FINANCIAL STATEMENTS

FOR YEAR ENDED 30 JUNE 2012

BENMORE

Meridian's strategic approach to asset management delivers steady improvements in asset performance. The Benmore upgrade completed last financial year increased generation efficiency by 2.8%; that's nearly 70GWh of additional electricity from the same amount of water.

MERIDIAN ENERGY LIMITED

	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Operating Revenue					
Energy Sales Revenue		2,542,972	2,010,432	2,398,670	1,885,991
Energy Related Services Revenue		11,133	22,284	3,367	4,664
Dividends Received		174	33	2,114	4,141
Other Revenue		15,966	20,238	12,134	15,355
Total Operating Revenue		2,570,245	2,052,987	2,416,285	1,910,151
Operating Expenses					
Energy Related Expenses		(1,375,545)	(703,302)	(1,315,219)	(669,441)
Energy Distribution Expenses		(404,198)	(367,449)	(370,028)	(347,513)
Energy Transmission Expenses		(86,677)	(84,188)	(84,702)	(78,796)
Employee Expenses	3	(79,589)	(89,493)	(56,955)	(68,079)
Other Operating Expenses	3	(147,627)	(148,628)	(133,029)	(110,244)
		(2,093,636)	(1,393,060)	(1,959,933)	(1,274,073)
Earnings Before Interest, Tax, Depreciation, Amortisation, Change in Fair Value of Financial Instruments and Other Significant Items (EBITDAF)		476,609	659,927	456,352	636,078
Impairment of Assets	4	(60,078)	(10,956)	(93,938)	(96,536)
Equity Accounted Earnings of Joint Ventures	17	(2,724)	(3,382)	-	-
Amortisation of Intangible Assets	19	(22,180)	(15,041)	(18,008)	(12,236)
Depreciation	20	(202,903)	(209,283)	(182,055)	(151,681)
(Loss)/Gain on Sale of Property, Plant and Equipment	20	(1,144)	174,125	(983)	174,420
(Loss)/Gain on Sale of Investments		(396)	-	67	-
Net Change in Fair Value of Financial Instruments Gain/(Loss) (Operational)	25	121,322	(89,270)	124,413	(93,804)
Operating Profit		308,506	506,120	285,848	456,241
Finance Costs and Other Finance Related Income/(Expenses)					
Finance Costs	5	(90,229)	(110,460)	(89,954)	(101,534)
Interest Income	6	7,698	2,786	23,922	61,363
Net Change in Fair Value of Financial Instruments Loss (Financing)	25	(67,951)	(14,157)	(61,364)	(14,440)
Profit Before Tax		158,024	384,289	158,452	401,630
Income Tax Expense	7	(83,384)	(81,178)	(87,702)	(106,226)
Profit After Tax		74,640	303,111	70,750	295,404
Profit After Tax Attributable to:					
Shareholders of the Parent Company		74,913	303,817	70,750	295,404
Non Controlling Interest		(273)	(706)	-	-
		74,640	303,111	70,750	295,404
Earnings per Share from operations attributable to equity holders of the Company during the year:					
Basic Earnings per Share ($)	8	0.05	0.19		
Diluted Earnings per Share ($)	8	0.05	0.19		

 The Statement of Accounting Policies and Notes to the Financial Statements on pages 53 to 104 form an integral part of these Financial Statements

MERIDIAN ENERGY LIMITED	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Profit After Tax for the Year		**74,640**	303,111	**70,750**	295,404
Other Comprehensive Income					
Effect of Amalgamation of Subsidiaries	16	**-**	-	**-**	(39,195)
Net Loss on Available for Sale Investments	18	**(289)**	(311)	**(289)**	(311)
Revaluation Gain on Property, Plant and Equipment	20	**-**	129,673	**-**	129,673
Net (Loss)/Gain on Cash Flow Hedges		**(59,520)**	(1,217)	**3,754**	(1,217)
Buy out of Whisper Tech Limited Minority Shareholders		**(1,016)**	-	**-**	-
Exchange Differences Arising from Translation of Foreign Operations		**(1,062)**	2,065	**-**	-
Tax items:					
Deferred Tax on Revaluation Reserve	22	**4,338**	-	**4,338**	-
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	**-**	2,580
Income Tax Relating to Other Comprehensive Income	22	**18,013**	(38,691)	**(969)**	(38,691)
Other Comprehensive Income for the Year Net of Tax		**(39,536)**	241,252	**6,834**	199,992
Total Comprehensive Income for the Year Net of Tax		**35,104**	544,363	**77,584**	495,396
Total Comprehensive Income for the Year Attributable to:					
Shareholders of the Parent Company		**35,377**	545,069	**77,584**	495,396
Non Controlling Interest		**(273)**	(706)	**-**	-
		35,104	544,363	**77,584**	495,396

Statement of Financial Position AS AT 30 JUNE 2012

MERIDIAN ENERGY LIMITED

	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Shareholders' Equity					
Share Capital	9	**1,600,000**	1,600,000	**1,600,000**	1,600,000
Reserves		**3,225,680**	3,330,404	**3,181,116**	3,244,258
Equity Attributable to Shareholders of the Parent		**4,825,680**	4,930,404	**4,781,116**	4,844,258
Share Options Vested in Whisper Tech Limited	9	**-**	997	**-**	-
Non Controlling Interest		**-**	(99)	**-**	-
Total Equity		**4,825,680**	4,931,302	**4,781,116**	4,844,258
Represented by:					
Current Assets					
Cash and Cash Equivalents	11	**214,420**	368,191	**86,410**	256,596
Accounts Receivable and Prepayments	12	**298,076**	240,885	**276,644**	227,193
Inventories	13	**4,649**	3,333	**3,786**	2,424
Finance Lease Receivable	14	**632**	632	**632**	632
Assets Classified as Held for Sale	15	**29,449**	1,888	**1,711**	-
Derivative Financial Instruments	25	**23,597**	12,256	**23,691**	12,256
Total Current Assets		**570,823**	627,185	**392,874**	499,101
Non-Current Assets					
Finance Lease Receivable	14	**4,797**	4,895	**4,797**	4,895
Investments in Subsidiaries	16	**-**	-	**207,580**	165,716
Equity Accounted Joint Ventures	17	**3,772**	4,402	**-**	-
Available for Sale Investments	18	**3,554**	6,065	**3,554**	6,065
Intangible Assets	19	**26,772**	46,930	**20,653**	16,517
Property, Plant and Equipment	20	**7,963,652**	7,720,807	**7,112,769**	7,315,326
Deferred Tax Asset	22	**8,437**	7,947	**-**	-
Derivative Financial Instruments	25	**110,968**	41,742	**110,968**	40,747
Advances to Subsidiaries	27	**-**	-	**392,889**	326,708
Total Non-Current Assets		**8,121,952**	7,832,788	**7,853,210**	7,875,974
Total Assets		**8,692,775**	8,459,973	**8,246,084**	8,375,075
Current Liabilities					
Liabilities Classified as Held for Sale	15	**752**	-	**10**	-
Payables and Accruals	21	**286,096**	217,004	**259,517**	188,582
Provisions		**15**	94	**-**	26
Current Tax Payable		**6,000**	36,608	**5,828**	37,194
Current Portion of Term Borrowings	23	**247,919**	298,167	**113,198**	298,167
Derivative Financial Instruments	25	**52,571**	17,779	**50,985**	19,557
Advances from Subsidiaries	27	**-**	-	**228,475**	228,567
Total Current Liabilities		**593,353**	569,652	**658,013**	772,093
Non-Current Liabilities					
Deferred Tax Liability	22	**1,444,221**	1,412,330	**1,448,274**	1,400,504
Term Borrowings	23	**1,577,742**	1,275,379	**1,175,108**	1,086,910
Term Payables		**22,755**	35,564	**22,755**	35,564
Derivative Financial Instruments	25	**229,024**	235,746	**160,818**	235,746
Total Non-Current Liabilities		**3,273,742**	2,959,019	**2,806,955**	2,758,724
Total Liabilities		**3,867,095**	3,528,671	**3,464,968**	3,530,817
Net Assets		**4,825,680**	4,931,302	**4,781,116**	4,844,258

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

Chris Moller
Chairman, 12 August 2012

Peter Wilson
Chair of Audit and Risk Committee, 12 August 2012

The Statement of Accounting Policies and Notes to the Financial Statements on pages 53 to 104 form an integral part of these Financial Statements

Statement of Changes in Equity FOR YEAR ENDED 30 JUNE 2012

MERIDIAN ENERGY LIMITED	GROUP									
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	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 Year	-	-	-	-	-	303,817	303,817	-	(706)	303,111
Revaluation Gain on Property, Plant and Equipment	-	129,673	-	-	-	-	129,673	-	-	129,673
Cash Flow Hedges:										
Net Loss 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 Year	**-**	**(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**

MERIDIAN ENERGY LIMITED	GROUP									
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	SHARE OPTIONS VESTED $'000	NON CONTROLLING INTEREST $'000	TOTAL $'000
Balance at 1 July 2011	**1,600,000**	**3,392,516**	**(655)**	**(217)**	**162**	**(61,402)**	**4,930,404**	**997**	**(99)**	**4,931,302**
Profit for the Year	-	-	-	-	-	74,913	74,913	-	(273)	74,640
Cash Flow Hedges:										
Net Loss Taken to Equity	-	-	-	(59,520)	-	-	(59,520)	-	-	(59,520)
Available for Sale Reserve:										
Net Loss Taken to Equity	-	-	-	-	(289)	-	(289)	-	-	(289)
Buy out of Whisper Tech Limited Minority Shareholders	-	-	-	-	-	(391)	(391)	(997)	372	(1,016)
Exchange Differences Arising from Translation of Foreign Operations	-	-	(1,062)	-	-	-	(1,062)	-	-	(1,062)
Asset Revaluation Reserve Transferred to Retained Earnings	-	21,330	-	-	-	(21,330)	-	-	-	-
Deferred Tax on Asset Revaluation Reserve	-	4,338	-	-	-	-	4,338	-	-	4,338
Income Tax Relating to Other Comprehensive Income	-	(149)	-	17,931	82	149	18,013	-	-	18,013
Total Comprehensive Income for the Year	**-**	**25,519**	**(1,062)**	**(41,589)**	**(207)**	**53,341**	**36,002**	**(997)**	**99**	**35,104**
Dividends Paid	-	-	-	-	-	(140,726)	(140,726)	-	-	(140,726)
Balance at 30 June 2012	**1,600,000**	**3,418,035**	**(1,717)**	**(41,806)**	**(45)**	**(148,787)**	**4,825,680**	**-**	**-**	**4,825,680**

Statement of Changes in Equity FOR YEAR ENDED 30 JUNE 2012

MERIDIAN ENERGY LIMITED

	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 Year	-	-	-	-	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 Year	**-**	**(241,554)**	**(876)**	**(225)**	**738,051**	**495,396**
Dividends Paid	-	-	-	-	(683,644)	(683,644)
Balance at 30 June 2011	**1,600,000**	**3,387,313**	**(217)**	**162**	**(143,000)**	**4,844,258**

MERIDIAN ENERGY LIMITED

	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 2011	**1,600,000**	**3,387,313**	**(217)**	**162**	**(143,000)**	**4,844,258**
Profit for the Year	-	-	-	-	70,750	70,750
Cash Flow Hedges:						
Net Gain Taken to Equity	-	-	3,754	-	-	3,754
Available for Sale Reserve:						
Net Loss Taken to Equity	-	-	-	(289)	-	(289)
Asset Revaluation Reserve Transferred to Retained Earnings	-	21,330	-	-	(21,330)	-
Deferred Tax on Asset Revaluation Reserve	-	4,338	-	-	-	4,338
Income Tax Relating to Other Comprehensive Income	-	(149)	(1,051)	82	149	(969)
Total Comprehensive Income for the Year	**-**	**25,519**	**2,703**	**(207)**	**49,569**	**77,584**
Dividends Paid	-	-	-	-	(140,726)	(140,726)
Balance at 30 June 2012	**1,600,000**	**3,412,832**	**2,486**	**(45)**	**(234,157)**	**4,781,116**

 The Statement of Accounting Policies and Notes to the Financial Statements on pages 53 to 104 form an integral part of these Financial Statements

MERIDIAN ENERGY LIMITED		GROUP		PARENT	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		2,514,780	2,008,888	2,356,136	1,862,543
Interest Received		7,698	2,787	1,744	61,363
Dividends Received		174	33	2,114	199
		2,522,652	2,011,708	2,359,994	1,924,105
Cash was Applied to:					
Payments to Suppliers and Employees		(2,048,933)	(1,421,788)	(1,912,746)	(1,315,046)
Interest Paid		(91,180)	(105,034)	(87,483)	(97,900)
Income Tax Paid		(60,337)	(116,178)	(60,250)	(116,055)
		(2,200,450)	(1,643,000)	(2,060,479)	(1,529,001)
Net Cash Inflows from Operating Activities		322,202	368,708	299,515	395,104
Investment Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment[1]		3,231	821,735	836	821,170
Finance Lease Receivable		632	140	632	140
Government Grant	20	-	8,398	-	-
		3,863	830,273	1,468	821,310
Cash was Applied to:					
Purchase of Property, Plant and Equipment		(510,367)	(248,122)	(59,339)	(66,953)
Capitalised Interest		(6,530)	(4,253)	-	(245)
Advances to Subsidiaries		-	-	(94,454)	(307,945)
Purchase of Subsidiaries		-	-	(18,759)	-
Purchase of Intangible Assets		(8,346)	(12,457)	(7,571)	(11,636)
Purchase of Investments		(3,381)	(7,789)	(14)	(299)
		(528,624)	(272,621)	(180,137)	(387,078)
Net Cash (Outflows)/Inflows from Investing Activities		(524,761)	557,652	(178,669)	434,232
Financing Activities					
Cash was Provided from:					
Proceeds From Borrowings		943,358	537,123	551,708	537,123
		943,358	537,123	551,708	537,123
Cash was Applied to:					
Dividends Paid	10	(140,726)	(683,644)	(140,726)	(683,644)
Term Borrowings Paid		(753,844)	(465,488)	(702,014)	(465,488)
		(894,570)	(1,149,132)	(842,740)	(1,149,132)
Net Cash Inflows/(Outflows) from Financing Activities		48,788	(612,009)	(291,032)	(612,009)
Net (Decrease)/Increase in Cash and Cash Equivalents		(153,771)	314,351	(170,186)	217,327
Cash and Cash Equivalents at Beginning of Year		368,191	54,394	256,596	39,234
Cash on Amalgamation of Subsidiaries		-	-	-	35
Cash Transferred to Assets Held for Sale		-	(554)	-	-
Cash and Cash Equivalents at End of Year	11	214,420	368,191	86,410	256,596

1 2011 includes the Sale of Tekapo A and B to Genesis Power Limited for $820.2 million.

