Audit Report

TO THE READERS OF MERIDIAN ENERGY LIMITED AND GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of Meridian Energy Limited (the "Company") and Group. The Auditor-General has appointed me, Ian C Marshall, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on his behalf, for the year ended 30 June 2006.

Unqualified Opinion

In our opinion:

- the financial statements of the Company and Group on pages 23 to 51:
- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of:
  - the Company and Group's financial position as at 30 June 2006; and
  - the results of their operations and cash flows for the year ended on that date.

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

The audit was completed on 29 August 2006, and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2006. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

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

Independence

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

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

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

Ian C Marshall, DELOITTE
On behalf of the Auditor-General, WELLINGTON, NEW ZEALAND

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 2006 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/from these 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 29 August 2006 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 statements may differ from legislation in other jurisdictions.

Meridian Group Financial Highlights

Profitability (year on year increase of $638.6m)

- $652.5m gain on sale from Southern Hydro divestment, offset by $26.9m of disposal costs.
- Uplift in interest income from proceeds of Southern Hydro sale, and foreign exchange gains made on repatriating proceeds.
- Gains were offset by the Group operating result (EBIT from continuing activities) being $69m lower than the prior year – an excellent result given the very challenging hydrology.

Operating Revenues (year on year increase of $566.7m)

- Increase of $510m revenues from generation sales compared to 2004/05. In spite of lower generation, the average spot price of $97/MWh ($44/MWh in prior year) received for sales to the market led to significant revenue uplift.
- Retail energy revenues increased by $120m. $88m of this movement resulted from sales to Corporate customers at spot prices which were significantly higher prices than the prior year. Other retail volumes were consistent with the prior year, with post winter price increases aligned to national inflation providing an energy revenue uplift.
- Interest revenues were up $32m reflecting higher levels of cash following Southern Hydro divestment.
- Settlements on energy derivatives offset the revenue increases outlined above.

Operating Expenses (year on year increase of $588.0m)

- We experienced a $630m uplift in cost of sales relating from energy purchased from the market at higher market prices to supply our customers.
- The energy cost uplift has been offset by $23m lower overheads and depreciation primarily due to the Australian divestment (2005/06 reflects 5 months of Australian costs compared to 12 months in the prior year result) and foreign exchange gains of $32m.

Financial Position

- Revaluation of generation structures and plant increased value of the company's total assets by $1.8b to $5.3b at 30 June 2006.
- Divestment of Southern Hydro allowed an $800m special dividend payment to the shareholder, a reduction in debt and $251.8m of cash on hand at year end – the net debt to debt plus equity ratio at year end reduced to 10.6%.

Cash flows

- Operating cash flows down on prior year by $54.9m, which is linked to the trading result.
- Significant cash inflows from investment activity following Southern Hydro sale. Last year saw a net outflow in investment activity impacted by higher levels of wind farm construction activity (in Australia and New Zealand).
- Outflow of cash for financing activities through $615m repayment of term borrowings and $879m total cash dividends paid during the year.
- Cash balance at year end of $251m.

Overview

Meridian Energy's nature and scope of activities is the generation of electricity (including the ownership and operation of related assets), the management of water related infrastructure, and the marketing, trading and retailing of energy and wider complimentary products, solutions and services, primarily within New Zealand.

TREND STATEMENT for year ended 30 June	2006 $MILLION	2005 $MILLION	2004 $MILLION
Financial Performance			
Gross Revenue	**2,222.8**	1,656.1	1,308.0
Earnings Before Interest and Tax (EBIT)	**1,027.1**	424.2	299.2
Earnings Before Interest and Tax (EBIT) from Continuing Activities [1]	**397.2**	400.1	340.7
Net Surplus After Tax	**856.8**	218.2	132.9
Net Surplus After Tax from Continuing Activities [1]	**243.1**	239.2	179.0
Funds Employed			
Shareholders' Equity [2]	**4,237.4**	2,469.1	2,401.8
Term Borrowings, Deferred Tax and Lease Liability	**906.7**	1,208.2	1,328.4
Current Portion of Term Borrowings	**–**	370.1	158.3
	5,144.1	4,047.4	3,888.5
Utilisation of Funds			
Non-Current Assets	**4,850.3**	4,014.7	3,825.4
Net Working Capital [3]	**293.8**	32.7	63.1
	5,144.1	4,047.4	3,888.5

RATIOS	%	%	%
Return on Average Equity [4]	**34.9**	9.0	5.7
Net Surplus After Tax from Continuing Activities to Average Equity [4]	**9.9**	9.8	7.6
EBIT to Average Total Assets [5]	**26.0**	10.0	7.3
Weighted Average Cost of Interest	**6.7**	7.0	6.8

STATEMENT OF CORPORATE INTENT		2006 ACTUAL	2006 TARGET	2005 ACTUAL
EBITDA Interest Cover	TIMES	**31.5**	5.2	6.1
Return on Average Equity Including Revaluation	%	**25.6**	9.1	9.0
Net Debt to Net Debt Plus Equity Ratio	%	**10.6**	37.4	35.4
EBITDA per MWh Produced (NZ)	$	**37.5**	35.9	36.8

1. The 2006 amount represents the results for the year of the continuing operating entities of the Group existing at 30 June 2006. The 2005 and 2004 comparatives reflect the results for those years for the same operating entities.
2. Shareholders' Equity includes a revaluation uplift of $1,800 million effective 30 June 2006.
3. Net Working Capital excludes the current portion of term borrowings.
4. Average Equity excludes a revaluation uplift of $1,800 million effective 30 June 2006. The Average Equity for the comparative years include the effect of previous revaluations.
5. Average Total Assets excludes a revaluation uplift of $1,800 million effective 30 June 2006. The Average Total Assets for the comparative years include the effect of previous revaluations.

Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 30 June 2006 and their financial performance and cash flows for the year ended on that date.

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

The Directors confirm that proper accounting records have been kept which enable the determination of the financial position of the Company and the Group as at 30 June 2006 and their financial performance and cash flows for the year ended on that date to ensure compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors have pleasure in presenting the financial statements, set out on pages 24 to 49, of Meridian Energy Ltd and the Group for the year ended 30 June 2006.

The annual financial statements were authorised for issue by the Board on 29 August 2006.

For and on behalf of the Board.

Wayne Boyd
Chairman
29 August 2006

Anne Urlwin
Chair of Audit and Risk Committee
29 August 2006

Statement of Financial Performance for the year ended 30 June 2006

	NOTE	GROUP 2006 $'000	GROUP 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Operating Revenue	2	**2,222,795**	1,656,070	**2,578,010**	1,569,212
Operating Expenses	3	**(1,819,881)**	(1,231,867)	**(1,776,227)**	(1,169,460)
Financing Costs	4	**(69,424)**	(92,092)	**(39,719)**	(31,241)
Equity Accounting of Associate	15	**(1,430)**	125	**–**	–
Operating Surplus Before Non Recurring Items		**332,060**	332,236	**762,064**	368,511
Gain on Disposal of Subsidiary	15	**652,516**	–	**–**	–
Costs Relating to Disposal of Subsidiary		**(26,879)**	–	**(22,717)**	–
Net Surplus Before Tax After Non Recurring Items		**957,697**	332,236	**739,347**	368,511
Income Tax	5	**(100,861)**	(114,008)	**(118,727)**	(131,797)
Net Surplus After Tax		**856,836**	218,228	**620,620**	236,714
Net Surplus After Tax comprises:					
Net Surplus from Continuing Activities		**243,110**	239,235	**244,760**	236,714
Net Surplus (Deficit) from Discontinued Activities		**613,726**	(21,007)	**375,860**	–
Total		**856,836**	218,228	**620,620**	236,714

