 2010 $'000
Electricity Prices	-10%	105,067	105,067
	+10%	(105,078)	(105,078)
Interest Rates	-100 BPS	(38,256)	(38,256)
	+100 BPS	33,978	33,978
Aluminium LME	-10%	(42,238)	(42,238)
	+10%	42,238	42,238

27. Derivative Financial Instruments

		GROUP		PARENT	
		2010 $'000	2009 $'000	2010 $'000	2009 $'000
Assets					
Held for Trading	CfD's	**101,786**	20,309	**104,023**	20,309
	IRS's	**9,178**	19,306	**9,178**	19,306
	FEC's	**25**	108	**25**	108
Cash Flow Hedges	CfD's	**(2,530)**	(3,983)	**(2,530)**	(3,983)
	CCIRS's (margin)	**2,291**	4,024	**2,291**	4,024
	FEC's	**228**	5,392	**228**	5,382
Fair Value Hedges	CCIRS's	**71,917**	81,860	**71,917**	81,860
Total Assets		**182,895**	127,016	**185,132**	127,006
Disclosed as:					
Current		**11,004**	13,033	**13,690**	13,023
Non-Current		**171,891**	113,983	**171,442**	113,983
Liabilities					
Held for Trading	CfD's	**107,560**	89,074	**107,634**	89,074
	IRS's	**50,732**	37,461	**50,732**	37,461
	FEC's	**224**	109	**224**	109
Cash Flow Hedges	CfD's	**(1,331)**	(1,159)	**(1,331)**	(1,159)
	FEC's	**33,796**	14,484	**33,796**	14,484
Total Liabilities		**190,981**	139,969	**191,055**	139,969
Disclosed as:					
Current		**38,592**	33,567	**38,666**	33,567
Non-Current		**152,389**	106,402	**152,389**	106,402

The table below shows the aggregate difference between fair value and the amount that would be recognised using a valuation technique, yet to be recognised in Profit or Loss:

	GROUP AND PARENT	
	2010 $'000	2009 $'000
Opening Difference	(4,388)	(25,991)
Day 1 Difference on New Hedges	66,425	(192)
Volumes Expired During the Period	(1,256)	19,670
Recalibration of Model for Price Path and Time	2,064	2,125
Closing Difference	62,845	(4,388)

27. Derivative Financial Instruments (continued)

The table below shows the changes in the Fair Value of Financial Instruments recognised in the income statement.

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
CCIRS's	(9,942)	136,767	(9,942)	136,767
Borrowings	10,349	(138,508)	10,349	(138,508)
	407	(1,741)	407	(1,741)
IRS's	(23,399)	(30,762)	(23,399)	(30,762)
CCIRS's (margin)	(304)	14	(304)	14
Net Change in Fair Value of Financial Instruments Loss Included in Other Finance Related Expenses	(23,296)	(32,489)	(23,296)	(32,489)
FEC's	(198)	(112)	(198)	(112)
CfD's – NZAS Contract	(19,162)	(119,974)	(19,162)	(119,974)
CfD's – Aluminium	(4,097)	(2,375)	(4,097)	(2,375)
CfD's – Other	8,585	8,352	10,747	8,352
Net Change in Fair Value of Financial Instruments Loss Included in Operating Profit	(14,872)	(114,109)	(12,710)	(114,109)
Total Net Change in Fair Value of Financial Instruments Loss	(38,168)	(146,598)	(36,006)	(146,598)
Total Amount of Change in Fair Values of Level 3 Financial Instruments Recognised in the Income Statement	(7,497)	(60,762)	(6,320)	(60,762)

Cash Flow Hedges – CfD's

Meridian currently sells and purchases electricity at spot prices from the market exposing it to changes in the price of electricity. As described in Note 25 – Financial Risk Management, it is Group policy to manage this risk on a net basis by entering into CfD's which swap receipt (payment) of spot electricity prices based on a specified volume of electricity with fixed electricity payments (receipts) for an equivalent volume. Cash settlements are made on these instruments on a monthly basis and impact income on an accrual basis. As discussed in Note 25 – Financial Risk Management, for accounting purposes, from 1 January 2009 all of the CfD's are classified as held for trading with movements in fair value recognised in the income statement. Upon cessation of hedge accounting the balance in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

Cash Flow Hedges – FEC's

Meridian hedges highly probable forecast capital expenditures through a combination of forward exchange contracts and foreign currency options. The cash flows associated with these contracts are timed to mature when payment for the capital expenditure is made. The contracts range in maturity from 0 to 36 months. When the cash flows occur, the Group adjusts the carrying value of the asset acquired.

Cash Flow Hedges – CCIRS's

Meridian hedges its foreign currency exposure on foreign currency denominated debt using CCIRS's in a combination of cash flow and fair value hedges. The cash flow hedge component represents the expected foreign currency cash flows on the debt relating to the credit margin paid by Meridian on the borrowings. Cash flows relating to the debt and the CCIRS's are settled quarterly for the New Zealand cash flows and semi-annually for the foreign currency (US and Australian dollars). Income is affected by these settlements on an accrual basis.

27. Derivative Financial Instruments (continued)

The table below shows the movements in the Cash Flow Hedge ("CFH") reserve for the period.

	GROUP AND PARENT				
	FEC'S	DEBT - CFH OF MARGIN	CFD'S	TAX	TOTAL
	$'000	$'000	$'000	$'000	$'000
Opening Balance at 1 July 2008	24,304	306	(59,399)	10,437	(24,352)
Amount Recognised in Equity	21,888	3,718	39,926	(19,660)	45,872
Amount Removed from Equity:					
- Electricity Sales/Costs	-	-	16,650	(4,995)	11,655
- Included in Initial Cost of Assets	(55,286)	-	-	16,586	(38,700)
Closing Balance at 30 June 2009[1]	**(9,094)**	**4,024**	**(2,823)**	**2,368**	**(5,525)**
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	**14**	-	-	-

	GROUP AND PARENT				
	FEC'S	DEBT - CFH OF MARGIN	CFD'S	TAX	TOTAL
	$'000	$'000	$'000	$'000	$'000
Opening Balance at 1 July 2009	(9,094)	4,024	(2,823)	2,368	(5,525)
Amount Recognised in Equity	(29,449)	(1,429)	-	9,150	(21,728)
Amount Removed from Equity:					
Amortised to Profit or Loss	-	-	1,625	(455)	1,170
- Included in Initial Cost of Assets	4,974	-	-	(1,393)	3,581
- Reclassified to Profit or Loss[2]	33,087	-	-	(9,926)	23,161
Closing Balance at 30 June 2010	**(482)**	**2,595**	**(1,198)**	**(256)**	**659**
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	**-**	**(304)**	**-**	**-**	**-**

[1]Comparitives have been updated to be on the same basis as 2010.
[2]Includes losses on FEC's not expected to be recovered in one or more future periods.

