meridian

Meridian Annual Report

for the year ending 30 June 2008

HIGHLIGHTS & CHALLENGES

NZ

NEW ZEALAND'S SUSTAINABILITY JOURNEY BEGINS WITH RENEWABLE ENERGY

FINANCIAL HIGHLIGHTS

PROFIT AFTER TAX:
$128.6m

TOTAL OPERATING REVENUE:
$2,603.5m

DIVIDENDS PAID:
$297.9m

TOTAL CUSTOMERS:
183,000

Renewable generation

WEST WIND – WELLINGTON

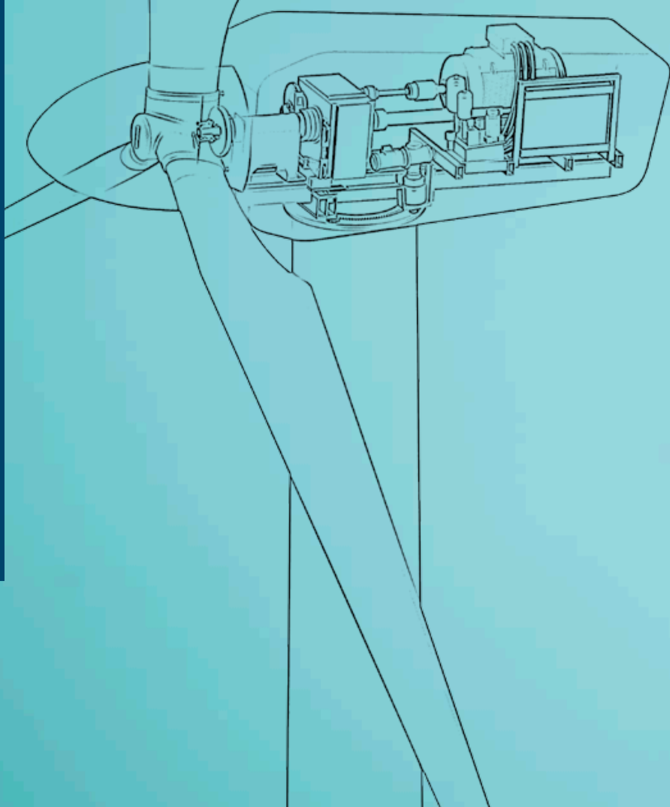
We began construction in September 2007 of what will be New Zealand's most productive wind farm. 62 turbines will give a peak output of 142.6MW and provide 570GWh of renewable power each year. Completion is scheduled for the end of 2009.

ANTARCTIC WIND FARM

We are working with Antarctica New Zealand to develop a 3 x 330kW turbine wind farm at Ross Island, which Meridian will own and operate. It will supply power to, and link the electrical grids of both McMurdo Station and Scott Base reducing power generation fuel consumption by 463,000 litres per year. The wind farm will be completed in February 2010.

WHITE HILL WIND FARM – SOUTHLAND

In October 2007, we completed and fully commissioned White Hill – a wind farm near Mossburn in Southland. The 29 turbines supply 58MW and 230GWh.



Innovation

We launched Right House

We launched Right House during the year to provide comfortable, healthy and energy efficient homes by providing a single source for advice and products. Right House started commercial operations in Auckland, Wellington and Christchurch this financial year.

50,000 SMART METERS. WE REACHED THE MILESTONE OF 50,000 ARC INNOVATIONS' SMART METERS INSTALLED IN CHRISTCHURCH BY MAY 2008, WELL ON THE WAY TO A FINAL TARGET OF 100,000 CUSTOMER INSTALLATIONS.

QUEENS WHARF – WELLINGTON

We moved into our new five-star Green Star rated building in October 2007. We won two prizes in the Property Council New Zealand Awards for 2008 – 'Best Commercial Office Building' and 'Best Green Building'.

Challenges

WINTER LAKE LEVELS

We managed a difficult and complex situation – a "perfect storm" of adverse events – during the autumn and winter of 2008. In addition to the second lowest hydro lake inflows on record, there were unexpected thermal plant outages and decommissionings in the North Island.

CO_2

CARBONZERO[certTM] STATUS

We extended our carboNZero[certTM] certification during the year. Our certification covers the electricity we supply to customers and we are working on achieving carbon neutral certification for the whole of the Meridian Energy Group.

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A time of challenge and opportunity

Chairman's and Chief Executive's Report

Wayne Boyd
Chairman

We anticipate that the depleted state of our storage lakes at year end will impact our business for a further 12 to 18 months and we have adjusted our planning and costs accordingly.

Certain risks go with a business based on rainfall and wind as fuel. These are well known and they are managed.

Against this background Meridian Energy in the 2007/08 financial year faced the most demanding operating environment in our nearly ten-year history. Our profit of $128.6 million after tax for the period, compared with $241.2 million in the 2006/07 year*, is testament to the demands of that environment.

Further, we anticipate that the depleted state of our storage lakes at year end will impact our business for a further 12 to 18 months and we have adjusted our planning and costs accordingly.

Several unusual and unplanned events for the electricity industry conspired to make this winter more difficult than the dry inflow years of 2001, 2003 and 2005. These included:

- the sudden shutdown of Pole 1 of the HVDC link
- deferred investment in the AC grid resulting in ongoing transmission constraints and outages impacting on market operations
- the sudden closure of the New Plymouth power station
- prolonged outages of thermal generating plant through late summer and autumn
- the way the Government's reserve energy plant at Whirinaki was used in the market.

The whole industry had to dig deep as we were challenged by the most unusual and extreme physical and financial dynamics that were being played out. Outstanding individual company and combined industry effort was pivotal in getting New Zealand through a very tight energy situation.

We applaud all of that effort; including the comprehensive and often extreme efforts of our own staff and our customers, contractors and suppliers.

As a company we put our customers first. We paid the price to ensure our customers could continue to enjoy a secure supply of electricity.

We learned much that will make us even more resilient as a business and we reached conclusions on the issues we must work with the industry to resolve if we are to fully restore the confidence of New Zealanders in their electricity supply.

**Previously reported profit figure for 2006/07 restated under New Zealand International Financial Reporting Standards.*

Tim Lusk
Chief Executive

In particular, Meridian Energy is committed to working closely with all parties on initiatives already underway to:

- facilitate greater use of long–term hedges
- improve the effectiveness of investment decision-making for grid transmission
- restore the HVDC Pole 1 link to partial then full capacity as soon as possible
- review from first principles the role of the Whirinaki reserve energy plant
- speed up resource consenting for new generation without diluting the ability for New Zealanders to have their say.

We share a strongly emerging industry view that transmission pricing could be improved. The effect of a highly constrained HVDC and AC grid on the economic operation of the market this year has reinforced the need to review how these large investments are financed. Meridian Energy will join this discussion with a strong resolve to get a better outcome for investment efficiency at large.

In all other respects, Meridian Energy met or exceeded our targets, and we are proud of our achievements.

One of our major highlights has been to commence construction of Project West Wind near Wellington. When completed by the end of 2009, it will double our wind capacity and provide electricity for the equivalent of some 75,000 average households. It will also help reduce significantly AC transmission network constraints and facilitate the all-important south flow on the HVDC link. In addition, it will provide a substantial increase in the security of supply for the lower North Island. The long spell of dry weather has had the beneficial side effect of speeding progress with the major earthworks necessary on this demanding site.

We continue to build and develop our generation capacity, with a portfolio of proposals to add significant amounts of new wind and hydro generation within the next few years. This will give us greater flexibility and capacity to deal with extreme weather patterns.

However, our renewable energy project pipeline is challenging against a backdrop of movement in the costs of materials, exchange rates, and what are too often turning out to be lengthy and expensive resource consenting processes.

Mitigating these factors, we have some of the highest quality wind sites and access to turbines through our scale and quality of supplier relationships. Meridian Energy is determined to play a major part in helping New Zealand meet its 90 percent renewable generation target, and we remain confident that this will be the case.

Chairman's and Chief Executive's Report

To be a real leader, we are committed to shifting the focus from not just operational excellence, but taking sustainability to a strategic level that will guide and direct our company's future direction.

Meridian Energy continues to work on transforming how it interacts with its customers, recognising that they have seen very little in the way of value from more than a decade of upheaval in the electricity sector, with rising prices rarely accompanied by any corresponding improvement in service or choice.

We are determined to change this, and are proud to lead the way towards a vastly improved standard of service for customers by installing smart meters in more than 100,000 Christchurch households. Work on transforming the customer experience is also starting to deliver on this promise, with the re-modelling of our key customer touchpoints such as our contact centre and the My Meridian web portal, both of which are well underway.

As a responsible corporate citizen we are keenly aware of the impact on New Zealand families of the steep rise in living costs over the last year. In response, we have sought this year to keep our electricity price rises to a minimum, and are currently very competitively priced across most of the country.

Competition is alive and getting hotter in retail. During the year our competitors moved quickly to establish their 'green' credentials following the New Zealand Energy Strategy which emphasised the role of renewable generation.

Supporting our retail goals are plans for a revised product portfolio, redesigned service experience and a repositioning of the brand to reflect Meridian Energy's view of the future – both for the electricity sector and for New Zealand as a whole.

But this is not enough. To be a real leader, we are committed to shifting the focus from not just operational excellence, but taking sustainability to a strategic level that will guide and direct our company's future direction. Work is currently underway to develop a framework that describes a sustainable future for Meridian Energy and that measures our performance and progress towards that future.

Central to this approach is the need for strong, reciprocal relationships with our customers, communities, suppliers and partners.

In keeping with our carbon neutral aspirations, this year we completed an inventory of greenhouse gas emissions for the full Meridian Energy Group. This has put us in a fully informed position to set emission reduction goals and targets. As well as being essential to retain our carboNZero certTM certification, it will continue to keep all of Meridian Energy focused on day-to-day actions that we can take as a company based on sustainability.

Our leadership capacity continues to grow and is being stretched by the targets we are setting ourselves.

As our customers, communities, cities and indeed other countries where we do business, turn urgently to defining their roadmaps to achieve a more sustainable, low carbon future, Meridian Energy's small portfolio of clean technology subsidiaries is strongly supporting our overall credentials to be a utility partner of choice.

Our direct knowledge and track record in renewable generation development and operation, carbon markets, industrial greenhouse gas emission reduction, carbon neutral electricity retailing, smart metering and home energy efficiency is creating a unique and sought after customer value proposition.

The Board and Management Team remain confident that we have a sound strategy whose time has come.

We have again been reminded of the quality and loyalty of our staff and the reasons they choose to work for the company. Our leadership capacity continues to grow and is being stretched by the targets we are setting ourselves.

A key focus for the Board and Management Team in the period ahead will be ensuring that all is done to continue to develop our people as highly respected leaders in their field and in their communities.

All of this in turn will help us become trusted and valued partners as the industry works together to meet New Zealanders' aspirations for future generations.

Of course, it cannot pass without mention that we have seen significant change at the company level with the departure of our founding Chief Executive, Dr Keith Turner.

Meridian Energy and New Zealand owes a huge debt of gratitude to Keith for the vision, the unbounded energy and the passion he brought to his task.