Statement of Movements in Equity for the year ended 30 June 2006

	NOTE	GROUP 2006 $'000	GROUP 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Equity at Beginning of Year		**2,469,080**	2,401,779	**2,553,182**	2,465,298
Net Surplus After Tax		**856,836**	218,228	**620,620**	236,714
Movement in Revaluation Reserve	13	**1,800,000**	–	**1,800,000**	–
Movement in Foreign Currency Translation Reserve	9	**(9,159)**	(2,097)	**–**	–
Total Recognised Revenues and Expenses		**2,647,677**	216,131	**2,420,620**	236,714
Dividends to Shareholders	8	**(879,406)**	(148,830)	**(879,406)**	(148,830)
Equity at End of Year	7	**4,237,351**	2,469,080	**4,094,396**	2,553,182

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

Statement of Financial Position as at 30 June 2006

	NOTE	GROUP 2006 $'000	GROUP 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Equity					
Shareholders' Equity	7	**4,237,351**	2,469,080	**4,094,396**	2,553,182
Liabilities					
Non-Current Liabilities					
Term Borrowings	10	**754,649**	1,021,825	**754,649**	754,649
Deferred Tax	11	**152,089**	179,168	**152,224**	131,060
Lease Liability	14	**–**	7,193	**–**	–
Total Non-Current Liabilities		**906,738**	1,208,186	**906,873**	885,709
Current Liabilities					
Payables and Accruals	12	**193,137**	298,961	**185,633**	194,039
Current Tax Payable		**2,085**	2,257	**1,961**	805
Advances from Subsidiaries		**–**	–	**221,021**	32,126
Current Portion of Term Borrowings	10	**–**	370,141	**–**	7,000
Total Current Liabilities		**195,222**	671,359	**408,615**	233,970
Total Liabilities		**1,101,960**	1,879,545	**1,315,488**	1,119,679
Total Equity and Liabilities		**5,339,311**	4,348,625	**5,409,884**	3,672,861
Assets					
Non-Current Assets					
Investments	15	**23,395**	27,497	**65,067**	69,147
Advances to Subsidiaries		**–**	–	**15,390**	309,833
Prepayments		**8,288**	10,230	**8,288**	10,230
Intangible Assets	16	**172**	150,711	**172**	248
Customer Acquisition Costs	17	**22,808**	30,035	**22,808**	30,035
Property, Plant and Equipment	13	**4,795,590**	3,796,212	**4,795,297**	3,004,507
Total Non-Current Assets		**4,850,253**	4,014,685	**4,907,022**	3,424,000
Current Assets					
Cash and Bank Balances	18	**251,824**	40,827	**245,916**	11,627
Accounts Receivable and Prepayments	19	**234,128**	289,735	**230,432**	234,037
Advances to Subsidiaries		**–**	–	**23,408**	–
Inventories	20	**3,106**	3,378	**3,106**	3,197
Total Current Assets		**489,058**	333,940	**502,862**	248,861
Total Assets		**5,339,311**	4,348,625	**5,409,884**	3,672,861

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

Statement of Cash Flows for the year ended 30 June 2006

	NOTE	GROUP 2006 $'000	GROUP 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		**2,177,015**	1,562,516	**2,147,149**	1,490,756
Net GST Receipts		**1,145**	8,758	**937**	8,306
Interest Received		**39,488**	7,015	**38,804**	5,654
Dividends Received		**–**	–	**396,668**	–
		2,217,648	1,578,289	**2,583,558**	1,504,716
Cash was Applied to:					
Payments to Suppliers and Employees		**1,755,320**	1,058,610	**1,721,625**	1,067,476
Interest Paid		**68,969**	94,155	**38,550**	35,162
Income Tax Paid		**103,170**	80,388	**102,923**	79,828
		1,927,459	1,233,153	**1,863,098**	1,182,466
Net Cash Inflows from Operating Activities	24	**290,189**	345,136	**720,460**	322,250
Investment Activities					
Cash was Provided from:					
Net Cash Proceeds on Disposal of Subsidiary	15	**1,492,766**	–	**–**	–
Sale of Property, Plant and Equipment		**5,314**	3,741	**5,314**	3,741
Sale of Investments		**2,181**	303	**2,181**	303
Advances from Subsidiaries		**–**	–	**466,784**	–
		1,500,261	4,044	**474,279**	4,044
Cash was Applied to:					
Purchase of Property, Plant and Equipment		**75,980**	308,181	**71,581**	110,114
Capitalised Interest		**2,003**	1,903	**2,003**	1,903
Advances to Subsidiaries		**–**	–	**–**	62,798
Purchase of Investments		**6,700**	10,791	**460**	5,362
		84,683	320,875	**74,044**	180,177
Net Cash Inflows/(Outflows) from Investing Activities		**1,415,578**	(316,831)	**400,235**	(176,133)
Financing Activities					
Cash was Provided from:					
Term Borrowings		**–**	211,831	**–**	–
		–	211,831	**–**	–
Cash was Applied to:					
Term Borrowings		**615,364**	154,741	**7,000**	19,700
Dividends Paid	8	**879,406**	148,830	**879,406**	148,830
		1,494,770	303,571	**886,406**	168,530
Net Cash (Outflows) from Financing Activities		**(1,494,770)**	(91,740)	**(886,406)**	(168,530)
Net Increase/(Decrease) in Cash Held		**210,997**	(63,435)	**234,289**	(22,413)
Cash at Beginning of Year		**40,827**	104,262	**11,627**	34,040
Cash at End of Year		**251,824**	40,827	**245,916**	11,627
Composition of Cash					
Cash and Bank Balances	18	**251,824**	40,827	**245,916**	11,627
		251,824	40,827	**245,916**	11,627

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

Notes to the Financial Statements for the year ended 30 June 2006

1. Statement of Accounting Policies

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

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

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

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

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

Basis of Preparing Group Financial Statements

Changes in Accounting Policies
There have been no changes in accounting policies during the year. All accounting policies have been applied on bases consistent with those applied in the Group's Financial Statements for the previous year.

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

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

the carrying value of the investment. In the Statement of Financial Position the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post acquisition reserves of the Associates. In assessing the Group's share of earnings of Associates, the Group's share of any unrealised profits between Group companies and Associates is eliminated.

Acquisition or Disposal During the Year

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

Statement of Cash Flows

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

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

Cash includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company and the group as part of their day-to-day cash management.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the company and group and those activities relating to the cost of servicing the company's and the group's equity capital.

Goodwill Arising on Acquisition

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

Foreign Currency

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

The assets and liabilities of overseas operations, being independent foreign operations, are translated at the closing rate at balance date. The revenues and expenses of these operations are translated at rates approximating the exchange rates at the dates of the transactions.

Exchange differences arising on the translation of the financial statements of independent foreign operations are recognised directly in the foreign currency translation reserve.

Financial Instruments

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

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

Operating Revenue

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

Taxation

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

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

Non-Current Assets

Property, Plant and Equipment

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

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

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

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

Australian Hydro Assets are depreciated on a units of production basis which reflects that the underlying assets are used at peak times or are irrigation dependant. The measurement of levels of production refers to the expected gigawatt hours generated over the remaining useful life of the assets depreciated or amortised.