The table below shows when the amounts held in the cash flow hedge reserve are expected to impact the income statement (CfD's and CCIRS's) or the Statement of Financial Position (FEC's).

	GROUP AND PARENT 2010			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
CfDs	(1,518)	(754)	1,074	-
CCIRS's	-	(112)	109	2,598
FEC's	(430)	(45)	(3)	(4)
Total	**(1,948)**	**(911)**	**1,180**	**2,594**

	GROUP AND PARENT 2009			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
CfDs	(1,625)	(1,518)	319	-
CCIRS's	-	-	(204)	4,228
FEC's	(7,103)	(1,991)	-	-
Total	**(8,728)**	**(3,509)**	**115**	**4,228**

27. Derivative Financial Instruments (continued)

The realised amounts of derivatives included in the Income Statement is as follows:

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Energy Sales	**21,772**	18,140	**23,810**	18,450
Energy-Related Costs	**21,788**	39,894	**21,788**	39,894

Day 1 Adjustment - NZAS Pricing Agreement

A Day 1 adjustment arises when an electricity derivative is entered into at a fair value determined to be different to the transaction price. The Day 1 adjustment is amortised to profit and loss as electricity volumes contracted in the derivative expire. The carrying value of the derivative is disclosed net of the Day 1 adjustment. (Refer Note 3 – NZAS Agreement.)

The aggregate Day 1 adjustment and movement for the year are disclosed below.

	GROUP AND PARENT	
	2010 $'000	2009 $'000
Opening Balance	**514,970**	514,970
Additions During the Year	**-**	-
Amortised During the Year	**-**	-
Closing Balance	**514,970**	514,970

This contract does not come into effect until 1 January 2013.

28. Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Profit after Tax for the Period	**184,049**	89,263	**235,631**	129,280
Adjustments for Operating Activities Non-Cash Items:				
Depreciation	**174,318**	149,793	**132,983**	123,851
Amortisation of Intangible Assets	**13,712**	13,302	**10,942**	10,102
Total Net Change in Fair Value of Financial Instruments Loss	**71,255**	146,598	**69,093**	146,598
Less: Cash Payments of Option Premiums	**(10,686)**	-	**(10,686)**	-
Net Non-Cash Movement in Fair Value of Financial Instruments	**60,569**	146,598	**58,407**	146,598
Movement in Deferred Tax	**(10,726)**	(35,848)	**(30,698)**	(48,180)
Transfer of Tax Losses to Parent	**-**	-	**36,282**	22,758
Share-Based Payments	**19**	98	**-**	-
Equity Accounted Earnings of Joint Ventures	**2,012**	1,883	**-**	-
Other Non-Cash Items	**-**	-	**-**	(470)
	239,904	275,826	**207,916**	254,659
Items Classified as Investing Activities:				
Net Gain on Sale of Property, Plant and Equipment	**(275)**	(4,797)	**(331)**	(4,795)
Impairment of Property, Plant and Equipment	**1,200**	6,428	**1,200**	-
Impairment of Intangibles	**17,136**	-	**17,136**	-
Impairment of Investments	**-**	2,766	**-**	2,766
	18,061	4,397	**18,005**	(2,029)
Items Classified as Financing Activities:				
Amortisation of Prepaid Debt Facility Fees	**(593)**	953	**(593)**	953
	(593)	953	**(593)**	953
Changes in Working Capital Items				
(Increase)/Decrease in Accounts Receivable and Prepayments	**(10,958)**	283,707	**(6,090)**	284,459
Decrease/(Increase) in Inventory	**1,270**	952	**582**	(345)
Increase/(Decrease) in Payables and Accruals	**17,135**	(377,092)	**17,705**	(374,931)
(Decrease)/Increase in Provisions	**(636)**	(568)	**(281)**	514
Increase in Current Tax Payable	**3,592**	36,086	**3,058**	36,386
ARC Working Capital Acquired on Amalgamation	**-**	-	**-**	(2,119)
	10,403	(56,915)	**14,974**	(56,036)
Net Cash Flow from Operating Activities	**451,824**	313,524	**475,933**	326,827

29. Commitments

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Operating Lease Commitments				
Non-Cancellable Operating Lease Payments are as Follows:				
Less than One Year	**4,971**	4,969	**3,898**	4,035
Between One and Five Years	**9,192**	10,212	**7,400**	8,440
More than Five Years	**-**	-	**-**	-
	14,163	15,181	**11,298**	12,475

Meridian leases office buildings with terms of the leases ranging from one to 12 years, with options to extend up to 12 years. Lease contracts contain rent review clauses including CPI increases and market rental reviews in the event Meridian exercises its options to renew.

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Capital Expenditure Commitments				
Property, Plant and Equipment	**107,375**	123,149	**6,322**	4,023
Software	**11,485**	644	**11,485**	635
	118,860	123,793	**17,807**	4,658
Less than One Year	**113,354**	123,793	**12,301**	4,658
Between One and Five Years	**5,506**	-	**5,506**	-
More than Five Years	**-**	-	**-**	-
	118,860	123,793	**17,807**	4,658

30. Related Party Transactions

Transactions with Related Parties

Meridian transacts with other Government owned or related entities independently and on an arm's-length basis. Transactions cover a variety of services including trading energy, postal, travel and tax.

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	Nature of Transaction
Royal New Zealand Ballet	Sponsorship Grant	$306	Anne Blackburn, a Director of Meridian Energy Limited up until 30 April 2010, was a trustee of the Royal New Zealand Ballet in her own personal capacity (2009: $279,000).
Landcare Research New Zealand Limited	CarboNZero™ Certification and Consulting Advice	$nil	Anne Urlwin, a Director of Meridian Energy Limited, was also a Director of Landcare Research New Zealand Limited, up until 30 June 2009 (2009: $181,000).
Transfield Services NZ Limited	Specialist Maintenance Services	$8,087	Stephen Reindler, a Director of Meridian Energy Limited, was also an Advisory Board Member of Transfield Services NZ Limited, up until 29 March 2010 (2009: $8.4 million).
M-Co	Electricity Sales Electricity Purchases	$691,129 $689,031	Chris Moller, a Director of Meridian Energy Limited, is also a director of NZX Limited, which owns M-Co. (2009: Sales $629.1 million and Purchases $742.1 million).

30. Related Party Transactions (continued)

Other Transactions Involving a Related Party

During the financial year the transactions outlined in the table below occurred between the Parent and its subsidiaries. These transactions are carried out on a commercial and arm's-length basis.