Our Operations

Meridian is New Zealand's largest electricity generator, supplying electricity to over 180,000 residential, business and rural customers throughout the country. Our electricity is generated from renewable resources. Currently we operate nine hydro stations in the South Island, two wind farms, one in the Manawatu in the lower North Island and one in Mossburn in Southland and a wind turbine in Wellington.

Assets

Te Āpiti Wind Farm

Te Āpiti is Meridian's first New Zealand wind farm and the first wind farm to supply electricity into New Zealand's national grid. Its 55 turbines have a generation capacity of 90MW – enough to power around 32,000 average sized households.

Wellington Wind Turbine

New Zealand's first viable, commercial wind turbine, it was installed in 1993 and has a maximum capacity of 0.23MW – enough to power around 80 average households.

White Hill Wind Farm

White Hill in Southland is the first wind farm in the South Island. It was officially opened on 8 June 2007. Its 29 turbines have a generation capacity of 58MW – enough electricity to power around 20,000 average households.

Manapouri

New Zealand's largest hydro power station, Manapouri was voted New Zealand's greatest engineering achievement in 2006. The station is underground, 200 metres below the West Arm of Lake Manapouri. Commissioned in 1972, Manapouri's generation capacity of 840MW (operational limit is 710MW) is enough to power around half a million average households.

Waitaki Hydro Scheme

The Waitaki hydro scheme consists of eight power stations in the Mackenzie basin and Waitaki Valley, from Lake Tekapo to Lake Waitaki, all operated from a control centre in Twizel. The first station (Waitaki) was commissioned in 1935, and the last (Ohau C) in 1985.

Tekapo A Commissioned in 1951, Tekapo A was the second power station in the Waitaki Hydro Scheme. Its generation capacity of 25MW is enough to power around 15,000 average households.

Tekapo B Commissioned in 1977, the Tekapo B power station is essentially an island in the middle of Lake Pukaki, connected to shore by a 75-metre-long bridge. Its generation capacity of 160MW is enough to power around 83,000 average households.

Ohau A Ohau A is located on the man-made Ohau canal. Water from Ohau A passes into Lake Ruataniwha, which is the site of an international rowing course. Commissioned in 1979/80, Ohau A's generation capacity of 264MW is enough to power around 110,000 average households.

Ohau B and C Twin stations Ohau B and C were the last power stations in the Waitaki hydro scheme to be commissioned, in 1984 and 1985 respectively. Their combined generation capacity of 424MW is enough to power around 185,000 average households.

Benmore When Benmore power station was commissioned in 1965 it was the largest dam in the Southern Hemisphere. Benmore's generation capacity of 540MW is enough to power around 215,000 average households.

Aviemore Aviemore power station was commissioned in 1968. It houses New Zealand's first artificial trout spawning stream, allowing fish to reach spawning grounds above the dam. Its generation capacity of 220MW is enough to power around 90,000 average households.

Waitaki The first power station on the Waitaki river was built with picks and shovels during the 1930s Depression. Commissioned in 1935, Waitaki's generation capacity of 90MW is enough to power around 47,000 average households.


Project Gumfields
Auckland
Mohaka
Te Āpiti
Wellington
– Project West Wind
– Brooklyn
Nelson
Mokihinui
Christchurch
Tekapo A
Tekapo B
Twizel
Ohau A
Ohau B
Ohau C
Benmore
Aviemore
Hunter Downs Irrigation
Waitaki
North Bank Tunnel Concept
Manapouri
Project Hayes
White Hill

Our Operations cont

Under Construction

Project West Wind

West Wind is a wind farm currently under construction at Makara, near Wellington. It will have 62 turbines capable of generating 142.6MW. Construction started in September 2007 with first power expected in late 2008 or early 2009.

Offices

Wellington Head Office

Wellington Meridian staff operate out of New Zealand's first five-star Green Star rated building located on Wellington's waterfront. Designed to use 60% less energy and 70% less water than comparable office buildings, it is the first New Zealand office building designed and constructed using Ecologically Sustainable Development principles.

Twizel Office

Sited on land that was once part of the Ruataniwha Station, Twizel was constructed as the base for the Upper Waitaki Power Development. The Twizel Office is located a short distance from the Twizel township centre.

Christchurch Office

Meridian's Christchurch office is located at 322 Manchester Street. The Meridian call centre, credit control, and billing systems staff operate from this location.

Proposed Developments

Project Hayes

Project Hayes is a proposed wind farm on the Lammermoor Range northwest of Dunedin. The proposed farm would have up to 176 turbines generating up to 630MW. It is named after Central Otago engineer and inventor Ernest Hayes, one of the first New Zealanders to harness wind power for commercial use. A resource consent decision is pending.

Project Gumfields

Project Gumfields is a proposed wind farm development near Ahipara in Northland. A Department of Conservation concession is currently being sought for the project.

North Bank Tunnel Concept

A proposal to generate electricity by taking water from Lake Waitaki through a tunnel and power station and discharging it back into the Waitaki River about 34 kilometres downstream. The concept would have a generation capacity of 200-280MW. The concept is in the hearing stage of water-only resource consents.

Mokihinui

We are investigating the potential for a hydro development with potential for up to 60MW of generation on the Mohikinui River in northern Westland.

Mohaka

This is a hydro development investigation on the lower Mohaka River with potential for up to 44MW of generation in the eastern North Island, south of Wairoa.

Hunter Downs

Hunter Downs is a proposed irrigation scheme being developed as a joint initiative between Meridian and the South Canterbury Irrigation Trust (SCIT). Consents to take and use Waitaki River water sufficient to irrigate 40,000 ha have been applied for. Meridian and SCIT propose to develop the irrigation scheme on a build, own and operate basis.

Project Central Wind

Central Wind is a proposed wind farm located across five privately-owned rural properties in the central North Island. The site is located between Waiouru and Taihape, with the smaller settlement of Moawhango lying to the east. Project Central Wind would have 52 turbines with an estimated combined generating capacity of about 120-130MW, enough to power up to 50,000 average homes.

Project Mill Creek

Mill Creek is a 31-turbine wind farm proposal for the Ohariu Valley, north-west of Wellington. The project was conceived more than 10 years ago when a group of farmers in the area were looking for ways to keep their farms viable in the longer term. Wind farming appealed to them as it was a way of preserving the lifestyle and rural character of the area. Mill Creek will generate enough renewable energy to power the equivalent of 35,000 average homes.

Energy facts

Total New Zealand grid-connected electricity generation in the June 2008 year was 39,493 gigawatt hours. A further 3,000 (approximate) gigawatt hours of generation is embedded within distribution networks. In the last financial year, 63 percent of electricity for sale to consumers was generated using renewable resources, a decline on last year due to the extra generation required from thermal plants. Meridian's contribution to total New Zealand electricity generation was 11,914 gigawatt hours, approximately 30 percent of the country's supply.

How much power?

	NUMBERS OF GENERATORS	PLANT CAPACITY MW	TOTAL GWh PRODUCED 2007/08	TOTAL GWh PRODUCED 2006/07
Tekapo A	1	25	**124**	146
Tekapo B	2	160	**743**	838
Ohau A	4	264	**1,047**	1,084
Ohau B	4	212	**872**	909
Ohau C	4	212	**862**	902
Benmore	6	540	**1,975**	2,143
Aviemore	4	220	**833**	908
Waitaki	6	90	**435**	470
Manapouri	7	730	**4,546**	4,954
Te Āpiti	N/A	90	**322**	323
White Hill	N/A	58	**155**	1
Total	38	2,601	**11,914**	12,678

Note: This table excludes generation provided by industry where Meridian acts as an agent.

It means watt?

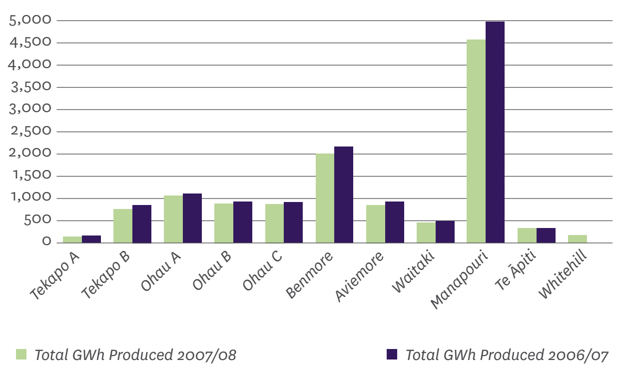
kW = 1,000 watts

MW = 1,000 kW

GW = 1,000 MW
passing through a given point over an hour

Electricity is not stored in measurable units but passes through appliances when we switch them on.

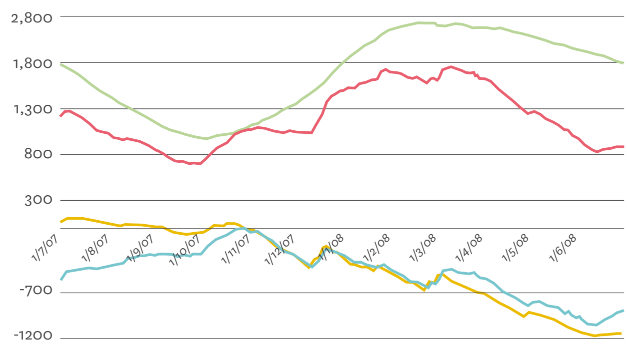
MERIDIAN'S GENERATION 2006/07 VS 2007/08



Generation

The winter of 2008 was one of the toughest on record for Meridian.

WAITAKI STORAGE INFLOW



A Challenging Year

The winter of 2008 was one of the toughest on record for Meridian. Though different from the experiences of 2001, 2003 and 2005, the effects of prolonged drought in both the North and South Islands were complicated by a number of other factors creating what many in the sector have described as the "perfect storm".

Some of these complicating factors included:

- the sudden and early HVDC shut-down on top of deferred and delayed investment in the AC network resulting in ongoing transmission constraints and outages impacting on market operations
- the sudden closure of the New Plymouth power station
- prolonged thermal outages through late summer and autumn.

This combination of external factors demanded that Meridian operate conservatively throughout the year, particularly after the HVDC Pole 1 was removed and New Plymouth was decommissioned. The Waitaki lakes started and ended the year with storage below average and inflows were 1,146GWhs below average. However, our management of storage meant that the decline in Waitaki storage year on year was 70 percent less than the lower inflows imply.

Drawing on the lessons learned in previous dry years, we instituted a prudent and responsible management programme, which continues as we emerge from winter into the 2008/09 year.

The electricity market experienced unprecedented impacts during the year from the operation of the Government's reserve energy plant at Whirinaki. Established following the dry year of 2003 to ensure security of supply for New Zealand, Whirinaki was always acknowledged as a second best outcome for the New Zealand electricity market, as it was expected to impact on the ordinary market due to its location and offer strategy. The reserve plant has never been a market plant and the focus has always been to minimise its market impacts. The second best outcome was evident in the 2007/08 year when the sharp increase in international diesel prices fed into the Whirinaki offer price, which in turn translated into steeply rising wholesale electricity prices.