The following depreciation and amortisation rates have been applied:

Generation Structures and Plant	Up to 80 years
Other Freehold Buildings	Up to 67 years
Other Plant and Equipment	Up to 20 years
Resource Consents	Up to 50 years
Australian Hydro Assets	Units of production basis

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

Investments

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

Intangibles

Licences

Power generation licences are recorded at fair value on acquisition. They are amortised over their estimated useful lives either over 70 years or on a units of generation basis.

Customer Acquisition Costs

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

Impairment of Assets

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

Derivatives

On acquisition of the Southern Hydro group of companies (together "Southern Hydro"), financial instrument derivatives were recorded in the consolidated Statement of Financial Position as either an asset or liability measured at fair value. Subsequent changes in the fair value of these instruments are not recognised in the financial statements until the period when the underlying cash flow occurs.

Current Assets

Inventories

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

Receivables

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

Cash and Cash Equivalents

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

Prepaid Premiums/Unearned Income

The prepaid premiums/unearned income are related to caps, swaps, options and swaption contracts. Assets/liabilities are recognised for premiums paid or received in advance under forward derivative contracts. This represents the right to receive or make payment for goods and services in the future. These prepayments are amortised over the period of the relevant contract.

Liabilities

Debt

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

Operating Leases

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

Finance Leases

Finance leases, which effectively transfer to the lessee substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments.

Comparatives

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

2. Operating Revenue

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trading Revenue				
Energy Related Revenue	2,176,848	1,642,774	2,136,189	1,558,848
Other Revenue				
Interest Income	39,488	7,015	38,804	3,987
Gain on Sale of Property, Plant and Equipment	–	740	–	740
Dividend Income	–	–	396,668	–
Other	6,459	5,541	6,349	5,637
Operating Revenue	2,222,795	1,656,070	2,578,010	1,569,212
Operating Revenue comprises:				
Revenue from Continuing Activities	2,184,067	1,563,585	2,181,342	1,569,212
Revenue from Discontinued Activities	38,728	92,485	396,668	–
	2,222,795	1,656,070	2,578,010	1,569,212

3. Operating Expenses

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Operating Expenses include the following:				
Continuing Activities:				
Amortisation of Fair Value at Acquisition				
– Licences	77	76	77	76
Amortisation of Customer Acquisition Costs	7,227	7,623	7,227	7,623
Auditor's Fees				
– Audit Fees	229	216	208	198
– Fees Paid for Other Assurance Services	94	44	31	32
Bad and Doubtful Debts				
– Bad Debts Written Off	2,378	1,862	2,378	1,862
– Increase in Provision for Doubtful Debts	276	1,090	276	1,090
Depreciation				
– Freehold Buildings	250	371	250	371
– Generation Structures and Plant	68,771	72,548	68,771	72,548
– Other Plant and Equipment	8,245	8,215	8,139	8,104
– Resource Consents	170	175	170	175
Directors' Fees	261	297	249	288
Foreign Exchange (Gain)/Loss	(33,695)	49	(33,948)	49
Loss on Sale of Property, Plant and Equipment	149	875	149	872
Operating Lease Expenses	2,252	2,326	2,252	2,326
Impairment of Investments	7,191	760	2,021	760
Provision Against Wind Programme Development Costs	–	2,696	–	2,696

	GROUP	
	2006 $'000	2005 $'000
Discontinued Activities:		
Amortisation of Fair Value at Acquisition		
– Derivatives	10,367	24,978
– Land leases	1,717	2,748
– Licences	108	1,246
Auditor's Fees		
– Audit Fees	–	207
– Fees Paid for Other Assurance Services	–	48
Depreciation		
– Freehold Buildings	11	36
– Generation Structures and Plant	5,760	7,337
– Other Plant and Equipment	279	518
Directors' Fees	60	109
Foreign Exchange Loss/(Gain)	2,603	(1,021)
Operating Lease Expenses	2,091	2,925

4. Financing Costs

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Interest on Term Borrowings	71,427	93,995	41,722	33,144
Less Capitalised Interest	2,003	1,903	2,003	1,903
Total Financing Costs	69,424	92,092	39,719	31,241
Financing Costs comprise:				
Financing Costs from Continuing Activities	37,395	31,241	39,719	31,241
Financing Costs from Discontinued Activities	32,029	60,851	–	–
	69,424	92,092	39,719	31,241

Notes to the Financial Statements (Continued)

5. Income Tax

	NOTE	GROUP 2006 $'000	GROUP 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
(A) Income Tax Expense					
Net Surplus Before Tax After Non Recurring Items		**957,697**	332,236	**739,347**	368,511
Permanent Differences					
Expenditure Not Deductible for Tax		**19,255**	8,421	**17,472**	2,870
Depreciation/Amortisation of Revaluation		**13,629**	14,426	**11,750**	11,490
Inter-company Dividend Received		**–**	–	**(396,668)**	–
Gain on Disposal of Subsidiary		**(652,516)**	–	**–**	–
Adjustment to Previous Periods		**(16,326)**	–	**–**	–
Other		**(16,101)**	(9,603)	**(12,123)**	16,513
Surplus Subject to Tax		**305,638**	345,480	**359,778**	399,384
Tax @ 33%		**100,861**	114,008	**118,727**	131,797
Total Income Tax Expense		**100,861**	114,008	**118,727**	131,797
Attributable to Continuing Activities		**116,693**	129,626	**118,727**	131,797
Attributable to Discontinuing Activities		**(15,832)**	(15,618)	**–**	–
Total tax expenses recognised for the year		**100,861**	114,008	**118,727**	131,797
Comprising					
Current Period Tax		**104,359**	79,870	**97,563**	112,605
Deferred Income Tax Liability	11	**(3,498)**	34,138	**21,164**	19,192
		100,861	114,008	**118,727**	131,797

	GROUP 2006 $'000	GROUP 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
(B) Imputation Credits				
Balance at Beginning of Year	**64,404**	57,813	**63,736**	57,129
Net Income Tax	**103,148**	79,885	**102,900**	79,694
Credits Attached to Dividends Received	**–**	10	**122**	217
Credits Attached to Dividends Paid	**(81,881)**	(73,304)	**(81,881)**	(73,304)
Balance at End of Year	**85,671**	64,404	**84,877**	63,736

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

	GROUP 2006 $'000	GROUP 2005 $'000
Through		
Shareholding in Parent Company	**84,877**	63,736
Indirect Interests in Subsidiaries	**794**	668
	85,671	64,404

6. Share Capital

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

7. Equity

		GROUP		PARENT	
	NOTE	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Equity comprises:					
Share Capital		**1,600,000**	1,600,000	**1,600,000**	1,600,000
Retained Earnings		**159,543**	209,002	**16,780**	275,566
Revaluation Reserve		**2,477,802**	677,802	**2,477,616**	677,616
Foreign Currency Translation Reserve	9	**6**	(17,724)	**–**	–
Equity at End of Year		**4,237,351**	2,469,080	**4,094,396**	2,553,182

8. Dividends

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Distributions Made				
2006 Interim Dividend Paid	**800,000**	–	**800,000**	–
2005 Final Dividend Paid	**79,406**	–	**79,406**	–
2005 Interim Dividend Paid	**–**	62,442	**–**	62,442
2004 Final Dividend Paid	**–**	86,388	**–**	86,388
Total Dividends	**879,406**	148,830	**879,406**	148,830

9. Foreign Currency Translation Reserve

	GROUP	
	2006 $'000	2005 $'000
Balance at Beginning of Year	**(17,724)**	(15,627)
Difference arising from Translation of Foreign Operations	**(9,159)**	(2,097)
Transfers to Retained Earnings on Disposal of Subsidiary	**26,889**	–
Balance at End of Year	**6**	(17,724)

The foreign currency translation reserve results from the translation of the financial statements of independent foreign operations denominated in Australian dollars at the closing rate at balance date. The closing rate at 30 June 2006 was 0.82 (30 June 2005 0.92).

