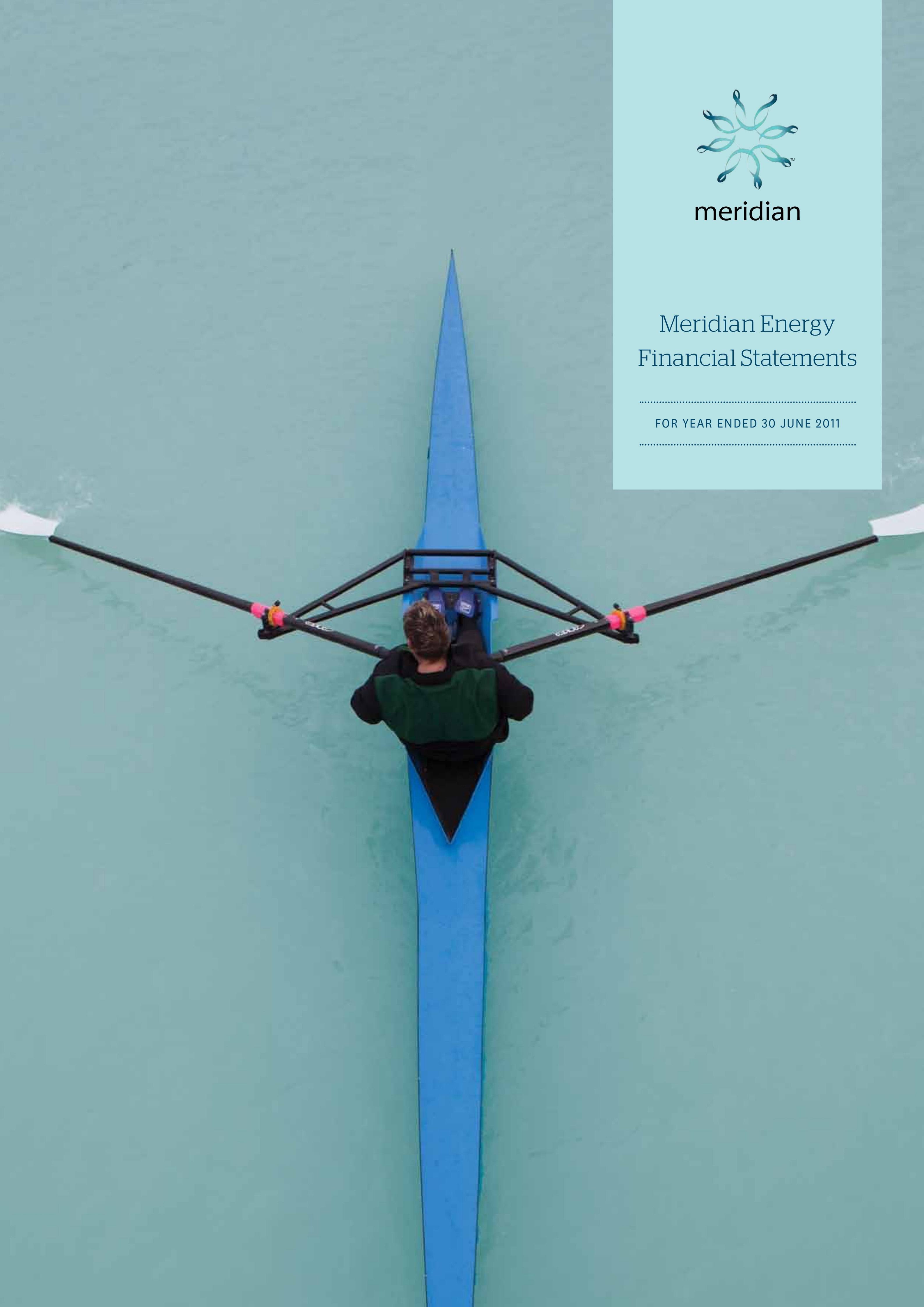

meridian

Meridian Energy Financial Statements

FOR YEAR ENDED 30 JUNE 2011

Contents

Income Statement FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Operating Revenue					
Energy Sales Revenue		2,010,432	2,023,136	1,885,991	1,954,797
Energy Related Services Revenue		22,284	16,463	4,664	2,392
Dividends Received		33	-	4,141	199
Other Revenue		20,238	22,306	15,355	16,065
Total Operating Revenue		2,052,987	2,061,905	1,910,151	1,973,453
Operating Expenses					
Energy Related Expenses		(703,302)	(743,625)	(669,441)	(728,777)
Energy Transmission and Distribution Expenses		(451,637)	(425,978)	(426,309)	(417,568)
Employee Expenses	3	(89,493)	(87,258)	(68,079)	(70,975)
Other Operating Expenses	3	(148,628)	(163,364)	(110,244)	(127,599)
		(1,393,060)	(1,420,225)	(1,274,073)	(1,344,919)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		659,927	641,680	636,078	628,534
Equity Accounted Earnings of Joint Ventures	16	(3,382)	(2,012)	-	-
Amortisation of Intangible Assets	18	(15,041)	(13,712)	(12,236)	(10,942)
Impairment of Intangible Assets	18	-	(17,136)	-	(17,136)
Impairment of Property, Plant and Equipment	19	(6,068)	(1,200)	(5,788)	(1,200)
Impairment of Inventories	12	(1,110)	-	-	-
Impairment of Held for Sale Assets	14	(3,778)	-	-	-
Impairment of Investments	15	-	-	(39,818)	-
Impairment of Subsidiary Advances	15, 28	-	-	(50,930)	-
Depreciation	19	(209,283)	(174,318)	(151,681)	(132,983)
Gain on Sale of Property, Plant and Equipment	19	174,125	275	174,420	331
Foreign Exchange Contracts (FECs) reclassified to Profit or Loss[1]	25	-	(33,087)	-	(33,087)
Net Change in Fair Value of Financial Instruments Loss	25	(89,270)	(14,872)	(93,804)	(12,710)
Operating Profit		506,120	385,618	456,241	420,807
Finance Costs and Other Finance Related Income/(Expenses)					
Finance Costs	4	(110,460)	(86,816)	(101,534)	(91,697)
Interest Income	5	2,786	1,730	61,363	38,571
Net Change in Fair Value of Financial Instruments Loss	25	(14,157)	(23,296)	(14,440)	(23,296)
Profit Before Tax		384,289	277,236	401,630	344,385
Income Tax Expense	6	(81,178)	(93,187)	(106,226)	(108,754)
Profit After Tax		303,111	184,049	295,404	235,631
Profit After Tax Attributable to:					
Shareholders of the Parent Company		303,817	184,852	295,404	235,631
Non-Controlling Interest		(706)	(803)	-	-
		303,111	184,049	295,404	235,631
Earnings per Share from Operations Attributable to Equity Holders of the Company During the Year:					
Basic Earnings per Share ($)	7	0.19	0.12		
Diluted Earnings per Share ($)	7	0.19	0.12		

1 Includes losses on FECs, previously deferred in the cash flow hedge reserve not expected to be recovered in one or more future periods.

Statement of Comprehensive Income FOR THE YEAR ENDED 30 JUNE 2011

		GROUP		PARENT	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Profit After Tax for the Period		**303,111**	184,049	**295,404**	235,631
Other Comprehensive Income					
Revaluation Gain on Property, Plant and Equipment	19	**129,673**	1,213,663	**129,673**	1,215,374
Effect of Amalgamation of Subsidiaries	15	**-**	-	**(39,195)**	-
Net (Loss) on Cash Flow Hedges		**(1,217)**	(24,279)	**(1,217)**	(24,269)
FECs Reclassified to Profit or Loss[1]	25	**-**	33,087	**-**	33,087
Net (Loss)/Gain on Available for Sale Investments	17	**(311)**	8	**(311)**	8
Exchange Gain/(Loss) Arising from Translation of Foreign Operations		**2,065**	(3,060)	**-**	-
Tax items:					
Deferred Tax on Sale of Tekapo A and B	22	**147,153**	-	**147,153**	-
Effect of Corporate Tax Rate Reduction on Deferred Tax	22	**2,580**	103,299	**2,580**	101,839
Income Tax Relating to Other Comprehensive Income	22	**(38,691)**	(366,738)	**(38,691)**	(367,255)
Other Comprehensive Income for the Period Net of Tax		**241,252**	955,980	**199,992**	958,784
Total Comprehensive Income for the Period Net of Tax		**544,363**	1,140,029	**495,396**	1,194,415
Total Comprehensive Income for the Period Attributable to:					
Shareholders of the Parent Company		**545,069**	1,140,832	**495,396**	1,194,415
Non Controlling Interest		**(706)**	(803)	**-**	
		544,363	1,140,029	**495,396**	1,194,415

1 Includes losses on FECs, previously deferred in the cash flow hedge reserve not expected to be recovered in one or more future periods.

The Statement of Accounting Policies and Notes to the Financial Statements on pages 7 to 59 form an integral part of these Financial Statements

Statement of Financial Position AS AT 30 JUNE 2011

	NOTE	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Shareholders' Equity					
Share Capital	8	1,600,000	1,600,000	1,600,000	1,600,000
Reserves		3,330,404	3,468,979	3,244,258	3,432,506
Equity Attributable to Shareholders of the Parent		4,930,404	5,068,979	4,844,258	5,032,506
Share Options Vested in Whisper Tech Limited	8	997	1,098	-	-
Non-Controlling Interest		(99)	607	-	-
Total Equity		4,931,302	5,070,684	4,844,258	5,032,506
Represented by:					
Current Assets					
Cash and Cash Equivalents	10	368,191	54,394	256,596	39,234
Accounts Receivable and Prepayments	11	240,885	199,114	227,193	187,684
Inventories	12	3,333	6,029	2,424	3,064
Finance Lease Receivable	13	632	683	632	683
Assets Classified as Held for Sale		1,888	350	-	350
Derivative Financial Instruments	25	12,256	11,004	12,256	13,690
Total Current Assets		627,185	271,574	499,101	244,705
Non-Current Assets					
Finance Lease Receivable	13	4,895	4,984	4,895	4,984
Investments in Subsidiaries	15	-	-	165,716	106,003
Equity Accounted Joint Ventures	16	4,402	294	-	-
Available for Sale Investments	17	6,065	6,077	6,065	6,077
Advances to Subsidiaries	28	-	-	326,708	1,209,682
Intangible Assets	18	46,930	50,053	16,517	17,117
Property, Plant and Equipment	19	7,720,807	8,207,327	7,315,326	7,006,908
Deferred Tax Asset	22	7,947	3,399	-	-
Derivative Financial Instruments	25	41,742	171,891	40,747	171,442
Total Non-Current Assets		7,832,788	8,444,025	7,875,974	8,522,213
Total Assets		8,459,973	8,715,599	8,375,075	8,766,918
Current Liabilities					
Liabilities Classified as Held for Sale	14	-	15	-	15
Payables and Accruals	20	217,004	201,614	188,582	180,464
Provisions	21	94	736	26	233
Current Tax Payable		36,608	31,633	37,194	31,525
Current Portion of Term Borrowings	23	298,167	284,417	298,167	284,417
Advances from Subsidiaries	28	-	-	228,567	341,933
Derivative Financial Instruments	25	17,779	38,592	19,557	38,666
Total Current Liabilities		569,652	557,007	772,093	877,253
Non-Current Liabilities					
Term Borrowings	23	1,275,379	1,323,058	1,086,910	1,143,384
Term Payables		35,564	52,954	35,564	52,954
Deferred Tax Liability	22	1,412,330	1,559,507	1,400,504	1,508,432
Derivative Financial Instruments	25	235,746	152,389	235,746	152,389
Total Non-Current Liabilities		2,959,019	3,087,908	2,758,724	2,857,159
Total Liabilities		3,528,671	3,644,915	3,530,817	3,734,412
Net Assets		4,931,302	5,070,684	4,844,258	5,032,506

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

Chris Moller
Chairman, 22 August 2011

Anne Urlwin
Chair of Audit and Risk Committee, 22 August 2011

The Statement of Accounting Policies and Notes to the Financial Statements on pages 7 to 59 form an integral part of these Financial Statements

Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2011

	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	SHARE OPTIONS VESTED $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
Balance at 1 July 2009	**1,600,000**	**2,737,092**	**340**	**(5,525)**	**380**	**(50,648)**	**4,281,639**	**1,079**	**1,410**	**4,284,128**
Profit for the Period	-	-	-	-	-	184,852	184,852	-	(803)	184,049
Revaluation Gain on Property, Plant and Equipment	-	1,213,663	-	-	-	-	1,213,663	-	-	1,213,663
Cash Flow Hedges:										
Net Gain Taken to Equity	-	-	-	(24,279)	-	-	(24,279)	-	-	(24,279)
FECs Reclassified to Profit or Loss	-	-	-	33,087	-	-	33,087	-	-	33,087
Available for Sale Reserve:										
Net Gain Taken to Equity	-	-	-	-	8	-	8	-	-	8
Exchange Differences Arising from Translation of Foreign Operations	-	-	(3,060)	-	-	-	(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	-	-	103,299
Income Tax Relating to Other Comprehensive Income	-	(362,694)	-	(2,642)	2	(1,404)	(366,738)	-	-	(366,738)
Total Comprehensive Income for the Period	**-**	**949,559**	**(3,060)**	**6,184**	**7**	**188,142**	**1,140,832**	**-**	**(803)**	**1,140,029**
Share Options Vested	-	-	-	-	-	-	-	19	-	19
Dividends Paid	-	-	-	-	-	(353,492)	(353,492)	-	-	(353,492)
Balance at 30 June 2010	**1,600,000**	**3,686,651**	**(2,720)**	**659**	**387**	**(215,998)**	**5,068,979**	**1,098**	**607**	**5,070,684**