The low lake levels influenced Meridian's financial performance through the need to purchase electricity from the spot market at much higher prices in order to support fixed price commitments to customers. During the previous financial year, average spot market prices were $51 per MWh, compared with this year averaging $111 per MWh, with prices peaking during June 2008 when they averaged $356 per MWh.

Meridian owns and operates the largest portfolio of renewable electricity assets in New Zealand, providing around one-third of the country's generation.

Each time we experience extraordinarily low hydro inflows, Meridian and the rest of the electricity industry refine the tools for dealing with these events. This year Meridian was very encouraged by the joint industry approach of the Winter Task Force, as well as the public savings campaign which helped to limit demand and ensure a market was maintained in both the North Island and South Island.

Meridian worked to ensure the best possible response to the challenges of the low hydro inflows, developing a range of tactics to protect storage, promote energy conservation to customers and maximise southward flow on the inter-island HVDC link.

Of particular note is the contribution Meridian's two wind farms made, generating around 478GWh of electricity during the 2007/08 year.

A heritage of excellence in renewable generation

Meridian owns and operates the largest portfolio of renewable electricity assets in New Zealand, providing around one third of the country's generation. Since making a commitment in 2004 to remain a 100 percent renewable generator, Meridian has pursued excellence in its generation operations by making significant investment to upgrade systems and generation facilities.

A highlight was the multi-million dollar half-life upgrade of Manapouri, New Zealand's largest hydro station. This was completed during the 2007/08 year and represents the first major work on the station since it was commissioned in the late 1960s. The Manapouri half-life upgrade was a major capital investment and was completed on time and within budget, while at the same time implementing a number of innovative engineering and management techniques.

Upgrading and improving the efficiency of existing plant delivers significant sustainability benefits, including better environmental monitoring and protection systems, as well as better reliability and plant utilisation.

We began refurbishment of the 540MW Benmore station – the largest in the Waitaki chain – during the 2007/08 year. It will deliver substantial improvements in efficiency and reliability of the turbines as well as a significant increase in the amount of electricity generated each year from the same volume of water.

Meridian achieved outstanding plant availability and reliability during the 2007/08 year. This helped Meridian maintain the reserve capacity needed to ensure the reliability of the national grid.

Retail

Transforming our customers' experience

Meridian continues to work on transforming how it interacts with its customers – an increasingly exciting and innovative part of our journey.

We recognise that customers have seen very little in the way of value from more than a decade of change and upheaval in the electricity sector, and rising prices have not been accompanied by any corresponding improvement in service or choice.

We are determined to change this. Project Phoenix, focused on transforming the customer experience, has started to deliver on this promise. Transformation of our key customer touchpoints, such as the contact centre and the My Meridian web portal – are well underway. My Meridian is particularly exciting, bringing a new, personalised experience for Meridian customers whilst offering groundbreaking levels of usability, convenience and information.

Supporting these changes are plans for a revised product portfolio, redesigned service experience and a repositioning of the brand, all of which are designed to further reinforce our great value and sustainable energy propositions.

We realise that technology and good old-fashioned service go hand-in-hand these days, so a focus on enhancing our people capability has been matched with aspirations to offer low cost, great value convenience by deploying the likes of web, text and email offerings, making it easier to stay in touch.

We are proud to lead the way towards a vastly improved standard of service for customers by installing smart meters in more than 100,000 Christchurch households. These meters will give customers considerably more control over their use of power, and serve as a platform for a range of innovative offerings of value to our customers which our retail business is well advanced in developing.

In the last year, New Zealanders have been faced with increased costs of living. In response to this, we have sought to keep our electricity price rises to a minimum and accordingly our pricing tariffs across the country are competitive.

Internally, we are focused on the replacement of our core retail systems to ensure they can support our transformation programme. Significant progress has been made in developing a solution and a key partner chosen and planning work well underway.

Customer satisfaction among our small and medium enterprise clients is the highest we have ever recorded and is well above the market average. Residential customer satisfaction has been tracking up over the past three years and we will continue to maintain this momentum.

Customer satisfaction among our small and medium enterprise clients is the highest we have ever recorded and is well above the market average.

Demand and supply

Meridian's hydro storage lakes tend to receive most of their fuel (water) in late spring and summer but this is subject to the variability of weather patterns – when and where the rain falls. This means Meridian is well-suited to supply customers who use irrigation schemes in summer.

In planning generation projects, Meridian now looks closely at local demand and opportunities for growth. In the past, generation projects have tended to be based around engineering, technical and consenting factors.

We are looking more and more at how to match demand with supply. The West Wind project at Makara, west of Wellington, is an example. It will double Meridian's wind generation capacity when completed by the end of 2009. It will also provide an opportunity for Meridian to build its market presence in Wellington.

We are talking with local and regional councils to develop programmes to encourage energy efficiency and conservation among retail and commercial customers.

As Meridian builds new generation assets – for instance the recently announced Central Wind project – they will be matched more closely to local customer offers and demand.

The dry year of 2007/08 has temporarily affected our retail growth, but our long term aspiration is to grow customer numbers as we continue to develop generation opportunities.

Market segments and competition

Meridian is strong in the corporate/commercial market and provides electricity to New Zealand's single biggest customer, the Rio Tinto Alcan aluminium smelter at Bluff.

We also have a growing market share in the rural sector (particularly in Canterbury) and see significant opportunities for growth in the future, especially given the match between Meridian's generation profile and irrigation schemes.

In the household market Meridian is the major electricity retailer in Christchurch and in Northland.

Acquiring new customers and diversifying, both regionally and by sector, is a focus for the coming year and beyond. But that will take time and will require resources and a balancing of our other responsibilities.

We believe we will have a winning combination: 100 percent renewable electricity, great value, the best service and a growing number of exciting new services and products for our customers.

Our Year in Review

Meridian's proposal to build and operate the Ross Island wind farm in Antarctica is an example of innovation and a demonstration of our commitment to sustainability.

Renewable generation

Over the past four years, Meridian has gained increased experience in designing, consenting and constructing major renewable generation projects. Our project teams have delivered quality wind farms in challenging locations and have developed significant expertise in managing the technical complexity of major developments in both New Zealand and Australia.

In the past year, the 58MW White Hill wind farm in Southland was completed following an event in June 2007 to celebrate first power. Both White Hill and Te Āpiti wind farms have made a valuable contribution to Meridian's generation capacity during the 2007/08 year.

Beginning construction on the 142MW Project West Wind during the year was a major milestone for Meridian. West Wind, with 62 turbines of 2.3MW each, will be the best wind farm in New Zealand. As a result of its size and high load factor, it will provide enough power for most of the households in the Wellington region. First power is expected early next year with completion due by the end of 2009, a little over two years after construction began.

Meridian's proposal to build and operate the Ross Island wind farm in Antarctica is an example of innovation and a demonstration of our commitment to sustainability. The wind farm will incorporate three turbines of 330kW each and will provide power to, and link the grids between, McMurdo Station (operated by the United States) and New Zealand's Scott Base. It will reduce annual fuel consumption used for power generation at the two stations by 463,000 litres. Construction is due to begin this summer with the installation of turbine foundations and electrical equipment, to be completed in the following summer season (2009/10).

Meridian is also active in Australia, following the experience it gained buying, operating, developing and then selling Southern Hydro Limited. Landowner agreements have been secured for the proposed 330MW Macarthur wind farm in Victoria, which achieved Ministerial approval to proceed in late 2006. Meridian has a joint venture development agreement with AGL to design and construct this wind farm. Work is underway on final planning approvals and transmission agreements. Construction is expected to start in early 2009.

Upcoming consenting projects

In New Zealand, Meridian's focus continues on consenting and developing a balanced portfolio of renewable generation projects. In the South Island this includes a mix of hydro and wind opportunities, while in the North Island it is mainly wind because of the limited availability of suitable hydro generation sites.

The 176 turbine Project Hayes wind farm, around 70km northwest of Dunedin on the Lammermoor Ranges, would provide up to 630MW of renewable power and provide a huge boost to South Island and national security of supply. The project was granted resource consent in October 2007 but was appealed to the Environment Court. The appeal hearing commenced in May 2008, but has since been adjourned until early 2009.

Two North Island wind projects were progressed in the past year: Mill Creek and Central Wind. Resource consent applications for Mill Creek, a proposed 71MW wind farm north of Project West Wind near Wellington, were lodged in March 2008 and the hearing process is underway. Applications for the 130MW Central Wind project north of Taihape were lodged in June 2008.

The Mokihinui Hydro Project, a proposed 80-100MW dam on the West Coast of the South Island, would provide enough power for the region and significantly boost security of supply in an area fed by one of the longest transmission routes in the country. The resource consent hearing for this project commenced in August 2008.

In South Canterbury, Meridian is seeking water only consents for the North Bank Tunnel Concept, a proposed 200-285MW hydro scheme on the lower Waitaki River, as well as for the Hunter Downs irrigation scheme, which would also utilise water from the Waitaki River and irrigate a large area of South Canterbury.

Meridian is also proposing an increased water discharge for the Manapouri hydro station which would improve the efficiency of the station, highlighted as a priority as a result of this winter's power situation. There has been extensive consultation with stakeholders during the preparation of the Assessment of Environmental Effects and lodgement of this proposal is expected by the end of 2008.

Our Year in Review cont

Our People

The key to Meridian being a sustainable business is tapping the potential of our people, building on their high levels of expertise and providing them with the leadership to motivate them to contribute to Meridian's journey.

We recognise there have been challenges during the year meeting the demands of growth, and working to meet the targets we have set to transform the customer experience.

The past year has seen a focus on refining our new organisational structure, improving leadership and facilitating the development of our people. An important aspect of this is our induction procedure for new staff.

We have focused our efforts on the support provided to managers, with an emphasis on ongoing development and capability building.

The move to the new Queens Wharf building in October 2007 was a significant and positive event for Wellington based staff. The new people focused and energy-efficient premises has already improved staff morale and appear to have improved perceptions of Meridian as a positive and employee friendly place to work.

Meridian has brought staff recruitment in-house as it believes this process is the logical start for inducting and training staff. It better exposes potential staff to the Meridian Way, the philosophy underpinning how we work, and Meridian can also more closely align potential new staff with the company's business objectives.

Health, safety and wellness remain a top priority for Meridian. A strengthened Health and Safety Team has helped Meridian improve hazard reporting, as well as reduce lost-time incidents compared to the previous year.

Te Ao Māori

Meridian continues to invest in its Te Ao Māori programme – a two day marae based experience that aims to increase understanding of Māori customs and beliefs among its staff.

The programme covers marae protocols, Māori concepts, language, history, the Treaty of Waitangi, Māori consultation processes and protocols, as well as Meridian's commitment to engaging with iwi in an inclusive and positive way.

Meridian already works closely with iwi, particularly on the management of consents to operate South Island hydro power schemes, as well as on new proposals throughout New Zealand. The Te Ao Māori programme is helping to build Meridian's internal capacity to work with Māori in a meaningful and mutually beneficial way.

Our Health and Safety Statistics

CATEGORY	QUANTITY
Fatal	0
Serious Harm	1
Lost Time Incident	4
Medical Treatment	30
First Aid Treatment	24
Near Miss Incident	273
Positive Observation	100

Meridian provides electricity to around 183,000 customers, which includes households, farms, and businesses throughout New Zealand.