Entity	Transaction	$'000	Details of Transaction
Damwatch Services Limited	Consultancy Services	$2,792	Damwatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $2.8 million (2009: $2.6 million).
Meridian Energy Captive Insurance Limited	Insurance Services	$3,185	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties (2009: $3.2 million).

Advances to subsidiaries are repayable on demand and are unsecured. Interest is charged at an annually set base rate plus a margin and is payable on demand.

Advances from subsidiaries are repayable on demand, are unsecured and attract a market rate of return. Interest is paid on demand.

Intercompany Loan Facility Balances

	PARENT	
	2010 $'000	2009 $'000
Loan Facility Balances to Subsidiaries		
Loan to MEL Holdings Limited	116,811	21,200
Loan to Right House Limited	-	644
Loan to MEL (Te Āpiti) Limited	256,000	256,000
Loan to MEL (West Wind) Limited	469,355	416,218
Loan to WhisperGen Limited	41,677	41,677
Loan to Meridian Energy Captive Insurance Limited	50	50
Loan to MEL (White Hill) Limited	144,000	144,000
Loan to Whisper Tech Limited	7,750	-
Loan to MEL (Te Uku) Limited	113,874	44,898
Loan to MEL Solar Holdings Limited	60,048	-
Loan Facility Balances from Subsidiaries		
Loan from Meridian Energy International Limited	219,163	219,163
Loan from Right House Limited	3,727	-
Loan from Powershop New Zealand Limited	1,283	1,616
Loan from Whisper Tech Limited	-	1,200

Compensation of Key Management Personnel

The remuneration of Directors and other members of key management during the year were as follows:

	GROUP		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Directors' Fees	740	499	453	437
Chief Executive Officer and Senior Management Team:				
Salaries & Short-Term Benefits	6,613	6,049	5,033	4,696
Post-Employment Benefits	-	-	-	-
Termination Benefits	1,057	860	1,057	860
Other Long-Term Benefits	-	-	-	-
	7,670	6,909	6,090	5,556

31. Subsequent Events

On 20 August 2010 the Board declared a fully imputed dividend of $68.5 million payable on 29 October 2010. The dividend has not been included as a liability in these financial statements. The payment of the dividend will not have tax consequences for the Group other than reducing the imputation credit balance.

Meridian has entered into a 50/50 joint venture arrangement with AGL Energy Ltd for the construction of the 420MW Macarthur wind farm in south-west Victoria. The contractual arrangements are subject to a number of conditions precedent. The project is expected to cost A$984.0 million with construction expecting to take three years from the time the conditions precedent have been satisfied.

On 1 July 2010 Energy for Industry was incorporated as a separate 100% owned subsidiary of the Group rather than a business unit of the Parent.

There have been no other material events subsequent to 30 June 2010.

32. Contingent Assets and Liabilities

On 9 November 2008 a major customer, RTA Power (NZ) Limited, as purchaser of energy used at the NZAS smelter, reduced its power consumption to below its contracted take or pay volume requirements. RTA Power (NZ) Limited is claiming force majeure relief from its contractual obligations. Meridian and RTA Power (NZ) Limited are proceeding with arbitration as the contractual dispute resolution process to determine the claim of force majeure.

Because the claim is at an early stage and has yet to be determined it is not practicable to recognise the contingent asset in the financial statements. It is not appropriate to make further disclosures as matters relating to the claim are subject to the arbitration process.

There were no other contingent assets or liabilities at 30 June 2010 (2009 Nil).

33. Ministerial Review

The Government announced the initial outcomes of the Electricity Market Ministerial Review in early December 2009. Meridian is currently working through the implementation of the Review findings and recommendations. Legislation is currently being considered by Parliament that can be used to effect the transfer of Tekapo A and B power stations from Meridian to Genesis, the transfer of the Whirinaki generation assets from the Crown to Meridian and long-term North/South Island electricity swaps between Meridian and the two other SOE electricity generators. It is too early to fully determine the implications of these transactions for Meridian as the timing, terms and conditions of the proposals from the Ministerial Review have not yet been fully determined.

Audit Report To The Readers Of Meridian Energy Limited And Group's Financial Statements

For The Year Ended 30 June 2010

The Auditor-General is the auditor of Meridian Energy Limited (the "Company") and Group. The Auditor-General has appointed me, Jamie Schmidt, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on her behalf, for the year ended 30 June 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the Company and Group on pages 28 to 85:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of:
    - the Company and Group's financial position as at 30 June 2010; 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 23 August 2010, 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 the 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 our opinion.

The 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 our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and the results of their 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.

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 other assurance assignments for the Company and Group in the areas of carbon emmissions audit, review of the interim financial statements, Trustee reporting and agreed upon procedures, and review of prospectus which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the Company and Group.

Jamie Schmidt

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

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
Expiry of Term 30/04/10

Mary Devine
Director
Appointed 01/05/10

Catherine Drayton
Director
Appointed 01/05/06

Chris Moller
Director
Appointed 01/05/09

Stephen Reindler
Director
Appointed 01/09/08

Brett Shepherd
Director
Appointed 01/05/09

Anne Urlwin
Director
Appointed 01/01/05

Subsidiary Company Directors

Blue Green Windfarm Limited
Paul Chambers
Ken Smales

CalRENEW -1 LLC
Andrew Robertson
Tim Lusk

Damwatch Pty Limited
Peter Amos *(Managing Director)*
Stanley Brogan

DamWatch Services Limited
Ken Smales
Neal Barclay *(Appointed 25/12/09)*
Michael Campbell
Carol Durbin *(Appointed 01/09/09)*
Peter Amos *(Managing Director)*
Brian Vass

Energy for Industry Limited
James Hay *(Resigned 24/12/09)*
Neal Barclay *(Resigned 11/06/10)*
Andrew Robertson *(Appointed 25/12/09)*
Linda Robertson *(Appointed 11/06/10)*
Brian Vass *(Appointed 11/06/10)*

Hatterson Solar Farm LLC
Andrew Robertson
Tim Lusk

Jacob Canal Solar Farm LLC
Andrew Robertson
Tim Lusk

Laural East Solar Farm LLC
Andrew Robertson
Tim Lusk

Laurel West Solar Farm LLC
Andrew Robertson
Tim Lusk

MEL (Central Wind) Limited (company incorporated 17/08/09)
Paul Chambers *(Appointed 25/12/09)*
Ken Smales *(Appointed 17/08/09)*

MEL Holdings Limited
James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*
Jason Stein *(Appointed 25/05/10)*

MEL (Mill Creek) Limited (incorporated 17/08/09)
Paul Chambers *(Appointed 25/12/09)*
Ken Smales *(Appointed 17/08/09)*