	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	SHARE OPTIONS VESTED $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
Balance at 1 July 2010	**1,600,000**	**3,686,651**	**(2,720)**	**659**	**387**	**(215,998)**	**5,068,979**	**1,098**	**607**	**5,070,684**
Profit for the Period	-	-	-	-	-	303,817	303,817	-	(706)	303,111
Revaluation Gain on Property, Plant and Equipment	-	129,673	-	-	-	-	129,673	-	-	129,673
Cash Flow Hedges:										
Net Gain Taken to Equity	-	-	-	(1,217)	-	-	(1,217)	-	-	(1,217)
Available for Sale Reserve:										
Net Loss Taken to Equity	-	-	-	-	(311)	-	(311)	-	-	(311)
Exchange Differences Arising from Translation of Foreign Operations	-	-	2,065	-	-	-	2,065	-	-	2,065
Asset Revaluation Reserve Transferred to Retained Earnings	-	(538,194)	-	-	-	538,194	-	-	-	-
Deferred Tax Transferred to Retained Earnings on Tekapo A and B Sale	-	150,415	-	-	-	(3,262)	147,153	-	-	147,153
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	2,610	-	(24)	(6)	-	2,580	-	-	2,580
Income Tax Relating to Other Comprehensive Income	-	(38,639)	-	365	92	(509)	(38,691)	-	-	(38,691)
Total Comprehensive Income for the Period	**-**	**(294,135)**	**2,065**	**(876)**	**(225)**	**838,240**	**545,069**	**-**	**(706)**	**544,363**
Share Options Vested	-	-	-	-	-	-	-	(101)	-	(101)
Dividends Paid	-	-	-	-	-	(683,644)	(683,644)	-	-	(683,644)
Balance at 30 June 2011	**1,600,000**	**3,392,516**	**(655)**	**(217)**	**162**	**(61,402)**	**4,930,404**	**997**	**(99)**	**4,931,302**

The Statement of Accounting Policies and Notes to the Financial Statements on pages 7 to 59 form an integral part of these Financial Statements

Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2011

	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 and Equipment	-	1,215,374	-	-	-	1,215,374
Cash Flow Hedges:						
Net Loss Taken to Equity	-	-	(24,269)	-	-	(24,269)
FECs Reclassified to Profit or Loss	-	-	33,087	-	-	33,087
Available for Sale Reserve:						
Net Loss 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**

	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 2010	**1,600,000**	**3,628,867**	**659**	**387**	**(197,407)**	**5,032,506**
Profit for the Period	-	-	-	-	295,404	295,404
Revaluation Gain on Property, Plant and Equipment	-	129,673	-	-	-	129,673
Cash Flow Hedges:						
Net Loss Taken to Equity	-	-	(1,217)	-	-	(1,217)
Available for Sale Reserve:						
Net Loss Taken to Equity	-	-	-	(311)	-	(311)
Asset Revaluation Reserve Transferred to Retained Earnings	-	(538,194)	-	-	538,194	-
Effect of Amalgamation of Subsidiaries		52,581	-	-	(91,776)	(39,195)
Deferred Tax Transferred to Retained Earnings on Tekapo A and B Sale	-	150,415	-	-	(3,262)	147,153
Effect of Corporate Tax Reduction on Deferred Tax	-	2,610	(24)	(6)	-	2,580
Income Tax Relating to Other Comprehensive Income	-	(38,639)	365	92	(509)	(38,691)
Total Comprehensive Income for the Period	**-**	**(241,554)**	**(876)**	**(225)**	**738,051**	**495,396**
Retained Earnings on Amalgamation of Subsidiaries						
Dividends Paid	-	-	-	-	(683,644)	(683,644)
Balance at 30 June 2011	**1,600,000**	**3,387,313**	**(217)**	**162**	**(143,000)**	**4,844,258**

The Statement of Accounting Policies and Notes to the Financial Statements on pages 7 to 59 form an integral part of these Financial Statements

Cash Flow Statement FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		2,006,326	2,050,950	1,860,646	1,970,837
Net GST Received		2,562	1,009	1,897	-
Interest Received		2,787	1,730	61,363	38,571
Dividends Received		33	-	199	199
		2,011,708	2,053,689	1,924,105	2,009,607
Cash was Applied to:					
Payments to Suppliers and Employees		(1,421,788)	(1,420,472)	(1,315,046)	(1,347,497)
Net GST Paid		-	-	-	(54)
Interest Paid		(105,034)	(80,512)	(97,900)	(85,393)
Income Tax Paid		(116,178)	(100,881)	(116,055)	(100,730)
		(1,643,000)	(1,601,865)	(1,529,001)	(1,533,674)
Net Cash Inflows from Operating Activities	26	368,708	451,824	395,104	475,933
Investment Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment[1]		821,735	11,092	821,170	11,084
Sale of Investments		-	924	-	924
Finance Lease Receivable		140	-	140	-
Government Grant	19	8,398	-	-	-
		830,273	12,016	821,310	12,008
Cash was Applied to:					
Purchase of Property, Plant and Equipment		(248,122)	(196,944)	(66,953)	(55,155)
Capitalised Interest		(4,253)	(10,082)	(245)	(4,170)
Advances to Subsidiaries		-	-	(307,945)	(239,829)
Purchase of Subsidiaries		-	(245,828)	-	-
Purchase of Intangible Assets		(12,457)	(17,523)	(11,636)	(8,481)
Purchase of Investments		(7,789)	(8)	(299)	(9,757)
		(272,621)	(470,385)	(387,078)	(317,392)
Net Cash Inflows/(Outflows) from Investing Activities		557,652	(458,369)	434,232	(305,384)
Financing Activities					
Cash was Provided from:					
Proceeds From Borrowings		537,123	564,281	537,123	384,607
		537,123	564,281	537,123	384,607
Cash was Applied to:					
Dividends Paid	9	(683,644)	(353,492)	(683,644)	(353,492)
Term Borrowings Paid		(465,488)	(197,727)	(465,488)	(197,727)
		(1,149,132)	(551,219)	(1,149,132)	(551,219)
Net Cash (Outflows)/Inflows from Financing Activities		(612,009)	13,062	(612,009)	(166,612)
Net Increase in Cash and Cash Equivalents		314,351	6,517	217,327	3,937
Cash and Cash Equivalents at Beginning of Year		54,394	47,877	39,234	35,297
Cash on Amalgamation of Subsidiaries		-	-	35	-
Cash Transferred to Assets Held for Sale		(554)	-	-	-
Cash and Cash Equivalents at End of Year	10	368,191	54,394	256,596	39,234

1 Includes the sale of Tekapo A and B to Genesis Power Limited for $820.2 million.

The Statement of Accounting Policies and Notes to the Financial Statements on pages 7 to 59 form an integral part of these Financial Statements

Contents

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 2011.

The financial statements were authorised for issue by the directors on 22 August 2011.

BASIS OF PREPARATION

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 accrual basis of accounting has been used unless otherwise stated.

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 additional new Standards as listed below. The revised NZ IAS 24 was early-adopted in 2010, 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 (International Financial Reporting Interpretations Committee) interpretations are as follows:

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER
NZ IFRS 2 (Amendment) *Share-Based Payments: Group Cash Settled Share based Payment Transactions*	1 January 2010
IAS 32 (Amendment) *Financial Instruments: Presentation – Classification of Rights Issues*	1 February 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	Various dates
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010 – Improvements to NZ IFRS 3 and NZ IAS 27	1 July 2010
NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010

The adoption of these standards do not have an impact on the reported results or financial position of Meridian.

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:

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
NZ IFRS 9 *Financial Instruments*	1 January 2013	30 June 2014
* Revised NZ IFRS 9 *Financial Instruments*	1 February 2013	30 June 2014
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010 • Improvements to NZ IFRS 7, NZ IAS 1, NZ IAS 34 and NZ IFRIC 13	1 January 2011	30 June 2012
Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*	1 July 2011	30 June 2012
Amendments to NZ IAS 12 *Income Taxes* – Deferred Tax: Recovery of Underlying Assets	1 January 2012	30 June 2013
NZ IFRS 10 *Consolidated Financial Statements*	1 January 2013	30 June 2014
NZ IFRS 11 *Joint Arrangements*	1 January 2013	30 June 2014
NZ IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013	30 June 2014
NZ IFRS 13 *Fair Value Measurements*	1 January 2013	30 June 2014
NZ IAS 27 *Separate Financial Statements* (revised 2011)	1 January 2013	30 June 2014
NZ IAS 28 *Investments in Associates and Joint Ventures* (revised 2011)	1 January 2013	30 June 2014
Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards	1 July 2011	30 June 2012
FRS 44 *New Zealand Additional Disclosures*	1 July 2011	30 June 2012
Amendments to FRS 44 *NZ Additional Disclosures*	1 July 2011	30 June 2012
Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	1 July 2012	30 June 2013
Amendments to IAS 19 *Employee Benefits*	1 January 2013	30 June 2014

* *The revised NZ IFRS 9 adds guidance on the classification and measurement of financial liabilities and derecognition of financial instruments. The effective date remains the same as the previous version of NZ IFRS 9, with earlier adoption permitted.*

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 classification of certain available for sale investments in the financial statements. The financial statement impact of adoption of these other standards has not yet been analysed.

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, determination of useful lives of Property, Plant and Equipment and the impact of tax rate changes on deferred tax balances.

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

- Property, Plant and Equipment – Accounting Policy PPE and Note 19
- Financial Instruments – Accounting Policy Fair Value Estimation and Notes 24,25
- Intangible Assets Goodwill – Accounting Policy Goodwill and Note 18
- Intangible Assets Other than Goodwill – Accounting Policy Impairment of Non-Financial Assets other than Goodwill and Note 18
- Revenue Recognition – Accounting Policy Sale of Energy and Other Related Services
- Income Tax Expense – Accounting Policy Taxation and Note 6

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 in 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 where it has entitlement to a share of the outcome (profit/loss) of the activities of the joint venture 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.

Jointly Controlled Assets

Where Meridian has an interest in a jointly controlled asset Meridian recognises its share using the proportionate consolidation method. Under this method Meridian recognises its share of the jointly controlled asset according to the nature of the asset, any liabilities incurred with respect of the joint venture and any income or expenses from its share of the joint venture or incurred in respect 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 19, the fair value of generation assets 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.

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. Management have used judgement to determine the depreciation and amortisation rates that best approximate the estimated remaining useful lives. 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

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 or payable 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 ten years from the date of acquisition.

Computer Software

Acquired computer software licences, which 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 twenty 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 ten 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. 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). 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.

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.

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

In determining the recoverable amounts of licences management has exercised judgment in the following significant valuation assumptions; sales forecasts (including volumes and pricing) and discount rates.

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 Wind Farm 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 Parent or Group becomes 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 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 have 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 ('CCIRSs'), interest rate swaps ('IRSs') (including forward rate agreements and interest rate options, foreign exchange contracts (including currency options ('FECs')) and electricity contracts for differences ('CFDs')).

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).

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.

Some derivatives are not in a designated hedging relationship

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 net change in fair value of financial instruments within other finance related expenses with respect of CCIRSs, 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 net change in fair value of financial instruments within operating profit with respect of FECs and net change in fair value of financial instruments within other finance related expenses with respect of CCIRSs. 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.

Derivatives not Designed as Hedges

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 CFDs and FECs or within finance costs in respect of IRSs. 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 non-observable 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 (IRSs, CCIRSs, FECs, CFDs) is determined using various valuation techniques which include assumptions on both observable data when such data is available (IRSs, CCIRSs, FECs, some CFDs) and non-observable data (some CFDs) in all other instances. The fair value of IRSs, CCIRSs, FECs and CFDs 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 CFDs 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 CPI or proxy for price inflation
- All CFDs 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 CFDs. 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 to the NZAS Pricing Agreement, the discount rate used is Meridian's weighted average cost of capital.

The fair value of FECs 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 CFDs can vary significantly based on assumptions in relation to the forecast electricity price and interest rates. 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 for level 3 financial instruments is quantified in Note 24 – 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 that 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 that 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 both 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.

GOVERNMENT GRANTS

Government grants received comprises amounts received from government. Grants are offset against the cost of the asset the grant relates to.

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 has 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. Management exercises 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.

With the growth of Meridian's international generation business, the Chief Executive now considers the business from the perspective of three reportable segments, being Wholesale, Retail and International. Comparatives for earlier periods have been restated.

Revenues are derived from external customers within New Zealand, Australia and the United States of America. Meridian sells approximately 35% (2010: 34%) of its generation output to a single customer. The revenues received from this customer are attributable to the Wholesale segment.

The revenue from external parties reported to the Chief Executive is measured in a manner consistent with that in the income statement.

The accounting policies of the reportable segments are the same as Meridian's accounting policies applied in the preparation of the Group financial statements for the year ended 30 June 2010.

Wholesale Segment

The Wholesale segment encompasses activity associated with Meridian's generation and sale of electricity into the wholesale electricity market, the wholesale sale of electricity to large industrial customers, development of New Zealand renewable energy opportunities and activities such as risk management.

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.

Since the last reporting date, costs to develop New Zealand renewable generation opportunities are now reported as part of the Wholesale operating segment as it has been determined they have similar long term economic characteristics. In the previous period these costs were included in Unallocated Corporate.

Retail Segment

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.

The Retail segment purchases electricity from the wholesale electricity market at spot prices at the relevant grid exit point.

Since the last reporting date, Powershop New Zealand Ltd is reported as part of the Retail segment as it has been determined they have similar long-term economic characteristics. In the previous period Powershop New Zealand Ltd was included in Other Segments.

International Generation Segment

The international generation segment comprises Meridian's Australian and United States operations.

Since the last reporting date, international generation subsidiaries is now a separate reportable segment. In the previous period this was included in Other Segments.

Other Segments

Other operations, which 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, energy solutions to industry and dam consultancy services. The results of these segments are included in Other Segments.

Since the last reporting date, Energy For Industry is reported as part of Other Segments. In the previous period this was included in Wholesale Segment.

Unallocated

Unallocated Corporate encompasses Meridian's business functions and company-wide costs, such as insurance, that provide support to the Wholesale, Retail, International Generation and Other Segments, and Meridian's non-operating subsidiaries.