MERIDIAN ENERGY LIMITED

RECONCILIATION OF PROFIT AFTER TAX FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Profit after Tax for the Year		74,640	303,111	70,750	295,404
Adjustments for Operating Activities Non-Cash Items:					
Impairment of Inventories	4	-	1,110	-	-
Amortisation of Intangible Assets	19	22,180	15,041	18,008	12,236
Depreciation	20	202,903	209,283	182,055	151,681
Movement in Deferred Tax	22	53,652	(17,784)	51,898	(33,390)
Total Net Change in Fair Value of Financial Instruments Loss	25	(53,370)	103,427	(63,049)	108,244
Less: Cash Payments of Option Premiums		(17,975)	(17,557)	(17,975)	(17,557)
Net Non Cash Movement in Fair Value of Financial Instruments		(71,345)	85,870	(81,024)	90,687
Transfer of Tax Losses to Parent		-	-	6,918	4,591
Share Based Payments		(997)	(101)	-	-
Equity Accounted Earnings of Joint Ventures		2,724	3,382	-	-
Finance Costs		(3,723)	-	(22,178)	-
		205,394	296,801	155,677	225,805
Items Classified as Investing Activities:					
Impairment of Other Assets	4	60,078	9,846	93,938	96,536
Finance Lease Interest		(534)	-	(534)	-
Loss/(Gain) on Sale of Property, Plant and Equipment	20	1,144	(174,125)	983	(174,420)
Loss/(Gain) on Sale of Investments		396	-	(67)	-
		61,084	(164,279)	94,320	(77,884)
Items Classified as Financing Activities:					
Amortisation of Prepaid Debt Facility Fees		1,836	(231)	1,836	(231)
		1,836	(231)	1,836	(231)
Changes in Working Capital Items					
Increase in Accounts Receivable and Prepayments		(57,191)	(41,771)	(60,408)	(39,509)
(Increase)/Decrease in Inventory		(1,316)	1,586	(1,362)	640
Increase/(Decrease) in Payables and Accruals		68,215	(6,833)	69,449	(18,927)
Decrease in Provisions		(79)	(642)	(25)	(207)
(Decrease)/Increase in Current Tax Payable		(30,608)	4,975	(31,366)	5,669
Working Capital Items Transferred to Available for Sale		65	-	-	-
Working Capital Disposed on ARC Innovations Limited Establishment as a Subsidiary		-	-	644	-
Working Capital Items Transferred to Held for Sale		162	(1,110)	-	-
Deferred Tax transferred to Current Tax Payable on Sale of Tekapo A and B		-	(22,899)	-	(22,899)
Working Capital Disposed on Energy for Industry Limited Establishment as a Subsidiary		-	-	-	(7,917)
Working Capital Acquired on Amalgamation of Subsidiaries into the Parent		-	-	-	35,160
		(20,752)	(66,694)	(23,068)	(47,990)
Net Cash Flow from Operating Activities		322,202	368,708	299,515	395,104

The Statement of Accounting Policies and Notes to the Financial Statements on pages 53 to 104 form an integral part of these Financial Statements

Contents

1. Summary of Accounting Policies

REPORTING ENTITY AND STATEMENT OF COMPLIANCE

Meridian Energy Limited is a profit-oriented entity domiciled in New Zealand, registered under the Companies Act 1993 and an issuer for the purposes of the Financial Reporting Act 1993. The registered office of the Company is 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. The liabilities of Meridian Energy Limited are not guaranteed in any way by the Crown.

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 the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as well as other applicable Financial Reporting Standards, as appropriate for a profit-oriented entity and are prepared in accordance with the requirements of the Financial Reporting Act 1993.

These consolidated financial statements comply with International Financial Reporting Standards (IFRS) as do those of the Parent entity.

The reporting period for these financial statements is the year ended 30 June 2012.

The financial statements were authorised for issue by the directors on 12 August 2012.

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 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
Improvements to NZ Equivalents to International Financial Reporting Standards 2010 – Improvements to NZ IFRS 3, NZ IFRS 7, NZ IAS 1, NZ IAS 27, NZ IAS 34 and NZ IFRIC 13	1 January 2011
Amendments to NZ IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 January 2011
Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*	1 July 2011
Amendments to NZ Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards – FRS 44 *NZ Additional Disclosures* – Amendments to FRS 44 *NZ Additional Disclosures*	1 July 2011

The adoption of these standards does 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 2015	30 June 2016
Revised NZ IFRS 9 *Financial Instruments (2010)*	1 January 2015	30 June 2016
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 Measurement*	1 January 2013	30 June 2014
NZ IAS 27 *Consolidated and Separate Financial Statements* (revised 2011)	1 January 2013	30 June 2014
NZ IAS 28 *Investments in Associates* (revised 2011)	1 January 2013	30 June 2014
Amendments to NZ IAS 1 *Presentation of Financial Statements* – Presentation of Items of Other Comprehensive Income	1 July 2012	30 June 2013
Amendments to NZ IAS 19 *Employee Benefits*	1 January 2013	30 June 2014
Amendments to NZ IFRS 7 *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities	1 January 2013	30 June 2014
Amendments to NZ IAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
Improvements to IFRS: 2009 – 2011 cycle	1 January 2013	30 June 2014
Amendments to NZ IFRS 9 and NZ IFRS 7 Mandatory Effective Date and Transition Disclosures	1 January 2015	30 June 2016

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 measurement 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 but Meridian may early-adopt if it results in a more faithful representation of the parent/group.

SIGNIFICANT ACCOUNTING POLICIES

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

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 future price 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.

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 (Interest Rate Swaps (IRS's), Cross Currency Interest Rate Swaps (CCIRS's), Foreign Exchange Contracts (FEC's), Contracts for Difference (CfD's)) is determined using various valuation techniques which include assumptions on both observable data when such data is available (IRS's, CCIRS's, FEC's, some CfD's) and non-observable data (some CfD's) in all other instances. The fair value of IRS's, CCIRS's, FEC's and CfD's is based on the discounted value of future cashflows. Assumptions on the determination of future cash flows are based on the publicly available forecast prices where available and internal models when a forecast price is not available.

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

- forecast of the forward wholesale electricity price for the non-observable period based on a fundamental analysis of expected demand and cost of new supply
- forecast of the aluminium price (based on the London Metal Exchange (LME)) for the non-observable period using a historical trend analysis to form future price expectations
- forecast consumer price index or proxy for price inflation
- all CfD's run to full term.

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

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

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

The valuations determined for instruments not traded on an active market, particularly in respect to CfD's can vary significantly based on assumptions in relation to the forecast electricity price and interest rates. 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.

Property, Plant and Equipment

Meridian have obtained an independent valuation of generation structures and plant which use judgements in determining the methodology and key assumptions to be used. Meridian used judgement to determine the estimated remaining useful lives of assets. They are as follows:

- 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. See Note 20 for further detail of the valuation assumptions used.

Intangible Assets

Meridian have used judgement to determine the estimated remaining useful lives of intangible assets. They are as follows:

- customer Acquisition Costs – Up to 10 years
- computer Software – Up to 3 years
- patents and Trademarks – Up to 20 years
- licence Agreement – Up to 10 years
- other Licences – Up to 6 years.

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

The recoverable amount of goodwill is calculated using value in use (the net present value of expected future cash flows) of the cash generating units or fair value less costs to sell. Key assumptions used in the value in use model that require Meridian's estimation and judgement include sales forecasts (including volumes and pricing), costs and discount rates. See Note 19 for further detail.

Provisions

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.

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, Meridian's estimation of return rate, and industry information where available.

Revenue Recognition

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

When earnings on construction contracts can be reliably estimated, contract revenue and costs are determined using the percentage-of-completion method at balance date. Meridian exercises its professional judgement to assess both the physical completion and the forecast financial result of the contract.

Taxation

The New Zealand corporate tax rate was reduced from 30% to 28%, effective 1 July 2011 for the New Zealand tax based entities. Meridian 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.

The discontinuation of tax depreciation on buildings with a useful life of greater than 50 years was effective for the Group on 1 July 2011. At the time Meridian used judgement in regard to the tax definition of buildings with the above ground structure of Generation Structures and Plant being treated as buildings. Meridian maintain this view but have taken a further provision this year due to the Inland Revenue Department's current narrower interpretation of the definition of buildings

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 activities.

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

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

Non-controlling interests in the net assets of consolidated subsidiaries are presented in the equity section of the consolidated statement of financial position, separately from the equity of the owners of the parent.

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.

Joint Ventures

Jointly Controlled Entities

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 in 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.

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.

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 fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.

As disclosed in Note 20, the fair value of generation assets 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.

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 its useful life.

Computer Software

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

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.

Research and Development Costs

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 used or sold; 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 or the expenditure is on research activities (undertaken with the prospect of gaining new scientific or technical knowledge and understanding), expenditure is recognised as an expense as incurred.

Impairment of Non-Financial Assets other than Goodwill

At each balance date or when events/circumstance indicate, Meridian reviews the recoverability of the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. 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 a 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.

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.

Non Derivative Financial Instruments

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

Non Derivative 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. Meridian determines the classification of its financial assets at initial recognition.

Available for Sale Investments

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

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

Investments in Subsidiaries and Joint Ventures

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

Trade Receivables

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

Construction Work in Progress

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

Cash and Cash Equivalents

Cash and cash equivalents used in the Statement of Cash Flows 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.

Non Derivative 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 if the sale of the asset or disposal group to which they relate is highly probable and is available for immediate sale in its present condition subject only to normal sale terms. The classification of other financial liabilities depends on the purpose for which the financial liabilities were acquired. Meridian 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.

Payables and Accruals

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 which approximates fair value.

Deferred Income on 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.

Derivative Financial Instruments and Hedge Accounting

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

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 (within risk management policy) 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 in respect of CCIRS's, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Interest expense on the loans designated as hedged items in fair value hedges is recognised in finance costs.

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

Cash Flow Hedge

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

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

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

However, if Meridian expects that all or a portion of a 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 Designated as Hedges

Derivative instruments that do not qualify for hedge accounting or for which hedge accounting is not actively sought are at fair value through profit or loss and classified as being held for trading. Changes in their fair value, therefore, are recognised immediately in the income statement within operating profit in respect of CfD's and FECs or within finance costs in respect of IRS's. Cash settlements on such derivatives will adjust the price of the underlying item to which they relate. The cost of certain electricity options is recognised within 'Net Change in Fair Value of Financial Instruments (Operational)'.

Day 1 Adjustment

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

Difference between fair value at initial recognition and amount that would be recognised using a valuation technique

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

Reserves

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

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

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 statement and statement of cash flows are prepared on a GST exclusive basis. All items in the Statement of Financial Position are stated net of GST, except for receivables and payables, which include GST.

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.

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

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.

Warranties

A provision for warranties is recognised as a liability when the underlying products or services are sold.

Restructuring

Restructuring is a programme planned and controlled by Meridian 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 maintenance 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.

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 method.

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. 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.

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.

Statement of Cash Flows

The statement of cash flows 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.

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, equity accounted earnings of joint ventures, change in fair value of financial instruments, finance costs, gain/loss on sale of property, plant and equipment and investments, depreciation, amortisation, impairments and income tax expense.

The Chief Executive considers the business from the perspective of three reportable segments, being Wholesale, Retail and International.