MEL Solar Holdings Limited (company incorporated 18/08/09)
Andrew Robertson *(Appointed 18/08/09)*
Tim Lusk *(Appointed 18/08/09)*

MEL (Te Āpiti) Limited
James Hay *(24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

MEL (Te Uku) Limited
James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

MEL (West Wind) Limited
Ken Smales
James Hay *(Resigned 24/12/09)*
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

MEL (White Hill) Limited
James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

Meridian Energy Captive Insurance Limited
James Hay *(Resigned 24/12/09)*
Neal Barclay *(Resigned 24/12/09)*
Paul Chambers *(Appointed 25/12/09)*
Andrew Robertson *(Appointed 25/12/09)*

Meridian Limited
James Hay *(Resigned 24/12/09)*
Neal Barclay *(Resigned 24/12/09)*
Paul Chambers *(Appointed 25/12/09)*
Andrew Robertson *(Appointed 25/12/09)*

Meridian Energy International Limited
James Hay *(Resigned 24/12/09)*
Paul Chambers *(Appointed 25/12/09)*
Andrew Robertson *(Appointed 25/12/09)*

Meridian (Whisper Tech No.2) Limited
James Hay *(Resigned 24/12/09)*
Jason McDonald
Brian Vass *(Appointed 25/12/09)*

Meridian (Whisper Tech) Limited
James Hay *(Resigned 24/12/09)*
Paul Smart *(Resigned 24/12/09)*
Neal Barclay *(Resigned 24/12/09)*
Jason McDonald *(Appointed 25/12/09)*
Brian Vass *(Appointed 25/12/09)*
David Moriaty
Jason McDonald

Meridian Australia Holdings Pty Limited
Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Meridian International No 1 Limited
James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

Subsidiary Company Directors *continued*

Meridian Energy Australia Pty Ltd (formerly called Three River Holdings Pty Limited)

Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales

Meridian Energy USA, Inc (formally named Cleantech America Inc)

Andrew Robertson
Guy Waipara

Meridian Finco Pty Limited

Paul Chambers
Peter Lowe
Jason Stein

Meridian International No 2 Limited

James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

Meridian Renewables Pty Limited

Paul Chambers
Peter Lowe
Jason Stein

Meridian Wind Australia Holdings Pty Limited

Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Meridian Wind Australia Pty Limited

Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Neal Barclay *(Resigned 26/03/2010)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Meridian Wind Macarthur Pty Ltd (formerly called Three River Australia Pty Limited)

Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Meridian Wind Monaro Range Holdings Pty Limited

Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Meridian Wind Monaro Range Pty Limited

Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Mt Mercer Windfarm Pty Limited

Neal Barclay *(Resigned 26/03/2010)*
Paul Chambers *(Appointed 26/03/2010)*
James Hay *(Resigned 24/12/2009)*
Peter Lowe
Andrew Robertson *(Appointed 26/03/2010)*
Ken Smales *(Resigned 26/03/2010)*

Mt Millar Wind Farm Pty Limited

Paul Chambers *(Appointed 31/05/2010)*
Peter Lowe *(Appointed 31/05/2010)*
Andrew Robertson *(Appointed 31/05/2010)*
Jason Stein *(Appointed 31/05/2010)*

Powershop New Zealand Limited

Jason McDonald
Brian Vass
James Hay *(Resigned 11/02/10)*
John Journee

Right House Limited

Jason McDonald
Paul Smart
Brian Vass
Richard Carver *(Appointed 25/12/09)*

San Luis Valley Solar Farm LLC

William Overholt
Guy Waipara

Three River Holdings (No.1) Limited

James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

Three River Holdings (No. 2) Limited

James Hay *(Resigned 24/12/09)*
Ken Smales
Neal Barclay *(Resigned 25/12/09)*
Paul Chambers *(Appointed 25/12/09)*

WhisperGen (UK) Limited

David Moriaty
Jason McDonald

WhisperGen Limited

James Hay *(Resigned 28/10/09)*
Jason McDonald
Paul Smart *(Resigned 24/12/09)*
Brian Vass *(Appointed 25/12/09)*

Whisper Tech Limited

David Moriaty
Bruce Boehm *(Resigned 27/01/10)*
James Hay *(Resigned 28/10/09)*
Brian Vass
Jason McDonald
John Punter *(Appointed 29/10/09)*
Paul Smart *(Appointed 27/01/10)*

Woodville Windfarm Limited – Struck off (10/10/09)

James Hay
Ken Smales

Note:

MEL Meridian Australia Partnership

This is a limited liability partnership under Australian law and not a subsidiary company. However, the general partner of the MEL Meridian Australia Partnership is Meridian Renewables Pty Ltd, whose Directors are noted above.

General Disclosures

Disclosure of Directors' Interests

The following are particulars of entries made in the Interest Register for the period 1 July 2009 to 30 June 2010. Directors disclosed, pursuant to Section 140 (2) of the Companies Act 1993, an interest or cessation of an interest in the following entities during the year ended 30 June 2010:

Mary Devine
McKenzie & Willis Limited, *Director*

Catherine Drayton
Ngai Tahu Capital, *Director*
Christchurch International Airport, *Director*
Ngai Tahu Holdings Corporation, *Director*

Chris Moller
NZX Limited, *Director*
New Zealand Transport Agency, *Director and Chairman*
Westpac Regional Stadium Trust, *Trustee*
National Foods (Pty) Limited *(ceased to be a Director)*

Stephen Reindler
Transfield Services Ltd, *Consultant*
Transfield Services (NZ) *Advisory Board (ceased to be a Director)*

Anne Urlwin
Naylor Love Limited, *Director*
Invest South GP Limited, *Director*
New Zealand Domain Name Registry Ltd *(ceased to be a Director)*

Specific Disclosures

Declaration of specific interest by Directors 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 and Officers indemnity insurance.

Directors' Remuneration – Meridian Energy Limited

	PARENT
	2010 DIRECTORS' FEE ($'000)
Wayne Boyd	98.0
Raymond Watson	51.7
Anne Blackburn	45.1
Mary Devine	8.2
Catherine Drayton	49.0
Chris Moller	49.4
Stephen Reindler	49.0
Brett Shepherd	49.0
Anne Urlwin	53.8
TOTAL	453.2

Directors' Remuneration – Subsidiaries

	SUBSIDIARIES
	2010 DIRECTORS' FEE ($'000)
Stanley Brogan (Damwatch Pty Limited)	4.1
Richard Carver (Right House Limited)	20.0
Carol Durbin (Damwatch Services Limited)	30.0
John Journee (Powershop Limited)	36.7
Peter Lowe (Meridian Energy Australia Pty Limited and Meridian Wind McArthur Pty Limited)	98.7
Richard Punter (Whisper Tech Limited)	45.0
Paul Smart (Right House Limited and Whisper Tech Limited)	52.5
TOTAL	287.0

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

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 human resources 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 to the right.