Our Customers

Meridian provides electricity to around 183,000 customers, which includes households, farms, and businesses throughout New Zealand.

As well as supplying carboNZero[certTM] certified electricity, we are very competitive in our pricing structures. We have also offered a low user tariff to our customers for the past six years in line with Government requirements.

Our customers include New Zealand's largest single power user, Rio Tinto Alcan's aluminium smelter, which takes around 40 percent of our generation. Rio Tinto Alcan is a long standing key customer and we are focused on servicing its needs. The smelter is highly significant for the Southland region and New Zealand in terms of the jobs and the export earnings it provides.

We have large concentrations of retail household customers in Christchurch and Northland as well as customers throughout the rest of New Zealand. The retail electricity sector is becoming more competitive and we closely monitor our 'churn' rate.

Providing safe and reliable electricity is a responsibility which we take very seriously. We communicate with our customers about how to make better use of electricity as well as listening to what they say about the services we provide. Our retail customers receive the quarterly newsletter *Currents*, as well as information about new services, pricing changes or other issues we feel they should be aware of. The ongoing installation of smart meters in Christchurch is a project which will significantly improve the way we communicate and interact with our customers, and will provide increasing benefits to householders in the future.

We measure our customer satisfaction levels by regular surveys conducted by Colmar Brunton. Our goal is to continue to improve our survey approval ratings. We achieved that with our residential customer satisfaction rising over the year from 55 percent to 60 percent whilst our SME statistics show a steady rise from 46 percent to 52 percent.

We also conduct in-depth research to find out what our customers think about us. We segment this into our residential, small business and corporate customers and the results are heartening. Our overall performance in both small business and corporate markets over the past two years ranks us better than our competitors and in the residential segment we were ranked second.

We measure attributes such as the quality of our call centre staff, how effective our tips on electricity consumption are, how we resolve problems and whether we are providing accurate billing.

The results of this research help to shape the improvements we are continually making to Meridian's customer experience.

Our Year in Review cont

Meridian interacts with communities all over New Zealand as a result of its generation operations, the investigation and development of new generation projects, as well as through the retailing of electricity in urban and rural areas.

Our Communities

Meridian interacts with communities all over New Zealand through our generation operations, the investigation and development of new generation projects, and the retailing of electricity in urban and rural areas.

Meridian aims to engage with communities in an open and transparent manner and to strengthen and help communities develop in a sustainable way.

Generation communities

Over the past three years, Meridian has implemented a new and innovative method of providing funding to generation communities through the community fund model. Three community funds, established for the Waitaki hydro scheme, the Manapouri-Te Anau area, and the Te Āpiti wind farm, have enabled opportunities for community engagement and are supporting real and valuable community led initiatives.

Each fund is run by a panel comprising community representatives and Meridian staff, who together review community proposals and allocate funding. Funding decisions are based on a set of objectives developed in consultation with the communities, as well as reflecting Meridian's intention to assist sustainable community development.

The funds provide an opportunity for community members to have a real voice and input into the local initiatives that get supported and funded.

The Waitaki Community Fund is providing $1 million over three years for community led initiatives. The variety of projects supported by the fund includes environmental restoration, community events and facilities, school projects, health and safety enhancements and recreational projects.

The Manapouri-Te Anau Community Fund has been allocated $500,000 over three years and one of the objectives is providing access to local health services. Significant funding has been provided to help build a community health centre and an upgrade of a school outdoor recreational area, as well as supporting development of local recreational trails and environmental projects.

The Te Āpiti Community Fund has been allocated $100,000 over three years and covers the communities of Woodville and Ashhurst. The priority has been to build community capacity through initiatives such as supporting a community newspaper, funds for a first response vehicle for the Ashhurst volunteer fire brigade, a local music festival, as well as sports equipment.

Meridian aims to engage with its communities in an open and transparent manner and to strengthen and help communities develop in a sustainable way.

Honouring the mana of Māori rock art

Meridian has a long association with the Ngāi Tahu Maori Rock Art Charitable Trust, and is proud to provide financial support. The Trust, the only organisation of its kind in New Zealand, aims to protect and manage the more than 550 identified rock art sites in the South Island.

Māori rock art is an important aspect of the cultural heritage of all New Zealanders, and Meridian's support recognises the ongoing need to provide practical support for the Trust, which is working to raise awareness and understanding of the rock art, as well as develop both local and international tourism opportunities.

Communities in proposed generation areas

Meridian's community funds are linked to specific generation facilities, but the funds are only established after a generation project is completed and commissioned. For new generation proposals and projects, Meridian conducts an extensive process of consultation that begins well before a project is announced to the public.

We acknowledge that communities faced with a renewable generation proposal, such as a hydro scheme or a wind farm, can feel uncertainty and discomfort.

Meridian works closely with local communities and local councils to address concerns and answer questions as openly as possible. We understand that working with prospective generation communities can be a difficult process. In many cases, community feedback is able to be included in the planning process in order to avoid, remedy or mitigate any effects as required under the Resource Management Act.

We are always ready to talk and discuss issues and concerns with community members and groups. While some people still maintain their opposition to a proposal, we have found they at least have a better understanding of the potential effects and Meridian's efforts to address these. An example of this process is Project West Wind, which generated significant local opposition, some of which remains, although some former opponents are now more comfortable with the project.

Our Year in Review cont

In addition to the funding provided via the community funds, Meridian continues to sponsor specific events.

Urban communities

Meridian has worked with the Christchurch Community Advisory Panel for the past eight years to provide support for vulnerable consumers during the cold winter months.

Meridian provides a credit facility to the panel, which is able to provide assistance on a case by case basis. The panel also serves as a forum to discuss various power related issues and provide feedback to Meridian on how it can deal better with sensitive social issues.

Some of Meridian's call centre staff have received special training in dealing with people who have been referred by the advisory panel, which includes processes to ensure vulnerable people are removed from Meridian's normal credit control system.

Meridian also continues to sponsor the Christchurch Warm Babies programme, which delivers significant health and social benefits to at-risk families by funding the upgrading of energy efficiency and heating in both owner occupied and rental houses.

Events and sponsorship

In addition to the funding provided via the community funds, Meridian continues to sponsor specific events such as the Oamaru Victorian Heritage Celebrations and the Waimate Strawberry Fair, which provide broad community benefits.

Meridian has also been the principal sponsor of the North Haven Hospice since 1999, in recognition of the way in which the North Haven Hospice cares for its patients, both in-house and in the community, providing comfort, dignity and respect to those who need it most. Meridian is very proud to play its part in making sure the Hospice is able to continue its support for the people of the Whangarei community.

Aoraki Bound is a sponsorship that Meridian partners with Te Rūnanga o Ngāi Tahu to develop future leaders, helping to revitalise iwi culture and identity, as well as increasing cultural awareness among Meridian staff and the wider community. Meridian committed to a three year sponsorship in 2007 which it sees as a valuable contribution to ensuring cultural sustainability.

Sustainability and Our Supply Partners

Sustainability is at the core of Meridian's business and based on three pillars – enduring relationships, environmental responsibility and exceptional performance. It is in our DNA, and links all aspects of our operations.

We have continually demonstrated operational excellence and leadership in sustainability. We have achieved and maintained third party carbon neutral certification of our electricity product. However that is by no means the end of the journey and we are working on achieving carbon neutral certification for the entire company.

We are committed to shifting the focus from not just operational excellence but taking sustainability to a strategic level that will guide and direct our company's future direction. We recognise that sustainability is about dynamic balance over the long term, requiring partnership, innovation and commercial focus. Work is currently underway to develop a framework that demonstrates sustainability based futures, and that measures our performance and progress towards that future.

Meridian works with its supply and procurement partners to develop a consistent approach to ensure an efficient and sustainable use of resources, as well as meeting the recommendations of a sustainable business practice programme.

During the year, Meridian found a supply partner for the printing of our external material. A key focus was finding a partner with a similar focus on sustainability. Both parties are committed to using environmentally sustainable ink and paper, as well as seeking efficient distribution solutions.

At one end of the scale, procurement includes management of Meridian's office photocopying and printing of all documents, such as customer bills, newsletters, brochures, booklets, and other material, with the aim of consistently improving sustainability measures.

In-house photocopying and document management has a focus on increased use of digital images through scanning, which reduces paper use and waste. The follow-me print initiative means Meridian staff members swipe their identity card at a printer before their job will physically print. This reduces the problem, common in all offices, of staff forgetting to collect printed material from the office network printer and reprinting it.

At the other end of the scale is Meridian's new Queens Wharf offices, a five-star Green Star rated building, designed to deliver a 60 percent saving in energy use and a 70 percent reduction in water use. It was also designed to provide a comfortable and healthy environment for staff, utilising natural light and air where possible, while learning and adapting to the needs of its inhabitants over time.

The building is a showcase of Ecological Sustainable Development (ESD) and has become a new benchmark for New Zealand, winning accolades and awards. It has also attracted significant overseas interest and was featured at the global Sustainable Building Conference 2007 (SB07).

Every aspect of the Queens Wharf building construction, which included reviewing construction techniques and materials, was analysed using Meridian's sustainable procurement principles. Sustainability benefits included a 56 percent reduction in waste to landfill as a result of innovative building techniques, with our developer Fletcher Construction now using these ideas to reduce waste at its other projects.

Our Year in Review cont

Meridian's Natural Resources team is an integral part of the renewable generation operation

Natural Resources

Meridian's Natural Resources team is an integral part of the renewable generation operation. They are responsible for the monitoring of, and compliance with, environmental permit (resource consent, concessions, the Biosecurity Act) conditions, as well as managing mitigation, if required.

Hydro generation has environmental effects, and ensuring these are identified and dealt with effectively, is the key to Meridian achieving its sustainability commitments. In addition to the monitoring and management of physical effects, the Natural Resources team works closely with local stakeholders, iwi and regulators to discuss how to best manage what are very complex and dynamic natural systems.

The team also provides advice on new generation proposals, both hydro and wind. This helps ensure environmental sustainability principles are considered right from the earliest conceptual phase, are continued during the planning, design and construction process, and eventually become part of New Zealand's electricity supply. In addition, the Natural Resources team works with local councils on a large number of District and Local Government plans, providing input from Meridian as the country's largest specialist operator of renewable electricity generation. Policy and planning work requires a significant allocation of resource, but it is crucial that council regulations take into account Meridian's expertise and provide the flexibility required for it to operate its renewable generation facilities.

Manapouri-Te Anau

Meridian has an active and wide-ranging monitoring programme for the Manapouri-Te Anau system, which includes consultation with stakeholder groups including iwi, the Waiau Working Party, the Guardians of Lake Manapouri, Monowai and Te Anau, Department of Conservation, Fish & Game and Fiordland Marine Guardians.

During the year, the Natural Resources team commissioned a project on natural turf ecosystems, which include a number of rare and endangered species, around the lake margins. The study showed there had been no effects to the ecosystems attributable to the hydro management of lakes Manapouri and Te Anau, and that any changes identified were also present in the ecosystems in the nearby, but non-hydro, Lake Hauroko.