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

10. Term Borrowings

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Borrowings Due within 1 Year	**–**	370,141	**–**	7,000
Borrowings Due between 2-7 Years	**274,789**	541,964	**274,789**	274,789
Borrowings Due after 7 Years	**479,860**	479,861	**479,860**	479,860
Total Borrowings	**754,649**	1,391,966	**754,649**	761,649

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Current Portion of Borrowings	**–**	370,141	**–**	7,000
Non-Current Portion of Borrowings	**754,649**	1,021,825	**754,649**	754,649
Total Borrowings	**754,649**	1,391,966	**754,649**	761,649

Security

The borrowings are unsecured but subject to a negative pledge arrangement.

11. Deferred Tax

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Balance at Beginning of Year	**179,168**	145,260	**131,060**	111,868
Deferred Tax On Surplus for Year	**(3,498)**	34,138	**21,164**	19,192
Foreign Translation of Deferred Tax Balance	**(716)**	(230)	**–**	–
Disposal of Subsidiary	**(22,865)**	–	**–**	–
Balance at End of Year	**152,089**	179,168	**152,224**	131,060

The estimated income tax effect of timing differences originating from the fair value review of assets and liabilities which has not been recognised as an asset in the deferred tax account is $173 million at 30 June 2006 (2005 $179 million). The effect of the $1,800 million revaluation uplift of the Generation Structures & Plant on deferred tax has not been quantified and could reduce the unrecognised deferred tax asset.

12. Payables and Accruals

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Current				
Trade Creditors	**9,347**	37,722	**5,882**	7,367
Employee Entitlements	**6,510**	6,609	**6,130**	6,337
Unearned Income	**5,596**	57,713	**2,524**	2,585
Accrued Expenses	**165,161**	191,539	**165,058**	172,648
GST	**6,523**	5,378	**6,039**	5,102
Total Payables and Accruals	**193,137**	298,961	**185,633**	194,039

13. Property, Plant and Equipment

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Generation Structures and Plant				
Fair Value	**4,609,257**	3,592,168	**4,609,257**	2,986,785
Less: Accumulated Depreciation	–	148,127	–	134,390
Closing Balance	**4,609,257**	3,444,041	**4,609,257**	2,852,395
Other Freehold Land				
Fair Value	**35,013**	44,496	**35,013**	43,605
Other Leasehold Land				
Fair Value	–	168,108	–	–
Less: Accumulated Amortisation	–	6,732	–	–
Closing Balance	–	161,376	–	–
Other Freehold Buildings				
Cost	**9,806**	15,566	**9,806**	14,010
Less: Accumulated Depreciation	**1,229**	1,694	**1,229**	1,615
Closing Balance	**8,577**	13,872	**8,577**	12,395
Other Plant and Equipment				
Cost	**87,212**	72,852	**86,353**	66,352
Less: Accumulated Depreciation	**46,038**	40,938	**45,472**	37,490
Closing Balance	**41,174**	31,914	**40,881**	28,862
Resource Consents				
Cost	**7,851**	7,851	**7,851**	7,851
Less: Accumulated Depreciation	**1,151**	981	**1,151**	981
Closing Balance	**6,700**	6,870	**6,700**	6,870
Total Property, Plant and Equipment				
Fair Value or Cost	**4,749,139**	3,901,041	**4,748,280**	3,118,603
Less: Accumulated Depreciation and Amortisation	**48,418**	198,472	**47,852**	174,476
Work In Progress	**94,869**	93,643	**94,869**	60,380
Total Closing Balance	**4,795,590**	3,796,212	**4,795,297**	3,004,507

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

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

As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil at 30 June 2006 in line with treatment prescribed under FRS 3: *Accounting For Property, Plant and Equipment.* There is no depreciation impact of this revaluation in the Statement of Financial Performance.

Finance costs totalling $2,003,000 (2005: $1,903,000) have been capitalised on the refurbishment of Generation Structures and Plant Assets.

14. Commitments

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Capital Expenditure				
Commitments – Contracts for Capital Expenditure	**74,414**	18,773	**74,414**	15,001
Operating Lease Commitments				
The Group leases premises, motor vehicles, plant and equipment. Non Cancellable operating lease rentals are payable as follows:				
Due within 1 Year	**1,677**	2,252	**1,677**	2,252
Due between 1-2 Years	**1,288**	1,677	**1,288**	1,436
Due between 2-5 Years	**1,144**	2,432	**1,144**	1,912
Total Operating Lease Commitments	**4,109**	6,361	**4,109**	5,600
Finance Lease Commitments				
Non-Cancellable Finance Lease Rentals are payable as follows:				
Due after 5 Years	**–**	194,547	**–**	–
Total minimum lease payments	**–**	194,547	**–**	–
Future Finance Charges	**–**	(187,354)	**–**	–
Total Lease Liability	**–**	7,193	**–**	–
Current Liability	**–**	–	**–**	–
Non-Current Liability	**–**	7,193	**–**	–
	–	7,193	**–**	–

15. Investments

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Investment in Subsidiaries	**–**	–	**50,537**	50,875
Investment in Associates	**716**	2,146	**–**	2,021
Other Investments	**22,679**	25,351	**14,530**	16,251
Total Investments	**23,395**	27,497	**65,067**	69,147

(A) Investments in Subsidiaries and Controlled Entities

Subsidiaries

Investments in subsidiaries comprise shares at cost.

Name of Entity	Date[1]	Principal Activity	Interest Held by Parent 2006	2005
Meridian Ltd		Non-Trading Entity	100%	100%
DamWatch Services Ltd		Professional Services	100%	100%
Woodville Windfarm Ltd		Non-Trading Entity	100%	100%
Meridian Energy International Ltd		Investment Company	100%	100%
Energy for Industry Ltd		Non-Trading Entity	100%	100%
Meridian (Whisper Tech) Ltd		Investment Company	100%	100%
Meridian Energy Captive Insurance Ltd		Insurance Company	100%	100%
MEA General Partner Pty Ltd*	20/02/06	Investment Company	–	100%
Nirranda South Wind Farm Pty Ltd*		Non-Trading Entity	100%	100%

[1] The date that the subsidiary was deregistered or ceased to be part of the Group during the reporting period.
* Incorporated in Australia.