	2010	
	PARENT	SUBSIDIARIES
$100,000 – 109,999	42	16
$110,000 – 119,999	38	9
$120,000 – 129,999	41	8
$130,000 – 139,999	31	3
$140,000 – 149,999	19	3
$150,000 – 159,999	12	1
$160,000 – 169,999	14	-
$170,000 – 179,999	11	2
$180,000 – 189,999	7	-
$190,000 – 199,999	7	2
$200,000 – 209,999	6	1
$210,000 – 219,999	5	-
$220,000 – 229,999	2	2
$230,000 – 239,999	2	1
$240,000 – 249,999	5	1
$250,000 – 259,999	1	-
$260,000 – 269,999	4	-
$270,000 – 279,999	3	-
$290,000 – 299,999	-	1
$300,000 – 309,999	2	-
$310,000 – 319,999	-	2
$320,000 – 329,999	1	1
$330,000 – 339,999	1	-
$340,000 – 349,999	1	-
$350,000 – 359,999	-	1
$360,000 – 369,999	1	1
$370,000 – 379,999	1	-
$390,000 – 399,999	-	1
$400,000 – 409,999	-	1
$460,000 – 469,999	2	-
$570,000 – 579,999	2	-
$850,000 – 859,999	1	-

Greenhouse Gas Inventory

This section provides a summary of the Meridian Energy Group Greenhouse Gas (GHG) Inventory for the period 1 July 2009 to 30 June 2010. This inventory is split into 10 “facilities” that represent different areas of business activity.

Meridian has calculated its own “carbon footprint” since 2001. In 2006 the organisation certified its electricity product under the carboNZero[CertTM] programme, and for the 2010/11 year is applying for two certifications – CEMARS® for Meridian Energy Ltd and for Energy for Industry. Both the carboNZero and CEMARS certification programmes are run by Landcare Research.

	GREENHOUSE GAS EMISSIONS (TCO_2E)												
	MERIDIAN ELECTRICITY	AGRICULTURE	ARC INNOVATIONS	DAMWATCH	ENERGY FOR INDUSTRY	MERIDIAN AUSTRALIA	MERIDIAN USA	POWERSHOP	RIGHT HOUSE	WHISPER TECH	2009/10 TONNES OF CO_2E	2008/09 TONNES OF CO_2E	2007/08 TONNES OF CO2E
Operational Emissions													
Direct Emissions (Scope 1)													
Emissions from Stationary Combustion	60	-	-	-	41,922	-	-	-	-	493	42,475	44,364	47,042
Emissions from Mobile Combustion	853	69	10	-	7	1	-	-	444	1	1,385	1,036	886
Fugitive Emissions	535	4,387	-	-	-	-	-	-	-	-	4,922	6,087	3,133
	1,447	4,457	10	-	41,929	1	-	-	444	494	48,782	51,487	51,061
Energy Indirect (Scope 2) Emissions													
Indirect Emissions from Purchased Electricity	2,352	21	56	11	1,025	44	-	10	16	19	3,555	3,533	8,517
Other Indirect (Scope 3) Emissions													
Indirect Emissions from Business Travel	1,748	-	87	214	33	103	99	56	78	493	2,912	3,235	2,801
Indirect emissions from Stationary Combustion	-	-	-	-	-	-	-	-	-	-	-	1,984	6,089
Indirect Emissions from Electricity Purchased and Resold	-	-	-	-	3,708	-	-	10,726	-	-	14,434	4,040	6,206
Indirect Emissions from Line Losses	40	2	5	1	83	7	-	1	1	2	141	151	38
Indirect Emissions from Waste	19	-	-	1	3	-	-	-	3	7	33	23	707
Indirect Emissions from Operational Maintenance Activities	201	34	25	-	-	-	-	-	-	-	260	381	273
Indirect Emissions from Freight	-	-	-	-	1,227	-	-	-	-	-	1,227	709	628
Indirect Emissions from Purchased Feed	-	154	-	-	-	-	-	-	-	-	154	109	-
	2,008	190	117	216	5,054	110	99	10,783	83	501	19,160	10,631	16,742
Total Operational CO_2e Emissions	**5,807**	**4,668**	**184**	**227**	**48,009**	**156**	**100**	**10,793**	**544**	**1,015**	**71,503**	**65,651**	**76,320**
One-Time Emissions (Scope 3)													
One-Time Indirect Emissions from Business Travel	63	-	-	-		-	-	-	-	-	63	41	10
One-Time Indirect Emissions from Mobile Combustion	2,411	-	-	-	-	-	141	-	-	-	2,552	4,488	3,712
One-Time Indirect Emissions from Major Construction Materials	8,314	-	-	-	346	-	-	-	-	-	8,661	2,083	29,076
One-Time Indirect Emissions from Freight	296	-	-	-	231	-	-	-	-	-	527	2,675	146
Total One Time CO_2e Emissions	**11,085**	**-**	**-**	**-**	**578**	**-**	**142**	**-**	**-**	**-**	**11,805**	**9,287**	**32,944**
TOTAL EMISSIONS	**16,892**	**4,668**	**184**	**227**	**48,587**	**156**	**242**	**10,793**	**544**	**1,015**	**83,308**	**74,938**	**109,264**
Less Emissions already Offset			(56)	(11)	(4,733)	-	-	(10)	(16)	(19)	(4,845)	(4,688)	(183)
Emissions after Intra Group Offsets	**16,892**	**4,668**	**128**	**216**	**43,854**	**156**	**242**	**10,783**	**528**	**996**	**78,463**	**70,250**	**109,081**
CO_2 Emissions from Wood Pulp	-	-	-	-	63,886	-	-	-	-	-	63,886	66,283	89,418
CO_2 Emissions from Landfill Gas	-	-	-	-	4,231	-	-	-	-	-	4,231	3,537	1,870
CO_2 Emissions from Sludge	-	-	-	-	3,430	-	-	-	-	-	3,430	2,903	-

The Meridian Energy Ltd CEMARS certification covers all the activities of the Parent Company including the Meridian Electricity, Arc Innovations and Agriculture facilities, but excluding Energy for Industry (EFI), which is a subsidiary from 1 July 2010 and has a separate CEMARS certification.

Our inventory reports (of which this is a summary) and emissions classifications are consistent with international protocols and standards (such as International Standards Organisation ISO 14064-1). In addition the inventories of Meridian Energy Ltd and EFI have been prepared consistent with the inventory requirements of the CEMARS certification applications.