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

The Segment Information Provided to the Chief Executive for the Reportable Segments for the year ended 30 June 2011 is as follows:

	WHOLESALE $'000	RETAIL $'000	INTERNATIONAL GENERATION $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	TOTAL $'000
Total Segment Revenue	962,530	1,038,455	21,797	38,481	7,984	2,069,247
Inter-Segment Revenue	(10,203)	-	-	(1,949)	(4,108)	(16,260)
Revenue from External Customers	952,327	1,038,455	21,797	36,532	3,876	2,052,987
EBITDAF	**535,819**	**185,390**	**7,987**	**(2,071)**	**(67,198)**	**659,927**
Equity Accounted Earnings of Joint Ventures	-	-	-	(3,382)	-	(3,382)
Additions to Non-Current Assets	171,067	7,979	65,350	10,180	11,797	266,373
Total Non-Current Assets	7,131,948	46,189	387,850	60,066	206,735	7,832,788
Total Assets	7,231,901	211,097	575,985	80,247	360,743	8,459,973

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	INTERNATIONAL GENERATION $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	TOTAL $'000
Total Segment Revenue	1,033,338	993,656	1,583	38,088	521	2,067,186
Inter-Segment Revenue	(2,037)	-	-	(3,045)	(199)	(5,281)
Revenue from External Customers	1,031,301	993,656	1,583	35,043	322	2,061,905
EBITDAF	**590,770**	**137,688**	**(11,080)**	**(7,889)**	**(67,809)**	**641,680**
Equity Accounted Earnings of Joint Ventures	-	-	-	(2,012)	-	(2,012)
Additions to Non-Current Assets	146,719	267	294,364	1,116	21,382	463,848
Total Non-Current Assets	7,768,757	62,873	332,595	26,057	253,743	8,444,025
Total Assets	7,869,475	178,617	374,072	31,132	262,303	8,715,599

Information Relating to Geographical Area Operations

	GROUP 2011 $'000	GROUP 2010 $'000
Total Revenue in:		
New Zealand	2,031,190	2,060,203
Australia	18,902	1,060
United States of America	2,895	642
	2,052,987	**2,061,905**

	GROUP 2011 $'000	GROUP 2010 $'000
EBITDAF in:		
New Zealand	651,940	652,760
Australia	8,383	(9,576)
United States of America	(396)	(1,504)
	659,927	**641,680**

	GROUP 2011 $'000	GROUP 2010 $'000
Non Current Assets Held:		
New Zealand	7,444,938	8,111,430
Australia	352,321	281,365
United States of America	35,529	51,230
	7,832,788	**8,444,025**

2. Segment Reporting (continued)

Reconciliation of EBITDAF to Profit before tax provided as follows:

	GROUP 2011 $'000	GROUP 2010 $'000
EBITDAF for Reportable Segments	729,196	717,378
Other Segments EBITDAF	(2,071)	(7,889)
Unallocated EBITDAF	(67,198)	(67,809)
Total Group EBITDAF	659,927	641,680
Net Change in Fair Value of Financial Instruments Loss	(103,427)	(38,168)
FECs reclassified to Profit or Loss	-	(33,087)
Depreciation	(209,283)	(174,318)
Amortisation of Intangible Assets	(15,041)	(13,712)
Impairment of Inventories	(1,110)	-
Impairment of Property Plant and Equipment	(6,068)	(1,200)
Impairment of Held for Sale Assets	(3,778)	-
Impairment of Intangible Assets	-	(17,136)
Gain on Sale of Property, Plant and Equipment	174,125	275
Equity Accounted Earnings of Joint Ventures	(3,382)	(2,012)
Finance Costs and Other Finance Expenses	(107,674)	(85,086)
Group Profit before Tax	384,289	277,236

Reportable segments' assets are reconciled to total group assets as follows:

	GROUP 2011 $'000	GROUP 2010 $'000
Total Assets for Reportable Segments	8,018,983	8,422,164
Other Segment Assets	80,247	31,132
Total Segment Assets	8,099,230	8,453,296
Unallocated Assets:		
Cash and Cash Equivalents	244,451	33,739
Finance Lease Receivables	5,528	5,667
Derivative Financial Instruments	11,630	83,387
Available for Sale Investments	6,057	6,069
Intangible Assets	8,801	11,957
Property, Plant and Equipment	177,599	152,932
Other Assets	10,413	6,272
Intercompany Loans Included in Other Segment Assets	(103,736)	(37,720)
Total Assets	8,459,973	8,715,599

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. Expenses

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Employee Costs include:				
Contributions to Defined Contribution Plans	2,404	2,043	1,973	1,818
Restructuring Costs	241	4,387	241	4,387
Movement in Share Based Incentives	(101)	19	-	-
Other Operating Expenses include:				
Auditors Remuneration to Deloitte for:				
- Audit of New Zealand-based companies Financial Statements[1]	454	453	380	430
- Audit of Overseas-based companies Financial Statements	83	54	28	25
- Other Services[2]	139	103	122	103
Operating Lease Payments	4,920	4,735	3,885	3,875
Research and Development Expenditure	2,443	3,132	-	-
Restructuring Costs	-	4,258	-	4,258
Unrealised Foreign Exchange (Gains) / Losses	(1,010)	966	967	(173)
Realised Foreign Exchange Losses / (Gains)	3,517	-	(1)	-
Donations	1,000	-	1,000	-

1 Includes office of the Auditor General overhead contribution of $28.5 thousand (2010: $27.0 thousand)

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

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

4. Finance Costs

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Interest on Borrowings	114,713	96,898	101,779	95,867
Less Capitalised Interest	(4,253)	(10,082)	(245)	(4,170)
	110,460	86,816	101,534	91,697

Total interest expense for financial liabilities at amortised cost is $37.1 million (2010: $27.2 million).

5. Interest Income

	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Interest Income on Financial Assets at amortised cost:				
- Cash and Cash Equivalents	2,786	1,511	1,478	1,275
- Finance Lease Receivable	-	219	-	219
- Loans to Subsidiaries	-	-	59,885	37,077
	2,786	1,730	61,363	38,571

Interest on Finance Lease Receivable has been reclassified to Other Revenue. The 2010 comparatives have not been restated.

6. Income Tax Expense

	NOTE	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
(A) Income Tax Expense					
Current Tax		98,962	103,913	139,616	139,452
Deferred Tax	22	(17,784)	(10,726)	(33,390)	(30,698)
Income Tax Expense		81,178	93,187	106,226	108,754
Income Tax Expense can be reconciled to Accounting Profit as follows:					
Profit Before Tax		384,289	277,236	401,630	344,385
Income Tax at 30%		115,287	83,171	120,489	103,316
Tax Effect of Expenditure Not Deductible for Tax		6,941	4,292	30,399	1,171
Tax Effect of Income Not Subject to Tax		(8,192)	(34)	(5,402)	(334)
Income Tax Over Provided in Prior Year		(3,995)	(381)	(2,193)	(854)
Tax Credits Transferred from Subsidiary		-	-	(2,207)	(2,866)
Inter-company Dividend Received Not Subject to Tax		-	-	(1,232)	-
Inter-company Dividend Subject to Tax		3,731	-	-	-
Tax Effect of Gain on Sale of Tekapo A and B Not Subject to Tax		(52,452)	-	(52,452)	-
Tax Effect of Gain on Sale of Tekapo A and B		17,410	-	17,410	-
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	22	2,410	(9,442)	2,110	(7,373)
Effect of Change in Building Tax Depreciation on Deferred Tax	22	-	14,748	-	14,748
Other		38	833	(696)	946
Income Tax Expense		81,178	93,187	106,226	108,754

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 temporary differences expected to reverse before this date and as at 30 June 2010 estimated that temporary differences would not change. The effect of any change since 30 June 2010 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 was reflected in the Income Statement in 2010. Management has used judgement in regard to the tax definition of buildings with the above ground structure of Generation Structures and Plant being treated as buildings.

In addition to the income tax charge to the income statement, a deferred tax (credit)/charge of ($111.0) million for the Group and ($111.0) million charge for the Parent (2010: Group $263.4 million charge, Parent $265.4 million charge) has been recognised in equity for the year (see note 22 – Deferred Tax Liability).

6. Income Tax Expense (continued)

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(B) Imputation Credits				
Balance at Beginning of Year	36,826	54,595	35,909	53,829
Net Income Tax Paid	116,269	100,622	116,146	100,471
Credits Attached to Dividends Received	131	-	131	-
Credits Attached to Dividends Paid	(151,466)	(118,391)	(151,335)	(118,391)
Balance at End of Year	1,760	36,826	851	35,909

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

	GROUP 2011 $'000	GROUP 2010 $'000
Through		
Shareholding in Parent Company	851	35,909
Indirect Interest in Subsidiaries	909	917
	1,760	36,826

7. Earnings per Share

Basic and Diluted Earnings Per Share

	GROUP 2011 $'000	GROUP 2010 $'000
Profit After Tax Attributable to Shareholders of the Parent Company	303,817	184,852
Weighted Average number of ordinary shares in issue (units)	1,600,000,002	1,600,000,002
Basic Earnings per Share ($)	0.19	0.12
Diluted Earnings per Share ($)	0.19	0.12

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

EXERCISE PRICE	2011 NUMBER ISSUED	2011 NUMBER FORFEITED	2011 NUMBER VESTED	2011 VESTED VALUE $'000	2010 NUMBER ISSUED	2010 NUMBER FORFEITED	2010 NUMBER VESTED	2010 VESTED VALUE $'000
$1	2,308	-	2,308	-	2,308	-	2,308	-
$366.83	14,115	1,500	12,615	997	14,115	1,500	10,765	1,098
	16,423	1,500	14,923	997	16,423	1,500	13,073	1,098

8. Equity (continued)

On 31 March 2008 Whisper Tech Limited issued 7,350 $366.83 share options to existing key management personnel. 1,500 of these options have subsequently been forfeited. The 5,850 non-forfeited options have vested over three years with the final tranche of 1,850 options vesting on 1 July 2010 on which date all $366.83 options were fully vested. The final exercise date for all $366.83 options is 31 March 2013.

The $1 options are all fully vested. On 3 December 2009 Whisper Tech Limited varied the terms of these options, extending the exercise date from 31 December 2009 to 31 March 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 $1 options. No vesting of these options occurred during the year ended 30 June 2011 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, two years (2010: 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

	2011 $750 OPTIONS	2011 $1 OPTIONS	2011 $366.83 OPTIONS	2010 $750 OPTIONS	2010 $1 OPTIONS	2010 $366.83 OPTIONS
Opening Balance	-	2,308	10,765	837	2,563	8,915
New Fully Vested Options created	-	-	-	-	-	-
Options Forfeited	-	-	-	-	(255)	-
Options Lapsed	-	-	-	(837)	-	-
Options Vested	-	-	1,850	-	-	1,850
Closing Balance	-	2,308	12,615	-	2,308	10,765

The weighted average exercise price of options vested at 30 June 2011 is $310.25 (2010: $302.24).

	2011 $366.83 OPTIONS	2010 $366.83 OPTIONS
Opening Option Balance	1,850	4,300
Created or Vested During Year	-	-
Less Forfeited	-	(600)
Less Fully Vested	(1,850)	(1,850)
Subject to Future Vesting	-	1,850

9. Dividends

	GROUP AND PARENT			
	2011 $'000	2010 $'000	2011 CENTS PER SHARE	2010 CENTS PER SHARE
2011 Interim Dividend Paid	615,150	-	38.45	-
2010 Final Dividend Paid	68,494	-	4.28	-
2010 Interim Dividend Paid	-	89,580	-	5.60
2009 Final Dividend Paid	-	263,912	-	16.49
	683,644	353,492	42.73	22.09

10. Cash and Cash Equivalents

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current Account	118,819	25,339	8,518	11,488
Money Market Account	249,372	29,055	248,078	27,746
	368,191	54,394	256,596	39,234

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.

11. Accounts Receivable and Prepayments

	GROUP		PARENT	
CURRENT	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Billed and Accrued Receivables	244,330	198,663	227,171	185,030
Less: Provision for Doubtful Debts	(6,487)	(3,024)	(6,470)	(2,932)
Net Trade Receivables	237,843	195,639	220,701	182,098
Prepayments	3,042	3,475	6,492	5,586
Total Accounts Receivable and Prepayments	240,885	199,114	227,193	187,684

	GROUP		PARENT	
MOVEMENT IN PROVISION FOR DOUBTFUL DEBTS	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Opening Provision for Doubtful Debts	(3,024)	(3,239)	(2,932)	(2,997)
Provision Made During the Year	(3,584)	-	(3,538)	-
Provision Released During the Year	121	215	-	65
Provision Used During Year	-	-	-	-
Closing Provision for Doubtful Debts	(6,487)	(3,024)	(6,470)	(2,932)

	GROUP		PARENT	
TRADE RECEIVABLES	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Not Past Due	198,806	175,421	184,126	163,549
Past Due 1–30 days	25,618	14,846	23,688	13,913
Past Due 31–60	13,826	1,979	13,649	1,667
Past Due 61–90	3,153	1,111	3,075	871
Past Due > 91 days	2,927	5,306	2,633	5,030
	244,330	198,663	227,171	185,030

11. Accounts Receivable and Prepayments (continued)

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2011 trade receivables of $39.0 million (2010 $20.5 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 electricity 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 the carrying amount of accounts receivable approximates their fair values. Trade receivables written off during the year were $4.3 million for the Group (2010 $4.9 million) and $4.1 million for the Parent (2010 $4.7 million).

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

	GROUP		PARENT	
AMOUNT DUE IN RELATION TO CONSTRUCTION CONTRACT	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Construction Contracts				
Contracts in progress at balance date:				
Gross construction work in progress plus margin to date	**727**	5,205	**-**	5,205
Released During the Year	**282**	5,205	**-**	5,205

Included in sales is $0.3 million of net contract revenue (2010: $0.6 million).

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.