Controlled Entities

Name of Entity	Date[1]	Principal Activity	Interest Held by Group 2006	2005
Meridian Energy Australian Holdings Ltd	30/11/05	Investment Company	–	100%
Meridian Energy Australia Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
MEA Limited Partnership*	29/10/05	Investment Entity	–	100%
MEA Finance Pty Ltd*	20/02/06	Finance Company	–	100%
Meridian Energy Australia Investments Pty Ltd*	30/11/05	Investment Company	–	100%
SHP 1 Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
SHP 2 Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
SHP 3 Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
SHP 3 Holdings Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
Southern Hydro Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
Southern Hydro Maintenance Services Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
Southern Hydro Operations Pty Ltd*	30/11/05	Hydro Power Generation	–	100%
Wattle Point Wind Farm Pty Ltd*	30/11/05	Power Generation	–	100%
Dollar Wind Farm Pty Ltd*	30/11/05	Non-Trading Entity	–	100%
Macarthur Wind Farm Pty Ltd*	30/11/05	Non-Trading Entity	–	100%
DamWatch Pty Ltd*		Non-Trading Entity	100%	100%

[1] The date that the controlled entity was dissolved, deregistered or ceased to be part of the Group during the reporting period.
* Incorporated in Australia

Notes to the Financial Statements (Continued)

(B) Investments in Associates

At balance date the Company holds a 31.3% investment in Whisper Tech Ltd.

Whisper Tech Ltd, a company incorporated in New Zealand, has a balance date of 31 March. Equity accounted earnings have been aligned to a 30 June balance date for the Group. Whisper Tech Ltd was formed to design, develop, manufacture and distribute co-generation systems for residential and mobile markets. This business was transferred to the Whisper Tech Joint Venture with Whisper Tech Ltd receiving licence fees for the use of intellectual property and the assets of Whisper Tech Ltd. The Parent and the other major shareholder have entered into a Put Option with the existing minority shareholders. Whisper Tech Ltd had no material capital commitments or contingent liabilities as at 30 June 2006.

Subsequent to balance date the Parent purchased 100% of Orion NZ Ltd's interest in the Whisper Tech Joint Venture and all but 5% of Orion NZ Ltd's interest in Whisper Tech Ltd for $13.36 million. This arm's length transaction valued the Group's total investment in the combined entity at $8.8 million. As a result the Group has impaired goodwill in Whisper Tech Ltd by $2.1 million and written down the investment in the Whisper Tech Joint Venture by $7.2 million as at 30 June 2006.

Carrying Amount of Investment in Associate

	GROUP	
	2006 $'000	2005 $'000
Carrying Amount at Beginning of Year	**2,146**	–
Share of Total Recognised Revenues and Expenses	**(1,430)**	125
Purchase of an Additional 1.40% of Whisper Tech Ltd	**–**	2,021
Carrying Amount at End of Year	**716**	2,146
The Carrying Value comprises:		
Cost	**982**	982
Share of Associate Post-Acquisition Reserves	**(266)**	(2,260)
Goodwill	**–**	3,424
	716	2,146

Associate Share of Net Surplus

	GROUP	
	2006 $'000	2005 $'000
Share of Surplus before Taxation	**1,994**	1,617
Share of Taxation Expense	**–**	–
Share of Net Surplus	**1,994**	1,617
Amortisation of Goodwill	**(1,315)**	(1,492)
Impairment of Goodwill	**(2,109)**	–
Share of Total Recognised Revenues and Expenses	**(1,430)**	125

Goodwill

	GROUP 2006 $'000	GROUP 2005 $'000
Cost at Beginning of Year	6,574	4,685
Goodwill Arising on Acquisition	–	1,889
	6,574	6,574
Accumulated Amortisation:		
At Beginning of Year	(3,150)	(1,658)
Amortisation Expense for the Year	(1,315)	(1,492)
Impairment of Goodwill	(2,109)	–
At End of Year	(6,574)	(3,150)
Goodwill included within the Carrying Amount of the Investment in Associate	–	3,424

(C) Other Investments

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Nth Power Technologies	3,920	5,380	3,920	5,380
Fonterra Co-Operative Group Ltd	6,552	6,092	6,552	6,092
Whisper Tech Joint Venture	8,149	9,100	–	–
North Otago Irrigation Company Ltd	3,571	4,292	3,571	4,292
Canterbury TX	487	487	487	487
Total Other Investments	22,679	25,351	14,530	16,251

The above investments do not give rise to consolidated or equity accounting treatment. The ownership interest in Whisper Tech Joint Venture was 40% at 30 June 2006. Significant influence did not exist as at balance date due to the control by the other joint venturer and the right existing for that joint venturer to terminate the agreement. Subsequent to balance date, the Parent purchased the remaining 60% interest in the Joint Venture.

The investment in Fonterra Co-Operative Group Ltd arises from ownership of land. The market value of this investment at 30 June 2006 was $9.13 million (2005 $8.27 million).

The Group also has interests in Ceramic Fuel Cells Ltd and in Superlink Developments Ltd. These interests were assigned to the Group from ECNZ at no cost and, as such, the carrying value of the interests is nil. Ceramic Fuel Cells Ltd is listed on the Australian Stock Exchange. The market value of this investment at 30 June 2006 was $0.51million (2005 $0.42 million).

(D) Disposal of Subsidiary

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

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

The disposal of Meridian Energy Australian Holdings Limited gave rise to a gain of $652,516,000 to the Group.

Summary of the effect of disposal of subsidiary

	GROUP
	2006 $'000
Assets and liabilities disposed of:	
Cash and Bank Balances	11,513
Accounts Receivable and Prepayments	60,376
Inventories	218
Property, Plant and Equipment	760,440
Intangibles	137,893
Payables and Accruals	(88,609)
Lease Liability	(7,203)
Deferred Tax	(22,865)
Assets and Liabilities disposed	851,763
Gain on disposal	652,516
Proceeds Received	1,504,279
Cash disposed with subsidiary	(11,513)
Net Cash Received	1,492,766

The disposal of Meridian Energy Australian Holdings Limited represents a discontinued activity of the Group. The impact on the Group's operating surplus after taxation is separately disclosed in the Statement of Financial Performance and in Notes 2, 3 and 4.

16. Intangible Assets

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Licences	172	131,419	172	248
Derivatives on Acquisition of Southern Hydro	–	19,292	–	–
Total Intangible Assets	172	150,711	172	248

17. Customer Acquisition Costs

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Customer Acquisition Costs (at cost)	**67,375**	67,375	**65,174**	65,174
Accumulated Amortisation	**(44,567)**	(37,340)	**(42,366)**	(35,139)
Total Carrying Value	**22,808**	30,035	**22,808**	30,035
Reconciliation				
Balance at Beginning of Year	**30,035**	37,658	**30,035**	37,658
Amortisation During Year	**(7,227)**	(7,623)	**(7,227)**	(7,623)
Balance at End of Year	**22,808**	30,035	**22,808**	30,035

18. Cash and Bank Balances

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current Account	**11,192**	17,364	**6,642**	1,027
Money Market Account	**111,916**	23,463	**110,558**	10,600
Short Term Deposits	**128,716**	–	**128,716**	–
Total Cash and Bank Balances	**251,824**	40,827	**245,916**	11,627

19. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Billed and Accrued Receivables	**230,433**	257,346	**226,772**	228,016
Less: Provision for Doubtful Debts	**3,730**	3,333	**3,730**	3,333
Net Trade Receivables	**226,703**	254,013	**223,042**	224,683
Prepayments	**7,425**	35,722	**7,390**	9,354
Total Accounts Receivable and Prepayments	**234,128**	289,735	**230,432**	234,037

20. Inventories

	GROUP		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Consumable Spares and Stores	**3,106**	3,378	**3,106**	3,197