Organisational Boundaries

The organisational boundary determines the parameters for GHG reporting in the Meridian Group GHG inventory. This boundary encompasses the operations owned or controlled by Meridian, its subsidiaries, associate companies and joint ventures in the Meridian Group.

Meridian applies the equity share consolidation approach and accounts for GHG emissions from all activities within its corporate boundary and a percentage of the emissions from entities in which it has an equity interest according to its share of equity in the entity.

Facilities

Meridian Electricity Facility – Includes emissions arising from Meridian's core activities associated with the renewable electricity generation and retail of electricity. The facility was previously named the Meridian Energy Facility (before the 2008/09 reporting year). The boundaries and scope of the facility remain unchanged. It excludes activities associated with Agriculture, EFI, and Arc Innovations as they are classified as separate facilities.

Agriculture – Includes emissions from Meridian's South Island share-milking dairy farms.

Arc Innovations – Includes the activities of the business unit "Arc Innovations" within the legal entity Meridian Energy Ltd. Arc Innovations develops, deploys and manages Advanced Meter Management (AMM) technology and services.

Damwatch –Is responsible for emissions arising from consultancy services relating to dam safety and surveillance that take place in Damwatch Services Limited. The facility includes Damwatch Pty Limited (incorporated in Australia).

Energy for Industry (EFI) – EFI acts as an independent investor in on-site energy centres and related energy efficiency solutions, supplying heat and power to largely industrial and institutional energy market customers. EFI produces energy from a variety of fuel sources based at different sites. All of the sites have been recorded and then accumulated into a single EFI facility. Most of the sites operate under a contract whereby EFI owns the energy producing plant and equipment.

Meridian Australia – Owns and develops renewable energy generation facilities in Australia. Currently this facility owns one wind farm, Mt Millar, which is 70MW in size.

Meridian USA – Owns and develops renewable energy generation facilities in the US. Currently this facility has one solar power plant, CalRENEW-1, which is 5MW in size.

Powershop – Conducts energy retailing activities within Powershop New Zealand Limited under the Powershop brand.

Right House – Independent supplier of energy efficiency advice and solutions, this facility is responsible for the corporate and transport emissions arising from advisory and installation activities undertaken by Right House that take place in Right House Limited and Elemental Energy Limited.

Whisper Tech – Is a 93.23% Meridian owned subsidiary company that manufactures and sells micro-combined heat and power systems. The Whisper Tech facility also includes other legal entities. WhisperGen (UK) Limited (incorporated in United Kingdom) is included because it is 100% owned by Whisper Tech Limited and performs the same type of activities. The Efficient Home Energy S.L. joint venture manufactured 400 units in the 2009/10 year. This company is 40% owned by Whisper Tech Ltd. The emissions from this are not included in this inventory as the data is not able to be collected. Emissions from this source based on an estimation of the likely CNG and electricity emissions from manufacturing were approximately less than 2% of operational emissions for the Group.

Changes to Reporting

The methodology used to prepare the GHG inventories is unchanged.

Base Year

The base year is 1 July 2007 to 30 June 2008. Indirect emissions from electricity purchased and resold has been restated (an increase of 6,126 tCO_2e). For the base year, electricity generated was less than electricity sold by 23GWh. The resulting emissions were calculated using an adjusted emissions factor to reflect the impact of Meridian's renewable energy generation on the grid electricity factor. These additional emissions have been offset under the carboNZero programme.

Exclusions – Scope 1 & 2

Emissions from the manufacturing activities of the Whisper Tech JV in Spain are excluded. It is not feasible to quantify these emissions at this time, and they have been estimated to be below 2% of the Meridian Group operational emissions.

Apart from some offices of the Meridian Electricity Facility, fugitive HFC emissions from use of air conditioning at hydro power stations and offices have been excluded due to lack of data; and all fugitive emissions from use of refrigeration have been excluded due to lack of data. Emissions from these have been estimated to be well below the materiality threshold of 1% per emission source.

Exclusions – Scope 3

Not all Scope 3 emissions that are reported for the Electricity facility are reported across all facilities. These sources are excluded when considered below the materiality threshold of 1% per emission source, or when the data is difficult to collect, as detailed below.

Scope 3 emissions from contractor fuel are excluded in relation to metering services for the Electricity facility as these are likely to be below the 1% materiality threshold. Emissions from contractor fuel in relation to field services activities have been included and are approximately 2% of operational emissions in the Electricity facility.

In the inventory report for the Electricity facility, Scope 3 emissions embodied in minor operational maintenance materials and associated freight emissions have been excluded, as have Scope 3 emissions embodied in minor components of construction components, as it is not technically feasible or cost effective to quantify these emissions, or because an emissions factor for a material was unavailable.

Embodied "one-time" emissions for overseas construction activities are excluded.

Emissions from waste are excluded for the Agriculture, Arc Innovations, Powershop, Whisper Tech, Meridian USA and Meridian Solar facilities. Emissions from waste due to installation activities for Right House are also excluded due to measurement difficulties.

During the period Whisper Tech purchased products from outside New Zealand. Emissions from freight of the components have not been included because it is not currently feasible to obtain this data.

Whisper Tech uses a variety of bottled gases in the manufacturing and testing of their heat and power generation systems. No emission factor has been able to be obtained for argon, nitrogen, acetylene, oxygen, balloon gas and nitrogen oxygen free. These gases make up less than 0.1% of gases used by Whisper Tech.

Notes on Electricity that is purchased and On-sold to end users

From time-to-time Meridian Energy (Electricity facility) purchases electricity from the grid to supply to its retail customers in excess of the electricity supplied by Meridian to the grid. If, on an annual basis, the amount purchased is more than the amount supplied, Meridian reports the net difference as a source of Scope 3 emissions. This emissions source occurred in the 2007/08 year, leading to a restatement as discussed above.

The annual netting off approach has been approved by the carboNZero programme and conforms to green energy programme precedents in the US (Green-e), Australia (Greenpower), and Europe (Euguene). This calculation includes an allowance for transmission losses in the national grid and is based on the amount purchased at the entry point for local network distribution thereby taking into account losses due to distribution.

As Powershop is classified as a separate facility for the purposes of greenhouse gas accounting, the electricity they purchase from the wholesale market for resale is not included in the annual netting off process described above.

Emission Factors

Except as stated, emission factors used were provided by Landcare as part of the CEMARS programme. These are expressed in terms of total tonnes of carbon dioxide equivalent. As such, all calculations in this report are expressed in total tonnes of carbon dioxide equivalent.