12. Inventories

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Inventories				
Consumable Spares and Stores	**2,876**	3,713	**2,268**	3,064
Work in Progress and Components	**-**	3,579	**-**	-
Finished Goods	**282**	181	**-**	-
Carbon Credit Units	**229**	-	**156**	-
	3,387	7,473	**2,424**	3,064
Less Provision for Obsolescence	**(54)**	(1,444)	**-**	-
	3,333	6,029	**2,424**	3,064
Provision for Obsolescence				
Opening Provision	**1,444**	1,108	**-**	-
Provision Raised During the Year	**-**	485	**-**	-
Released During the Year	**(1,390)**	(149)	**-**	-
Closing Provision	**54**	1,444	**-**	-

In 2011, consumables and changes in finished goods and work in progress recognised as other operating expenses in the Group were $2.0 million and in the Parent were $0.7 million (2010: Group $1.1 million, Parent $0.03 million). Consumables and changes in finished goods and work in progress recognised as energy related costs in the Group were $0.3 million and in the Parent $nil (2010: Group $9.3 million, Parent $0.2 million).

The 22 February 2011 Christchurch earthquake resulted in the loss of some inventories and this has resulted in an impairment of $1.1 million to the Group (nil to the Parent).

Certain inventory items are subject to retention of title clauses.

13. Finance Lease Receivable

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

	GROUP & PARENT	
	2011 $'000	2010 $'000
Minimum Lease Payments:		
Not Later than One Year	632	683
Later than One Year and Not Greater than Five Years	2,530	2,530
Later than Five Years	8,853	9,486
	12,015	12,699
Add: Unguaranteed Residual Value	-	-
Gross Investment in Finance Lease	12,015	12,699
Less: Unearned Finance Income	(6,488)	(7,032)
Present Value of Minimum Lease Payments	5,527	5,667
Analysed as:		
Not Later than One Year	632	683
Later than One Year and Not Greater than Five Years	461	415
Later than Five Years	4,434	4,569
	5,527	5,667
Add: Unguaranteed Residual Value	-	-
Total Finance Lease Receivable	5,527	5,667
Comprising		
Current	632	683
Non-current	4,895	4,984
	5,527	5,667

14. Assets and Liabilities Classified as Held for Sale

In 2011 assets classified as held for sale are the Interruptible Load flow meters. These assets were used in a specific contract agreement. The assets were sold subsequent to 30 June 2011 and the contract has been terminated. In 2010 assets classified held for sale were land, buildings and land improvements originally purchased for anticipated hydro projects. These assets were no longer required and Meridian initiated a plan to locate purchasers.

The Group reclassified Right House Limited net assets to assets held for sale due to the sale to Mark Group Holdings Pty Limited on 1 July 2011. The net assets were subsequently impaired by $3.8 million.

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

15. Investments in Subsidiaries

Investments in subsidiaries comprise shares at cost less impairments

			INTEREST HELD BY PARENT			
NAME OF ENTITY	AMALGAMATED INTO PARENT	PRINCIPAL ACTIVITY	2011 %	2011 $000	2010 %	2010 $000
DamWatch Services Limited		Professional Services	100%	25	100%	25
Energy for Industry Limited		Energy Solutions	100%	46,527	100%	-
MEL Holdings Limited	31/5/2011	Holding Company	-	-	100%	-
Three River Holdings (No.1) Limited[1,3]		Non-Trading Entity	100%	52,404	-	-
Meridian Limited		Non-Trading Entity	100%	12	100%	12
Meridian Energy Captive Insurance Limited		Insurance Company	100%	500	100%	500
Meridian Energy International Limited		Non-Trading Entity	100%	50,000	100%	50,000
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%	11,877	100%	11,277
Right House Limited		Professional Services	100%	-	100%	21,489
MEL Solar Holdings Limited		Holding Company	100%	-	100%	-
Whisper Tech Limited[2]		Technology Company	23%	4,371	23%	22,700
				165,716		106,003

1 Now directly owned by the Parent due to the amalgamation of MEL Holdings Limited.
2 The Parent holds 23% of Whisper Tech Limited with WhisperGen Limited (Controlled Entity) holding 70.23%.
3 Members of Guaranteeing Group.

15. Investments in Subsidiaries (continued)

Controlled Entities (Other Subsidiaries)

NAME OF ENTITY	AMALGAMATED INTO PARENT	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP 2011 %	INTEREST HELD BY GROUP 2010 %
MEL (Te Apiti) Limited	31/5/2011	Electricity Generation	-	100%
MEL (Te Uku) Limited	31/5/2011	Electricity Generation	-	100%
MEL (West Wind) Limited	31/5/2011	Electricity Generation	-	100%
MEL (White Hill) Limited	31/5/2011	Electricity Generation	-	100%
MEL (Central Wind) Limited	31/5/2011	Electricity Generation	-	100%
MEL (Mill Creek) Limited	31/5/2011	Electricity Generation	-	100%
Blue Green Wind Farm Limited	31/5/2011	Electricity Generation	-	100%
Hawkes Bay Wind Farm Limited	31/5/2011	Electricity Generation	-	-
Three River Holdings (No.2) Limited[3]		Non-Trading Entity	100%	100%
WhisperGen Limited[1]		Non-Trading Entity	100%	100%
Whisper Tech Limited1		Technology Company	70.23%	70.23%
Meridian International No 1 Limited	31/5/2011	Non-Trading Entity	-	100%
Meridian International No 2 Limited	31/5/2011	Non-Trading Entity	-	100%
Incorporated in Australia				
DamWatch Pty Limited		Professional Services	100%	100%
Meridian Wind Macarthur Holdings Pty Limited[2]		Development	100%	100%
Meridian Wind Macarthur Pty Limited		Development	100%	100%
Meridian Australia Holdings Pty Limited[3]		Non-Trading Entity	100%	100%
Meridian Wind Australia Holdings Pty Limited[3]		Non-Trading Entity	100%	100%
Meridian Wind Australia Pty Limited[3]		Non-Trading Entity	100%	100%
Meridian Wind Farm JV Pty Limited (Deregistered 10/2/2011)		Non-Trading Entity	-	100%
Meridian Wind Monaro Range Holdings Pty Limited[3]		Non-Trading Entity	100%	100%
Meridian Wind Monaro Range Pty Limited[3]		Non-Trading Entity	100%	100%
Mt Mercer Wind Farm Pty Limited[3]		Electricity Generation	100%	100%
Meridian Energy Australia Pty Limited[2,3]		Management Services	100%	100%
MEL Meridian Australia Partnership[3]		Non-Trading Entity	100%	100%
Meridian Finco Pty Limited[3]		Finance Company	100%	100%
Mt Millar Wind Farm Limited[3]		Electricity Generation	100%	100%
Incorporated in United Kingdom				
WhisperGen (UK) Limited		Technology Company	100%	100%
Incorporated in United States of America				
Meridian Energy USA Incorporated		Development	100%	100%
CalRENEW-1 LLC		Electricity Generation	100%	100%
Jacob Canal Solar Farm LLC		Non-Trading Entity	100%	100%
Laurel West Solar Farm LLC		Non-Trading Entity	100%	100%
Laurel East Solar Farm LLC		Non-Trading Entity	100%	100%
Hatteson Solar Farm LLC		Non-Trading Entity	100%	100%
San Luis Valley Solar Farm LLC		Non-Trading Entity	100%	100%

1 Whisper Gen Ltd holds 70.23% of Whisper Tech Limited with the Parent holding 23%.

2 During the Reporting period Meridian Wind Macarthur Holdings Pty Limited changed its name from Meridian Energy Australia Pty Limited and Meridian Energy Australia Pty Limited changed its name from Meridian Renewables Pty Limited.

3 Members of Guaranteeing Group.

15. Investments in Subsidiaries (continued)

All subsidiaries have a balance date of 30 June except for Meridian Energy USA Incorporated, CalRENEW-1 LLC, Jacob Canal Solar Farm LLC, Laurel West Solar Farm LLC, Laurel East Solar Farm LLC, Hatteson Solar Farm LLC and San Luis Valley Solar Farm LLC that have balance dates of 31 December. These results have been incorporated to 30 June 2011.

On 24 September 2010 Blue Green Wind Farm Limited purchased all rights, title and interests of Wind Farm Developments (Australia) Limited, Eastern Capital Limited and Hall Block Resources Limited in the assets and the shares in Hawkes Bay Wind Farm Limited. The value of the assets purchased was $4.75 million.

On 31 May 2011 MEL Holdings Limited, Blue Green Wind Farm Limited, Hawkes Bay Wind Farm Limited, MEL (Te Apiti) Limited, MEL (Te Uku) Limited, MEL (White Hill) Limited, MEL (West Wind) Limited, MEL (Central Wind) Limited, MEL (Mill Creek) Limited, Meridian International No 1 Limited and Meridian International No 2 Limited ('amalgamated companies') were amalgamated into the Parent. Until the date of the amalgamation the amalgamated companies had been wholly owned by the Parent. Under the amalgamation the Parent took control of all of the assets of the amalgamated companies and assumed responsibility for their liabilities.

The amalgamated companies have been removed from the New Zealand register of companies.

Summary of the effect of amalgamation companies:

	2011 $'000
Assets and Liabilities amalgamated:	
Assets (includes intercompany receivables to Meridian)	1,047,653
Liabilities (includes intercompany loans from Meridian)	(1,086,848)
	(39,195)
Balance recognised in the Statement of Changes in Equity	**(39,195)**

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 the amalgamated companies after the amalgamation have been included in the income statement of the Parent since 31 May 2011. 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 five megawatt 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 time frame. 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).

After considering milestones achieved a payment of US$0.5 million was made during 2011. Management's current best estimate is that no further payments will be made.

15. Investments in Subsidiaries (continued)

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

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

The 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 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. that were included in Meridian's consolidated results from 20 August 2009 for the 2010 year are as follows: 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 2010 annual reporting period Meridian would have reported consolidated revenue of $2,061.9 million and Net Profit after Tax of $183.0 million for the year ended 30 June 2010.

The acquisition related costs of $0.8 million were recognised as Other Operating Expenses in the Income Statement in 2010.

15. Investments in Subsidiaries (continued)

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 70 megawatts 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 was as follows:

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

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

The allocation of the purchase price was 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 were the gross contractual amounts and considered to be the fair value of the receivables acquired.

Upon acquisition Mt Millar Wind Farm Pty Ltd. 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 was 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 were included in Meridian's consolidated results from 31 May 2010. (Revenue $1.1 million, Net Profit after Tax $0.2 million for the year ended 30 June 2010)

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 in 2010, based on the completion accounts of the acquired entity.

The acquisition related costs of $3.6 million were recognised within Other Operating Expenses in the 2010 Income Statement.

IMPAIRMENT OF INVESTMENTS AND ADVANCES TO SUBSIDIARIES

Where there are indications of impairment of investments and advances to subsidiaries, an impairment test has been performed. The Parent has recognised an impairment totalling $90.7 million with

15. Investments in Subsidiaries (continued)

respect to its investment and advances to three of its subsidiaries, Whisper Tech Limited, MEL Solar Holdings Limited and Right House Limited. The Group has also recognised an impairment totalling $3.8 million with respect to the net assets of Right House Limited.

WHISPER TECH LIMITED

Meridian has an investment interest in Whisper Tech Limited held directly by the Parent and its indirect subsidiary, WhisperGen Limited. The carrying value of this investment has been tested for impairment using a value in use calculation. This reflects management's most recent cash flow projections of Whisper Tech Limited and a discounted rate of 25% (post-tax) which is the Group's WACC adjusted upwards to reflect risks specific to Whisper Tech Limited. The primary driver of cash flows is the expected returns from its investment in the Efficient Home Energy S.L. joint venture and the ongoing costs to support the business. The recoverable amount does not exceed the fair value of the investment therefore the Parent has recorded an impairment of $32.6 million, relating to its investment ($18.3 million) in and its loan ($14.3 million) to Whisper Tech Limited, and a further $29.5 million impairment on its loan to WhisperGen Limited.

MEL SOLAR HOLDINGS LIMITED

Meridian has an investment in MEL Solar Holdings Limited, which operates as the investment entity for its interest in Meridian Energy USA Inc. Management have tested for impairment assessing the recoverable amount of the investment, based on the fair value of Meridian Energy USA Inc business assets, which include CalRENEW–1 – an operational solar power station in California. As a result of this assessment the Parent has recorded an impairment of $7.1 million in its loan to MEL Solar Holdings Limited. This largely represents costs expensed to the income statement of Meridian Energy USA Inc since acquisition in respect of prospective generation development.

RIGHT HOUSE LIMITED

Right House Limited was wholly owned by the Parent on 30 June 2011. Right House Limited was sold as a going concern to Mark Group Holdings Pty Limited on 1 July 2011. The Parent has written down its investment in Right House Limited by recognising an impairment of $21.5 million.

16. Equity Accounted Joint Ventures

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

				INTEREST HELD BY GROUP	
NAME OF ENTITY	COUNTRY OF INCORPORATION	DATE	PRINCIPAL ACTIVITY	2011 %	2010 %
Efficient Home Energy, S. L.	Spain	11/01/08	Manufacturing	**40%**	40%
Elemental Energy Limited[1]	New Zealand	19/11/07	Electricity Generation Systems	**50%**	50%
Silverstream LFG Utilisation	New Zealand	30/06/11	Electricity Generation	**93%**	-

1 Ceased trading and in process of liquidation. The Group's carrying value of the investment in the Joint Venture is nil.

On 30 June 2011, the Group company Energy For Industry Limited acquired the business assets of EDC Power, which included a 93% share in the Silverstream LFG Utilisation Joint Venture.

The acquisition date fair value of the total consideration for the Joint Venture was $4.0 million.

The total consideration paid is as follows:

	2011 $'000
Cash	4,000
	4,000

The provisional allocation of purchase price is as follows:

	2011 $'000
Net Assets Acquired	680
Goodwill	3,320
	4,000

16. Equity Accounted Joint Ventures (continued)

The net assets acquired on 30 June 2011 consisted of the following:

	2011 $'000
Current Assets	105
Non Current Assets	593
Total Assets Acquired	698
Current Liabilities	(18)
Net Assets Acquired	**680**

The results of the Silverstream LFG Utilisation Joint Venture will be equity accounted in the Group's and in Energy For Industry Limited's financial statements. The acquisition took place at the end of the business day on 30 June 2011, therefore no results of the joint venture are attributable to Energy for Industry for the year ended 30 June 2011.