The Eel Trap and Transfer programme, run by Meridian in conjunction with local rūnanga members, captured a record 1,400 migratory eels in lakes Manapouri and Te Anau. The eels were released in the Waiau River below the Manapouri lake control structure. The programme also captures elver from below the Manapouri lake control structure for transfer to lakes Manapouri and Te Anau, and the Mararoa River.

In the Mararoa River, the Natural Resources team improved the fish habitat during re-lining work on the channel which delivers water to the Manapouri lake control structure. The Mararoa River channel was cut around 20 years ago but since then has naturally widened and eroded its sides, with a reduction in flow speed and the amount of shingle moving through the channel. The work included placing

> WAITAKI MOUTH

Our Year in Review cont

In the Mararoa River, the Natural Resources team improved the fish habitat during re-lining work on the channel which delivers water to the Manapouri lake control structure.

large boulders at 50 metre intervals along both sides of the channel, allowing in-stream pockets of deeper water to form and provide good habitat for fish. Grassing, fencing and development of a habitat suitable for native species will be completed along the banks of the channel during the coming summer.

Meridian is continuing to monitor the effects of the invasive organism didymo in the catchment since it was first detected four years ago. The main effect has been a reduction in the biodiversity of local ecosystems. Potential management options to help reduce didymo infestations in the Lower Waiau River were also investigated.

In Doubtful Sound, there has been a comprehensive monitoring programme, which has shown there are no changes to the marine environment as a result of the continuing discharge from the Manapouri tailrace tunnels since monitoring began in 1997. Ongoing monitoring and extensive consultation is supporting Meridian's proposal for increased flow levels through the Manapouri station, which will allow full utilisation of the improved generation capacity from the Manapouri half-life refurbishment.

Waitaki and Mackenzie

In the Waitaki catchment area, local rūnanga members and Meridian have been working together on the Native Fish Committee, which carries out an annual Trap and Transfer programme for both migratory eel (downstream) and elver (upstream). Te Rūnaka o Arowhenua, Te Rūnanga o Waihao, and Te Rūnanga o Moeraki are represented on the Native Fish Committee, along with Te Rūnanga o Ngāi Tahu. The Waitaki Dam is also a primary site for the NIWA national elver monitoring programme.

Project River Recovery is an important and long running stakeholder agreement between Meridian and the Department of Conservation (DoC). Meridian provides funding and DoC administers the programme to protect and enhance areas of important braided river habitat in the upper Waitaki basin, including the headwaters of the Tasman River (which feeds Lake Pukaki) and the Godfrey River (which feeds Lake Tekapo).

Climate Change

As a specialist renewable energy generator and the first company to achieve carboNZero^{certTM} certification for electricity in New Zealand, Meridian has the experience and the credentials to provide leadership in response to climate change.

Meridian understands that climate change poses both risks and opportunities for its business.

Climate variability has the potential to impact our renewable generation, which relies on wind and water for fuel. Therefore we seek out the best available scientific advice to help us understand the potential impacts and to manage our portfolio based on credible climate change scenarios.

Climate change is complicated and some of the issues involved are controversial. We communicate developments in understanding about climate change impacts to our staff, customers and communities to ensure enhanced public understanding in this area, as well as to stimulate informed debate.

We are interested in authentic action on climate change. We believe addressing the potential impacts of climate change is not just the right thing to do, it is our obligation given our commitment to a sustainable future.

We are working with policy makers and regulators to ensure a coherent policy response to climate change issues for New Zealand as a whole.

Meridian's existing renewable power generation benefits New Zealand by minimising greenhouse gas emissions (by reducing the reliance on thermal electricity generation). Fewer emissions mean lower cost compliance with our Kyoto Protocol obligations. Every new hydro station or wind farm also reduces the need for thermal plant to operate, further avoiding increases in greenhouse gas emissions. Meridian's White Hill wind farm, commissioned in 2007, like our Te Āpiti wind farm in 2004, has achieved Gold Standard registration in recognition of its emission reduction potential.

We want to be responsible about our own environmental impacts, including our carbon footprint, which is why we sought carboNZero^{certTM} status.

The carboNZero^{certTM} status of Meridian's electricity was extended for the 2007/08 year. We have set ourselves a challenge to continuously improve our performance in the carbon management process. We are on a journey towards becoming a full carbon neutral company and this year we completed an inventory of greenhouse gas emissions for the full Meridian Energy Group. A summary of this inventory is contained at the back of this report.

Our commitment to sustainable development requires that each year we reduce the emissions intensity of our operations. Minimising emissions calls for ongoing organisational change and innovative technology. In the past year, we have improved our videoconferencing and communications technology to enable more effective meetings between offices. Our move to the new Queens Wharf building was a major statement on how seriously we are taking the need for environmental sustainability in our operations.

If we cannot avoid or reduce climate change emissions, we offset them using market and trading mechanisms, as allowed for under the carboNZero^{certTM} process.

At the same time, we work with and challenge our industry peers, suppliers and customers to reduce their carbon footprints. Meridian's subsidiary, Right House, and business unit, Energy for Industry, are part of this approach, working with customers and consumers to improve energy efficiency and conservation, in effect reducing energy intensity. Subsidiary Arc Innovations has developed smart meters which are being installed in our Christchurch customers' households and will enable better use of energy. Meridian's investment in WhisperGen is an example of innovative technology, which will provide significant emission reduction benefits as its micro heat and power units are installed in thousands of homes throughout Europe.

Meridian has built significant experience over the past few years in the carbon trading market. Highlights of the year included running the first Trade Me sale of carbon credits, in partnership with Trade Me and M-Co. We believe the emerging carbon market is the most effective mechanism and catalyst for reducing greenhouse gas emissions.

In the past year, Meridian has made significant progress in positioning itself to respond to the risks and opportunities inherent in climate change and is looking forward to the opportunities presented by the increasing global focus on climate and sustainability issues.

Our Subsidiaries

To support Meridian's goals in the renewable energy sector, it invests in start-up ventures that align to or have the capability to be game changing in terms of influencing or modifying its core business. It offers synergies that add value and increase the chance of success by providing its own intellectual property portfolio and expertise to these ventures.

Meridian's investments include the following:

- Right House is a business that promotes comfortable, healthy and energy-efficient homes by providing a single source of advice and products. It started commercial operations in Auckland, Wellington and Christchurch this financial year and has made a promising start with a strong forward order book.
- Whispertech reached a major commercialisation milestone in moving from prototype development into commercial production through the establishment of its joint venture in Spain. First commercial production will come off the production line in late 2008. It has secured distribution agreements in Europe and will increase sales as product flows off the production line.
- Arc Innovations continues to show the way forward in smart metering technology that leads to efficiencies through changes in consumption patterns. Its meters are now deployed in almost 100,000 premises. With the technology now proven, it is looking to expand its international operations.
- Damwatch provides consultancy services to dam owners. It continues to increase its sales base and is looking to expand its international operations as a global leader.

BOARD OF DIRECTORS

Wayne Boyd
(Chairman)

Ray Watson
(Deputy Chairman)

Anne Blackburn

Wayne Boyd has a significant background in law and merchant banking. Wayne is Chairman of Telecom Corporation of New Zealand Limited, Freightways Limited, Meridian Energy Limited and Vulcan Steel Limited.

Wayne is a former Chairman of Auckland International Airport Limited and Director of Forsyth Barr Group Limited.

In the past, Wayne was employed by Bancorp Holdings Limited. He was also Chairman of the South Island Interim Development Group which was charged with the establishment of Meridian Energy Limited. Wayne has been involved in community organisations as a Director of Sports and Recreation New Zealand and Chairman of both New Zealand Blood Service Limited and the New Zealand Hockey Federation.

Appointed: 5 April 2005

"I am pleased to be part of the Meridian Energy team delivering renewable energy for current and future generations of New Zealanders."

Ray was appointed Deputy Chair of Meridian Energy in April 2006.

Ray is the Managing Director of Ray Watson Associates Limited, he was Chief Executive of Ngai Tahu Development Corporation from 2001 until early 2005 and prior to that he held the position of Chief Executive of Lakeland Health Limited from 1996. Ray is a Commissioner with the Mental Health Commission and was previously a ministerial appointment to the New Zealand Māori Arts and Crafts Institute, the National Advisory Committee on Health and Disability Services and the Otago District Health Board.

Appointed: 22 June 2005

Anne Blackburn is a banker by professional background, having had earlier careers in journalism and diplomacy. She is currently a Director of a number of businesses in the infrastructure, finance, investment and research sectors. She also holds governance positions in arts and education not-for-profit organisations.

Appointed: 1 June 2004

Anne Urlwin

Catherine Drayton

David Shand

Polly Schaverien

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

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

She is Chair of the New Zealand Domain Name Registry Limited, the New Zealand Blood Service, and Deputy Chair of Landcare Research New Zealand Limited.

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

Anne was formerly Chair of Red Bus Limited and of Brackenridge Estate Limited, and Deputy Chair of Airways Corporation Limited and of Timberlands West Coast Limited.

Appointed: 1 January 2005

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

Prior to this executive management role, she was responsible for Transaction Services for PwC CEE.

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

Catherine is also a director of Hockey NZ and Industrial Research Limited.

Appointed: 1 May 2006

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

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

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

In 2007 David chaired the Independent Commission of Inquiry into Local Government Rates, established by the Minister of Local Government. He is currently a member of the Royal Commission on Auckland Governance.

David is also currently Chairman of the Tertiary Education Commission.

Appointed: 1 May 2006

Polly Schaverien is a professional director and strategic advisor, specialising in government relations and communications issues.

In addition to the Meridian Energy Board, Polly is on the board of MetService Limited, and has just completed two terms on the board of the New Zealand Correspondence School.

Prior to becoming a director in 2004, Polly worked in senior advisory roles in parliament and as a communications specialist, both in consultancy and in-house.

Appointed: 1 November 2007

MANAGEMENT TEAM

Tim Lusk
(Chief Executive)

Prior to taking up his current role as Chief Executive of Meridian, Tim was CEO of Sevenaway Trustaide Limited and a consultant in major infrastructure project implementation. His career has spanned New Zealand electricity, infrastructure project management and the telecommunications industry. He has operated at General Manager level for the last 26 years at the Ministry of Energy, McConnell Dowell International, Power New Zealand, Transpower and Telecom New Zealand. Tim was formerly a Director on the Meridian Energy Board.

Chris Jones
(People and Performance Director)

Chris Jones leads the People and Performance team. The role of the team is to support the business by ensuring it continues to attract, develop and retain the very best people. Chris and his team work with Meridian's managers to build sound working relationships with their staff so that Meridian people can achieve their goals.

Andrew Robertson
(Strategy Director)

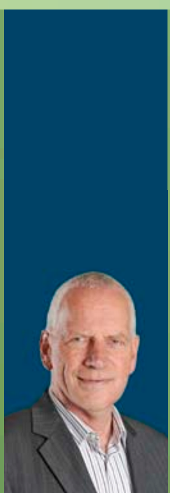
Andrew leads Meridian's Strategy Team, and is responsible for monitoring the industry landscape, developing Meridian's business strategy and presenting options for the future expansion of Meridian's business. In addition to its core strategic advisory function, the team also has Venturing and Corporate Mergers and Acquisition units to support its objectives.