The emission factor applied to electricity consumption is calculated by the Ministry for Economic Development (MED). In line with advice from the carboNZero programme quarterly emission factors have been applied. The September 2009 factor has been applied to consumption from July to September, the December 2009 factor has been applied to consumption from October to December, and the March 2010 factor has been applied to consumption from January to June. On advice from MED 7.5% of each quarterly factor has been applied as transmission and distribution losses.

The emission factor applied to SF_6 leakage is sourced from the IPCC Second Assessment Report on the carboNZero website glossary.

The emission factors applied to electricity consumption and transmission and distribution losses in Australia have been sourced from the Australian Government Department of Climate Change *National Greenhouse Accounts (NGA) Factors, June 2009*.

Emissions from dairy cows, use of fertilisers on farm, operational maintenance and embodied in purchased feed have been estimated using the *Carbon Calculator for Agriculture and Horticulture* developed by Lincoln University and AgriLINK.

The emission factors applied to combustion of coal at Dunedin Energy Centre have been sourced from Ministry of Economic Development, *New Zealand Energy Greenhouse Gas Emissions 2008 Calendar Year Edition*.

The emission factors applied to combustion of wood waste at WPI and to landfill gas at Nelson Hospital have been sourced from Ministry of Economic Development, *New Zealand Energy Greenhouse Gas Emissions 2008 Calendar Year Edition*.

The emission factors applied to combustion of wood waste and sludge at Silver Fern Farms have been sourced from Ministry for the Environment, *Guidance for Voluntary, Corporate Greenhouse Gas Reporting, Data and Methods for the 2007 Calendar Year.*

Verification of GHG Inventory

The full inventory report (of which the above is a summary) has been verified by Deloitte, a third party independent assurance provider and Landcare approved CEMARS verifier. A reasonable level of assurance has been given over the assertions and quantification in the full GHG inventory report.

Deloitte is also the financial auditor of Meridian Energy Limited on behalf of the Office of the Auditor-General.

Global Reporting Index

Reporting Guidelines Version 3.0 including Electricity Utility Sector Supplement

Key

Yes | Partially | No | N/A (Not Applicable)

PROFILE DISCLOSURE		STATUS	PAGE	COMMENT
1	**Strategy and Analysis**			
1.1	Statement from the CE and Chairman		2-4	
1.2	Description of key impacts, risks and opportunities		2-4, 13-16	
2	**Organisational Profile**			
2.1	Name of reporting organisation		Front cover	
2.2	Primary brands, products and/or services		2-4, 12-19	
2.3	Operational structure of the organisation		24-26	
2.4	Location of the organisation's headquarters		35, 99	
2.5	Countries in which the organisation operates		ii-iv, 15, 19	
2.6	Nature of ownership and legal form		24	
2.7	Nature of markets served		2, 3, 17-19	
2.8	Scale of the reporting organisation		ii-iv, 1, 8-17	
2.9	Significant changes in size, structure or ownership		14-16, 19	
2.10	Awards received in the reporting period		19	
EU1	Installed capacity		13	
EU2	Net energy output		13	
EU3	Number of customer accounts		18	
EU4	Length of transmission and distribution lines	N/A		Length not significant
EU5	Allocation of CO_2e emissions allowances			
3	**Report Parameters**			
3.1	Reporting period		Front cover, 2, 7	
3.2	Date of most recent previous report (if any)		7	
3.3	Reporting cycle (annual, biennial, etc)		Front cover, 7	
3.4	Contact point for questions regarding the report or its questions		99	
3.5	Process for defining report content			
3.6	Boundary of the report		v, 1-4	
3.7	Specific limitations on the scope or boundary of the report			
3.8	Basis for reporting on joint venture, subsidiaries, leased facilities, outsourced operations and other entities		38	
3.9	Data measurement techniques and the basis of calculations			Throughout this report
3.10	Explanation of the effect of any restatements	N/A		No restatements
3.11	Significant scope, boundary or measurement changes	N/A		No significant changes
3.12	GRI index table		96-98	
3.13	External assurance policy and practice			
4	**Governance, commitments and engagement**			
4.1	Governance structure of the organisation		24-27	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer		24	
4.3	Independence of the Board		24, 25	
4.4	Mechanisms to provide recommendations to the Board		24	
4.5	Linkage between performance and compensation		25	
4.6	Processes for avoiding conflict of interest		25	
4.7	Processes for determining qualifications and expertise of the members of the Board		24	
4.8	Corporate mission or values		iv, 3, 4, 20-23, 26	
4.9	Board-level processes for identifying and managing risks and opportunities		24	
4.10	Processes for evaluating the Board's own performance		25	
4.11	How the precautionary principle is addressed		24, 25	
4.12	External charters			
4.13	Memberships in associations			
4.14	List of stakeholder groups engaged by the organisation		18, 22, 23	
4.15	Identification and selection of stakeholders		22, 23	
4.16	Approaches to stakeholder engagement		22, 23	
4.17	Key topics and concerns from stakeholder engagement		18, 22, 23	
PERFORMANCE INDICATORS				
Economic				
Main economic impacts of the organisation throughout society, flow of capital amongst stakeholders				
EC1	Direct economic value generated and distributed		1, 7-13, 16, 17	
EC2	Financial implications and other risks and opportunities due to climate change		1-3, 14, 15, 19, 23	
EC3	Coverage of defined benefit plan obligations	N/A		No defined benefit plans
EC4	Significant financial assistance received from government	N/A		None received
EC5	Entry level wage compared to minimum wage			
EC6	Spending on locally-based suppliers			
EC7	Procedures for local hiring			
EC8	Infrastructure investments and services provided primarily for public benefit		1-3, 13-16, 18, 19	
EC9	Significant indirect economic impacts		1-3, 13-16, 18, 19	
EU6	Approach to electricity availability and reliability		2, 13-16	
EU7	Demand-side management programmes		3, 18, 19	

Key

Yes | Partially | No | N/A (Not Applicable)