The acquisition related costs of $0.04 million are recognised as Other Operating Expenses in the Income Statement.

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

	GROUP 2011 $'000	GROUP 2010 $'000
Current Assets	8,368	5,736
Non-Current Assets	8,070	6,897
Total Assets	16,438	12,633
Current Liabilities	(8,191)	(5,305)
Non-Current Liabilities	(6,591)	(5,753)
Total Liabilities	(14,782)	(11,058)
Net Assets	1,656	1,575
Group's Share of Net Assets of Joint Ventures	1,023	630
Foreign Exchange Translation effect	59	(336)
Goodwill	3,320	-
	4,402	294
Total Revenue	1,164	3,468
Total Expenses	(9,619)	(8,660)
Total Loss for the Period	(8,455)	(5,192)
Group's Share of Losses of Joint Ventures	(3,382)	(2,012)

	GROUP 2011 $'000	GROUP 2010 $'000
Balance at Beginning of Year	294	2,211
New Investments	4,612	704
Goodwill	3,320	-
Share of Losses of Joint Ventures	(3,382)	(2,012)
Foreign Exchange	(442)	(609)
Balance at End of Year	4,402	294

The Group has no share of any capital commitments or contingent liabilities from these joint ventures.

17. Available for Sale Investments

	CURRENCY	GROUP AND PARENT 2011 $'000	GROUP AND PARENT 2010 $'000
Listed Securities			
Ceramic Fuel Cells Limited	AUD	104	128
Comverge, Inc	USD	104	378
Unlisted Securities			
Nth Power Technologies Fund II, L.P.	USD	1,770	1,770
Fonterra Co- Operative Group Limited	NZD	3,485	3,261
Carbon Flow Inc	USD	594	532
EnergyHedge Limited	NZD	8	8
		6,065	6,077

	GROUP AND PARENT 2011 $'000	GROUP AND PARENT 2010 $'000
Balance at Beginning of Year	6,077	6,993
Additions	299	8
Disposals	-	(932)
Net (Losses)/Gains Taken to Equity	(311)	8
Balance at End of Year	6,065	6,077
Comprising:		
Non Current	6,065	6,077

Available-for-sale assets are carried at fair value except for the investments in Carbon Flow Inc. 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.

18. Intangible Assets

	GROUP						
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS AND TRADEMARKS $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value							
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
Balance at 1 July 2010	60,425	18,101	22,380	1,466	401	65,174	167,947
Acquisitions	12,686	-	-	135	-	1,765	14,586
Transfer to Assets Classified as Held for Sale	(1,112)	-	-	-	-	-	(1,112)
Foreign Currency Exchange Rate Movements	-	141	-	-	-	-	141
Other Movements	-	(2,301)	-	-	-	-	(2,301)
Disposals	(531)	-	-	(105)	-	-	(636)
Balance at 30 June 2011	**71,468**	**15,941**	**22,380**	**1,496**	**401**	**66,939**	**178,625**
Accumulated Amortisation and Impairment							
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)
Balance at 1 July 2010	(45,420)	(149)	(8,952)	(570)	(401)	(62,402)	(117,894)
Amortisation during Year	(9,831)	-	(2,238)	(200)	-	(2,772)	(15,041)
Transfer to Assets Classified as Held for Sale	571	-	-	-	-	-	571
Disposals	531	-	-	138	-	-	669
Balance at 30 June 2011	**(54,149)**	**(149)**	**(11,190)**	**(632)**	**(401)**	**(65,174)**	**(131,695)**
Net Book Value							
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
Net Book Value 30 June 2011	**17,319**	**15,792**	**11,190**	**864**	**-**	**1,765**	**46,930**

18. Intangible Assets (continued)

	PARENT				
	SOFTWARE $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	PATENTS AND TRADEMARKS $'000	TOTAL $'000
Cost or Fair Value					
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
Balance at 1 July 2010	59,273	401	65,174	19	124,867
Acquisitions	11,573	-	-	11	11,584
Amalgamation of Subsidiary Companies	144	-	-	-	144
Disposals	(531)	-	-	-	(531)
Balance at 30 June 2011	**70,459**	**401**	**65,174**	**30**	**136,064**
Accumulated Amortisation and Impairment					
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)
Balance at 1 July 2010	(44,947)	(401)	(62,401)	(1)	(107,750)
Amortisation During Year	(9,460)	-	(2,773)	(3)	(12,236)
Amalgamation of Subsidiary Companies	(92)	-	-	-	(92)
Disposals	531	-	-	-	531
Balance at 30 June 2011	**(53,968)**	**(401)**	**(65,174)**	**(4)**	**(119,547)**
Net Book Value					
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
Net Book Value 30 June 2011	**16,491**	**-**	**-**	**26**	**16,517**

GOODWILL

The goodwill balance represents $6.9 million in relation to Whisper Tech Ltd, $6.2 million in relation to the acquisition of Meridian Energy USA Inc. (formerly named Cleantech America Inc.) and $2.7 million in relation to the acquisition of Mt Millar Wind Farm Pty Ltd.

WHISPER TECH LIMITED

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 shown in the table below:

ASSUMPTIONS	METHOD OF DETERMINATION
Sales volumes	Minimum volumes as agreed in signed distribution agreements complemented with forecast volumes for additional distribution agreements. The forecast element is based on volume growth to 3.0–5.0 per cent of the European boiler market
Sales price	Prices as agreed in signed distribution agreements
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 – 25.0 per cent.

18. Intangible Assets (continued)

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 15).

Meridian has allocated $6.2 million (2010: $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.

MT MILLAR WIND FARM PTY LTD

On 31 May 2010, Meridian acquired 100% of the outstanding shares of Mt Millar Wind Farm Pty Ltd, a 70 megawatt wind farm in South Australia. (see note 15).

Meridian has allocated $2.7 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 Wind Farm. The impairment test is based on comparing the carrying amount of goodwill to the recoverable amount, which is fair value less costs to sell.

19. Property, Plant and Equipment

	GROUP						
	GENERATION STRUCTURES AND 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 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)
Reclassification	2,362	(1,481)	(372)	-	(509)	-	-
Revaluation Increase	805,813	-	-	-	-	-	805,813
Balance at 30 June 2010	7,749,818	40,445	12,815	8,586	206,144	283,522	8,301,330
Balance at 1 July 2010	7,749,818	40,445	12,815	8,586	206,144	283,522	8,301,330
Additions	-	22	-	-	487	251,267	251,776
Foreign Currency Exchange Rate Movements	6,689	-	-	-	(782)	-	5,907
Transfers from Capital Work in Progress	236,684	-	437	6,139	15,149	(258,409)	-
Transfers to Assets Classified as Held For Sale	-	-	-	-	(4,659)	(117)	(4,776)
Disposals	(651,618)	-	(944)	(50)	(13,963)	-	(666,575)
Government Grant	(8,398)	-	-	-	-	-	(8,398)
Revaluation Increase	(36,116)	-	-	-	-	-	(36,116)
Balance at 30 June 2011	**7,297,059**	**40,467**	**12,308**	**14,675**	**202,376**	**276,263**	**7,843,148**

19. Property, Plant and Equipment (continued)

	GROUP						
	GENERATION STRUCTURES AND 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
Accumulated Depreciation and Impairment							
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
Impairment of Property, Plant and Equipment	-	-	-	-	-	(1,200)	(1,200)
Balance at 30 June 2010	(1,102)	-	(2,321)	(1,855)	(87,525)	(1,200)	(94,003)
Balance at 1 July 2010	(1,102)	-	(2,321)	(1,855)	(87,525)	(1,200)	(94,003)
Depreciation Expense	(184,515)	-	(399)	(329)	(24,040)	-	(209,283)
Exchange rate movements	147	-	-	-	2	-	149
Disposals	6,723	-	321	50	12,748	-	19,842
Transfer to Assets Classified as Held For Sale	-	-	-	-	1,233	-	1,233
Offset of Accumulated Depreciation on Revalued Assets	165,789	-	-	-	-	-	165,789
Impairment of Property, Plant and Equipment	-	-	-	-	(4,939)	(1,129)	(6,068)
Balance at 30 June 2011	**(12,958)**	**-**	**(2,399)**	**(2,134)**	**(102,521)**	**(2,329)**	**(122,341)**
Net Book Value							
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
Net Book Value 30 June 2011	**7,284,101**	**40,467**	**9,909**	**12,541**	**99,855**	**273,934**	**7,720,807**

19. Property, Plant and Equipment (continued)

	PARENT						
	GENERATION STRUCTURES AND 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 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
Transfer to Intangible Assets	-	-	-	-	-	(17,136)	(17,136)
Disposals	(2,351)	(2,562)	-	-	(2,059)	-	(6,972)
Revaluation Increase	884,944	-	-	-	-	-	884,944
Balance at 30 June 2010	6,707,769	40,444	12,814	8,586	192,112	133,542	7,095,267
Balance at 1 July 2010	6,707,769	40,444	12,814	8,586	192,112	133,542	7,095,267
Amalgamation of Subsidiary Companies	968,954	-	-	-	175	19,824	988,953
Additions	-	22	-	-	-	66,706	66,728
Transfers from Capital Work in Progress	35,920	-	177	6,139	7,082	(49,379)	(61)
Disposals	(651,526)	-	(1,441)	(50)	(36,077)	(6,899)	(695,993)
Revaluation Increase	(36,116)	-	-	-	-	-	(36,116)
Balance at 30 June 2011	**7,025,001**	**40,466**	**11,550**	**14,675**	**163,292**	**163,794**	**7,418,778**

	PARENT						
	GENERATION STRUCTURES AND 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
Accumulated Depreciation and Impairment							
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)
Offset of Accumulated Depreciation on Revalued Assets	330,430	-	-	-	-	-	330,430
Impairment of Property, Plant and Equipment	-	-	-	-	-	(1,200)	(1,200)
Balance at 30 June 2010	-	-	(2,321)	(1,855)	(82,983)	(1,200)	(88,359)
Balance at 1 July 2010	-	-	(2,321)	(1,855)	(82,983)	(1,200)	(88,359)
Amalgamation of Subsidiary Companies	(41,576)	-	-	-	(70)	-	(41,646)
Depreciation Expense	(130,936)	-	(352)	(329)	(20,064)	-	(151,681)
Disposals	6,723	-	321	50	11,139	-	18,233
Offset of Accumulated Depreciation on Revalued Assets	165,789	-	-	-	-	-	165,789
Impairment of Property, Plant and Equipment	-	-	-	-	(4,659)	(1,129)	(5,788)
Balance at 30 June 2011	**-**	**-**	**(2,352)**	**(2,134)**	**(96,637)**	**(2,329)**	**(103,452)**
Net Book Value							
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
Net Book Value 30 June 2011	**7,025,001**	**40,466**	**9,198**	**12,541**	**66,655**	**161,465**	**7,315,326**

19. Property, Plant and Equipment (continued)

GENERATION STRUCTURES AND PLANT VALUATION

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 2011 by PricewaterhouseCoopers ('PwC'). The generation structures and plant assets are stated at fair value. The valuation resulted in an increase of $93.0 million net of tax (Gross $129.7 million) to the asset revaluation reserve.

PwC calculated values for Meridian's business operations as at 30 June 2011 using both the capitalisation of earnings 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 multiple range at which to capitalise Meridian's historical and forecast earnings. The EBITDAF multiples used by PwC were in the range of 10 times to 13 times 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 2011 was in the range of $7.0 billion to $7.3 billion.

The Directors have adopted a fair value of $7.3 billion at 30 June 2011. The value is allocated amongst the physical assets on the basis of their contribution to the present value of the expected future cash flows.

As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil at 30 June 2011 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.

At 30 June 2011 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 (2010: $2.9 billion).

Valuation sensitivities:

The following table outlines the key assumptions used by PwC in preparing the valuation of generation structures and plant assets. In all cases there is an element of judgement required.

The table shows the movement in fair value as a result of the change in assumption and keeping all other valuation inputs constant.

ASSUMPTION	BASE CASE	SENSITIVITY	VALUATION IMPACT
Forward NZ electricity price path*	$75/MWh to $93/MWh by 2031 (in real terms)	+/- $3/MWh	$381 million / ($381 million)
Generation Volume	13,489 GWh	+/- $250 GWh	$202 million / ($202 million)
Operating Expenditure	$ 195 million p.a.	+ / - $10 million p.a.	($80 million) / $80 million

* *The forward NZ electricity price path reflects an approximation of the price path implicit in the EBITDAF capitalisation of earnings valuation.*

SALE OF TEKAPO A AND B

On 1 June 2011 Meridian sold Tekapo A and B power stations and related assets to Genesis Power Ltd for $820.2 million resulting in a gain on sale of $174.8 million.

CAPITALISED INTEREST

Finance costs totalling $4.3 million (2010: $10.1 million) have been capitalised in relation to new builds and refurbishment of certain generation structures and plant assets. A capitalisation rate of 7.12% p.a. was used during the year (2010: 8.16%p.a.).

GOVERNMENT GRANTS

Government grants received comprises amounts received from the United States of America government for payments of specific energy property in lieu of tax credits. The grant has been offset against the cost of Property Plant and Equipment.

IMPAIRMENT

Group property, plant and equipment has been impaired by $6.1 million in 2011 (2010: $1.2 million).

The 22 February 2011 Christchurch earthquake caused the destruction or impairment of a number of assets and this has resulted in an impairment of $5.0 million. This included $3.8 million in metering assets that have been destroyed in commercial and residential properties or in properties due for demolition as they are in areas designated by the Canterbury Earthquake Recovery Authority as being land within the red zones. There will be no insurance proceeds due to the size of excess on this component of the Meridian insurance policy. Additionally $1.2 million represents components of fit-out and information technology equipment damaged or unrecoverable from two of the Group's Christchurch offices, one of which has been demolished and the other that is due for demolition. Insurance claim proceeds are anticipated and the progress payment claim of $3.0 million has been recorded as Other Revenue.

$1.1 million in work in progress assets have been impaired following a review of long standing work in progress items.