Revenues are derived from external customers within New Zealand, Australia and the United States of America. Meridian sells approximately 43% (2011: 35%) 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 described in Note 1.

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.

Costs to develop New Zealand renewable generation opportunities are reported as part of the Wholesale operating segment as it is determined they have similar long term economic characteristics.

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.

Powershop New Zealand Ltd and Arc Innovations Ltd are reported as part of the Retail segment as it has been determined that they have similar long term economic characteristics.

INTERNATIONAL SEGMENT

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

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'.

UNALLOCATED

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

The Segment Information Provided to the Chief Executive for the Reportable Segments for the year ended 30 June 2012 is as follows:

	WHOLESALE $'000	RETAIL $'000	INTERNATIONAL $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	INTER-SEGMENT ITEMS $'000	TOTAL $'000
Energy Sales Revenue	1,329,842	1,156,639	23,351	20,930	-	12,210	**2,542,972**
Energy Related Expenses	(567,406)	(785,412)	(520)	(9,997)	-	(12,210)	**(1,375,545)**
Energy Distribution Expense	(23,455)	(380,742)	(1)	-	-	-	**(404,198)**
Energy Margin	**738,981**	**(9,515)**	**22,830**	**10,933**	**-**	**-**	**763,229**
Dividend and Other Revenue	6,123	11,625	2,554	7,452	3,642	(4,123)	**27,273**
Energy Transmission Expense	(84,702)	-	(1,975)	-	-	-	**(86,677)**
Gross Margin	**660,402**	**2,110**	**23,409**	**18,385**	**3,642**	**(4,123)**	**703,825**
Employee Expenses	(20,526)	(25,566)	(6,164)	(7,703)	(19,630)	-	**(79,589)**
Other Operating Expenses	(43,430)	(49,593)	(4,943)	(6,684)	(45,160)	2,183	**(147,627)**
EBITDAF	**596,446**	**(73,049)**	**12,302**	**3,998**	**(61,148)**	**(1,940)**	**476,609**
Reconciliation of Operating Revenue							
Energy Sales Revenue	1,329,842	1,156,639	23,351	20,930	-	12,210	**2,542,972**
Dividend and Other Revenue	6,123	11,625	2,554	7,452	3,642	(4,123)	**27,273**
Inter-Segment Revenue	12,210	-	-	(2,183)	(1,940)	(8,087)	**-**
Revenue from External Customers	**1,348,175**	**1,168,264**	**25,905**	**26,199**	**1,702**	**-**	**2,570,245**
Equity Accounted Earnings of Joint Ventures	-	-	-	(2,724)	-	-	**(2,724)**
Additions to Non-Current Assets	36,043	3,784	464,482	9,437	28,723	-	**542,469**
Total Assets	7,225,998	194,330	933,073	77,965	261,409	-	**8,692,775**

2. Segment Reporting (CONTINUED)

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 $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	INTER-SEGMENT ITEMS $'000	TOTAL $'000
Operating Revenue							
Energy Sales Revenue	954,557	1,029,024	21,795	15,249	10	(10,203)	2,010,432
Energy Related Expenses	(246,864)	(448,881)	(479)	(6,688)	(6)	10,203	(692,715)
Energy Distribution Expense	(20,149)	(347,500)	-	200	-	-	(367,449)
Energy Margin	**687,544**	**232,643**	**21,316**	**8,761**	**4**	**-**	**950,268**
Dividend and Other Revenue	7,973	9,431	2	23,232	7,974	(6,057)	42,555
Energy Related Expenses (Non-core)	-	-	-	(10,587)	-	-	(10,587)
Energy Transmission Expense	(82,251)	-	(1,937)	-	-	-	(84,188)
Gross Margin	**613,266**	**242,074**	**19,381**	**21,406**	**7,978**	**(6,057)**	**898,048**
Employee Expenses	(24,212)	(24,977)	(4,592)	(12,960)	(22,752)	-	(89,493)
Other Operating Expenses	(43,032)	(41,910)	(6,802)	(10,517)	(48,316)	1,949	(148,628)
EBITDAF	**546,022**	**175,187**	**7,987**	**(2,071)**	**(63,090)**	**(4,108)**	**659,927**
Reconciliation of Operating Revenue							
Energy Sales Revenue	954,557	1,029,024	21,795	15,249	10	(10,203)	2,010,432
Dividend and Other Revenue	7,973	9,431	2	23,232	7,974	(6,057)	42,555
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**
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 Assets	7,231,901	211,097	575,985	80,247	360,743	-	8,459,973

Information Relating to Geographical Area Operations

	GROUP 2012 $'000	GROUP 2011 $'000
Total Revenue in:		
New Zealand	**2,544,340**	2,031,190
Australia	**22,739**	18,902
United States of America	**3,166**	2,895
	2,570,245	2,052,987

	GROUP 2012 $'000	GROUP 2011 $'000
EBITDAF in:		
New Zealand	**464,307**	651,940
Australia	**12,588**	8,383
United States of America	**(286)**	(396)
	476,609	659,927

	GROUP 2012 $'000	GROUP 2011 $'000
Non Current Assets Held:		
New Zealand	**7,340,451**	7,444,938
Australia	**781,501**	352,321
United States of America	**-**	35,529
	8,121,952	7,832,788

2. Segment Reporting (CONTINUED)

Reconciliation of EBITDAF to Profit before tax provided as follows:

	GROUP 2012 $'000	GROUP 2011 $'000
EBITDAF for Reportable Segments	535,699	729,196
Other Segments EBITDAF	3,998	(2,071)
Unallocated EBITDAF	(63,088)	(67,198)
Total Group EBITDAF	476,609	659,927
Net Change in Fair Value of Financial Instruments Loss	53,371	(103,427)
Depreciation	(202,903)	(209,283)
Amortisation of Intangible Assets	(22,180)	(15,041)
Impairment of Assets	(60,078)	(10,956)
(Loss)/Gain on Sale of Property, Plant and Equipment	(1,144)	174,125
(Loss)/Gain on Sale of Investments	(396)	-
Equity Accounted Earnings of Joint Ventures	(2,724)	(3,382)
Finance Costs and Other Finance Expenses	(82,531)	(107,674)
Group Profit before Tax	158,024	384,289

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

	GROUP 2012 $'000	GROUP 2011 $'000
Total Assets for Reportable Segments	8,353,401	8,018,983
Other Segment Assets	77,965	80,247
Total Segment Assets	8,431,366	8,099,230
Unallocated Assets:		
Cash and Cash Equivalents	73,224	244,451
Finance Lease Receivables	5,430	5,528
Assets Classified as Held for Sale	(9)	-
Derivative Financial Instruments	29,584	11,630
Available for Sale Investments	3,554	6,057
Intangible Assets	9,880	8,801
Property, Plant and Equipment	143,301	177,599
Other Assets	5,545	10,413
Intercompany Loans included in Other Segment Assets	(9,100)	(103,736)
Total Assets	8,692,775	8,459,973

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. Operating Expenses

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Employee Expenses include:				
Contributions to Defined Contribution Plans	**2,475**	2,404	**2,125**	1,973
Restructuring Costs	**-**	241	**-**	241
Movement in Share Based Incentives	**(895)**	(101)	**-**	-
Other Operating Expenses include:				
Auditors Remuneration to Deloitte for:				
– Audit of New Zealand-based Companies Financial Statements[1]	**469**	454	**387**	380
– Audit of Overseas-based Companies Financial Statements	**93**	83	**-**	28
– Other Services[2]	**191**	139	**189**	122
Operating Lease Payments	**4,592**	4,920	**3,724**	3,885
Research and Development Expenditure	**-**	2,443	**-**	-
Foreign Exchange Losses	**539**	2,507	**-**	966
Donations	**20**	1,000	**20**	1,000

1 *Includes Office of the Auditor General overhead contribution of $29.6 thousand (2011: $28.5 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*
- *Audit of securities registers and in connection with the prospectus*

4. Impairment of Assets

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Impairment of Inventories	**-**	1,110	**-**	-
Impairment of Intangible Assets	**22,383**	-	**-**	-
Impairment of Property, Plant and Equipment	**35,377**	6,068	**25,813**	5,788
Impairment of Held for Sale Assets	**873**	3,778	**873**	-
Impairment of Investments	**1,445**	-	**12,792**	39,818
Impairment of Subsidiary Advances	**-**	-	**54,460**	50,930
	60,078	10,956	**93,938**	96,536

IMPAIRMENT OF INVENTORIES

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

IMPAIRMENT OF INTANGIBLE ASSETS

Group Intangible Assets have been impaired $22.4 million in 2012 (2011: $Nil).

Whisper Tech Limited

On 22 June 2012 Whisper Tech (UK) Limited sold its interest in Efficient Home Energy S.L. joint venture and all associated Intellectual Property to Suma Algebraica S.L., a company organised under the laws of Spain. As the primary driver of cash flows for Whisper Tech were the expected returns from its investment in the joint venture, the Group has fully impaired Whisper Tech Group Intellectual Property $9.3 million (2011: $Nil), Goodwill $6.9 million (2011: $Nil) and Patents $0.002 million (2011: $Nil).

Meridian Energy USA Incorporated

Meridian has tested for impairment of goodwill comparing the carrying amount of goodwill ($6.2 million) to the recoverable amount, based on the fair value of Meridian Energy USA Inc business assets, which include CalRENEW–1 – an operational solar power station in California. The impairment test indicated that goodwill should be fully impaired by $6.2 million (2011: $Nil).

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Group property, plant and equipment has been impaired by $35.4 million in 2012 (2011: $6.1 million).

Development Projects

Project Hayes, a wind farm project in North Otago, has been impaired by $6.9 million (2011: $Nil) following a decision not to proceed any further with the appeal of the Environment Court's ruling declining Meridian's resource consent application.

Following an economic assessment of the Mokihinui hydro project in Westland, a decision was made not to proceed with this project, resulting in an impairment of $18.1 million (2011: $Nil).

4. Impairment of Assets (CONTINUED)

Metering Assets

Meridian through its subsidiary company Arc Innovations Limited owns electricity meters and related assets, which measure retail customer consumption. A change in business growth projections requires an assessment of the fair value of these assets to be undertaken. This assessment indicates an impairment of $5.8 million (2011: $Nil), representing the difference between the carrying value and the recoverable value being their value in use of those assets.

Work in Progress

$0.8 million (2011: $1.1 million) in work in progress assets were impaired following a review of work in progress items. Meridian Energy USA Inc. capital work in progress was impaired by $3.8 million (2011: $Nil).

Christchurch Earthquakes

In 2011 there was $5.0 million of impairment represented by metering equipment and components of fit-out and information technology equipment damaged or unrecoverable from two of the Group's Christchurch offices that have subsequently been demolished. Insurance claim proceeds are anticipated and the progress payment claim of $3.0 million has been recorded as Other Revenue in 2011.

IMPAIRMENT OF HELD FOR SALE ASSETS

The Group has reclassified its investment in Nth Power Technologies Fund II, L.P. as it is being actively marketed for sale. Market prices have indicated an impairment of $0.9 million (2011: $Nil).

In 2011, 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.

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 $66.7 million (2011: $90.7 million) in respect of its investment and advances to its subsidiaries, Whisper Tech Limited, MEL Solar Holdings Limited, Arc Innovations Limited and Right House Limited.

Available for Sale Investments, Carbon Flow Inc. and EnergyHedge Limited were impaired $0.6 million (2011: $Nil) due to the companies being liquidated or in process of liquidation.

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.

In 2011 this reflected Meridian'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 were the expected returns from its investment in the Efficient Home Energy S.L. joint venture and the ongoing costs to support the business. As the investment in the joint venture has been sold in 2012, the Parent has recorded an impairment of $31.5 million (2011: $32.6 million), relating to its investment $4.4 million (2011: $18.3 million) in and its loan $14.9 million (2011: $14.3 million) to Whisper Tech Limited, and a further $12.2 million (2011: $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. Meridian has 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 $27.4 million (2011: $7.1 million) on its loan to MEL Solar Holdings Limited.

Arc Innovations Limited

Meridian has an investment interest in Arc Innovations Limited, which develops, deploys and manages advanced metering infrastructure. Meridian has tested for impairment using a value in use calculation and due to limited business growth and the consequential impact of the Christchurch earthquakes upon metering stocks have impaired the investment by $7.8 million (2011: $Nil).

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. In 2011 the Parent wrote down its investment in Right House Limited by recognising an impairment of $21.5 million.

5. Finance Costs

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Interest on Borrowings	111,131	114,713	89,954	101,779
Less Capitalised Interest	(20,902)	(4,253)	-	(245)
	90,229	110,460	89,954	101,534

Total interest expense for financial liabilities at amortised cost is $52.9 million (2011: $37.1 million).