21. Borrowings and the Use of Financial Instruments

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

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

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Cross Currency Interest Rate Swaps	**704,649**	704,649	**704,649**	704,649
Forward Exchange Contracts	**81,274**	113,037	**81,274**	113,037
Interest Rate Swaps	**735,500**	1,325,282	**735,500**	1,325,282
Interest Rate Options	**20,000**	10,000	**20,000**	10,000

(a) Foreign Currency Risk

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

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

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

(b) Interest Rate Risk

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

(c) Repricing Analysis

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

Repricing 2006 Group

$'000	Effective Interest Rate	Total	6 Months or Less	6-12 Months	1-2 Years	2 or More Years	Non-Interest Bearing
Financial Assets							
Cash Balances	6.77%	251,824	251,824	–	–	–	–
Receivables		234,128	–	–	–	–	234,128
Investments		23,395	–	–	–	–	23,395
Total Financial Assets		509,347	251,824	–	–	–	257,523
Financial Liabilities							
Total Borrowings*	7.63%	754,649	–	–	–	754,649	–
Creditors		193,137	–	–	–	–	193,137
Total Financial Liabilities		947,786	–	–	–	754,649	193,137
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	–	–	–	704,649	–
Interest Rate Swaps		735,500	125,000	25,000	23,000	562,500	–
Interest Rate Options		20,000	–	–	–	20,000	–
Total Off Balance Sheet		1,460,149	125,000	25,000	23,000	1,287,149	–

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

Notes to the Financial Statements (Continued)

Repricing 2005 Group

$'000	Effective Interest Rate	Total	6 Months or Less	6-12 Months	1-2 Years	2 or More Years	Non-Interest Bearing
Financial Assets							
Cash Balances	6.36%	40,827	40,827	–	–	–	–
Receivables		289,735	–	–	–	–	289,735
Investments		27,497	–	–	–	–	27,497
Total Financial Assets		358,059	40,827	–	–	–	317,232
Financial Liabilities							
Total Borrowings*	6.98%	1,391,966	132,955	237,186	–	1,021,825	–
Creditors		298,961	–	–	–	–	298,961
Total Financial Liabilities		1,690,927	132,955	237,186	–	1,021,825	298,961
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	–	–	–	704,649	–
Interest Rate Swaps		1,325,282	25,000	203,577	125,000	971,705	–
Interest Rate Options		10,000	10,000	–	–	–	–
Total Off Balance Sheet		2,039,931	35,000	203,577	125,000	1,676,354	–

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

Repricing 2006 Parent

$'000	Effective Interest Rate	Total	6 Months or Less	6-12 Months	1-2 Years	2 or More Years	Non-Interest Bearing
Financial Assets							
Cash Balances	6.73%	245,916	245,916	–	–	–	–
Receivables		230,432	–	–	–	–	230,432
Advances to Subsidiary		38,798	–	–	–	–	38,798
Investments		65,067	–	–	–	–	65,067
Total Financial Assets		580,213	245,916	–	–	–	334,297
Financial Liabilities							
Total Borrowings*	7.84%	754,649	–	–	–	754,649	–
Creditors		185,633	–	–	–	–	185,633
Advances from Subsidiary		221,021	–	–	–	–	221,021
Total Financial Liabilities		1,161,303	–	–	–	754,649	406,654
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	–	–	–	704,649	–
Interest Rate Swaps		735,500	125,000	25,000	23,000	562,500	–
Interest Rate Options		20,000	–	–	–	20,000	–
Total Off Balance Sheet		1,460,149	125,000	25,000	23,000	1,287,149	–

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

Repricing 2005 Parent

$'000	Effective Interest Rate	Total	6 Months or Less	6-12 Months	1-2 Years	2 or More Years	Non-Interest Bearing
Financial Assets							
Cash Balances	6.36%	11,627	11,627	–	–	–	–
Receivables		234,037	–	–	–	–	234,037
Advances to Subsidiary	11.00%	309,883	–	–	242,552	–	67,331
Investments		69,147	–	–	–	–	69,147
Total Financial Assets		624,694	11,627	–	242,552	–	370,515
Financial Liabilities							
Total Borrowings*	6.67%	761,649	7,000	–	–	754,649	–
Creditors		194,039	–	–	–	–	194,039
Advances from Subsidiary		32,126	–	–	–	–	32,126
Total Financial Liabilities		987,814	7,000	–	–	754,649	226,165
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	–	–	–	704,649	–
Interest Rate Swaps		1,325,282	25,000	203,577	125,000	971,705	–
Interest Rate Options		10,000	10,000	–	–	–	–
Total Off Balance Sheet		2,039,931	35,000	203,577	125,000	1,676,354	–

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

(d) Credit Risk

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

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

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

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

(e) Revenue Risk

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

The fair value of outstanding electricity hedge contracts at 30 June 2006 is $8.4 million (30 June 2005 fair value not available). The face value of outstanding electricity hedge contracts at 30 June 2006 is $153.8 million (30 June 2005 face value not available). As the New Zealand secondary market for electricity derivatives is not sufficiently active to enable a mark to market valuation a discounted cash flow valuation technique has been used to calculate the fair values.

(f) Fair Values

Fair values are estimated using the mark to market value methodology except for short-term and other investments where the carrying value of these items is equivalent to their fair value. The valuations were provided by the Group's bankers and or other independent advisors. For cash at bank, receivables, weather derivatives and trade creditors the fair values are equivalent to their carrying values and therefore have been excluded from the table on page 46. The fair values for the Group and Parent are consistent except for advances to and from subsidiaries where it is impracticable to calculate the fair value.

	GROUP AND PARENT			
	2006 $'000		2005 $'000	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Assets				
Investments in unlisted shares*	**25,973**	**23,395**	29,675	27,497
Liabilities				
Term Borrowings**	**754,649**	**754,649**	1,021,825	1,021,825
Off Balance Sheet Financial Instruments				
Forward Exchange Contracts	**7,514**	**–**	(6,144)	–
Interest Rate Swaps	**4,834**	**–**	(6,579)	–
Interest Rate Options	**64**	**–**	–	–

* It is not practical to estimate the fair value of the investments in unlisted shares, with the exception of Fonterra Co-Operative Group Ltd where the fair value has been disclosed at Note 15.

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

22. Land

The Group is not yet formally registered as proprietor under the Land Transfer Act of significant portions of its land assets. However the Group has full beneficial ownership rights and the benefit of an obligation from the Crown to create titles under the Land Transfer Act and transfer them to the Group. This is also the basis on which ECNZ owned these assets prior to transfer to the Group. Titles will be issued once land title processes have been completed. Transfer and issue of freehold titles for the Waitaki Power Station from the Crown to the Group occurred on 22 May 2006.

23. Related Party Transactions

The beneficial shareholder of the Group is the Crown. The Group undertakes many transactions with the Crown, state-owned companies and other Government entities, all of which are carried out on a commercial and arm's length basis.

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

Entity	Transaction	$'000	Relationship
Fairfax NZ	Sales of electricity to Fairfax NZ	150	Wayne Boyd, Chairman of Meridian Energy Ltd, is also a member of the Fairfax NZ Advisory Board.
New Zealand Blood Service	Sales of electricity to New Zealand Blood Service	223	Anne Urlwin, a Director of Meridian Energy Ltd, is also a director of New Zealand Blood Service.
Airways Corporation of New Zealand Ltd	Sales of electricity to Airways Corporation of New Zealand Ltd	107	Anne Urlwin, a Director of Meridian Energy Ltd, is also a director of Airways Corporation of New Zealand Ltd.
Christchurch College of Education	Sales of electricity to Christchurch College of Education	339	Anne Urlwin, a Director of Meridian Energy Ltd, is also a councillor of Christchurch College of Education.