The 2010 impairment totalling $1.2 million reflects the partial write-off of expenditure in the Wholesale 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.

19. Property, Plant and Equipment (continued)

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.

20. Payables and Accruals

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade Creditors	**16,629**	11,065	**12,265**	10,489
Accruals	**166,937**	155,636	**147,742**	139,309
GST	**13,280**	10,731	**12,879**	11,059
Employee Entitlements	**16,018**	14,582	**14,356**	13,228
Unearned Income	**4,140**	4,873	**1,340**	3,311
Deferred Consideration	**-**	4,727	**-**	3,068
	217,004	201,614	**188,582**	180,464

21. Provisions

	GROUP			PARENT		
	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000
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
Balance at 1 July 2010	233	503	736	233	-	233
Additional Provision Recognised	-	26	26	-	26	26
Amount Utilised	(233)	(435)	(668)	(233)	-	(233)
Balance at 30 June 2011	**-**	**94**	**94**	**-**	**26**	**26**

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 2010 following reviews of both areas that focused on improving services. The opening provision as at 1 July 2009 related to the restructuring of the business operations of ARC Innovations, which was amalgamated with the Parent on 30 June 2009.

22. Deferred Tax

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.

		GROUP		PARENT	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Balance at Beginning of Period		1,556,108	1,300,782	1,508,432	1,273,714
Movement in Temporary Differences Recognised in:					
- Income Statement	6	(37,604)	(16,032)	(52,910)	(38,073)
- Equity		38,691	366,738	38,691	367,255
- Deferred Tax on Acquisition of Subsidiary		-	2,613	-	-
Effect of Tekapo A and B sale on:					
- Income Tax Expense	6	17,410	-	17,410	-
- Equity		(147,153)	-	(147,153)	-
- Transfer to Current Tax Payable		(22,899)	-	(22,899)	-
Effect of Corporate Tax Rate Reduction on:					
- Income Tax Expense	6	2,410	(9,442)	2,110	(7,373)
- Revaluation reserve		(2,610)	(103,270)	(2,610)	(101,810)
- Cash Flow Hedge Reserve		24	(18)	24	(18)
- Available for Sale Reserve		6	(11)	6	(11)
Effect of Building tax depreciation change	6	-	14,748	-	14,748
Acquired on Amalgamation of Subsidiaries		-	-	60,659	-
Effect of Business Unit becoming Subsidiary		-	-	(1,256)	-
Balance at End of Period		1,404,383	1,556,108	1,400,504	1,508,432
Consisting of Temporary Differences on the following:					
Property, Plant and Equipment		1,479,036	1,607,115	1,476,587	1,565,106
Financial Instruments		(51,370)	(23,505)	(52,170)	(22,792)
Term Payables		(19,497)	(22,595)	(21,089)	(22,595)
Other		(3,786)	(4,907)	(2,824)	(11,287)
		1,404,383	1,556,108	1,400,504	1,508,432

The movement in temporary differences and the effect of the corporate tax rate reduction recognised in the income statement consists of the following:

		GROUP		PARENT	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Property, Plant and Equipment		14,930	19,403	1,078	(8,082)
Financial Instruments		(29,142)	(21,438)	(30,584)	(20,722)
Other		(3,572)	(8,691)	(3,884)	(1,894)
	6	(17,784)	(10,726)	(33,390)	(30,698)

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		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Deferred Tax Liability	1,412,330	1,559,507	1,400,504	1,508,432
Deferred Tax Asset	(7,947)	(3,399)	-	-
	1,404,383	1,556,108	1,400,504	1,508,432

22. Deferred Tax (continued)

Some Group carried forward tax losses have not been recognised as deferred tax assets as Management have assessed that it is not probable that future taxable profits will be available against which the benefit of the losses can be utilised. These total $11.5 million (2010: $7.3 million). For tax purposes these losses begin to expire in 2029.

23. Borrowings

		GROUP				PARENT			
	CURRENCY	FACE VALUE 2011 $'000	CARRYING VALUE 2011 $'000	FACE VALUE 2010 $'000	CARRYING VALUE 2010 $'000	FACE VALUE 2011 $'000	CARRYING VALUE 2011 $'000	FACE VALUE 2010 $'000	CARRYING VALUE 2010 $'000
Borrowings – Current									
Unsecured Borrowings	NZD	82,524	82,449	284,639	284,417	82,524	82,449	284,639	284,417
Unsecured Borrowings	AUD	123,000	128,823	-	-	123,000	128,823	-	-
Unsecured Borrowings	USD	101,789	86,895	-	-	101,789	86,895	-	-
Total Current Borrowings		**307,313**	**298,167**	284,639	284,417	**307,313**	**298,167**	284,639	284,417
Borrowings – Non Current									
Unsecured Borrowings	NZD	647,377	642,004	375,000	371,607	647,377	642,004	375,000	371,607
Unsecured Borrowings	AUD	188,469	188,469	179,674	179,674	-	-	-	-
Unsecured Borrowings	AUD	-	-	123,000	122,600	-	-	123,000	122,600
Unsecured Borrowings	USD	479,860	444,906	581,649	649,177	479,860	444,906	581,649	649,177
Total Non Current Borrowings		**1,315,706**	**1,275,379**	1,259,323	1,323,058	**1,127,237**	**1,086,910**	1,079,649	1,143,384
Total Borrowings		**1,623,019**	**1,573,546**	1,543,962	1,607,475	**1,434,550**	**1,385,077**	1,364,288	1,427,801

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.

Meridian has entered into hedge contracts to manage its exposure to interest rates and borrowings sourced in foreign currencies. The foreign currency denominated term borrowings reported in the financial statements at fair value for the hedge risk are hedged by Cross Currency Interest Rate Swaps (CCIRSs). The NZD equivalent of these borrowings after the effect of foreign exchange hedging of the borrowings is $704.6 million (30 June 2010 $704.6 million).

Certain NZD and AUD denominated borrowings are reported at amortised cost, which is considered to approximate fair value.

Meridian's (net) cost of funds for the year ended 30 June 2011 was 6.77% (2010 6.99%).

Meridian has committed bank facilities of $1,050 million ($1,189.0 million at 30 June 2010) of which $406.0 million were undrawn at 30 June 2011 ($686.0 million at 30 June 2010).

For more information about Meridian's management of interest rate, foreign currency and liquidity risk, see note 24 – Financial Risk Management.

24. Financial Risk Management

a) 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.

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.

24. Financial Risk Management (continued)

	GROUP 2011 $'000	GROUP 2010 $'000
Borrowings - NZD Equivalent Net of Foreign Exchange Hedging	1,613,947	1,543,962
Less: Cash and Cash Equivalents	368,191	54,394
Net Debt	**1,245,756**	1,489,568
Equity Attributable to Shareholders of the Parent	4,930,404	5,068,979
Adjust for Net Change in Fair Value of Certain Financial Instruments	277,383	85,942
Adjusted Shareholders' Equity	**5,207,787**	5,154,921
Total Capital	**6,453,543**	6,644,489

Meridian's debt facilities have financial covenants that relate to the Group. The two key financial covenants are as follows:

	GROUP 2011	GROUP 2010
Debt to Debt Plus Equity (Gearing) <35%[1]	**19.30%**	22.42%
EBITDAF Interest Cover (# of times) > 2.5 times	**5.90**	6.71

Meridian debt facilities have externally imposed capital requirements that relate to the Guaranteeing Group. Refer to Note 15 for members of the Guaranteeing Group.

The Guaranteeing Group is in compliance with all debt facility covenants.

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

1 The Debt to Debt Plus Equity ratio is calculated using Total Capital and Net Debt as shown in the table above

b) Financial Risk Management

Meridian's activities expose it to a variety of financial risks: liquidity risk, market risk (including electricity and other price risk, currency risk, interest rate risk, cash flow risk) and credit 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 ('FECs'); cross currency interest rate swaps ('CCIRSs'); interest rate swaps ('IRSs') including forward rate agreements; and electricity and aluminium contracts for differences ('CFDs') 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; and 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, also under Board approved polices. 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.

c) 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 maintains flexibility in funding by keeping committed surplus credit lines available of at least $250 million to ensure it has sufficient headroom under normal and abnormal conditions.

24. Financial Risk Management (continued)

Funding Facilities

The table below analyses the Groups funding facilities:

		GROUP 2011			GROUP 2010		
	CURRENCY	FACILITY LIMIT $'000	DRAWN DEBT $'000	AVAILABLE $'000	FACILITY LIMIT $'000	DRAWN DEBT $'000	AVAILABLE $'000
Bank Funding[1]	NZD	**705,000**	**305,000**	**400,000**	855,000	300,000	555,000
Bank Funding[2]	AUD	**194,298**	**188,469**	**5,829**	185,231	179,674	5,557
Renewable Energy Bonds[3]	NZD	**200,000**	**200,000**	**-**	200,000	200,000	-
Renewable Energy Notes[4]	NZD	**74,901**	**74,901**	**-**	134,639	134,639	-
EKF Facility[5]	NZD	**150,000**	**150,000**	**-**	150,000	25,000	125,000
Floating Rate Notes[6]	AUD	**123,000**	**123,000**	**-**	123,000	123,000	-
Fixed Rate Bond Issue[7]	USD	**581,649**	**581,649**	**-**	581,649	581,649	-
Total		**2,028,848**	**1,623,019**	**405,829**	2,229,519	1,543,962	685,557

1 New Zealand Dollar unsecured bank funding bears interest at the relevant NZ market rate plus a margin.
2 Australian Dollar unsecured bank funding bears interest at the relevant Australian market rate plus a margin. Facility limit and drawn debt are shown in NZD.
3 Renewable Energy Bonds are senior unsecured retail bonds bearing interest rates of 7.15% to 7.55%.
4 Renewable Energy Notes are senior unsecured debt obligations paying a fixed rate of return over a set period of time.
5 EKF facility is an unsecured 15 year amortising term loan, provided by the official export credit agency of Denmark, for the construction of the Te Uku wind farm.
6 Australian Dollar unsecured floating rate notes bears interest at the relevant Australian market rate plus a margin.
7 US Dollar fixed rate bond issue are unsecured fixed rate bonds issued in the US Private Placement Market.

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements that provide credit support of $89.4 million to support the collateral requirements of Meridian's trading business. Of the $89.4 million, $2.0 million expires in the 2012 financial year with the balance having no expiry date. Meridian indemnifies the obligations of the bank with respect to the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

24. Financial Risk Management (continued)

Contractual Maturities

The following table is an analysis of the contractual undiscounted cash flows relating to financial liabilities at the end of the reporting period and reconciliation from total undiscounted cash flows to carrying amounts:

The amounts disclosed in the table are the contractual undiscounted cash flows, except for IRSs, CCIRSs, forward exchange contracts and CFDs which are the undiscounted settlements expected under the contracts.

	GROUP 2011							
	DUE WITHIN 1 YEAR $'000	DUE BETWEEN 1 AND 2 YEARS $'000	DUE BETWEEN 3 AND 5 YEARS $'000	DUE AFTER 5 YEARS $'000	TOTAL UNDISCOUNTED CASH FLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2011 CARRYING VALUE $'000
Non-derivative Financial Liabilities								
Payables and Accruals	217,004	-	-	-	217,004	-	-	217,004
Provisions	94	-	-	-	94	-	-	94
Borrowings (note 23)	987,624	38,290	391,259	343,558	1,760,731	(7,036)	(180,149)	1,573,546
Derivative Financial Liabilities-Net Settled								
- Interest Rate Swaps/Options	29,980	20,724	21,663	(1,365)	71,002	-	(5,785)	65,217
- Electricity Derivatives	2,019	2,450	105,663	(428,995)	(318,863)	157,430	303,883	142,450
Derivative Financial Liabilities-Gross Settled								
- Cross Currency Interest Rate Swaps								
Inflows	244,691	21,292	231,397	262,895	760,275			
Outflows	248,795	21,301	284,942	327,208	882,246			
Net Outflows	**4,104**	**9**	**53,545**	**64,313**	**121,971**	**-**	**(77,376)**	**44,595**
- Foreign Exchange Contracts								
Inflows	5,383	322	16	-	5,721			
Outflows	6,598	404	21	-	7,023			
Net Outflows	**1,215**	**82**	**5**	**-**	**1,302**	**-**	**(39)**	**1,263**
Total Financial Liabilities	**1,242,040**	**61,555**	**572,135**	**(22,489)**	**1,853,241**	**150,394**	**40,534**	**2,044,169**

Except for borrowings, the carrying value of financial liabilities equals the fair value.

	GROUP 2010							
	DUE WITHIN 1 YEAR $'000	DUE BETWEEN 1 AND 2 YEARS $'000	DUE BETWEEN 3 AND 5 YEARS $'000	DUE AFTER 5 YEARS $'000	TOTAL UNDISCOUNTED CASH FLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2010 CARRYING VALUE $'000
Non-derivative Financial Liabilities								
Payables and Accruals	201,614	-	-	-	201,614	-	-	201,614
Provisions	736	-	-	-	736	-	-	736
Borrowings (note 23)	525,916	286,236	468,403	569,041	1,849,596	(8,177)	(233,944)	1,607,475
Derivative Financial Liabilities-Net Settled								
- Interest Rate Swaps/Options	12,219	7,082	5,555	(509)	24,347	-	26,385	50,732
- Electricity Derivatives	7,629	3,906	(1,703)	(106,877)	(97,045)	79,165	124,109	106,229
Derivative Financial Liabilities-Gross Settled								
- Cross Currency Interest Rate Swaps								
- Foreign Exchange Contracts								
Inflows	94,006	47	-	-	94,053			
Outflows	128,398	58	-	-	128,456			
Net Outflows	**34,392**	**11**	**-**	**-**	**34,403**	**-**	**(383)**	**34,020**
Total Financial Liabilities	**782,506**	**297,235**	**472,255**	**461,655**	**2,013,651**	**70,988**	**(83,833)**	**2,000,806**

Except for borrowings, the carrying value of financial liabilities equals the fair value.