6. Interest Income

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Interest Income on Financial Assets at amortised cost:				
– Cash and Cash Equivalents	7,698	2,786	1,902	1,478
– Loans to Subsidiaries	-	-	22,020	59,885
	7,698	2,786	23,922	61,363

7. Income Tax Expense

	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Income Tax Expense					
Current Tax Expense					
Current Income Tax Charge		28,540	102,957	33,260	141,809
Adjustments Regarding Current Income Tax of Prior Years		(2,213)	(3,995)	(861)	(2,193)
Total Current Tax Expense		26,327	98,962	32,399	139,616
Deferred Tax Expense					
Relating to Origination and Reversal of Temporary Differences		25,215	(37,604)	31,077	(52,910)
Deferred Tax Asset written off in relation to Carried Forward Losses		7,648	-	-	-
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		554	2,410	586	2,110
Effect of Change in Building Tax Depreciation on Deferred tax		23,640	-	23,640	-
Total Deferred Tax Expense	22	57,057	(17,784)	55,303	(33,390)
Total Income Tax Expense		83,384	81,178	87,702	106,226
Income Tax Expense can be reconciled to Accounting Profit as follows:					
Profit Before Tax		158,024	384,289	158,452	401,630
Income Tax at Applicable Tax Rates		43,883	115,287	44,367	120,489
Tax Effect of Expenditure Not Deductible for Tax		16,474	6,941	27,104	30,399
Tax Effect of Income Not Subject to Tax		(6,947)	(8,192)	(5,033)	(5,402)
Income Tax (Over)/Under Provided in Prior Year		5,678	(3,995)	(861)	(2,193)
Tax Credits Transferred from Subsidiary		-	-	(1,549)	(2,207)
Inter-Company Dividend Received Not Subject to Tax		-	-	(543)	(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	554	2,410	586	2,110
Effect of Change in Building Tax Depreciation on Deferred tax	22	23,640	-	23,640	-
Other		102	38	(9)	(696)
Income Tax Expense		83,384	81,178	87,702	106,226

The New Zealand corporate tax rate was reduced from 30% to 28%, effective 1 July 2011 for the New Zealand tax based entities. Applicable tax rates for the Group are as follows:

	2012	2011
New Zealand	28%	30%
Australia	30%	30%

7. Income Tax Expense (CONTINUED)

The discontinuation of tax depreciation on buildings with a useful life of greater than 50 years was effective for the Group on 1 July 2011. The effect of this change was reflected in the Income Statement in 2010 ($14.7 million). At the time Meridian used judgement in regard to the tax definition of buildings with the above ground structure of Generation Structures and Plant being treated as buildings. Meridian maintain this view but have taken a further provision this year due to the Inland Revenue Department's current interpretation of the definition of buildings that in relation to generation assets includes the below ground structures. The effect included in the Income Statement in 2012 is $23.6 million.

In addition to the income tax charge to the income statement, deferred tax credit representing temporary differences of $22.4 million for the Group and $3.4 million credit for the Parent (2011: Group $111.0 million credit, Parent $111.0 million credit) have been recognised in equity for the year (see Note 22 – Deferred Tax).

At balance date the imputation credits available for use in future periods were Group $15.9 million (2011: $12.9 million) and Parent $14.9 million (2011: $12.0 million).

8. Earnings per Share

Basic and Diluted Earnings Per Share

	GROUP	
	2012 $'000	2011 $'000
Profit After Tax Attributable to Shareholders of the Parent Company	**74,913**	303,817
Weighted Average number of ordinary shares in issue (units)	**1,600,000,002**	1,600,000,002
Basic Earnings per Share ($)	**0.05**	0.19
Diluted Earnings per Share ($)	**0.05**	0.19

9. Equity

SHARE CAPITAL

The share capital is represented by 1,600,000,002 ordinary shares issued and fully paid. These are held in equal numbers by the Minister of Finance and the Minister for State-Owned Enterprises on behalf of the Crown. There have been no movements in share capital during the year.

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

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

Whisper Tech Limited share options convertible to ordinary shares

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

EXERCISE PRICE	2012 NUMBER VESTED	2012 NUMBER LAPSED	2012 NUMBER PURCHASED	2012 VESTED VALUE $'000	2011 NUMBER ISSUED	2011 NUMBER FORFEITED	2011 NUMBER VESTED	2011 VESTED VALUE $'000
$1.00	2,308	-	2,308	-	2,308	-	2,308	-
$366.83	12,615	12,615	-	-	14,115	1,500	12,615	997
	14,923	12,615	2,308	-	16,423	1,500	14,923	997

Pursuant to clause 1.11 of Schedule One of Whisper Tech Limited's Constitution the Parent purchased the $1 option shares at the option exercise price.

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 was 31 March 2013. As the consideration payable under the Constitution was less than the exercise price the options lapsed.

The $1 options were 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.

Number of Exercisable Options

	2012 $1.00 OPTIONS	2012 $366.83 OPTIONS	2011 $1.00 OPTIONS	2011 $366.83 OPTIONS
Opening Balance	2,308	12,615	2,308	10,765
Options Purchased	(2,308)	-	-	-
Options Lapsed	-	(12,615)	-	-
Options Vested	-	-	-	1,850
Closing Balance	-	-	2,308	12,615

Number of Unvested Options

	2012 $366.83 OPTIONS	2011 $366.83 OPTIONS
Opening Option Balance	-	1,850
Created or Vested During Year	-	-
Less Forfeited	-	-
Less Fully Vested	-	(1,850)
Subject to Future Vesting	-	-

10. Dividends

	GROUP AND PARENT			
	2012 $'000	2011 $'000	2012 CENTS PER SHARE	2011 CENTS PER SHARE
2012 Interim Dividend Paid	71,319	-	4.46	-
2011 Final Dividend Paid	69,407	-	4.34	-
2011 Interim Dividend Paid	-	615,150	-	38.45
2010 Final Dividend Paid	-	68,494	-	4.28
	140,726	683,644	8.80	42.73

11. Cash and Cash Equivalents

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current Account	155,036	118,819	28,060	8,518
Money Market Account	59,384	249,372	58,350	248,078
Cash and cash equivalents	214,420	368,191	86,410	256,596

There are no cash and cash equivalent balances that are not available for use by the Group with the exception of funds held on deposit with JP Morgan. The Company trades on the ASX (Australian Securities Exchange) using JP Morgan as a broker. As a result, a proportion of the funds it holds on deposit are pledged as a margin which varies depending on market volatility and contracts held. At 30 June 2012, this collateral was $7.4 million (2011: $1.5 million).

All cash and cash equivalents are held with money market dealers JP Morgan and banks.

12. Accounts Receivable and Prepayments

	GROUP		PARENT	
CURRENT	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Billed and Accrued Receivables	298,674	244,330	278,570	227,171
Less: Provision for Doubtful Debts	(6,593)	(6,487)	(6,334)	(6,470)
Net Trade Receivables	292,081	237,843	272,236	220,701
Prepayments	5,995	3,042	4,408	6,492
Total Accounts Receivable and Prepayments	298,076	240,885	276,644	227,193

	GROUP		PARENT	
MOVEMENT IN PROVISION FOR DOUBTFUL DEBTS	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Opening Provision for Doubtful Debts	(6,487)	(3,024)	(6,470)	(2,932)
Provision Created During the Year	(7,688)	(3,584)	(6,937)	(3,538)
Provision Released During the Year	-	121	-	-
Provision Used During Year	7,582	-	7,073	-
Closing Provision for Doubtful Debts	(6,593)	(6,487)	(6,334)	(6,470)

	GROUP		PARENT	
TRADE RECEIVABLES AGEING	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Not Past Due	277,525	198,806	257,941	184,126
Past Due 1-30 days	10,379	25,618	11,082	23,688
Past Due 31-60	1,805	13,826	1,311	13,649
Past Due 61-90	2,273	3,153	1,964	3,075
Past Due > 91 days	6,692	2,927	6,272	2,633
	298,674	244,330	278,570	227,171

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2012 trade receivables of $14.6 million (2011: $39.0 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 that the carrying amount of accounts receivable approximates their fair values. Trade receivables written off during the year were $7.6 million for the Group (2011: $4.3 million) and $7.1 million for the Parent (2011: $4.1 million).

13. Inventories

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Inventories				
Consumable Spares and Stores	**4,469**	2,876	**3,679**	2,268
Finished Goods	**-**	282	**-**	-
Carbon Credit Units	**180**	229	**107**	156
	4,649	3,387	**3,786**	2,424
Less Provision for Obsolescence	**-**	(54)	**-**	-
	4,649	3,333	**3,786**	2,424
Provision for Obsolescence				
Opening Provision	**54**	1,444	**-**	-
Provision Raised During the Year	**-**	-	**-**	-
Released During the Year	**(54)**	(1,390)	**-**	-
Closing Provision	**-**	54	**-**	-

In 2012, consumables and changes in finished goods and work in progress recognised as other operating expenses in the Group were $1.0 million and in the Parent were $0.7 million (2011: Group $2.0 million, Parent $0.7 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 (2011: Group $0.3 million, Parent $Nil).

Certain inventory items are subject to retention of title clauses.

14. Finance Lease Receivable

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

	GROUP AND PARENT	
	2012 $'000	2011 $'000
Minimum Lease Payments:		
Not Later than One Year	632	632
Later than One Year and Not Later than Five Years	2,530	2,530
Later than Five Years	8,221	8,853
Gross Investment in Finance Lease	11,383	12,015
Less: Unearned Finance Income	(5,954)	(6,488)
Present Value of Minimum Lease Payments	5,429	5,527
Analysed as:		
Not Later than One Year	632	632
Later than One Year and Not Later than Five Years	511	461
Later than Five Years	4,286	4,434
Total Finance Lease Receivable	5,429	5,527
Comprising		
Current	632	632
Non-current	4,797	4,895
	5,429	5,527

As a result of the above finance lease, the Group and Parent have reported income of $0.5 million (2011: $0.5 million) which is included in Other Revenue in the Income Statement.

15. Assets and Liabilities Classified as Held for Sale

In 2012 assets and liabilities held for sale comprise Meridian Energy USA Inc. net assets, Nth Power Technologies Fund II, L.P. investment and land that is no longer required for development projects.

Meridian is taking registrations of interest for Meridian Energy USA Incorporated's business with a view to selling it as a going concern within the next twelve months. Refer to Note 4 for impairments recognised in the investment in Meridian Energy USA.

In 2011, assets classified as held for sale were Interruptible Load flow meters and Right House Limited net assets.

16. Investments in Subsidiaries

INVESTMENTS IN SUBSIDIARIES COMPRISE SHARES AT COST LESS IMPAIRMENTS

			INTEREST HELD BY PARENT			
NAME OF ENTITY	INCORPORATED	PRINCIPAL ACTIVITY	2012 %	2012 $000	2011 %	2011 $000
DamWatch Services Limited		Professional Services	100%	25	100%	25
Energy for Industry Limited		Energy Solutions	100%	46,527	100%	46,527
Three River Holdings (No.1) Limited[2]		Non-Trading Entity	100%	69,145	100%	52,404
Meridian Limited		Non-Trading Entity	100%	12	100%	12
ARC Innovations Limited	1/9/2011	Metering Services	100%	29,494	-	-
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%	11,877
Right House Limited		Professional Services	-	-	100%	-
MEL Solar Holdings Limited		Holding Company	100%	-	100%	-
Whisper Tech Limited[1]		Technology Company	30%	-	23%	4,371
				207,580		165,716

1 The Parent holds 29.77% of Whisper Tech Limited with WhisperGen Limited (Controlled Entity) holding 70.23%.
2 Members of Guaranteeing Group.

16. Investments in Subsidiaries (CONTINUED)

CONTROLLED ENTITIES (OTHER SUBSIDIARIES)

		INTEREST HELD BY GROUP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	2012	2011
Incorporated in New Zealand			
Three River Holdings (No.2) Limited[3]	Non-Trading Entity	100%	100%
WhisperGen Limited[1]	Non-Trading Entity	100%	100%
Whisper Tech Limited[1]	Technology Company	100%	93.23%
Damwatch Projects Limited	Professional Sources	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 Energy Markets Pty Limited[3,4]	Non-Trading Entity	100%	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]	Financing Entity	100%	100%
Meridian Finco Pty Limited[3]	Financing Company	100%	100%
Mt Millar Windfarm Limited[3]	Electricity Generation	100%	100%
Powershop Australia Pty Limited	Electricity Retailer	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%
Cal Renew – 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 *The Group holds 100% (2011: 93.23%) of Whisper Tech Limited. During the 2012 year the Parent purchased all remaining non-controlling interests of Whisper Tech Limited.*
2 *During the 2011 year 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.*
4 *During the 2012 year Meridian Wind Australia Pty Limited had its name changed to Meridian Energy Markets Pty Limited, and was sold by Meridian Wind Australia Holdings Pty Limited to Meridian Energy Australia Pty Limited.*

16. Investments in Subsidiaries (CONTINUED)

Balance Dates

All subsidiaries have a balance date of 30 June except for Meridian Energy USA Incorporated, Cal Renew – 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 2012.

Arc Innovations Limited

On 1 October 2011, the Parent transferred assets and liabilities in return for share capital to Arc Innovations Limited. The assets and liabilities were transferred at fair value and share capital of $37.294 million was exchanged.