James Hay
(General Counsel Director)

James has been Meridian's General Counsel and Company Secretary since 1999. He and his team provide advice to the business on legal matters and ensure appropriate governance structures are in place. They also advise on regulatory strategy, climate change issues and play a key role in Meridian's submissions on industry issues and relationships with regulators and the Government.

Ken Smales
(Growth and Development Director)

Ken Smales and his team investigate, secure, design, build and commission new renewable electricity generation sites in New Zealand, Australia and Antarctica. This includes obtaining environmental and resource consents for new and existing generation facilities, as well as managing the design and engineering projects required to build new sites.



Tim Lusk
(Chief Executive)

Chris Jones

Andrew Robertson

James Hay

Ken Smales

K-J Kells
(Executive Advisor to Chief Executive)

K-J Kells provides strategic advice to Meridian's Chief Executive. She also leads Meridian's Electric Vehicle team, specialising in strategies for the introduction of electric vehicles in New Zealand. K-J joined Meridian six years ago from Ernst & Young and has led several of Meridian's strategic growth projects.

Alan Seay
(Communications Director)

Alan Seay has been with Meridian since 1999. For most of that time he has been the company's principal media spokesperson, and in January 2008 he was appointed to the role of Communications Director. The Communications team advocates for Meridian's brand and reputation, primarily by building and maintaining positive relationships with the company's key stakeholders.

Neal Barclay
(Chief Financial Officer)

Neal joined the team in July 2008 having spent the previous 13 years with Telecom New Zealand where he held a range of Finance and Business Operations General Management roles. His Enterprise Services team is responsible for providing finance, procurement and information technology services to the Meridian Energy Group.

Steve Ferguson
(Retail Director)

Steve is charged with delivering Meridian's customer experience vision. This incorporates all aspects of the retail experience including customer service through the call centre, online capability, billing and switching. The vision includes significant change across people, process and systems as well as leveraging brand and complementary businesses to transform Meridian's customers' experience.

Garth Dibley
(Markets and Production Director)

Garth has been managing Meridian's generation assets since the company's creation in 1999. His Markets and Production team is responsible for operating and maintaining Meridian's hydro and wind generation assets and selling the electricity through the wholesale market. The team balances Meridian's generation capacity with market demands to maximise value and minimise risk.


K-J Kells


Alan Seay


Neal Barclay


Steve Ferguson


Garth Dibley

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Economic Overview and 2007/08 Financial Performance Commentary

Meridian's economic objective is to produce long-term shareholder value. We accomplish this goal by maximising the value from our portfolio of generation assets through well developed asset and risk management plans and optimisation strategies and investment in generation growth by pursuing our renewables strategy. We actively develop and participate in competitive wholesale and retail energy markets and have a major initiative under way to enhance customer value by transforming our customers' experience and we are making investments that will provide future competitive advantage and commercial value.

Meridian's core business is the generation and retailing of electricity and wider complementary products and services. Meridian owns and operates nine South Island hydro stations and two wind farms, Te Āpiti and White Hill located in the North Island and South Island respectively. These assets provide Meridian with annual average generation capacity of 12,500 GWh. This year we generated 11,908 GWh which is below average and largely attributable to low hydrology in the latter part of the year.

Earnings Analysis

Meridian typically generates more electricity than it is contracted to sell. However, the 2007/08 year was a challenging year for Meridian with lower-than-average national hydro storage and inflows, coupled with equally as significant systems constraints resulting in exceptionally high spot generation prices, particularly in the last quarter of the year. The system constraints related to:

- the unexpected closure of Pole 1 of the HVDC in September 2007;
- the unexpected decommissioning of the New Plymouth thermal plant;
- other prolonged thermal outages from February to April 2008;
- the market impacts of the operation of the Government energy plant at Whirinaki coupled with unprecedented increases in diesel prices for this plant.

The hydrology situation in our catchments in the last quarter resulted in significantly lower generation output than anticipated and exposure to net electricity purchases from the market at high prices to meet our contracted retail sales commitments.

Operating revenue is predominantly derived from the sale of electricity to the wholesale electricity market and to retail electricity customers. Revenue from energy sales increased significantly for the year largely due to higher annual average generation spot prices of $111/MWh (2007: $53/MWh). The increase in price also impacted the cost of electricity purchased to meet our fixed price commitments to customers.

The significant decline in Earnings before Interest, Tax, Depreciation, Amortisation and Financial Instruments ("EBITDAF") ($105.3 million) for the year was predominantly due to:

- supplying contracted volumes of electricity at the higher spot prices in the latter part of the year ($356/MWh average in June this year compared to 2007 June average $69/MWh);
- higher costs of delivery of energy-related services incurred by South Island generators during the dry hydrology period in the North Island; and
- employee costs increasing in areas that reflect our commitment to enhancing customer value and in start-up subsidiaries (Right House and PowerShop) that will provide future competitive advantage and commercial value.

Depreciation expense for 2008 has increased as a result of the fair value adjustments to the carrying value of the generation assets in 2007 ($1,455 million).

Unrealised net (losses)/gains on financial instruments recognised in the income statement relate to unrealised fair value movements on derivative instruments used for risk management purposes for which Meridian has not adopted hedge accounting. The net movement this year is positive ($31.2 million) but is subject to volatility due to fluctuations in electricity/aluminium prices and interest rates.

Underlying profit after tax is presented in order to assist the users' understanding of the financial information presented, and in particular the Group's underlying business performance, by removing the volatility of unrealised net (losses)/gains on financial instruments and other one-off items.

The increase in net finance costs reflects the cost of additional borrowings and facilities that Meridian has sourced during the year, together with increased interest rates.

The effective rate of tax for the year is 35% compared to 28.8% last year. The positive effect of the corporate tax rate reduction on deferred tax of $2.9 million (2007: $16.7 million) was offset by tax on an intercompany dividend that was not deductible. A reduction in the corporate tax rate from 33% to 30% was announced in the 2007 Budget and received Royal Ascent. For Meridian, this reduction is effective from 1 July 2008.

Balance Sheet

Despite a very challenging year, Meridian's balance sheet remains in a strong position with shareholders' funds of $4,204.6 million and a gearing ratio of 18.3%. Given the strength of Meridian's financial position, the Board approved dividend payments of $297.9 million for the year, bringing the total dividends paid by Meridian since inception in 1999 to $2,100 million.

Electricity generation is an asset intensive business as is reflected in the level of investment in property, plant and equipment. Meridian carries these assets at fair value as determined by an external valuer. Since inception, fair value adjustments of $3,953 million have been recognised, impacting return on average equity.

Current assets and current liabilities reflect amounts due and payable for electricity sales and purchases. These amounts are significantly higher than in previous years, primarily due to high year-end spot prices of $356/MWh (2007: $69/MWh).

Derivative financial instruments are recorded on the balance sheet at their fair values in accordance with New Zealand International Financial Reporting Standards (NZ IFRS).

Meridian increased its borrowings during the year to fund its capital expenditure programme which included the commencement of construction of the West Wind wind farm in Wellington and a portion of the February 2007 shareholder dividend payment.

Deferred tax balances include deferred tax on the fair value adjustments made in respect of the generation assets.

Financial Performance Summary – Continuing Operations

	JUN-08 $M	JUN-07 $M	JUN-06 * $M	JUN-05 * $M
Total Operating Revenue	2,603.5	1,790.7	2,184.1	1,563.6
Total EBITDAF [1]	371.1	476.4	483.5	490.1
Unrealised Net (Loss)/Gain on Financial Instruments	31.2	24.6	-	-
Depreciation	(139.6)	(107.1)	(77.5)	(81.3)
Equity Accounted Earnings of Joint Ventures/Associates	(0.1)	-	(1.4)	(0.1)
Gain (Loss) on Sale of Property, Plant and Equipment	0.5	1.0	(0.1)	(0.9)
Amortisation of Intangible Assets	(13.1)	(10.2)	(7.3)	(7.7)
Net Finance Costs	(52.3)	(46.0)	(37.4)	(31.2)
Tax	(69.1)	(97.5)	(116.7)	(129.7)
Profit After Tax	128.6	241.2	243.1	239.2
Underlying Profit After Tax [2]	104.5	207.7	243.1	239.2
Share Capital	1,600.0	1,600.0	1,600.0	1,600.0
Reserves	2,716.2	2,762.0	2,477.8	660.1
Retained Earnings	(111.6)	39.8	159.6	209.0
Shareholders' Equity	4,204.6	4,401.8	4,237.4	2,469.1
Current and Other Assets	583.6	303.2	520.8	371.6
Derivative Financial Instruments	139.1	40.9	-	-
Intangible Assets	42.4	49.6	22.9	180.8
Property Plant and Equipment	6,432.6	6,315.1	4,795.6	3,796.2
Total Assets	7,197.7	6,708.8	5,339.3	4,348.6
Current and Other Liabilities	699.5	217.8	195.2	678.6
Derivative Financial Instruments	170.9	127.7	-	-
Term Borrowings	793.2	629.7	754.6	1,021.7
Deferred Tax Liability	1,329.5	1,331.8	152.1	179.2
Total Liabilities	2,993.1	2,307.0	1,101.9	1,879.5
Dividends Paid	297.9	367.9	879.4	148.8
Capital Expenditure	264.5	184.0	76.0	110.1
Property Plant and Equipment Revaluations	-	1,455.0	1,800.0	-

Key Performance Measures

	JUN-08	JUN-07	JUN-06	JUN-05
Customer Numbers (000's)	183	182	182	185
Customer Sales (GWh)	11,649	11,137	10,796	11,006
Hydro Generation (GWh)	11,430	12,353	10,976	13,091
Wind Generation (GWh)	478	325	291	273
Average Price of Electricity Generated ($/MWh)	111	51	97	44
June Average Price of Electricity Generated ($/MWh)	356	69	87	79
Average Purchase Price of Electricity ($/MWh)	124	55	101	47
Underlying Profit after Tax to Average Equity (%)	2.4%	4.8%	7.3%	9.8%

* Information for years prior to Meridian's transition to NZIFRS at 1 July 2006 are prepared under the existing NZ FRS
1 EBITDAF – Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments
2 One off items and unrealised net losses/gains on financial instruments are removed to arrive at Underlying Profit After Tax

Meridian Energy Limited – Statement of Corporate Intent

Financial Performance	TARGET	JUN-08	JUN-07[1]	JUN-06	JUN-05
Equity to Total Assets	62.3	58.5	65.6	79.4	56.8
Return on Average Equity	6.3%	3.0%	6.2%	25.6%	5.7%
Net Debt/(Net Debt + Equity) Gearing	18.4%	18.3%	14.0%	10.6%	35.4%
EBITDAF Interest Cover (# of times)	8.0	5.9	7.7	31.5	6.1
EBITDAF per MWh	37.9	31.2	37.6	37.5	36.8
Non-Financial Performance					
Hydro Plant Availability	94%	94.4%	93.5%	92.2%	93.9%
Hydro Forced Outage Factor	0.41%	0.38%	0.36%	0.36%	0.14%
Number of Lost Time Injuries	Nil	5	11	4	3
Calls answered within 20 seconds	80%	76%	78%	80%	83%
Corporate Customer Satisfaction – excellent, very good	52%	59%	61%	45%	52%
Mass Market Customer Satisfaction – excellent, very good	47%	60%	N/A	47%	49%
High Value Small/Medium Customer Satisfaction – excellent, very good	43%	52%	N/A	N/A	N/A
Staff Satisfaction (% of positive responses)	75%	90%	95%	95%	N/A

1 June 07 Statement of Corporate Intent has been restated for NZ IFRS

Meridian Energy Limited – Director's 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 2008 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.