24. Financial Risk Management (continued)

The following tables are an analysis of the contractual undiscounted cash flows relating to financial assets at the end of the reporting period and reconciliation from total undiscounted cash flows to carrying amounts:

The amounts disclosed in the table are the contractual undiscounted cash flows, except for IRSs, CCIRSs, forward exchange contracts and CFDs which are the undiscounted settlements expected under the contracts.

The inclusion of information on derivative and non-derivative financial assets is necessary in order to understand Meridian's liquidity risk management, as liquidity is managed on a net asset and liability basis.

	GROUP 2011							
	DUE WITHIN 1 YEAR $'000	DUE BETWEEN 1 AND 2 YEARS $'000	DUE BETWEEN 3 AND 5 YEARS $'000	DUE AFTER 5 YEARS $'000	TOTAL UNDISCOUNTED CASH FLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2011 CARRYING VALUE $'000
Non-derivative Financial Assets								
Cash and Cash Equivalents	368,191	-	-	-	368,191	-	-	368,191
Trade and Other Receivables	240,885	-	-	-	240,885	-	-	240,885
Finance Lease Receivables	632	632	1,898	8,853	12,015	-	(6,488)	5,527
Available for Sale Investments	-	-	-	6,065	6,065	-	-	6,065
Derivative Financial Assets-Net Settled								
- Interest Rate Swaps/Options	3,052	3,619	4,307	1,168	12,146	-	(2,493)	9,653
- Electricity Derivatives	7,489	12,022	3,598	(46,810)	(23,701)	18,980	46,778	42,057
Derivative Financial Assets-Gross Settled								
- Cross Currency Interest Rate Swaps								
- Foreign Exchange Contracts								
Inflows	85,129	1,155	-	-	86,284			
Outflows	82,653	1,166	-	-	83,819			
Net Inflows/(Outflows)	**2,476**	**(11)**	**-**	**-**	**2,465**	**-**	**(177)**	**2,288**
Total Financial Assets	**622,725**	**16,262**	**9,803**	**(30,724)**	**618,066**	**18,980**	**37,620**	**674,666**

The carrying value of all financial assets equals the fair value.

24. Financial Risk Management (continued)

	GROUP 2010							
	DUE WITHIN 1 YEAR $'000	DUE BETWEEN 1 AND 2 YEARS $'000	DUE BETWEEN 3 AND 5 YEARS $'000	DUE AFTER 5 YEARS $'000	TOTAL UNDISCOUNTED CASH FLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2010 CARRYING VALUE $'000
Non-derivative financial assets								
Cash and Cash Equivalents	54,394	-	-	-	54,394	-	-	54,394
Trade and Other Receivables	199,114	-	-	-	199,114	-	-	199,114
Finance Lease Receivables	683	632	1,898	9,486	12,699	-	(7,032)	5,667
Available for Sale Investments	-	-	-	6,077	6,077	-	-	6,077
Derivative Financial Assets-Net Settled								
- Interest Rate Swaps/Options	1,468	1,197	3,318	6,878	12,861	-	(3,683)	9,178
- Electricity Derivatives	20,716	26,943	72,621	-	120,280	(3,912)	(17,113)	99,255
Derivative Financial Assets-Gross Settled								
- Cross Currency Interest Rate Swaps								
Inflows	37,678	261,694	135,413	488,144	922,929			
Outflows	30,916	256,572	142,029	496,252	925,769			
Net Inflows/(Outflows)	**6,762**	**5,122**	**(6,616)**	**(8,108)**	**(2,840)**	**-**	**77,049**	**74,209**
- Foreign Exchange Contracts								
Inflows	1,668	-	-	-	1,668			
Outflows	1,441	-	-	-	1,441			
Net Inflows	**227**	**-**	**-**	**-**	**227**	**-**	**26**	**253**
Total Financial Assets	**283,364**	**33,894**	**71,221**	**14,333**	**402,812**	**(3,912)**	**49,247**	**448,147**

The carrying value of all financial assets equals the fair value.

In both the asset and liability tables the Parent amounts are materially the same as the Group reported amounts except for AUD bank funding of $188.5 million (2010: $179.7 million).

Meridian has substantial committed borrowing facilities available as described in note 24(c) preceding, of which $406 million was undrawn at 30 June 2011 (30 June 2010: $686 million). Meridian expects to meet its other obligations from operating cash flows and maturing financial assets.

MARKET RISK

d) 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, Australian dollars and the Euro. Meridian does not enter into FECs for speculative purposes.

With respect to 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 CCIRSs 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 CCIRSs 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 CCIRSs and the foreign denominated borrowings (refer to Note 25 - Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRSs at 30 June 2011 was $704.6 million (30 June 2010 $704.6 million).

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 (FECs) and options. 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 $100,000 NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FECs at 30 June 2011 was $88.9 million (30 June 2010 $139.0 million).

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 25 - Financial Instruments).

The Group has monetary assets and liabilities denominated in Australian and U.S. dollars as at 30 June 2011. These monetary assets and liabilities have been converted to New Zealand dollars at closing exchange rates of 0.77201 and 0.82825 respectively (30 June 2010 AUD 0.81361, USD 0.6925).

24. Financial Risk Management (continued)

The value of foreign currency derivatives are sensitive to changes in the forward prices for currencies. The following table summarises the impact of a 20% increase/decrease in the New Zealand dollar against the forward price of the U.S. 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 20% increase/decrease in movement in currency does not materially impact NPAT or Equity.

Sensitivity Analysis – Foreign Currency

	IMPACT ON AFTER TAX PROFIT			IMPACT ON EQUITY			
	2011 $'000	2010 %	2010 $'000	2011 %	2011 $'000	2010 %	2010 $'000
NZ Dollar / US Dollar	-	-10%	1,049	-20%	**783**	-10%	1,236
	-	10%	(858)	20%	**(522)**	10%	(1,011)
NZ Dollar / Australian Dollar	-	-10%	-	-20%	**12,028**	-10%	-
	-	10%	-	20%	**(12,028)**	10%	-
NZ Dollar / EURO	-	-10%	6,124	-20%	**(84)**	-10%	6,616
	-	10%	(5,011)	20%	**84**	10%	(5,413)

e) Cash Flow and Interest Rate Risk

Meridian's primary 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 CCIRSs 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.

Interest rate risk is managed on a dynamic basis and various scenarios are simulated taking consideration of existing and forecast debt requirements, existing hedge positions, forecast interest rates and in accordance with the Board-approved policies.

Per the Board policy Meridian manages its exposure to interest rate risk by identifying a core level of debt and applying minimum and maximum bands of interest rate (hedge) cover to fix interest rates.

Meridian does not designate the IRSs as hedging instruments and therefore classifies them as held for trading.
The aggregate notional principal amounts of the outstanding IRSs at 30 June 2011 was $1,503 million (30 June 2010 $1,428 million).

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.

Sensitivity Analysis-Interest rates

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000
New Zealand BKBM	-100 bps	**(37,377)**	(32,187)	**(37,377)**	(32,187)
	+100 bps	**34,999**	30,108	**34,999**	30,108

f) 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 CFDs to manage the net risk. Meridian does not enter into CFDs for speculative purposes.

The CFDs include both forward contracts traded with reference to the short term energy hedge market and bi-lateral CFDs 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 CFDs 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 CFDs. Consequently, for accounting purposes, from 1 January 2009 all of the CFDs are classified as held for trading with movements in fair value recognised in the income statement. Upon cessation of hedge accounting the balance held in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

The value of the CFDs are 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'). Meridian is progressively mitigating some of this exposure through the use of Aluminium Commodity Swaps ('ACS') as economic hedges against the aluminium price component of the NZAS contract. The ACS swaps are not designated as hedging instruments and are therefore classified as held for trading.

24. Financial Risk Management (continued)

The aggregate notional volume of the outstanding electricity derivatives at 30 June 2011 is 116,486Gwh (Group) and 116,704Gwh (Parent) (2010: 82,987Gwh and 82,683Gwh). One contract makes up 75,224 Gwh of these totals in both the Group and the Parent.

The aggregate notional principal amount of the outstanding ACS at 30 June 2011 was $460.5 million (30 June 2010 $252.7 million).

The table below summarises the impact of increases / decreases in changes to certain 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 and equity would increase (decrease) as shown in the table below due to unrealised gains/losses on CFDs and ACS held for trading.

Sensitivity Analysis-Electricity and Aluminium price risk

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000
Electricity Prices	-10%	106,460	106,177	106,460	106,177
	+10%	(101,930)	(106,188)	(101,930)	(106,188)
Interest Rates (discount rate)	-100 bps	(34,023)	(38,456)	(34,023)	(38,456)
	+100 bps	30,594	34,160	30,594	34,160
Aluminium LME (Net)	-10%	(24,200)	(30,133)	(24,200)	(30,133)
	+10%	24,200	30,133	24,200	30,133
Aluminium LME (Level 3)	-10%	(51,608)	(42,238)	(51,608)	(42,238)
	+10%	51,608	42,238	51,608	42,238

For Level 3 items the sensitivities for electricity prices and interest rates are materially the same except as noted above.

g) 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.

25. Financial Instruments

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 7 provides for 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)

Where the fair value of a financial instrument is calculated as the present value of the estimated future cash flows of the instrument, two key types of variables are used by the valuation technique these are:

- forward price curve; and
- discount rates

Where possible observable market data is used when selecting variables and developing assumptions for valuation techniques.

VALUATION INPUT	SOURCE
Forward wholesale electricity price	Market quoted prices where available and Management's best estimate based on a fundamental analysis of expected demand and cost of new supply
Forward aluminium price	Market (London Metal Exchange (LME)) quoted prices where available and management's best estimate of non-observable period using a historical trend analysis to form future price expectations
Interest rate forward price curve	Published market swap rates
Foreign exchange forward prices	Published forward exchange market rates
Discount rates for valuing contracts	Government Bond Rates adjusted for additional risks including credit risk and duration of contract
Discount rate for valuing NZAS pricing arrangement	Meridian's weighted average cost of capital
Discount rate for valuing interest rate contracts	Published market interest rates as applicable to the remaining life of the instrument
Discount rate for valuing foreign exchange contracts	Published market interest rates as applicable to the remaining life of the instrument

25. Financial Instruments (continued)

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

	GROUP - 2011				GROUP - 2010			
DERIVATIVE FINANCIAL INSTRUMENTS	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL3 $'000	30 JUNE 2011 '$000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL3 $'000	30 JUNE 2010 '$000
Assets								
Held for Trading								
CFDs	879	1,517	40,878	43,274	(1)	1,873	99,914	101,786
Interest Rate Swaps	-	9,653	-	9,653	-	9,178	-	9,178
Foreign Exchange Contracts	-	-	-	-	-	253	-	253
Cash Flow Hedges								
CFDs	-	-	(1,217)	(1,217)	-	-	(2,530)	(2,530)
Cross Currency Interest Rate Swaps (margin)	-	-	-	-	-	2,291	-	2,291
Foreign Exchange Contracts	-	2,288	-	2,288				
Fair Value Hedges								
Cross Currency Interest Rate Swaps	-	-	-	-	-	71,917	-	71,917
Total	**879**	**13,458**	**39,661**	**53,998**	(1)	85,512	97,384	182,895
Liabilities								
Held for Trading								
CFDs	-	54,560	89,425	143,985	-	10,763	96,797	107,560
Interest Rate Swaps	-	65,217	-	65,217	-	50,732	-	50,732
Foreign Exchange Contracts	-	317	-	317	-	224	-	224
Cash Flow Hedges								
CFDs	-	-	(1,536)	(1,536)			(1,331)	(1,331)
Foreign Exchange Contracts	-	947	-	947	-	33,796	-	33,796
Cross Currency Interest Rate Swaps (margin)	-	2,267	-	2,267				
Fair Value Hedges								
Cross Currency Interest Rate Swaps	-	42,328	-	42,328	-	-	-	-
Total	**-**	**165,636**	**87,889**	**253,525**	-	95,515	95,466	190,981
Available for Sale Financial Assets								
Listed Securities	208	-	-	208	506	-	-	506
Unlisted Securities	-	5,857	-	5,857	-	5,571	-	5,571
Total	**208**	**5,857**	**-**	**6,065**	506	5,571	-	6,077

The fair value element of borrowings which are subject to fair value hedge accounting are a level 2 valuation.

25. Financial Instruments (continued)

The tables below shows the fair value hierarchy of the financial assets and financial liabilities measured at fair value by the Parent.

	PARENT - 2011				PARENT - 2010			
DERIVATIVE FINANCIAL INSTRUMENTS	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL3 $'000	30 JUNE 2011 '$000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL3 $'000	30 JUNE 2010 '$000
Assets								
Held for Trading								
CFDs	879	1,516	40,194	42,589	(1)	2,857	101,167	104,023
Interest Rate Swaps	-	9,343	-	9,343	-	9,178	-	9,178
Foreign Exchange Contracts	-	-	-	-	-	253	-	253
Cash Flow Hedges								
CFDs	-	-	(1,217)	(1,217)	-	-	(2,530)	(2,530)
Cross Currency Interest Rate Swaps(margin)	-	-	-	-	-	2,291	-	2,291
Foreign Exchange Contracts	-	2,288	-	2,288				
Fair Value Hedges								
Cross Currency Interest Rate Swaps	-	-	-	-	-	71,917	-	71,917
Total	**879**	**13,147**	**38,977**	**53,003**	(1)	86,496	98,637	185,132
Liabilities								
Held for Trading								
CFDs	-	54,560	91,203	145,763	-	10,763	96,871	107,634
Interest Rate Swaps	-	65,217	-	65,217	-	50,732	-	50,732
Foreign Exchange Contracts	-	317	-	317	-	224	-	224
Cash Flow Hedges								
CFDs	-	-	(1,536)	(1,536)			(1,331)	(1,331)
Foreign Exchange Contracts	-	947	-	947	-	33,796	-	33,796
Cross Currency Interest Rate Swaps (margin)	-	2,267	-	2,267				
Fair Value Hedges								
Cross Currency Interest Rate Swaps	-	42,328	-	42,328	-	-	-	-
Total	**-**	**165,636**	**89,667**	**255,303**	-	95,515	95,540	191,055
Available for Sale Financial Assets								
Listed Securities	208	-	-	208	506	-	-	506
Unlisted Securities	-	5,857	-	5,857	-	5,571	-	5,571
Total	**208**	**5,857**	**-**	**6,065**	506	5,571	-	6,077

The fair value element of borrowings which are subject to fair value hedge accounting are a level 2 valuation.