The transaction details are outlined in the table below:

	2012 $'000
Cash	2,000
Property, Plant and Equipment	36,462
Intangible Assets	236
Receivables and Prepayments	130
Payables and Provisions	(775)
Deferred Tax	(759)
	37,294

Amalgamations

On 31 May 2011 MEL Holdings Limited, Blue Green Windfarm Limited, Hawke's Bay Windfarm Limited, MEL (Te Āpiti) 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:

ASSETS AND LIABILITIES AMALGAMATED:	2011 $'000
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 brought 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.

Right House Limited

Right House Limited was sold as a going concern to Mark Group Holdings Pty Limited on 1 July 2011.

17. Joint Ventures

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	2012	2011
Efficient Home Energy, S. L.	Spain	11/01/08	Manufacturing	-	40%
Elemental Energy Limited[1]	New Zealand	19/11/07	Electricity Generation Systems	-	50%
Silverstream LFG Utilisation	New Zealand	30/06/11	Electricity Generation	93%	93%
EDDI Project JV	New Zealand	01/05/12	Dam Management Systems	50%	-

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

On 1 July 2011 Right House Limited (including its interest in Elemental Energy Limited) was sold to Mark Group Holdings Pty Limited.

On 22 June 2012 Whisper Tech (UK) Limited sold its interest in Efficient Home Energy S.L. to the other joint venture partner, Sama Algebiaica S.L.

On 1 May 2012 Damwatch Projects Limited entered into an unincorporated joint venture with GNS Science International Limited to provide a prototype system for dam management in Vietnam. The joint venture has not traded, with the carrying value of the investment at 30 June 2012 $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 (with a view to growing their wco-generation business).

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

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**

17. Joint Ventures (CONTINUED)

If the acquisition of the Silverstream LFG Utilisation Joint Venture had occurred as of the beginning of the annual reporting period then Meridian would have reported consolidated revenue of $0.9 million and Net Profit after Tax of $0.1 million in 2011, based on the completion accounts of the acquired entity.

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	
	2012 $'000	2011 $'000
Current Assets	187	8,368
Non-Current Assets	498	8,070
Total Assets	685	16,438
Current Liabilities	(197)	(8,191)
Non-Current Liabilities	-	(6,591)
Total Liabilities	(197)	(14,782)
Net Assets	488	1,656
Group's Share of Net Assets of Joint Ventures	452	1,023
Foreign Exchange Translation effect	-	59
Goodwill	3,320	3,320
Group's Equity Accounted Joint Ventures	3,772	4,402
Total Revenue	1,637	1,164
Total Expenses	(8,119)	(9,619)
Total Loss for the Period	(6,482)	(8,455)
Group's Share of Losses of Joint Ventures	(2,724)	(3,382)

	GROUP	
	2012 $'000	2011 $'000
Balance at Beginning of Year	4,402	294
New Investments	3,349	4,612
Goodwill	-	3,320
Share of Losses of Joint Ventures	(2,724)	(3,382)
Foreign Exchange	-	(442)
Loss on Sale	(463)	-
Loan Impaired	(792)	-
Balance at End of Year	3,772	4,402

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

JOINTLY CONTROLLED ASSETS

Meridian Wind Macarthur Pty Limited has a 50% interest in Macarthur Wind Farm unincorporated joint venture with AGL Energy Limited. The following amounts are included in the Group financial statements as a result of the proportionate consolidation of the joint venture:

	GROUP	
STATEMENT OF FINANCIAL POSITION	2012 $'000	2011 $'000
Current Assets	81,735	44,659
Non-Current Assets	494,114	72,557
Current Liabilities	(454)	(3,442)

	GROUP	
INCOME STATEMENT	2012 $'000	2011 $'000
Interest Income	4,996	726
Groups share of jointly controlled profit and loss	3,497	508

The Groups share of capital commitments from this joint venture is disclosed in Note 26. The Group has no share of any contingent assets or liabilities from this joint venture.

18. Available for Sale Investments

		GROUP AND PARENT	
	CURRENCY	2012 $'000	2011 $'000
Listed Securities			
Ceramic Fuel Cells Limited	AUD	69	104
Comverge, Inc	USD	-	104
Unlisted Securities			
Nth Power Technologies Fund II, L.P.	USD	-	1,770
Fonterra Co-Operative Group Limited	NZD	3,485	3,485
Carbon Flow Inc	USD	-	594
EnergyHedge Limited	NZD	-	8
		3,554	6,065

Available-for-sale assets are carried at fair value.

Carbon Flow Inc. and EnergyHedge Limited were impaired due to the companies being liquidated or in the process of liquidation.

Nth Power Technologies Fund II, L.P. is being actively marketed for sale and has been transferred to Assets Held for Sale. Comverge, Inc has been sold.

19. Intangible Assets

	GROUP					
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS AND TRADEMARKS $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value						
Balance at 1 July 2010	60,425	18,101	22,380	1,466	65,174	167,546
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**	**66,939**	**178,224**
Balance at 1 July 2011	71,468	15,941	22,380	1,496	66,939	178,224
Acquisitions	8,680	-	-	135	-	8,815
Reinstatement of Patents		-	-	27	-	27
Transfer to Assets Classified as Held for Sale	(94)	-	-	-	-	(94)
Foreign Currency Exchange Rate Movements	-	(39)	-	-	-	(39)
Transfer from Property, Plant and Equipment	17,728	-	-	-	-	17,728
Disposals	(10,822)	-	-	-	-	(10,822)
Balance at 30 June 2012	**86,960**	**15,902**	**22,380**	**1,658**	**66,939**	**193,839**
Accumulated Amortisation and Impairment						
Balance at 1 July 2010	(45,420)	(149)	(8,952)	(570)	(62,402)	(117,493)
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)**	**(65,174)**	**(131,294)**
Balance at 1 July 2011	(54,149)	(149)	(11,190)	(632)	(65,174)	(131,294)
Amortisation during Year	(19,166)	-	(1,865)	(928)	(221)	(22,180)
Impairment	-	(13,038)	(9,325)	(20)	-	(22,383)
Transfer to Assets Classified as Held for Sale	12	-	-	-	-	12
Transfer from Property, Plant and Equipment	(1,636)	-	-	-	-	(1,636)
Disposals	10,414	-	-	-	-	10,414
Balance at 30 June 2012	**(64,525)**	**(13,187)**	**(22,380)**	**(1,580)**	**(65,395)**	**(167,067)**
Net Book Value						
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
Net Book Value 30 June 2012	**22,435**	**2,715**	**-**	**78**	**1,544**	**26,772**

19. Intangible Assets (CONTINUED)

	PARENT			
	SOFTWARE $'000	PATENTS AND TRADEMARKS $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value				
Balance at 1 July 2010	59,273	19	65,174	124,466
Acquisitions	11,573	11	-	11,584
Amalgamation of Subsidiary Companies	144	-	-	144
Disposals	(531)	-	-	(531)
Balance at 30 June 2011	**70,459**	**30**	**65,174**	**135,663**
Balance at 1 July 2011	70,459	30	65,174	135,663
Acquisitions	7,571	-	-	7,571
Transfer from Property, Plant and Equipment	15,186	-	-	15,186
Effect of Business Unit Becoming a Subsidiary	(749)	(30)	-	(779)
Disposals	(10,239)	-	-	(10,239)
Balance at 30 June 2012	**82,228**	**-**	**65,174**	**147,402**
Accumulated Amortisation and Impairment				
Balance at 1 July 2010	(44,947)	(1)	(62,401)	(107,349)
Amortisation During Year	(9,460)	(3)	(2,773)	(12,236)
Amalgamation of Subsidiary Companies	(92)	-	-	(92)
Disposals	531	-	-	531
Balance at 30 June 2011	**(53,968)**	**(4)**	**(65,174)**	**(119,146)**
Balance at 1 July 2011	(53,968)	(4)	(65,174)	(119,146)
Amortisation During Year	(18,007)	(1)	-	(18,008)
Effect of Business Unit Becoming a Subsidiary	538	5	-	543
Amalgamation of Subsidiary Companies	-	-	-	-
Disposals	9,862	-	-	9,862
Balance at 30 June 2012	**(61,575)**	**-**	**(65,174)**	**(126,749)**
Net Book Value				
Net Book Value 30 June 2010	14,326	18	2,773	17,117
Net Book Value 30 June 2011	16,491	26	-	16,517
Net Book Value 30 June 2012	**20,653**	**-**	**-**	**20,653**

GOODWILL

The goodwill balance represents $2.7 million (2011: $2.7 million) in relation to the acquisition of Mt Millar Windfarm Pty Ltd. $6.9 million in relation to Whisper Tech Ltd and $6.2 million in relation to the acquisition of Meridian Energy USA Inc. were impaired this year (refer to Note 4).

Whisper Tech Limited

In 2011 for the purpose of impairment testing, all goodwill was allocated to the cash generating unit of Whisper Tech Ltd that included 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 was based on a value in use discounted cash flow valuation. Cash flow projections were based on Whisper Tech's 5 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 complimented 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.

In 2012 the goodwill was fully impaired (refer to Note 4).

19. Intangible Assets (CONTINUED)

Meridian Energy USA Inc.

As at 30 June 2011 Meridian had allocated $6.2 million to goodwill, which represented the excess of the purchase price of Meridian Energy USA Inc. 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 was allocated to the Meridian Energy USA Inc. Group. The goodwill has been fully impaired (refer to Note 4).

Mt Millar Windfarm Pty Ltd

On 31st May 2010, Meridian acquired 100% of the outstanding shares of Mt Millar Windfarm Pty Ltd, a 70 megawatt windfarm in South Australia.

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 the value in use.

20. 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 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 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**
Balance at 1 July 2011	7,297,059	40,467	12,308	14,675	202,376	276,263	7,843,148
Additions	138	-	213	-	494	532,944	533,789
Foreign Currency Exchange Rate Movements	(2,785)	-	-	-	136	(3,462)	(6,111)
Transfers from Capital Work in Progress	35,816	533	890	10,224	15,819	(63,282)	-
Transfers to Assets Held For Sale	(22,981)	(937)	-	-	(5,783)	-	(29,701)
Transfers to Liabilities Held for Sale	-	12	-	-	-	-	12
Transfer to Intangible Assets	-	-	-	-	(2,118)	(15,610)	(17,728)
Disposals	(2,189)	-	(241)	-	(34,056)	-	(36,486)
Reclassification	(15)	-	(211)	-	226	-	-
Balance at 30 June 2012	**7,305,043**	**40,075**	**12,959**	**24,899**	**177,094**	**726,853**	**8,286,923**

20. 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 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)**
Balance at 1 July 2011	(12,958)	-	(2,399)	(2,134)	(102,521)	(2,329)	(122,341)
Depreciation Expense	(182,083)	-	(388)	(555)	(19,877)	-	(202,903)
Exchange rate movements	175	-	-	-	-	-	175
Disposals	311	-	-	-	33,548	-	33,859
Transfer to Assets Held For Sale	1,609	-	-	-	71	-	1,680
Transfer to Intangible Assets	-	-	-	-	1,636	-	1,636
Reclassification	1	-	11	-	(12)	-	-
Impairment of Property, Plant and Equipment	-	-	-	-	(6,268)	(29,109)	(35,377)
Balance at 30 June 2012	**(192,945)**	**-**	**(2,776)**	**(2,689)**	**(93,423)**	**(31,438)**	**(323,271)**
Net Book Value							
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
Net Book Value 30 June 2012	**7,112,098**	**40,075**	**10,183**	**22,210**	**83,671**	**695,415**	**7,963,652**

20. 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 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**
Balance at 1 July 2011	7,025,001	40,466	11,550	14,675	163,292	163,794	7,418,778
Additions	-	-	213	-	-	59,119	59,332
Transfers from Capital Work in Progress	35,818	-	556	10,219	5,579	(52,172)	-
Transfers to Assets Held for Sale		(937)	-	-	(21)	-	(958)
Transfers to Liabilities Held for sale	-	12	-	-	-	-	12
Transfers to Intangible Assets	-	-	-	-	-	(15,186)	(15,186)
Effect of Business Unit Becoming a Subsidiary	-	-	-	-	(65,650)	(1,062)	(66,712)
Disposals	(1,177)	-	(241)	-	(2,710)	-	(4,128)
Balance at 30 June 2012	**7,059,642**	**39,541**	**12,078**	**24,894**	**100,490**	**154,493**	**7,391,138**

	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 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)**
Balance at 1 July 2011	-	-	(2,352)	(2,134)	(96,637)	(2,329)	(103,452)
Depreciation Expense	(170,484)	-	(346)	(555)	(10,670)	-	(182,055)
Disposals	250	-	-	-	2,441		2,691
Transfer to Assets Classified as Held For Sale	-	-	-	-	9	-	9
Effect of Business Unit Becoming a Subsidiary	-	-	-	-	30,251	-	30,251
Impairment of Property, Plant and Equipment	-	-	-	-	(468)	(25,345)	(25,813)
Balance at 30 June 2012	**(170,234)**	**-**	**(2,698)**	**(2,689)**	**(75,074)**	**(27,674)**	**(278,369)**
Net Book Value							
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
Net Book Value 30 June 2012	**6,889,408**	**39,541**	**9,380**	**22,205**	**25,416**	**126,819**	**7,112,769**

20. Property, Plant and Equipment (CONTINUED)

GENERATION STRUCTURES AND PLANT VALUATION

Generation structures and plant assets (including land and buildings) are stated at fair value. They were revalued at 30 June 2011 by an independent valuer. The revaluation resulted in an increase of $93.0 million (net of tax) to the asset revaluation reserve. At 30 June 2012 the same valuer reviewed the value and determined there was no material movement. As a result there was no change to the asset revaluation reserve.