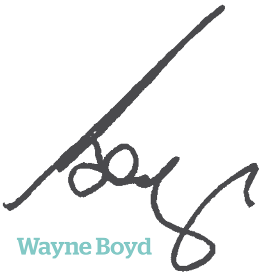
The Directors confirm that proper accounting records have been kept which enable the determination of the financial position of the Company and the Group as at 30 June 2008 and their financial performance and cash flows for the year ended on that date to ensure compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors have pleasure in presenting the financial statements of Meridian Energy Limited and the Group for the year ended 30 June 2008, as set out on pages 38 to 83.

The annual financial statements were authorised for issue by the Board on 29 August 2008.

For and on behalf of the Board.



Wayne Boyd
CHAIRMAN
29 August 2008

Anne Urlwin
CHAIR OF AUDIT AND RISK COMMITTEE
29 August 2008

Meridian Energy Limited – Income Statement for the year ended 30 June 2008

	Note	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Operating Revenue					
Energy Sales		2,578,128	1,771,174	2,526,993	1,771,174
Energy Related Services Revenue		5,511	5,393	996	1,595
Dividends Received		-	-	450	585
Other Revenue		19,844	14,155	12,189	9,012
Total Operating Revenue		2,603,483	1,790,722	2,540,628	1,782,366
Operating Expenses					
Energy Related Costs		(1,594,481)	(720,378)	(1,592,664)	(719,893)
Energy Transmission and Distribution		(413,661)	(376,312)	(411,575)	(376,312)
Employee Costs	3	(69,088)	(55,284)	(48,699)	(42,781)
Other Operating Expenses	3	(155,153)	(162,327)	(146,562)	(143,651)
		(2,232,383)	(1,314,301)	(2,199,500)	(1,282,637)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		371,100	476,421	341,128	499,729
Unrealised Net (Loss)/Gain on Financial Instruments	23	45,497	658	45,497	658
Depreciation	17	(139,556)	(107,132)	(117,545)	(105,150)
Amortisation of Intangible Assets	16	(13,115)	(10,231)	(9,069)	(8,627)
Gain on Sale of Property, Plant and Equipment		508	1,040	12,351	1,074
Equity Accounted Earnings of Joint Ventures	14	(98)	-	-	-
Operating Profit		264,336	360,756	272,362	387,684
Finance Costs and Other Finance Related Income/(Expenses)					
Finance Costs	4	(56,898)	(56,323)	(62,689)	(56,323)
Interest Income	5	4,561	10,364	11,145	10,412
Unrealised Net (Loss)/Gain on Financial Instruments	23	(14,332)	23,888	(14,332)	23,888
Profit Before Tax		197,667	338,685	206,486	365,661
Income Tax Expense	6	(69,105)	(97,455)	(58,796)	(106,033)
Profit After Tax		128,562	241,230	147,690	259,628
Profit After Tax Attributable to:					
Shareholders of the Parent Company		128,678	240,444	147,690	259,628
Minority Interest		(116)	786	-	-
		128,562	241,230	147,690	259,628

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

Meridian Energy Limited – Statement of Changes in Equity for the year ended 30 June 2008

	Note	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Equity at Beginning of Year		4,401,790	3,438,064	4,272,392	3,303,259
Recognition of Minority Interest on Acquisition of Controlled Entities	13(b)	-	10,824	-	-
Post Acquisition Assessed Retained Earnings/(Loss) of Controlled Entities		-	(2,133)	-	-
Effect of Acquisition of Controlled Entities		-	-	-	716
Restated Equity at Beginning of Year		4,401,790	3,446,755	4,272,392	3,303,975
Profit After Tax Attributable to:					
- Shareholders of the Parent		128,678	240,444	147,690	259,628
- Minority Interest		(116)	786	-	-
Revaluation Reserve	7	-	1,093,796	-	1,088,778
Movement in Foreign Currency Translation Reserve	7	81	(2)	-	-
Movement in Cash Flow Hedge Reserve	7	(26,668)	(12,575)	(26,726)	(12,575)
Movement in Available for Sale Reserve	7	(2,217)	479	(2,217)	479
Total Recognised Income and Expenses		99,758	1,322,928	118,747	1,336,310
Share Options Vested in Whisper Tech Ltd	7	981	-	-	-
Dividends Paid	8	(297,897)	(367,893)	(297,897)	(367,893)
Equity at End of Year		4,204,632	4,401,790	4,093,242	4,272,392

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

Meridian Energy Limited – Balance Sheet as at 30 June 2008

	Note	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Shareholders' Equity					
Share Capital	7	1,600,000	1,600,000	1,600,000	1,600,000
Revaluation Reserve	7	2,737,795	2,746,509	2,680,274	2,741,305
Foreign Currency Translation Reserve	7	85	4	-	-
Cash Flow Hedge Reserve	7	(24,352)	2,316	(24,410)	2,316
Available for Sale Reserve	7	(673)	1,544	(673)	1,544
Retained Earnings	7	(111,560)	39,807	(161,949)	(72,773)
Equity Attributable to Shareholders of the Parent		4,201,295	4,390,180	4,093,242	4,272,392
Share Options Vested in Whisper Tech Ltd	7	981	-	-	-
Minority Interest	7	2,356	11,610	-	-
Total Equity		4,204,632	4,401,790	4,093,242	4,272,392
Represented by:					
Current Assets					
Cash and Cash Equivalents	9	64,645	44,755	56,948	39,366
Accounts Receivable and Prepayments	10	478,231	221,702	472,421	214,305
Inventories	11	8,251	10,965	3,301	3,269
Current Tax Receivable		8,045	8,548	7,919	8,678
Advances to Subsidiaries		-	-	-	26,660
Assets Classified as Held for Sale	12	7,984	-	7,984	-
Derivative Financial Instruments	23	37,500	1,055	37,426	1,055
Total Current Assets		604,656	287,025	585,999	293,333
Non-Current Assets					
Prepayments		729	609	729	609
Investments in Subsidiaries	13	-	-	100,096	88,434
Equity Accounted Joint Ventures	14	2,811	-	-	-
Available for Sale Investments	15	11,780	16,567	11,780	16,567
Advances to Subsidiaries		-	-	604,397	171,342
Derivative Financial Instruments	23	101,642	39,888	101,634	39,888
Intangible Assets	16	42,358	49,592	13,818	19,338
Deferred Tax Asset	21	1,122	37	-	-
Property, Plant and Equipment	17	6,432,590	6,315,073	5,881,003	6,147,072
Total Non-Current Assets		6,593,032	6,421,766	6,713,457	6,483,250
Total Assets		7,197,688	6,708,791	7,299,456	6,776,583
Current Liabilities					
Payables and Accruals	18	547,564	214,380	523,683	199,494
Provisions	19	1,940	3,440	-	1,290
Current Tax Payable		-	-	-	-
Current Portion of Term Borrowings	20	149,808	-	149,808	-
Advances from Subsidiaries		-	-	255,650	220,867
Liabilities Classified as Held for Sale	12	138	-	138	-
Derivative Financial Instruments	23	46,068	3,583	46,068	3,583
Total Current Liabilities		745,518	221,403	975,347	425,234
Liabilities					
Non-Current Liabilities					
Term Borrowings	20	793,226	629,707	793,226	629,707
Derivative Financial Instruments	23	124,834	124,119	124,834	124,119
Deferred Tax Liability	21	1,329,478	1,331,772	1,312,807	1,325,131
Total Non-Current Liabilities		2,247,538	2,085,598	2,230,867	2,078,957
Total Liabilities		2,993,056	2,307,001	3,206,214	2,504,191
Net Assets		4,204,632	4,401,790	4,093,242	4,272,392

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

Meridian Energy Limited – Cash Flow Statement for the year ended 30 June 2008

	Note	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		2,346,530	1,792,846	2,281,474	1,784,474
Net GST Received		-	-	468	925
Interest Received		4,561	10,296	9,761	10,341
Dividends Received		-	-	450	585
		2,351,091	1,803,142	2,292,153	1,796,325
Cash was Applied to:					
Payments to Suppliers and Employees		(1,893,380)	(1,297,235)	(1,861,414)	(1,265,906)
Net GST Paid		(967)	(45)	-	-
Interest Paid		(57,826)	(44,113)	(62,844)	(44,267)
Income Tax Paid		(59,588)	(111,570)	(59,588)	(111,367)
		(2,011,761)	(1,452,963)	(1,983,846)	(1,421,540)
Net Cash Inflows from Operating Activities	24	339,330	350,179	308,307	374,785
Investment Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment		1,095	9,664	1,091	153,661
Sale of Investments		2,540	192	2,540	192
		3,635	9,856	3,631	153,853
Cash was Applied to:					
Purchase of Property, Plant and Equipment		(264,488)	(184,016)	(108,229)	(167,807)
Capitalised Interest		(7,183)	(1,258)	(1,384)	(1,258)
Acquisition of Controlled Entities	13(b)	-	(13,138)	-	-
Advances to Subsidiaries		-	-	(111,720)	(168,290)
Purchase of Intangible Assets		-	(211)	-	-
Purchase of Investments		(3,507)	(588)	(25,126)	(29,940)
		(275,178)	(199,211)	(246,459)	(367,295)
Net Cash (Outflows) from Investing Activities		(271,543)	(189,355)	(242,828)	(213,442)
Financing Activities					
Cash was Provided from:					
Proceeds From Borrowings		250,000	-	250,000	-
		250,000	-	250,000	-
Cash was Applied to:					
Dividends Paid	8	(297,897)	(367,893)	(297,897)	(367,893)
		(297,897)	(367,893)	(297,897)	(367,893)
Net Cash (Outflows) from Financing Activities		(47,897)	(367,893)	(47,897)	(367,893)
Net Increase/(Decrease) in Cash and Cash Equivalents		19,890	(207,069)	17,582	(206,550)
Cash and Cash Equivalents at Beginning of Year		44,755	251,824	39,366	245,916
Cash and Cash Equivalents at End of Year	9	64,645	44,755	56,948	39,366

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

Meridian Energy Limited – Notes to the Financial Statements for the year ended 30 June 2008

1. Statement of Accounting Policies
2. Underlying Profit after Tax
3. Expenses
4. Finance Costs
5. Interest Income
6. Income Tax Expense
7. Equity
8. Dividends
9. Cash and Cash Equivalents
10. Accounts Receivable and Prepayments
11. Inventories
12. Assets Classified as Held for Sale
13. Investments in Subsidiaries
14. Equity Accounted Joint Ventures
15. Available for Sale Investments
16. Intangible Assets
17. Property, Plant and Equipment
18. Payables and Accruals
19. Provisions
20. Borrowings
21. Deferred Tax Liability
22. Financial Risk Management
23. Derivative Financial Instruments
24. Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities
25. Commitments
26. NZAS Agreement
27. Related Party Transactions
28. Subsequent Events
29. Contingent Assets and Liabilities
30. Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

1. Statement of Accounting Policies

Reporting Entity and Statement of Compliance

Meridian Energy Ltd (the "Company") is domiciled in New Zealand and 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.