PERFORMANCE INDICATORS		STATUS	PAGE	COMMENT
Economic (continued)				
EU8	R&D aimed at providing reliable electricity and sustainable development	Partially	3, 15, 16, 18, 19	
EU9	Decomissioning of nuclear power sites	N/A		No nuclear power plants
EU10	Planned capacity against demand	Yes	13-16	
EU11	Average generation efficiency of thermal plants	N/A		No utility scale thermal plant
EU12	Transmission and distribution efficiency	N/A		Responsibility of Transpower
Environmental				
Impacts on living and non-living natural systems				
EN1	Materials used by weight or volume	No		
EN2	Percentage of recycled input materials	No		
EN3	Direct energy consumption by primary energy source	No		
EN4	Indirect energy consumption by primary source	No		
EN5	Energy saved due to conservation and efficiency improvements	No		
EN6	Initiatives to provide energy efficient or renewable energy based products and services	Yes	1, 2, 3, 13-16, 18, 19,	
EN7	Initiatives to reduce indirect energy consumption	Yes	2, 18, 19	
EN8	Total water withdrawal by source	No		
EN9	Water sources significantly affected by withdrawal of water	No		
EN10	Percentage and total volume of water recycled and reused	No		
EN11	Land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	No		
EN12	Impacts on biodiversity	Partially	4	
EU13	Biodiversity offset habitats	No		
EN13	Habitats protected and restored	Partially	4	
EN14	Strategies for managing impacts on biodiversity	No		
EN15	Endangered species with habitats in areas affected by operations	No		
EN16	Greenhouse gas emissions	Yes	23, 92, 93	
EN17	Other relevant indirect greenhouse gas emissions by weight	Yes	23, 92, 93	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Partially	23	
EN19	Emissions of ozone-depleting substances	No		
EN20	Emissions NO, SO, and other significant air emissions by type and weight	No		
EN21	Water discharge by quality and destination	No		
EN22	Total weight of waste by type and disposal method	No		
EN23	Total number and volume of significant spills	N/A		None in the reporting period
EN24	Transported hazardous waste	No		
EN25	Water bodies and associated habitats affected by discharge of water	Partially	13	
EN26	Initiatives to mitigate environmental impacts of products and services	Yes	2, 3, 13, 18, 19, 22, 23	
EN27	Percentage of products sold and their packaging materials that are reclaimed	N/A		No packaging materials used
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	N/A		No significant fines or sanctions
EN29	Enivronmental impact from transport of goods and staff	No		
EN30	Environmental protection expenditures and investments	No		
Labour Practices and Decent Work				
Adherence to internationally recognised universal standards				
EU14	Programmes and processes to ensure the availability of a skilled workforce	Yes	2, 20	
EU15	Percentage of employees eligible to retire	Yes	20	
EU16	Health & Safety policies for employees and contractor employees	Yes	3, 21	
LA1	Total workforce by employment type, employment contract, and region	Yes	20	
LA2	Total number and rate of employee turnover	No		
EU17	Days worked by contrators and subcontrator employees	No		
EU18	Percentage of contractor and subcontractor employees who have undergone relevant h&s training	No		
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	No		
LA4	Percentage of employees covered by collective bargaining agreements	No		
LA5	Minimum notice period(s) regarding significant operational changes	No		
LA6	Percentage of total workforce represented in formal health and safety comittees	No		
LA7	Injury, absenteeism and fatality data	Yes	21	
LA8	Programmes to assist workforce members, their families, or community members regarding serious diseases	No		
LA9	Health and safety topics covered in formal agreements with trade unions	No		
LA10	Average hours of training	No		
LA11	Programmes for skills management and lifelong learning	Partially	20	
LA12	Percentage of employees receiving regular performance and career development reviews	Yes	3, 20	
LA13	Composition of governance bodies and breakdown of employees	Yes	5, 20	
LA14	Ratio of basic salary of men to women	No		

Key

Yes | Partially | No | N/A (Not Applicable)

PERFORMANCE INDICATORS		STATUS	PAGE	COMMENT
Human Rights				
Extent of consideration of human rights in investment and supplier/contractor selection practices		No		
Society				
Impacts on communities in which we operate and risks of unethical behaviour				
EU19	Stakeholder participation in the decision making process	Yes	4, 22	
EU20	Approach to managing the impacts of displacement	N/A		No displacement
EU21	Disaster/emergency planning and response	No		
SO1	Programmes and practices that assess and manage the impacts of operations on communities	Partially	4, 13, 14, 18, 19, 22	
EU22	Number of people physically or economically displaced and compensation given	N/A		No displacement
SO2	Business units analysed for risks related to corruption	No		
SO3	Employees trained in organisation's anti-corruption policies and procedures	No		
SO4	Actions taken in response to incidents of corruption	N/A		None in the reporting period
SO5	Public policy positions and participation in public policy development and lobbying	Yes	3, 14, 18, 23	
SO6	Financial contributions to political parties	N/A		Prohibited in our financial delegation policy
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	N/A		None in the reporting period
SO8	Significant fines/sanctions for non-compliance with laws and regulations	N/A		None in the reporting period
Product Responsibility				
Effect of our products/services upon customers				
EU23	Programmes to improve or maintain access to electricity and customer support services	Yes	3, 18	
EU24	Practices to address access issues	No		
PR1	Processes for assessing community health risks including monitoring, prevention measures and, if applicable, long term health-related studies	No		
PR2	Incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts	N/A		None in the reporting period
EU25	Number of injuries and fatalities to the public involving company assets	N/A		None in the reporting period
PR3	Type of product and services information required by procedures	Yes	3, 17, 18	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	N/A		None in the reporting period
PR5	Customer satisfaction practices and measures	Partially	3, 18	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications	No		
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication	N/A		None in the reporting period
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	N/A		None in the reporting period
PR9	Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N/A		None in the reporting period
EU26	Percentage of population unserved in licensed distribution or service areas	N/A		Responsibility of lines companies
EU27	Number of residential disconnections for non-payment	No		
EU28	Power outage frequency	N/A		Not under our control
EU29	Average power outage duration	N/A		Not under our control
EU30	Average plant availability factor	Yes	13	

Registered Office

Level 1
33 Customhouse Quay
Wellington, 6143
New Zealand

Auditor

Jamie Schmidt
On behalf of The Office of the
Auditor-General
Deloitte
PO Box 1990
Wellington, 6140
New Zealand

Bankers

Westpac, Wellington, New Zealand

Directors

Wayne Boyd (Chairman)
Ray Watson (Deputy Chairman)
Mary Devine
Catherine Drayton
Christopher Moller
Stephen Reindler
Brett Shepherd
Anne Urlwin

Management Team

Tim Lusk (Chief Executive)
Neal Barclay
Paul Chambers
Garth Dibley
Bill Highet
Glen McLatchie
Kate Peterson
Andrew Robertson
Ken Smales

Offices

33 Customhouse Quay
PO Box 10840
Wellington, 6143
New Zealand
Telephone: +64 4 381 1200
Facsimile: +64 4 381 1201

322 Manchester Street
PO Box 2454
Christchurch, 8140
New Zealand
Telephone: +64 3 357 9700
Facsimile: +64 3 357 9701

State Highway 8
Private Bag 950
Twizel, 7944
New Zealand
Telephone: +64 3 435 0818
Facsimile: +64 3 435 0939

If you would like to comment on our Annual Report, or if you have questions you'd like answered, please email **annual.report@meridianenergy.co.nz** www.meridian.co.nz

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