Values were calculated for Meridian's business operations as at 30 June 2012 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, a range of companies with broadly comparable operations to Meridian were analysed to determine an EBITDAF multiple range at which to capitalise Meridian's historical and forecast earnings.

In forming the view on the value of the generation structures and plant assets, 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 were considered. The view was that a value weighted more towards the capitalisation of earnings range was appropriate to determine fair value.

As a consequence of the 2011 revaluation, accumulated depreciation on these assets was reset to $Nil 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 2012 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 $2.7 billion (2011: $2.9 billion).

Valuation sensitivities:

The following table outlines the key assumptions used 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
Future NZ electricity price estimates*	$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 future NZ electricity prices reflect an approximation of the future prices 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 in the 2011 financial year.

INTEREST

Finance costs totalling $20.9 million (2011: $4.3 million) have been capitalised in relation to new builds and refurbishment of certain generation structures and plant assets. A capitalisation rate of 6.77% p.a. was used during the year (2011: 7.12%p.a.).

GOVERNMENT GRANTS

Government grants received in 2011 comprised amounts received from the United States of America government for payments of specific energy property in lieu of tax credits. The grant was offset against the cost of Property Plant and Equipment.

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.

IMPAIRMENTS

For details of property, plant and equipment impairments refer to Note 4.

21. Payables and Accruals

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade Creditors	12,457	16,629	11,890	12,265
Accruals	250,429	166,937	231,803	147,742
GST	10,994	13,280	10,668	12,879
Employee Entitlements	7,106	16,018	4,367	14,356
Unearned Income	5,110	4,140	789	1,340
	286,096	217,004	259,517	188,582

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	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Balance at Beginning of Year		1,404,383	1,556,108	1,400,504	1,508,432
Recognised in the Income Statement:					
– Movement in Temporary Differences	7	25,215	(37,604)	31,077	(52,910)
– Tekapo A and B sale	7	-	17,410	-	17,410
– Corporate Tax Rate Reduction	7	554	2,410	586	2,110
– Deferred Tax Asset written off in relation to Carried Forward Losses	7	7,648	-	-	-
– Building tax depreciation change	7	23,640	-	23,640	-
		57,057	(17,784)	55,303	(33,390)
Recognised in Other Comprehensive Income:					
– Deferred Tax on Revaluation Reserve		(4,338)	-	(4,338)	-
– Movement in Temporary Differences (Equity)		(18,013)	38,691	969	38,691
– Tekapo A and B sale (Equity)		-	(147,153)	-	(147,153)
– Corporate Tax Rate Reduction (Revaluation Reserve)		-	(2,610)	-	(2,610)
– Corporate Tax Rate Reduction (Cash Flow Hedge Reserve)		-	24	-	24
– Corporate Tax Rate Reduction (Available for Sale Reserve)		-	6	-	6
		(22,351)	(111,042)	(3,369)	(111,042)
Transfer to Current Tax Payable (re Tekapo A and B sale)		-	(22,899)	-	(22,899)
Effect of Retranslating Foreign Opening Balances		100	-	-	-
Adjustments Regarding Deferred Tax of Prior Years		(3,405)	-	(3,405)	-
Acquired on Amalgamation of Subsidiaries		-	-	-	60,659
Effect of Business Unit becoming Subsidiary	16	-	-	(759)	(1,256)
Balance at End of Year		1,435,784	1,404,383	1,448,274	1,400,504

22. Deferred Tax (CONTINUED)

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

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Property, Plant and Equipment	16,244	2,639	9,582	(16,420)
Financial Instruments	14,994	(31,224)	17,771	(32,768)
Carried Forward Losses to be Utilised against Future Taxable Income	(8,256)	(4,738)	-	-
Other	2,233	(4,281)	3,724	(3,721)
	25,215	(37,604)	31,077	(52,910)

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Fair Valued Generation Assets	1,076,473	1,080,813	1,076,954	1,081,292
Property, Plant and Equipment	439,433	398,223	426,251	395,295
Term Payables	(41,814)	(19,497)	(21,089)	(21,089)
Financial Instruments	(34,194)	(51,370)	(33,348)	(52,170)
Other	4,323	4,161	(494)	(2,824)
Deferred Tax Liability	1,444,221	1,412,330	1,448,274	1,400,504
Carried Forward Losses to be Utilised Against Future Taxable Income	(8,256)	(7,758)	-	-
Other	(181)	(189)	-	-
Deferred Tax Asset	(8,437)	(7,947)	-	-
	1,435,784	1,404,383	1,448,274	1,400,504

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 $20.9 million (2011: $11.5 million). For tax purposes these losses begin to expire in 2029.

23. Borrowings

		GROUP				PARENT			
	CURRENCY	FACE VALUE 2012 $'000	CARRYING VALUE 2012 $'000	FACE VALUE 2011 $'000	CARRYING VALUE 2011 $'000	FACE VALUE 2012 $'000	CARRYING VALUE 2012 $'000	FACE VALUE 2011 $'000	CARRYING VALUE 2011 $'000
Borrowings – Current									
Unsecured Borrowings	NZD	114,550	113,198	82,524	82,449	114,550	113,198	82,524	82,449
Unsecured Borrowings	AUD	134,721	134,721	123,000	128,823	-	-	123,000	128,823
Unsecured Borrowings	USD	-	-	101,789	86,895	-	-	101,789	86,895
Total Current Borrowings		249,271	247,919	307,313	298,167	114,550	113,198	307,313	298,167
Borrowings – Non Current									
Unsecured Borrowings	NZD	690,309	686,811	647,377	642,004	690,309	686,811	647,377	642,004
Unsecured Borrowings	AUD	402,633	402,634	188,469	188,469	-	-		
Unsecured Borrowings	USD	479,860	488,297	479,860	444,906	479,860	488,297	479,860	444,906
Total Non Current Borrowings		1,572,802	1,577,742	1,315,706	1,275,379	1,170,169	1,175,108	1,127,237	1,086,910
Total Borrowings		1,822,073	1,825,661	1,623,019	1,573,546	1,284,719	1,288,306	1,434,550	1,385,077

23. Borrowings (CONTINUED)

All borrowings are carried at amortised cost with the exception of USD borrowings which are in a designated hedge relationship and carried at fair value.

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 (CCIRS's). The NZD equivalent of these borrowings after the effect of foreign exchange hedging of the borrowings is $479.9 million (30 June 2011: $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 2012 was 6.75% (2011: 6.77%).

Meridian has committed bank facilities of $1,444.5 million ($1,050.0 million at 30 June 2011) of which $397.1 million were undrawn at 30 June 2012 ($406.0 million at 30 June 2011).

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

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 (calculated as net debt divided by total capital) and interest cover (calculated as EBITDAF divided by interest cost).

Net debt is calculated as total borrowings net of foreign exchange hedging 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.

	GROUP	
	2012 $'000	2011 $'000
Borrowings – NZD Equivalent Net of Foreign Exchange Hedging	**1,822,073**	1,613,947
Less: Cash and Cash Equivalents	**214,420**	368,191
Net Debt	**1,607,653**	1,245,756
Adjusted Shareholders' Equity	**5,077,253**	5,227,765
Total Capital	**6,684,906**	6,473,521

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

	GROUP	
	2012 $'000	2011 $'000
Net Debt to Net Debt Plus Equity (Gearing) < 55%[1]	**24.05%**	19.24%
EBITDAF Interest Cover (# of times) > 2.5 times[1]	**4.46**	5.77

Meridian debt facilities have externally imposed capital requirements that relate to the Guaranteeing Group. Refer to Note 16 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 Net Debt to Net Debt Plus Equity ratio is calculated using Total Capital and Net Debt as shown in the table above, and the EBITDAF Interest Cover ratio is calculated using EBITDA and Interest and Financing costs, with the components of both of these ratios meeting the definitions in the trust deed covering the Guaranteeing Group externally imposed capital requirements.*

24. Financial Risk Management (CONTINUED)

FINANCIAL RISK MANAGEMENT

Meridian's activities expose it to a variety of financial risks: liquidity risk, market risk (including currency risk, cash flow risk, interest rate risk, electricity and other price 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. In order to hedge certain risk exposures, Meridian uses derivative financial instruments such as: foreign exchange contracts and options ('FEC's'); cross currency interest rate swaps ('CCIRS's'); interest rate swaps ('IRS's') including forward rate agreements; electricity contracts for differences ('CfD's') and options; and aluminium CfD's.

Meridian uses sensitivity analysis to measure the amount of risk it is exposed to for: foreign exchange risk; interest rate risk; price risk; and ageing analysis for credit risk.

Risk management for currency risk and interest rate 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.

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.

Funding Facilities

The table below analyses the Parent and Group's funding facilities:

		2012			2011		
	CURRENCY	FACILITY LIMIT $'000	DRAWN DEBT $'000	AVAILABLE $'000	FACILITY LIMIT $'000	DRAWN DEBT $'000	AVAILABLE $'000
Bank Funding[1]	NZD	620,000	370,000	250,000	705,000	305,000	400,000
Renewable Energy Bonds[2]	NZD	200,000	200,000	-	200,000	200,000	-
Renewable Energy Notes[3]	NZD	44,859	44,859	-	74,901	74,901	-
EKF Facility[4]	NZD	140,000	140,000	-	150,000	150,000	-
Floating Rate Notes[5]	NZD	50,000	50,000	-	-	-	-
Floating Rate Notes[6]	AUD	-	-		123,000	123,000	-
Fixed Rate Bond Issue[7]	USD	479,860	479,860	-	581,649	581,649	-
Total Parent		1,534,719	1,284,719	250,000	1,834,550	1,434,550	400,000
Bank Funding[8]	AUD	191,546	134,721	56,825	194,298	188,469	5,829
Project Financing[9]	AUD	492,913	402,633	90,280	-	-	-
Total Group		2,219,178	1,822,073	397,105	2,028,848	1,623,019	405,829

1 New Zealand Dollar unsecured bank funding bears interest at the relevant NZ market rate plus a margin.
2 Renewable Energy Bonds are senior unsecured retail bonds bearing interest rates of 7.15% to 7.55%.
3 Renewable Energy Notes are senior unsecured debt obligations paying a fixed rate of return over a set period of time.
4 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.
5 New Zealand Dollar unsecured floating rate note bears interest at the relevant NZ market rate plus a margin.
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.
8 Australian Dollar unsecured bank funding bears interest at the relevant Australian market rate plus a margin.
9 Project Financing is a committed syndicated finance facility related to the Macarthur Wind Farm development, bearing interest at the relevant Australian market rate plus a margin.
All facility limits and drawn debt are shown in NZD.

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements which provide credit support of $141.9 million for the collateral requirements of Meridian's trading business (2011: $89.4 million). Of the $141.9 million, $4.1 million expires in the 2013 financial year with the balance having no expiry date. Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

Meridian Energy Limited trades on the ASX (Australian Securities Exchange) using JP Morgan as a broker. As a result, a portion of the funds it holds on deposit are pledged as margin which varies depending on market volatility and contracts held. At 30 June 2012, this collateral was $7.4 million (2011: $1.5 million).

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 IRS's, CCIRS's, forward exchange contracts and CfD's which are the undiscounted settlements expected under the contracts.