Other Transactions involving a Related Party

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

Entity	Transaction	$'000	Relationship
Meridian Energy International Ltd	Interest paid to parent	4,824	Meridian Energy Ltd received interest income in relation to an intercompany loan to Meridian Energy International Ltd.
Meridian Energy Captive Insurance Ltd	Insurance premium	4,139	Meridian Energy Captive Insurance Ltd (MECIL) received payment for insurance premiums from Meridian Energy Ltd. MECIL has this policy underwritten by third parties.

In addition DamWatch Services Ltd provided consultancy services to Meridian Energy Ltd during the year totalling $1.2 million. Such transactions were all carried out independently on an arm's length basis.

24. Net Cash Flow from Operating Activities

	GROUP		PARENT	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Reconciliation with Net Surplus After Tax				
Net Surplus After Tax	**856,836**	218,228	**620,620**	236,714
Items Not Involving Operating Cash Flows				
Depreciation Expense	**83,486**	89,200	**77,330**	81,198
Amortisation	**19,496**	36,671	**7,304**	7,699
Deferred Tax	**(2,167)**	33,908	**21,164**	19,192
Transfer of Tax Losses (from) to Parent	**–**	–	**(6,516)**	28,799
Net Loss on Sale of Property, Plant and Equipment	**149**	135	**149**	132
Gain on Disposal of Subsidiary	**(652,516)**	–	**–**	–
Write-down of Investments	**7,191**	760	**2,021**	760
Equity Accounting of Associate	**1,430**	(125)	**–**	–
Other Non-Cash items	**–**	(221)	**–**	–
	(542,931)	160,328	**101,452**	137,780
Changes in Working Capital Items				
Accounts Receivable and Prepayments	**57,549**	(77,781)	**5,547**	(66,164)
Inventory	**272**	(238)	**91**	(57)
Payables and Accruals and Lease Liability	**(113,017)**	44,887	**(8,406)**	9,999
Current Tax Payable	**(172)**	(288)	**1,156**	3,978
Net Working Capital of Subsidiary Disposed	**31,652**	–	**–**	–
	(23,716)	(33,420)	**(1,612)**	(52,244)
Net Cash Flow from Operating Activities	**290,189**	345,136	**720,460**	322,250

25. Segment Information

Industry Segments

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

Geographical Segments

As at and for the year ended 30 June 2006

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

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

As at and for the year ended 30 June 2005

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2005 $'000	2005 $'000	2005 $'000	2005 $'000
Operating Revenue Derived from Outside Group	1,563,587	92,620	(137)	1,656,070
Operating Revenue	1,563,587	92,620	(137)	1,656,070
Segment Net Surplus Before Tax and Finance Costs	403,756	29,667	(9,095)	424,328
Segment Total Assets	3,567,720	1,021,915	(241,010)	4,348,625

26. Events Occurring After Balance Date

As disclosed in Note 15, subsequent to balance date the Parent purchased 100% of Orion NZ Ltd's interest in the Whisper Tech Joint Venture and all but 5% of Orion NZ Ltd's interest in Whisper Tech Ltd for $13.36 million.

On 1 July 2006 Arc Innovations was incorporated as a separate subsidiary of the Group rather than a business unit of the Parent.

27. Contingent Gains and Losses

Other than contingent liabilities arising in the normal course of business, the contingent gains and losses of the Group arising in the financial year to 30 June 2006 are as follows:

- The Parent is currently the subject of an Inland Revenue audit and Notices of Proposed Adjustments have been issued by Inland Revenue. However, the Board are of the opinion that the approach taken in calculating the Parent's tax liability as reflected in these Financial Statements is acceptable. The Parent will defend any adjustments the Inland Revenue has proposed.

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

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

The Group is well advanced in evaluating the impact of NZ IFRS on its financial statements. The key areas identified that have a significant impact on the opening NZ IFRS comparative position of the Group are outlined below.

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

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

Financial Instruments
NZ IAS 39: *Financial Instruments Recognition and Measurement* governs the recognition requirements for financial instruments. Meridian enters into derivatives primarily to manage exposure to interest rate, foreign exchange and electricity price risk. On transition to NZ IFRS the Group is required to record derivatives on the balance sheet at their fair value. Subsequently these derivatives are accounted for at fair value at each accounting period, with changes in fair value reflected in the income statement, or in equity if NZ IAS 39 hedge accounting criteria can be met. To the extent that hedge accounting does not apply, there is potential for profit volatility resulting from the application of NZ IFRS.

The Group has designated certain derivatives as either:

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

Electricity Derivatives
The Group is a party to a number of electricity derivative contracts and where material has designated these derivatives as cash flow hedges. On transition to NZ IFRS the Group will recognise the fair value of the derivatives on the balance sheet with subsequent changes in fair values reported in equity, or in the income statement if hedge accounting criteria is not met. At this time the expected impact on transition to NZ IFRS is an increase to equity and net assets of approximately $8.4 million, prior to adjusting for deferred tax.

Treasury Derivatives
The Group has a number of treasury derivative financial instruments in place. On transition to NZ IFRS the Group will recognise the fair value of these derivatives on the balance sheet. Where appropriate the Group will seek a hedge accounting outcome designating these derivatives as either fair value or cash flow hedges. To the extent that hedge accounting does not apply there is potential for profit volatility resulting from the application of NZ IFRS. The Group is currently in the process of determining the financial impact of applying NZ IAS 39.

Deferred Tax
NZ IAS 12: *Income Taxes* requires a "balance sheet" approach to deferred tax, recognising all differences between tax and accounting values, with limited exceptions. This is conceptually very different to the current NZ GAAP "income statement" approach. Many items previously considered permanent differences under NZ GAAP now become temporary differences and result in the recognition of a deferred tax liability.

The most significant impact of the application of this standard is the recognition of a deferred tax liability in relation to the asset revaluation reserve on transition to NZ IFRS, which is expected to result in the recording of a deferred tax liability and a corresponding reduction in equity of $824 million.

Statutory Information

Group Directors

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

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

Anne Blackburn
Director
Appointed 01/06/04

Anne Urlwin
Director
Appointed 01/01/05

Timothy Lusk
Director
Appointed 01/06/05

Catherine Drayton
Director
Appointed 01/05/06

David Shand
Director
Appointed 01/05/06

Kepa Morgan
Director
Resigned 30/4/06

Subsidiary Company Directors

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

DamWatch Pty Ltd
Murray Gillon
Stanley Brogan

Meridian Ltd
Keith Turner
Paul Smart
Helen Bremner
(resigned 30/06/06)
Ari Sargent
(resigned 30/06/06)

Meridian Energy International Ltd
Keith Turner
Paul Smart

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

Energy for Industry Ltd
Keith Turner
Paul Smart

Meridian Energy Captive Insurance Ltd
Keith Turner
Paul Smart

Woodville Windfarm Ltd (currently being deregistered)
Keith Turner

Nirranda South Wind Farm Pty Ltd (currently being deregistered)
Brian Hall

General Disclosures

Disclosure of Directors' Interests

Declaration of general interest by directors for the year ended 30 June 2006 in accordance with Section 140 (2) of the Companies Act 1993:

Wayne Boyd

Auckland International Airport, Chairman

Fairfax NZ Advisory Board

Forsyth Barr Ltd, Director

Freightways Ltd, Chairman

Landco Ltd, Director

Telecom Corporation of New Zealand Ltd, Chairman

Vulcan Steel Ltd, Director

Raymond Watson

He Oranga Pounamu Trust, Chairman

Ngai Tahu Associates Ltd, Director/Shareholder

Ngai Tahu Publications Ltd, Director

Omni Consulting 2005 Ltd, Director/Shareholder

Ray Watson Associated Ltd, Director/Shareholder

Te Runaka o Arowhenua, Chairman

Anne Blackburn

Centre for Clinical Research & Effective Practice, Chair

Contact Energy Ltd, Shareholder

Chinese Language Foundation, Advisory Trustee

Footnote Dance Company, Trustee

Royal New Zealand Ballet, Trustee

Technical Advisory Board of the Export Credit Office, Director

Ten Gracie Square Ltd, Director/Shareholder

Wellington Regional Council Holdings Ltd (and subsidiaries Pringle House Ltd and Port Investments Ltd), Director

Anne Urlwin

Airways Corporation of New Zealand Ltd, Deputy Chair

Babcock & Brown Infrastructure Group, Shareholder (through Maigold Holdings Ltd)

Christchurch College of Education, Councillor

Clifton Creek Ltd, Director/Shareholder

Landcare Research New Zealand Ltd, Deputy Chair

Maigold Holdings Ltd, Director/ Shareholder

New Zealand Blood Service, Board Member

New Zealand Cricket, Director

New Zealand Domain Name Registry Ltd, Chair

Trustpower Ltd, Bondholder
(through Maigold Holdings Ltd)

Urlwin Associates Ltd, Director/Shareholder

Timothy Lusk

Telecom New Zealand Ltd, General Manager Wholesale Services/Shareholder

Catherine Drayton

No Disclosures

David Shand

No Disclosures

Kepa Morgan (Resigned 30 April 2006)

Haumingi 10A 2B Papakainga Trust, Chairman

Mahi Maioro Professionals, Managing Director

University of Auckland, School of Engineering, Associate Dean Maori, Senior Lecturer

Statutory Information (Continued)

There were no specific disclosures of interest under Section 140 (1) of the Companies Act 1993, in addition to those general disclosures set out on page 52.

Information Used by Directors

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

Indemnification and Insurance of Officers and Directors

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

Directors' Remuneration – Meridian Energy Ltd

	PARENT
	2006 DIRECTORS' FEE ($'000)
Wayne Boyd	65.0
Kepa Morgan *(resigned 30 April 2006)*	28.8
Anne Blackburn	36.5
Anne Urlwin	37.3
Timothy Lusk	36.0
Raymond Watson	33.3
Catherine Drayton	6.2
David Shand	6.2
TOTAL	**249.3**

Directors' Remuneration – Subsidiaries

	SUBSIDIARIES
	2006 DIRECTORS' FEE ($'000)
Peter Lowe *(Southern Hydro Pty Limited)*	24.5
Mark Snape *(Southern Hydro Pty Limited)*	17.1
Peter Menzies *(DamWatch Services Limited)*	6.0
Stanley Brogan *(DamWatch Pty Limited)*	6.4
Stanley Brogan *(Meridian Energy Australia Investment Pty Ltd)*	18.1
TOTAL	**72.1**

Meridian executives appointed Directors of subsidiaries do not receive any Directors fees.

Statutory Information (Continued)

Shareholders

Shareholder Information

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

Employees

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

Executive Remuneration

In accordance with Section 211(1)(g) of the Companies Act 1993, the number of employees or former employees, not being directors of the company, who during the year received remuneration and any other benefits, the value of which exceeded $100,000 is outlined in the table below. These remuneration amounts include a one-off payment to employees in relation to the sale of Southern Hydro Pty Ltd.

	2006	
	PARENT	SUBSIDIARIES
$100,000 – 109,999	25	5
$110,000 – 119,999	28	–
$120,000 – 129,999	21	3
$130,000 – 139,999	21	–
$140,000 – 149,999	10	1
$150,000 – 159,999	18	1
$160,000 – 169,999	13	–
$170,000 – 179,999	7	–
$180,000 – 189,999	5	–
$190,000 – 199,999	3	–
$200,000 – 209,999	6	–
$210,000 – 219,999	4	–
$230,000 – 239,999	1	–
$240,000 – 249,999	2	–
$250,000 – 259,999	2	–
$260,000 – 269,999	1	–
$270,000 – 279,999	1	1
$280,000 – 289,999	3	–
$290,000 – 299,999	1	–
$310,000 – 319,999	–	1
$320,000 – 329,999	2	–
$340,000 – 349,999	1	–
$380,000 – 389,999	1	–
$390,000 – 399,999	1	–
$420,000 – 429,999	1	–
$450,000 – 459,999	1	–
$500,000 – 509,999	1	–
$510,000 – 519,999	1	–
$1,220,000 – 1,229,999	1	–

Verification Statement

Scope and Approach

URS New Zealand Limited (URS) has carried out an independent audit of the Meridian Energy (Meridian) Report for Year Ending June 2006, to provide readers assurance on whether the Report is accurate and adequately provides information of material interest regarding the company's performance. The AA1000 Guidelines for verifying a report's materiality, completeness and responsiveness were used as a basis for the audit.

Our approach has been to

- Review the draft Report and supporting information (including files, data sources, correspondence);
- Assess sustainability context and main issues;
- Meet with a range of internal report contributors and to verify that the content is accurate and contains appropriately detailed information on issues of material significance to stakeholders;
- Identify errors or weakness in content and provide feedback to Meridian and verify the Final Report.

The scope of assurance covered Our Operations, Our Performance, Chairman and Chief Executive Report and New Zealand Stories of 2006 in the Meridian Energy Report for Year Ending June 2006 and Our Performance section on the accompanying CD.

Independence

URS worked on a number of projects with Meridian Energy during the period covered by the Report. There is no aspect of the relationship that has influenced the independent nature of the verification findings.

Accuracy

On the basis of the described audit methodology, URS verifies that the content of the Meridian Energy Report for the Year Ending 2006 provides an accurate description of the company's performance.

Meridian's Report provides a high level of exactness and low margin of error. Reporting and information systems are further improved. Some minor discrepancies were identified during the process; however these were corrected by Meridian.

Materiality and Completeness

The Report provides a reasonably balanced representation of the organisation's performance with appropriate reference made to the previous years' report to provide stakeholders with information on progress over time. The detail of reporting especially in regards to resource use, has further improved. Reporting on areas of poorer performance would benefit from more extensive discussion of future plans.

Meridian continues with a high level of commitment to renewable generation and sustainability has become further integrated throughout different business units, which is reflected in the Report's structure.

In addition to reporting on performance and its activities, Meridian uses the Report to provide commentary on the key issues facing the industry thus improving its materiality.

Responsiveness

Meridian's work with its stakeholders on renewable generation projects and the customer educational role it aspires to in the field of energy efficiency resonates throughout the Report. The stakeholders' opinions are this year more extensively presented in the video interviews.

We commend Meridian on their evident commitment to continuous improvement and to achieving more sustainable outcomes.

URS New Zealand Limited
22nd September 2006

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