25. Financial Instruments (continued)

The table below shows the changes in the fair value of financial instruments recognised in the Income Statement.

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cross Currency Interest Rate Swaps	(114,247)	(9,942)	(114,247)	(9,942)
Borrowings – Fair value of hedged risk	114,127	10,349	114,127	10,349
	(120)	407	(120)	407
Interest Rate Swaps	(14,037)	(23,399)	(14,320)	(23,399)
Cross Currency Interest Rate Swaps (margin)	-	(304)	-	(304)
Net Change in Fair Value of Financial Instruments Loss	(14,157)	(23,296)	(14,440)	(23,296)
Foreign Exchange Contracts	274	(198)	274	(198)
CFDs - NZAS Contract	12,681	(19,162)	12,681	(19,162)
CFDs - Aluminium	(45,912)	(4,097)	(45,912)	(4,097)
CFDs - Other	(56,313)	8,585	(60,847)	10,747
Net change in Fair Value of Financial Instruments Loss	(89,270)	(14,872)	(93,804)	(12,710)
Total Unrealised Net Loss on Financial Instruments	(103,427)	(38,168)	(108,244)	(36,006)

The table below shows a reconciliation of fair value movements in Level 3 financial instruments.

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Energy Derivatives (CfDs)				
Opening Balance	1,918	(68,232)	3,095	(68,232)
Total losses recognised in the Income Statement	(44,681)	(7,496)	(48,321)	(6,319)
CfD contracts entered into during the year	(5,465)	77,646	(5,465)	77,646
Closing Balance	(48,228)	1,918	(50,691)	3,095

Refer to previous Electricity price risk sensitivity analysis for sensitivity to changes in valuation assumptions of Level 3 financial instruments (CfDs).

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	
	2011 $'000	2010 $'000
Opening Difference	62,845	(4,388)
Day 1 Difference on New Hedges	(15,933)	66,425
Volumes Expired During the Period	(7,714)	(1,256)
Recalibration of Model for Price Path and Time	30,365	2,064
Closing Difference	69,563	62,845

25. Financial Instruments (continued)

B) 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 eighteen 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 aluminium (as determined by an independent benchmark), and a component as a proxy for price inflation.

Meridian considers this formula will best ensure 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 2011, the carrying value of the CfD is as follows:

	30 JUNE 2011 $'000	30 JUNE 2010 $'000	1 OCTOBER 2007 $'000
Present Value of Estimated Cash Flows	**(589,495)**	(602,175)	(514,970)
Less: Day 1 adjustment[1]	**514,970**	514,970	514,970
Carrying Value	**(74,525)**	(87,205)	-

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]**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.

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

	GROUP AND PARENT	
	2011 $'000	2010 $'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.

25. Financial Instruments (continued)

C) CASH FLOW HEDGING

Cash Flow Hedges – CFDs

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 24 – Financial Risk Management, it is Group policy to manage this risk on a net basis by entering into CFDs 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 24 – Financial Risk Management, for accounting purposes, from 1 January 2009 all of the CFDs 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 – FECs

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. For contracts designated as hedges for accounting purposes, when the cash flows occur Meridian adjusts the carrying value of the asset acquired.

Cash Flow Hedges – CCIRSs

Meridian hedges its foreign currency exposure on foreign currency denominated debt using CCIRSs 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 CCIRSs are settled quarterly for the NZ cash flows and semi-annually for the foreign currency (US and Australian dollars). Income is affected by these settlements on an accrual basis.

The table below shows the movements in the cash flow hedge ('CFH') reserve for the period.

	GROUP AND PARENT				
	FECs $'000	DEBT – CFH OF MARGIN $'000	CFDs $'000	TAX $'000	TOTAL $'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]	-	-	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)	-	-	-

	GROUP AND PARENT				
	FECs $'000	DEBT – CFH OF MARGIN $'000	CFDs $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2010	(482)	2,595	(1,198)	(256)	659
Amount Recognised in Equity	6,419	(4,558)	-	(521)	1,340
Amount Removed from Equity:					
- Amortised to Profit or Loss[1]	-	-	1,518	(425)	1,093
- Included in Initial Cost of Assets	(4,596)	-	-	1,287	(3,309)
Closing Balance at 30 June 2011	**1,341**	**(1,963)**	**320**	**85**	**(217)**
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	**-**	**-**	**-**	**-**	**-**

1 Included in Net Change in Fair Value of Financial Instruments.
2 Includes losses on FECs not expected to be recovered in one or more future periods.

25. Financial Instruments (continued)

The table below shows when the amounts held in the cash flow hedge reserve are expected to impact the income statement (CFDs and CCIRSs) or the Statement of Financial Position (FECs).

	GROUP AND PARENT 2011			
	LESS THAN 1 YEAR $'000	1–2 YEARS $'000	2–5 YEARS $'000	GREATER THAN 5 YEARS $'000
CfDs	(754)	1,065	8	-
CCIRSs	(122)	-	(755)	(1,086)
FECs	1,438	(92)	(5)	-
Total	**562**	**973**	**(752)**	**(1,086)**

	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	-
CCIRSs	-	(112)	109	2,598
FECs	(430)	(45)	(3)	(4)
Total	(1,948)	(911)	1,180	2,594

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

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Profit after Tax for the Period	303,111	184,049	295,404	235,631
Adjustments for Operating Activities Non-Cash Items:				
Depreciation	209,283	174,318	151,681	132,983
Amortisation of Intangible Assets	15,041	13,712	12,236	10,942
Total Net Change in Fair Value of Financial Instruments Loss	103,427	71,255	108,244	69,093
Less: Cash Payments of Option Premiums	(17,557)	(10,686)	(17,557)	(10,686)
Net Non Cash Movement in Fair Value of Financial Instruments	85,870	60,569	90,687	58,407
Movement in Deferred Tax	(17,784)	(10,726)	(33,390)	(30,698)
Transfer of Tax Losses to Parent	-	-	4,591	36,282
Impairment of Inventories	1,110	-	-	-
Share Based Payments	(101)	19	-	-
Equity Accounted Earnings of Joint Ventures	3,382	2,012	-	-
	296,801	239,904	225,805	207,916
Items Classified as Investing Activities:				
Net Gain on Sale of Property, Plant and Equipment	(174,125)	(275)	(174,420)	(331)
Impairment of Property, Plant and Equipment	6,068	1,200	5,788	1,200
Impairment of Intangibles	-	17,136	-	17,136
Impairment of Investments in Subsidiaries	-	-	39,818	-
Impairment of Advances to Subsidiaries	-	-	50,930	-
Impairment of Held for Sale Assets	3,778	-	-	-
	(164,279)	18,061	(77,884)	18,005
Items Classified as Financing Activities:				
Amortisation of Prepaid Debt Facility Fees	(231)	(593)	(231)	(593)
	(231)	(593)	(231)	(593)
Changes in Working Capital Items				
(Increase) in Accounts Receivable and Prepayments	(41,771)	(10,958)	(39,509)	(6,090)
Decrease in Inventory	1,586	1,270	640	582
(Decrease)/Increase in Payables and Accruals	(6,833)	17,135	(18,927)	17,705
(Decrease) in Provisions	(642)	(636)	(207)	(281)
Increase in Current Tax Payable	4,975	3,592	5,669	3,058
Deferred Tax Transferred to Current Tax Payable on Sale of Tekapo A and B	(22,899)	-	(22,899)	-
Working Capital Items Transferred to Held for Sale	(1,110)	-	-	-
Working Capital Disposed on EFI Becoming a Subsidiary	-	-	(7,917)	-
Working Capital Acquired on Amalgamation	-	-	35,160	-
	(66,694)	10,403	(47,990)	14,974
Net Cash Flow from Operating Activities	368,708	451,824	395,104	475,933

27. Commitments

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Operating Lease Commitments				
Non Cancellable Operating Lease Payments are as follows:				
Less than One Year	3,987	4,971	3,066	3,898
Between One and Five Years	7,623	9,192	6,105	7,400
More than Five Years	904	-	-	-
	12,514	14,163	9,171	11,298

Meridian leases office buildings with terms of the leases ranging from one to twelve years, with options to extend up to twelve 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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Capital Expenditure Commitments				
Property, Plant and Equipment	532,944	107,375	7,729	6,322
Software	10,823	11,485	10,823	11,485
	543,767	118,860	18,552	17,807
Less than One Year	474,197	113,354	9,452	12,301
Between One and Five Years	69,570	5,506	9,100	5,506
More than Five Years	-	-	-	-
	543,767	118,860	18,552	17,807

Guarantees

Meridian Wind Macarthur Pty Limited has various obligations arising from the joint venture with AGL Energy Limited (disclosed above). These include performance and funding obligations under the joint venture deed, obligations to contractors in relation to the construction of the wind farm, and obligations under various landowner agreements. Meridian Energy Limited has provided various guarantees and letters of comfort to the relevant parties that effectively guarantee the obligations of Meridian Wind Macarthur Pty Limited.

28. Related Party Transactions

Transactions with Related Parties

Meridian transacts with other Government owned or related entities independently and on an arms-lengths basis. Transactions cover a variety of services including trading energy, postal, travel, tax, and this year also included the sale of Tekapo A and B power stations to Genesis Power Ltd on 1 June 2011 for $820.1 million

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.

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	NATURE OF TRANSACTION
Damwatch Services Limited	Consultancy Services	$1,949	Damwatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $1.9 million (2010 $2.8 million).
Meridian Energy Captive Insurance Limited	Insurance Services	$3,169	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties (2010: $3.2 million).

Subsidiaries Loan Facilities and Advances

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.

	PARENT 2011 $'000	PARENT 2010 $'000
Loan Facilities and Advances to Subsidiaries		
Loan to MEL Holdings Limited	-	116,811
Loan to MEL (Te Apiti) Limited	-	256,000
Loan to MEL (West Wind) Limited	-	469,355
Loan to Three Rivers No 1 Limited	237,604	-
Loan to WhisperGen Limited	12,211	41,677
Loan to Meridian Energy Captive Insurance Limited	50	50
Loan to MEL (White Hill) Limited	-	144,000
Loan to Whisper Tech Limited	3,418	7,750
Loan to MEL (Te Uku) Limited	-	113,874
Loan to MEL Solar Holdings Limited	56,473	60,048
Other Advances to Subsidiaries	16,952	117
Total Advances to Subsidiaries	326,708	1,209,682
Advances 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	-	1,400
Loan from Energy for Industry Limited	9,305	-
Other Advances from Subsidiaries	99	117,643
Total Advances from Subsidiaries	228,567	341,933

28. Related Party Transactions (continued)

Impairment

Loan Facilities and Advances to Subsidiaries have been impaired by a total of $50.9 million in 2011 (2010: nil), with respect to WhisperGen Limited ($29.5 million), Whisper Tech Limited ($14.3 million) and MEL Solar Holdings Limited ($7.1 million). Refer to Note 15 for further details of these impairments.

Compensation of Key Management Personnel

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

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Directors Fees	**812**	740	**428**	453
Chief Executive Officer and Senior Management Team:				
Salaries and Short Term Benefits	**6,499**	6,613	**4,529**	5,033
Post Employment Benefits	**-**	-	**-**	-
Termination Benefits	**-**	1,057	**-**	1,057
Other Long-Term Benefits	**-**	-	**-**	-
	6,499	7,670	**4,529**	6,090

29. Subsequent Events

On 22 August 2011 the Board declared a dividend of $69.4 million payable on 31 October 2011. 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.

There have been no other material events subsequent to 30 June 2011.

30. Contingent Assets and Liabilities

CONTINGENT ASSETS

There were no contingent assets at 30 June 2011.

As at 30 June 2010 Meridian and RTA Power (NZ) Limited were proceeding with arbitration to resolve a contractual dispute after RTA Power (NZ) Limited claimed force majeure relief from its contractual obligations. The arbitration between Meridian and RTA Power (NZ) Limited was settled in October 2010 for a sum of $28.1 million (net of legal costs) and this is included in Energy Sales in the Income Statement.

CONTINGENT LIABILITIES

During a scheduled Transpower transmission outage on 26 March 2011, prices in excess of $19,000 MWh were bid into the wholesale electricity market. The Electricity Authority (EA) ruled this constituted an undesirable trading situation (UTS) and reset the clearing prices in the upper North Island for periods 22 to 35. A group of market participants has appealed this ruling to the High Court. It is estimated that the liability, should the appeal be successful, is $14 million. A High Court date has been set for late November 2011, but it is not practicable to state the time of any payment. The Group believes that no provision for any liability need be recognised in these financial statements (2010 Nil).

Independent Auditor's Report

TO THE READERS OF MERIDIAN ENERGY LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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.

We have audited the financial statements of the Company and Group on pages 1 to 59, that comprise the Statement of Financial Position as at 30 June 2011, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and Cash Flow Statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion on the financial statements

In our opinion the financial statements of the Company and Group on pages 1 to 59:

- 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 2011; and
- financial performance and cash flows for the year ended on that date.

Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from the examination of those records.

Our audit was completed on 22 August 2011. This 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 our responsibilities, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, and the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company and Groups's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and Group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditors

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our 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 emissions audit, review of the interim financial statements, Trustee reporting and review of prospectus which are compatible with those independence requirements. Partners and employees of our firm deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group.

Other than the audit and other assurance assignments listed above, the firm has no other relationship with, or interest in, Meridian Energy Limited or any of its subsidiaries.

Jamie Schmidt
Deloitte

On behalf of the Auditor-General
WELLINGTON, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Meridian Energy Limited (the Company) and Group for the year ended 30 June 2011 included on the Company's website. The Board of Directors is responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 22 August 2011 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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