24. Financial Risk Management (CONTINUED)

	GROUP 2012							
	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 CASHFLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2012 CARRYING VALUE $'000
Non-derivative Financial Liabilities								
– Payables and Accruals	260,133	-	-	-	**260,133**	-	(616)	**259,517**
– Borrowings	464,116	117,896	459,033	442,492	**1,483,537**	(5,675)	(189,556)	**1,288,306**
– Term Payables	-	17,975	7,157	-	**25,132**	-	(2,377)	**22,755**
	724,249	135,871	466,190	442,492	**1,768,802**	(5,675)	(192,549)	**1,570,578**
Derivative Financial Liabilities – Net Settled								
– Interest Rate Swaps/Options	31,572	31,203	57,919	28,944	**149,638**	-	(17,346)	**132,292**
– Electricity Derivatives	71,859	37,582	(93,804)	(671,069)	**(655,432)**	232,930	499,002	**76,500**
	103,431	68,785	(35,885)	(642,125)	**(505,794)**	232,930	481,656	**208,792**
Derivative Financial Liabilities – Gross Settled								
– Foreign Exchange Contracts								
Inflows	717	65,441	8,535	-	**74,693**			
Outflows	1,013	71,314	9,435	-	**81,762**			
Net Outflows	296	5,873	900	-	**7,069**	-	(4,059)	**3,010**
Total Financial Liabilities Parent	**827,976**	**210,529**	**431,205**	**(199,633)**	1,270,077	**227,255**	**285,048**	**1,782,380**
Non-derivative Financial Liabilities								
– Payables and Accruals	26,577	-	-	-	**26,577**	-	-	**26,577**
– Provisions	15	-	-	-	**15**	-	-	**15**
– Borrowings	539,660	-	-	-	**539,660**	-	(2,305)	**537,355**
	566,252	-	-	-	**566,252**	-	(2,305)	**563,947**
Derivative Financial Liabilities – Net Settled								
– Interest Rate Swaps/Options	8,617	12,998	25,241	37,777	**84,633**	-	(15,430)	**69,203**
– Electricity Derivatives	(439)	-	-	-	**(439)**	1,132	(103)	**590**
	8,178	12,998	25,241	37,777	**84,194**	1,132	(15,533)	**69,793**
Total Financial Liabilities Group	**1,402,406**	**223,527**	**456,446**	**(161,856)**	**1,920,523**	**228,387**	**267,210**	**2,416,120**

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

24. Financial Risk Management (CONTINUED)

	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 CASHFLOWS $'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
– Term Payables	-	16,700	23,857	-	40,557	-	(4,993)	35,564
	1,204,722	54,990	415,116	343,558	2,018,386	(7,036)	(185,142)	1,826,208
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
	31,999	23,174	127,326	(430,360)	(247,861)	157,430	298,098	207,667
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**	**78,255**	**595,992**	**(22,489)**	**1,893,798**	**150,394**	**35,541**	**2,079,733**

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 IRS's, CCIRS's, forward exchange contracts and CfD's which are the undiscounted settlements expected under the contracts.

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

	GROUP 2012							
	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 CASHFLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2012 CARRYING VALUE $'000
Non-derivative Financial Assets								
– Cash and Cash Equivalents	86,410	-	-	-	**86,410**	-	-	**86,410**
– Trade and Other Receivables	276,644	-	-	-	**276,644**	-	-	**276,644**
– Finance Lease Receivables	632	1,265	1,897	7,589	**11,383**	-	(5,954)	**5,429**
– Available for Sale Investments	68	-	-	3,486	**3,554**	-	-	**3,554**
	363,754	1,265	1,897	11,075	**377,991**	-	(5,954)	**372,037**
Derivative Financial Assets – Net Settled								
– Interest Rate Swaps/Options	5,306	4,978	8,456	-	**18,740**	-	(3,659)	**15,081**
– Electricity Derivatives	4,729	8,623	16,709	(67,580)	**(37,519)**	120,817	21,777	**105,075**
	10,035	13,601	25,165	(67,580)	**(18,779)**	120,817	18,118	**120,156**
Derivative Financial Assets – Gross Settled								
– Foreign Exchange Contracts								
Inflows	2,690	-	-	-	**2,690**			
Outflows	2,690	-	-	-	**2,690**			
Net Inflows	-	-	-	-	**-**	-	35	**35**
– Cross Currency Interest Rate								
Inflows	22,004	74,409	177,512	258,900	**532,825**			
Outflows	16,324	78,228	193,598	299,812	**587,962**			
Net (Outflows)/Inflows	(5,680)	3,819	16,086	40,912	**55,137**	-	(40,668)	**14,469**
Total Financial Assets Parent	**368,109**	**18,685**	**43,148**	**(15,593)**	**414,349**	**120,817**	**(28,469)**	**506,697**
Non-derivative Financial Assets								
– Cash and Cash Equivalents	128,010	-	-	-	**128,010**	-	-	**128,010**
– Trade and Other Receivables	21,432	-	-	-	**21,432**	-	-	**21,432**
	149,442	-	-	-	**149,442**	-	-	**149,442**
Derivative Financial Assets – Net Settled								
– Electricity Derivatives	4,211	(4)	-	-	**4,207**	(4,215)	(87)	**(95)**
Total Financial Liabilities Group	**521,762**	**18,681**	**43,148**	**(15,593)**	**567,998**	**116,602**	**(28,556)**	**656,044**

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

24. Financial Risk Management (CONTINUED)

	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 CASHFLOWS $'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
	609,708	632	1,898	14,918	627,156	-	(6,488)	620,668
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
	10,541	15,641	7,905	(45,642)	(11,555)	18,980	44,285	51,710
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	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.

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 $537.4 million (2011: $188.5 million), AUD interest rate swaps of ($69.2) million (2011: $0.3 million) and cash and cash equivalents of $143.5 million (2011: $111.6 million).

Meridian has substantial committed borrowing facilities available as described in note 23 preceding, of which $397 million was undrawn at 30 June 2012 (30 June 2011: $406 million). Meridian expects to meet its other obligations from operating cash flows and maturing financial assets.

Market Risk

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 FEC's for speculative purposes.

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

Meridian establishes a combination of both cash flow and fair value hedges for the CCIRS's and the foreign denominated borrowings (refer to Note 25 – Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRS's at 30 June 2012 was $479.9 million (30 June 2011: $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 (FEC's) 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 thousand NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FEC's at 30 June 2012 was $84.5 million (30 June 2011: $88.9 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 2012. These monetary assets and liabilities have been converted to New Zealand dollars at closing exchange rates of AUD 0.7831 and USD 0.8015 (30 June 2011: AUD 0. 77201, USD 0. 82825).

24. Financial Risk Management (CONTINUED)

The values of foreign currency derivatives are sensitive to changes in the forward prices for currencies. The table below 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's 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			
	2012 %	2012 $'000	2011 %	2011 $'000	2012 %	2012 $'000	2011 %	2011 $'000
NZ Dollar / US Dollar	-20%	725	-20%	-	-20%	3,240	-20%	783
	+20%	(483)	+20%	-	+20%	(2,160)	+20%	(522)
NZ Dollar / Australian Dollar	-20%	122	-20%	-	-20%	-	-20%	12,028
	+20%	(122)	+20%	-	+20%	-	+20%	(12,028)
NZ Dollar / Euro	-20%	35	-20%	-	-20%	(12,204)	-20%	(84)
	+20%	(35)	+20%	-	+20%	12,204	+20%	84

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 CCIRS's result in an exposure to floating New Zealand interest rates. Borrowings in floating New Zealand interest rates expose Meridian to cash flow risks whilst borrowings issued at fixed interest rates expose Meridian to risk of changes in the fair value of the debt issued. Meridian does not enter into interest rate hedges for speculative purposes.

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 using IRS's that apply minimum and maximum bands of interest rate (hedge) cover to fix interest rates.

The majority of Meridian IRS's are not designated as hedges for accounting purposes and are therefore classified as held for trading.

In the case of Macarthur Wind Farm Project Financing, Meridian has established cash flow hedges for the IRS's and related debt (see Note 25 for further detail). The aggregate notional principal amounts of the outstanding IRS's at 30 June 2012 was $2,460.8 million (30 June 2011: $1,503 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 in relation to IRS's 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	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
New Zealand BKBM	-100 bps	**(66,463)**	(35,296)	**(66,463)**	(35,296)
	+100 bps	**61,949**	33,010	**61,949**	33,010
Australian BBSY	-100 bps	**(4,051)**	(2,081)	**(7,488)**	(2,081)
	+100 bps	**3,805**	1,989	**6,966**	1,989

24. Financial Risk Management (CONTINUED)

Price Risk

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

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

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 values of the CfD's 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's') as economic hedges against the aluminium price component of the NZAS contract. The ACS's are not designated as hedging instruments and are therefore classified as held for trading.

The aggregate notional volume of the outstanding electricity derivatives at 30 June 2012 is 113,673GWh (Group) and 114,173GWh (Parent) (2011: 116,486GWh and 116,704GWh). One contract makes up 75,224GWh of these totals in both the Group and the Parent (2011: 75,224GWh).

The aggregate notional principal amount of the outstanding ACS's at 30 June 2012 was $494.2 million (30 June 2011: $460.5 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 CfD's and ACS's held for trading.

Sensitivity Analysis – Electricity and Aluminium price risk

		GROUP				PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
ACS'S AND ALL CFD'S HELD FOR TRADING		2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Electricity Prices	-10%	**93,874**	106,460	**93,874**	106,460	**96,582**	108,191	**96,582**	108,191
	+10%	**(93,456)**	(101,930)	**(93,456)**	(101,930)	**(95,978)**	(103,660)	**(95,978)**	(103,660)
Interest Rates (discount rate)	-100 bps	**(23,505)**	(34,023)	**(23,505)**	(34,023)	**(23,411)**	(34,043)	**(23,411)**	(34,023)
	+100 bps	**21,032**	30,594	**21,032**	30,594	**21,124**	30,613	**21,124**	30,613
Aluminium LME	-10%	**(11,205)**	(24,200)	**(11,205)**	(24,200)	**(11,205)**	(24,200)	**(11,205)**	(24,200)
	+10%	**11,205**	24,200	**11,205**	24,200	**11,205**	24,200	**11,205**	24,200
Level 3 CfD's only									
Electricity Prices	-10%	**97,867**	106,930	**97,867**	106,930	**100,575**	108,661	**100,575**	108,661
	+10%	**(97,450)**	(102,400)	**(97,450)**	(102,400)	**(99,972)**	(104,130)	**(99,972)**	(104,130)
Interest Rates (discount rate)	-100 bps	**(24,257)**	(32,324)	**(24,257)**	(32,324)	**(24,162)**	(32,344)	**(24,162)**	(32,344)
	+100 bps	**21,752**	28,988	**21,752**	28,988	**21,844**	29,007	**21,844**	29,007
Aluminium LME	-10%	**(43,514)**	(51,608)	**(43,514)**	(51,608)	**(43,514)**	(51,608)	**(43,514)**	(51,608)
	+10%	**43,514**	51,608	**43,514**	51,608	**43,514**	51,608	**43,514**	51,608

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 and provision of prudential security by wholesale customers is regularly monitored by line management. Credit risk surrounding the sales to retail customers is predominantly 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 likely 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

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 (Australian Securities Exchange (ASX)) quoted prices where available and Meridian'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 Meridian'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 (WACC)
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 table below shows the fair value hierarchy of the financial assets and financial liabilities measured at fair value by the Group:

	GROUP – 2012				GROUP – 2011			
DERIVATIVE FINANCIAL INSTRUMENTS	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	30 JUNE 2012 $'000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	30 JUNE 2011 $'000
Assets:								
Held for Trading								
CfDs	-	36,616	68,364	**104,980**	879	1,517	40,878	43,274
Interest Rate Swaps		15,081		**15,081**	-	9,653	-	9,653
Foreign Exchange Contracts					-	-	-	-
Cash Flow Hedges								
CfDs	-	-	-	**-**	-	-	(1,217)	(1,217)
Interest Rate Swaps					-	-	-	-
Foreign Exchange Contracts		35		**35**	-	2,288	-	2,288
Fair Value Hedges								
Cross Currency Interest Rate Swaps		14,469		**14,469**	-	-	-	-
Total	-	66,201	68,364	**134,565**	879	13,458	39,661	53,998
Liabilities:								
Held for Trading								
CfDs	6,536	267	71,359	**78,164**	-	54,560	89,425	143,985
Interest Rate Swaps		138,220		**138,220**	-	65,217	-	65,217
Foreign Exchange Contracts		148		**148**	-	317	-	317
Cash Flow Hedges								
CfDs	-	-	(1,074)	**(1,074)**	-	-	(1,536)	(1,536)
Interest Rate Swaps		63,275		**63,275**	-	947	-	947
Foreign Exchange Contracts		2,862		**2,862**	-	2,267	-	2,267
Fair Value Hedges								
Cross Currency Interest Rate Swaps					-	42,328	-	42,328
Total	6,536	204,772	70,287	**281,595**	-	165,636	87,889	253,525
Available for Sale Financial Assets:								
Listed Securities	69	-	-	**69**	208	-	-	208
Unlisted Securities	-	3,485	-	**3,485**	-	5,857	-	5,857
Total	69	3,485	-	**3,554**	208	5,857	-	6,065

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 fair value hierarchy of the financial assets and financial liabilities measured at fair value by the Parent:

	PARENT – 2012				PARENT – 2011			
DERIVATIVE FINANCIAL INSTRUMENTS	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	30 JUNE 2012 $'000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	30 JUNE 2011 $'000
Assets:								
Held for Trading								
CfDs	-	36,616	68,459	105,075	879	1,516	40,194	42,589
Interest Rate Swaps		15,081		15,081	-	9,343	-	9,343
Foreign Exchange Contracts					-	-	-	-
Cash Flow Hedges								
CfDs	-	-	-	-	-	-	(1,217)	(1,217)
Interest Rate Swaps					-	-	-	-
Foreign Exchange Contracts		35		35	-	2,288	-	2,288
Fair Value Hedges								
Cross Currency Interest Rate Swaps		14,468		14,468	-	-	-	-
Total	-	66,200	68,459	134,659	879	13,147	38,977	53,003
Liabilities:								
Held for Trading								
CfDs	6,536	267	70,771	77,574	-	54,560	91,203	145,763
Interest Rate Swaps		132,293		132,293	-	65,217	-	65,217
Foreign Exchange Contracts		148		148	-	317	-	317
Cash Flow Hedges								
CfDs	-	-	(1,074)	(1,074)	-	-	(1,536)	(1,536)
Interest Rate Swaps					-	947	-	947
Foreign Exchange Contracts		2,862		2,862	-	2,267	-	2,267
Fair Value Hedges								
Cross Currency Interest Rate Swaps					-	42,328	-	42,328
Total	6,536	135,570	69,697	211,803	-	165,636	89,667	255,303
Available for Sale Financial Assets:								
Listed Securities	69	-	-	69	208	-	-	208
Unlisted Securities	-	3,485	-	3,485	-	5,857	-	5,857
Total	69	3,485	-	3,554	208	5,857	-	6,065

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Fair value hedge				
Cross Currency Interest Rate Swaps	(9,289)	(114,247)	(9,289)	(114,247)
Borrowings – Fair Value of Hedged Risk	9,263	114,127	9,263	114,127
	(26)	(120)	(26)	(120)
Cash flow hedge				
Cross Currency Interest Rate Swaps (margin)	-	-	-	-
Held for trading				
Interest Rate Swaps	(67,925)	(14,037)	(61,338)	(14,320)
Net Change in Fair Value of Financial Instruments Loss Financing	(67,951)	(14,157)	(61,364)	(14,440)
Held for trading				
Foreign Exchange Contracts	(223)	274	(223)	274
CfDs – NZAS Contract	29,619	12,681	29,619	12,681
CfDs – Aluminium	87,072	(45,912)	87,072	(45,912)
CfDs – Other	4,854	(56,313)	7,945	(60,847)
Net Change in Fair Value of Financial Instruments Gain/(Loss) (Operational)	121,322	(89,270)	124,413	(93,804)
Total Unrealised Net Gain/(Loss) on Financial Instruments	53,371	(103,427)	63,049	(108,244)

Included in the above is $39.8 million (Group), $41.1 million (Parent) (2011: $(45.7 million) (Group), $(47.6 million) (Parent)) related to Level 3 financial instruments held at year end.

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

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Energy Derivatives (CfDs)				
Opening Balance	(48,229)	1,918	(50,691)	3,095
Total gains/losses recognised in the Income Statement				
– Included in Energy Sales Revenue	(54,737)	40,732	(79,057)	40,806
– Net Change in Fair Value of CfDs	39,567	(46,289)	42,659	(49,839)
Total gains/losses recognised in the Cash Flow Hedge Reserve	754	1,518	754	1,518
Total gains/losses recognised in the FX Translation Reserve	(54)	90	-	-
CfDs settled during the year	54,737	(40,732)	79,057	(40,806)
CfDs entered into during the year	6,039	(5,465)	6,039	(5,465)
Closing Balance	(1,923)	(48,229)	(1,239)	(50,691)

Refer to previous Electricity price risk sensitivity analysis (in Note 24 – Financial Risk Management) for sensitivity to changes in valuation assumptions of Level 3 financial instruments (CfDs).

25. Financial Instruments (CONTINUED)

The table below shows the aggregate valuation difference arising on initial recognition of financial instruments (under the recalibration method), yet to be recognised in the Income Statement:

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Opening Difference	**69,563**	62,845	**73,753**	62,740
Initial Difference on New Hedges	**8,758**	(15,933)	**19,478**	(10,245)
Volumes Expired during the Period	**(14,467)**	(7,714)	**(18,657)**	(6,762)
Recalibration of Model for Future Price Estimates and Time	**55,564**	30,365	**50,170**	28,020
Closing Difference	**119,418**	69,563	**124,744**	73,753

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

The increase in price and reduction in transmission risk under the new agreement results in an 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 2012, the carrying value of the CfD is as follows:

	30 JUNE 2012 $'000	30 JUNE 2011 $'000	1 OCTOBER 2007 $'000
Present Value of Estimated Cash Flows	**(559,876)**	(589,495)	(514,970)
Less: Day 1 adjustment[1]	**514,970**	514,970	514,970
Carrying Value	**(44,906)**	(74,525)	-

Whilst there are projected negative cash flows on the CfD against Meridian's forecast forward price curve, the contract 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.

25. Financial Instruments (CONTINUED)

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

	GROUP AND PARENT	
	2012 $'000	2011 $'000
Opening Balance	**514,970**	514,970
Additions During the Year	**-**	-
Amortised During the Year	**-**	-
Closing Balance	**514,970**	514,970

This contract comes into effect on 1 January 2013.

CASH FLOW HEDGING

Cash Flow Hedges – CfD's

Meridian currently sells and purchases electricity at spot prices from the wholesale electricity 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 CfD's which swap receipt (payment) of spot electricity prices based on a specified volume of electricity with fixed electricity payments (receipts) for an equivalent volume. Cash settlements are made on these instruments on a monthly basis and impact income on an accrual basis. As discussed in Note 24 – Financial Risk Management, for accounting purposes, from 1 January 2009 all of the CfD's are classified as held for trading with movements in fair value recognised in the income statement. Upon cessation of hedge accounting the balance in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

Cash Flow Hedges – FEC's

Meridian hedges highly probable forecast capital expenditures through a combination of forward exchange contracts and foreign currency options. The cash flows associated with these contracts are timed to mature when payment for the capital expenditure is made. The contracts range in maturity from 0 to 36 months. 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 – CCIRS's

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

Cash Flow Hedges – IRS's

Meridian hedges its interest rate exposure on debt using IRS's. Cash flow hedges have been established in relation to the Macarthur Wind Farm Project Financing, construction and term facilities and related IRS. Cash flows relating to the debt and the IRS's are settled monthly. 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				
	FEC'S $'000	DEBT – CFH OF MARGIN $'000	CFD'S $'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 Income Statement[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.*

25. Financial Instruments (CONTINUED)

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

	PARENT				
	FEC'S $'000	DEBT – CFH OF MARGIN $'000	CFD'S $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2011	1,341	(1,963)	320	85	(217)
Amount Recognised in Equity	(5,024)	7,168	-	(601)	1,543
Amount Removed from Equity:					
– Amortised to Income Statement[1]	-	-	754	(210)	544
– Included in Initial Cost of Assets	856	-	-	(240)	616
Closing Balance at 30 June 2012	**(2,827)**	**5,205**	**1,074**	**(966)**	**2,486**
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	-	-	-	-

1 *Included in Net Change in Fair Value of Financial Instruments.*

	GROUP					
	IRS'S $'000	FEC'S $'000	DEBT – CFH OF MARGIN $'000	CFD'S $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2011	-	1,341	(1,963)	320	85	(217)
Amount Recognised in Equity	(63,274)	(5,024)	7,168	-	18,381	(42,749)
Amount Removed from Equity:						
– Amortised to Income Statement[1]	-	-	-	754	(210)	544
– Included in Initial Cost of Assets	-	856	-	-	(240)	616
Closing Balance at 30 June 2012	**(63,274)**	**(2,827)**	**5,205**	**1,074**	**18,016**	**(41,806)**
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges		-	-	-	-	-

1 *Included in Net Change in Fair Value of Financial Instruments.*

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

	2012			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
CfD's	1,066	8	-	-
CCIRS's	-	255	1,169	3,781
FEC's	(297)	(1,778)	(752)	-
Total Parent	769	(1,515)	417	3,781
IRS	(1,764)	-	-	(61,510)
Total Group	**(995)**	**(1,515)**	**417**	**(57,729)**

	2011			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
CfD's	(754)	1,065	8	-
CCIRS's	(122)	-	(755)	(1,086)
FEC's	1,438	(92)	(5)	-
Total Group and Parent	**562**	**973**	**(752)**	**(1,086)**

26. Commitments

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Operating Lease Commitments				
Non Cancellable Operating Lease Payments are as follows:				
Less than One Year	**4,849**	3,987	**3,879**	3,066
Between One and Five Years	**12,670**	7,623	**11,225**	6,105
More than Five Years	**6,712**	904	**5,866**	-
	24,231	12,514	**20,970**	9,171

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 consumer price index increases and market rental reviews in the event Meridian exercises its options to renew.

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Capital Expenditure Commitments				
Property, Plant and Equipment	**78,251**	532,944	**14,859**	7,729
Software	**703**	10,823	**702**	10,823
	78,954	543,767	**15,561**	18,552
Less than One Year	**68,740**	474,197	**15,344**	9,452
Between One and Five Years	**10,214**	69,570	**217**	9,100
More than Five Years	**-**	-	**-**	-
	78,954	543,767	**15,561**	18,552

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.

27. Related Party Transactions

TRANSACTIONS WITH RELATED PARTIES

Meridian transacts with other Government owned or related entities independently and on an arm's length basis. Transactions cover a variety of services including trading energy, postal, travel, tax and last 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	DETAILS OF TRANSACTION
Damwatch Services Limited	Consultancy Services	$2,183	Damwatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $2.2 million (2011: $1.9 million).
Meridian Energy Captive Insurance Limited	Insurance Services	$5,032	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties (2011: $3.2 million).
Arc Innovations Limited	Meter management Services	$7,844	Arc Innovations Limited provided advanced meter management services to Meridian Energy Limited during the 9 months totalling $7.8 million (2011: $Nil)
Powershop New Zealand Limited	Online Electricity Retailer	$1,515	Powershop New Zealand Limited entered into energy contracts with Meridian Energy Limited during the year totalling $1.5 million (2011: $4.4 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	
	2012 $'000	2011 $'000
Loan Facilities and Advances to Subsidiaries		
Loan to Three Rivers No 1 Limited	351,471	237,604
Loan to Three Rivers No 2 Limited	730	-
Loan to WhisperGen Limited	-	12,211
Loan to Meridian Energy Captive Insurance Limited	-	50
Loan to Whisper Tech Limited	-	3,418
Loan to MEL Solar Holdings Limited	29,111	56,473
Other Advances to Subsidiaries	11,577	16,952
Total Advances to Subsidiaries	392,889	326,708
Advances from Subsidiaries		
Meridian Energy International Limited	219,163	219,163
Meridian Energy Captive Insurance Limited	2,950	-
Arc Innovations Limited	2,616	-
Whisper Tech Limited	150	-
Powershop New Zealand Limited	2,500	-
Energy for Industry Limited	499	9,305
Other Advances from Subsidiaries	597	99
Total Advances from Subsidiaries	228,475	228,567

27. Related Party Transactions (CONTINUED)

IMPAIRMENT

Loan Facilities and Advances to Subsidiaries have been impaired by a total of $54.5 million in 2012 (2011: $50.9 million), with respect to WhisperGen Limited $12.2 million (2011: $29.5 million), Whisper Tech Limited $14.9 million (2011: $14.3 million) and MEL Solar Holdings Limited $27.4 million (2011: $7.1 million). Refer to Note 4 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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Directors Fees	824	812	437	428
Chief Executive Officer, Senior Management Team and Subsidiary Chief Executives:				
Salaries and Short Term Benefits	7,869	7,378	5,429	5,408
Post Employment Benefits	-	-	-	-
Redundancy Benefits	365	-	175	-
Other Long Term Benefits	182	-	182	-
	8,416	7,378	5,786	5,408

28. Subsequent Events

Meridian Energy Limited has been approached by Pacific Aluminium Pty Ltd, a business unit of Rio Tinto Ltd, the majority shareholder of New Zealand Aluminium Smelters Ltd (NZAS), to discuss potential changes to the electricity contract with the smelter.

In 2007 Meridian renegotiated the contract conditions with NZAS and signed a new supply agreement, which takes effect in January 2013.

Discussions are ongoing and remain confidential. The outcome of negotiations is unknown at this stage, therefore Meridian is unable to quantify the financial impacts.

There have been no other material events subsequent to 30 June 2012.

29. Contingent Assets and Liabilities

CONTINGENT ASSETS

There were no contingent assets at 30 June 2012.

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. These prices have been used by the Group to record energy purchases. A group of market participants appealed this ruling to the High Court which ruled in favour of the EA's decision. A further appeal was made and a court date has been set for April 2013. It is estimated that the liability, should the appeal be successful, is $14 million, 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 (2011: Nil).

Independent Auditor's Report

Deloitte.

TO THE SHAREHOLDERS OF MERIDIAN ENERGY LIMITED
REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The Auditor-General is the auditor of Meridian Energy Limited (the 'Company') and Group. The Auditor-General has appointed me, Michael Wilkes, 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 46 to 104, that comprise the statement of financial position as at 30 June 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

Financial Statements

In our opinion the financial statements of the Company and Group on pages 46 to 104:

- 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 2012; and
  - financial performance and cash flows for the year ended on that date.

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 12 August 2012. This is the date at which our opinion is expressed.

The basis of our 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 our 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 our 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 Group'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.

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, audit of the securities registers in connection with the prospectus which are compatible with those independence requirements. In addition to this, principals 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 these assignments the firm has no other relationship with, or interest in the Company or Group.

Michael Wilkes
On behalf of the Auditor-General
CHRISTCHURCH, 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 2012 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 12 August 2012 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.