Meridian'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 Ltd (the "Parent") and its subsidiaries (together referred to as "Meridian" or the "Group").

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

Compliance with NZ IFRS ensures that the consolidated financial statements comply with International Financial Reporting Standards (IFRS). The Parent entity financial statements also comply with IFRS.

The reporting period for these financial statements is the year ended 30 June 2008.

The financial statements were authorised for issue by the Directors on 29 August 2008.

Basis of Preparation

These are Meridian's first consolidated financial statements complying with the measurement and recognition requirements of the New Zealand Equivalents to International Financial Reporting Standards "NZ IFRS" and NZ IFRS 1: *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance, and cash flows of Meridian is provided in Note 30.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 for the purpose of the transition to NZ IFRS.

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

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

These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

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:

- NZIAS 1: *Presentation of Financial Statements* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IFRS 3 (Revised): *Business Combinations* – effective for annual reporting periods beginning on or after 1 July 2009
- NZIFRS 8: *Operating Segments* – effective for annual reporting periods beginning on or after 1 January 2009
- NZIAS 23: *Borrowing Costs* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 27 (Revised) *Consolidated and Separate Financial Statements* – effective for annual reporting periods beginning on or after 1 July 2009.

The adoption of these standards is not expected to have a material impact on Meridian's income statement, balance sheet and cash flow statement. The remaining standards and interpretations which have been issued but are not effective are not applicable to Meridian's operations.

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

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

year are in relation to price path estimates which have been used to fair value the generation structures and plant assets and energy derivatives.

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

Significant Accounting Policies

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

Basis of Consolidation

Subsidiaries

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

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

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

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

Joint Ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest 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 balance sheet 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 associate) are not recognised unless there is a legal or constructive obligation incurred by Meridian on behalf of the joint venture.

Foreign Currency

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

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

Property, Plant and Equipment

Meridian's generation structures and plant assets (including land and buildings) are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses.

The basis of the valuation is the net present value of expected future cash flows. Revaluations are performed by an independent valuer with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. The significant assumptions used in determining the fair value of the generation assets that require estimation and judgement include forecasts of the future electricity price path, sales volumes, operating and capital expenditure profiles, capacity and life assumptions for plant and discount rates.

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 assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Depreciation of property, plant and equipment assets, other than freehold land, is calculated on a straight-line basis to allocate the cost or fair value amount of an asset, less any residual value, over its estimated remaining useful life. The following depreciation and amortisation rates have been applied:

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

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

Assets Classified as Held for Sale

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

Immediately before classification as held for sale, the assets (or disposal group) are remeasured in accordance with Meridian's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and 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.

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

Intangible Assets

Customer Acquisition Costs

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

Computer Software

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

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

Patents and Trademarks

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

Licence Agreement

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

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

Research and Development Costs

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

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

Development costs that meet these criteria are amortised on a straight-line basis over their estimated useful lives. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Development costs incurred that cannot be separately identified from the physical asset are included in the item of property, plant and equipment being developed and depreciated over the useful life of the asset.

If the recognition criteria are not met, development expenditure is recognised as an expense as incurred.

Impairment of Non-financial Assets other than Goodwill

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

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

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

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

Goodwill

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

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

Financial Instruments

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

Financial Assets

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

Available for Sale Investments

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

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

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

Investments in Subsidiaries

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

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.

Cash and Cash Equivalents

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

Borrowings

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

Trade Payables

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

Derivative Financial Instruments and Hedge Accounting

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge), whilst some derivatives are not in a designated hedging relationship.

For derivatives designated in a hedge relationship Meridian documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. Meridian also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement in unrealised net (loss)/gain on financial instruments within other finance related expenses in respect of CCIRS, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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.

b. 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 equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in unrealised net (loss) gain on financial instruments within operating profit in respect of CfD's and FEC and unrealised net (loss) gain on financial instruments within other finance related expenses in respect of CCIRS. 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 equity 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.

However, 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 equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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.

c. Other derivatives

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

Day 1 Adjustment

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

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 the energy hedge market) is based on closing market prices at the balance sheet date.

The fair value of instruments that are not traded on an active market (IRS, CCIRS, FEC, CfD's) is determined using various valuation techniques which include assumptions on both observable data when such data is available and non-observable data in all other instances. The fair value of IRS, CCIRS, FEC and CfD's is based on the discounted value of future cash flows. Assumptions on the determination of cash flows are based on publicly available forecast prices where available and internal models approved by the Board when a forecast price is not available. In relation to forecast prices used to determine cash flow forecasts 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 CPI or proxy for price inflation
- All CfD's run to full term

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

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

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

The valuations determined for instruments not traded on an active market, particularly in respect to CfD's, can vary significantly based on assumptions in relation to the forecast electricity price and interest rates and in the case of one CfD, fair value can also vary based on the price of aluminium published on the London Metal Exchange (LME). The sensitivity to changes in assumptions is quantified in Note 22 – Financial Risk Management.

Reserves

The revaluation reserve arises on the revaluation of generation structures and plant and from the revaluation of certain intangible assets as part of the step acquisition of Whisper Tech Group on 3 July 2006 (refer Note 13(b)). 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 profits. 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 hedging 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 foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of independent foreign operations.

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 period. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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 associates, 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.

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

Goods and Services Tax

The income and cash flow statements are prepared on a GST exclusive basis. All items in the balance sheet 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

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 balance sheet. Proceeds received on the sale of emission rights are recorded as deferred income in the balance sheet until the committed energy production level pertaining to the emission right sold has been generated.

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

Provisions

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

Warranties

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

Restructuring

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

Operating Leases

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

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

Revenue Recognition

Sale of Energy and Other Related Services

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

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

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

Dividend Income

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

Interest Income

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

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.

Share-Based Payments

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

Cash Flow Statement

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

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

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

Comparatives

Where necessary to facilitate comparison, comparative figures have been adjusted to conform with changes in presentation in the current period. An explanation of changes to comparative figures relating to the transition to NZ IFRS is provided in Note 30.

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

2. Underlying Profit After Tax

Underlying profit after tax is presented in order to assist the users' understanding of the financial information presented and in particular the Group's underlying business performance. One off items and unrealised net (losses)/gains on financial instruments are removed to arrive at underlying profit after tax.

	Note	GROUP		PARENT	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
Underlying Profit After Tax					
Profit After Tax		128,562	241,230	147,690	259,628
Adjustments:					
Unrealised Net Gain on Financial Instruments	23	(31,165)	(24,546)	(31,165)	(24,546)
Net Gain on Sale of Property, Plant and Equipment		(508)	(1,040)	(12,351)	(1,074)
Impairment of Investments		-	487	12,866	487
Adjustments Before Tax		(31,673)	(25,099)	(30,650)	(25,133)
Income Tax Expense @ 33%		10,452	8,283	10,115	8,294
Corporate Tax Rate Reduction		(2,859)	(16,744)	(1,355)	(16,713)
Adjustments After Tax		(24,080)	(33,560)	(21,890)	(33,552)
Underlying Profit After Tax		104,482	207,670	125,800	226,076

It is the view of the Directors that the one-off items included in the above table are items that, because of their nature or incidence, should be adjusted in order to assist the users' understanding of the underlying business performance. Determining which transactions are to be considered one off is often a subjective matter. However, circumstances that the Directors believe would give rise to one off items for separate disclosure would include:

i) disposals of interests in businesses;
ii) discontinued operations;
iii) impairments and impairment reversals;
iv) change in tax rate.

3. Expenses

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee Costs include:				
Contributions to Defined Contribution Plans	1,356	-	1,265	-
Other Operating Expenses include:				
Auditors Remuneration to Deloitte for:				
- Audit of Financial Statements	288	275	210	224
- Other Assurance Services	95	181	52	70
Donations	-	-	-	-
Impairment of Investments	-	487	12,866	487
Operating Lease Payments	4,270	1,965	3,513	1,677
Net (Gain)/Loss on Foreign Exchange	(267)	19	(259)	12
Research and Development Expenditure	5,759	10,631	-	-
Share Based Payments	981	-	-	-

The Parent's investment in Whisper Tech Ltd decreased from 75.2% to 18.8% resulting in an impairment of $12.866 million. This was a result of the reorganisation of the Whisper Tech corporate structure.

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

4. Finance Costs

	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Interest on Borrowings	64,081	57,581	64,073	57,581
Less Capitalised Interest	(7,183)	(1,258)	(1,384)	(1,258)
	56,898	56,323	62,689	56,323

Total interest expense for financial liabilities that are not at fair value through profit and loss is $7.074 million (2007: $3.680 million).

5. Interest Income

	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Interest Income on Financial Assets not at Fair Value through Profit or Loss on:				
- Cash and Cash Equivalents	4,561	10,364	4,161	10,120
- Loans to Subsidiaries	-	-	6,984	292
	4,561	10,364	11,145	10,412

6. Income Tax Expense

	Note	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
a) Income Tax Expense					
Current Tax		60,457	102,871	59,068	111,776
Deferred Tax	21	8,648	(5,416)	(272)	(5,743)
Income Tax Expense		69,105	97,455	58,796	106,033
Income Tax Expense can be reconciled to accounting profit as follows:					
Profit Before Tax		197,667	338,685	206,486	365,661
Income Tax at 33%		65,230	111,766	68,140	120,668
Tax Effect of Expenditure Not Deductible for Tax		1,932	1,534	1,758	1,534
Tax Effect of Income Not Subject to Tax		(243)	(41)	(243)	(41)
Income Tax Under/(Over) Provided in Prior Year		(1,713)	(1,579)	(1,420)	(1,579)
Tax Credits Transferred from Subsidiary		-	-	(9,180)	-
Inter-company Dividend Received Not Subject to Tax		-	-	(149)	(193)
Inter-company Dividend Received Subject to Tax		6,544			
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability		(2,859)	(16,744)	(1,355)	(16,713)
Other		214	2,519	1,245	2,357
Income Tax Expense		69,105	97,455	58,796	106,033

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

In addition to the income tax charge to profit and loss, a deferred tax credit of $13.341 million for the Group and $13.339 million credit for the Parent (2007: Group $476.073 million charge, Parent $474.085 million charge) has been recognised in equity for the year (see Note 21).

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

6. Income Tax Expense (continued)

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
b) Imputation Credits				
Balance at Beginning of Year	100,618	85,671	99,816	84,877
Net Income Tax Paid	62,575	111,532	62,514	111,331
Credits Attached to Dividends Received	-	-	222	193
Credits Attached to Dividends Paid	(130,543)	(96,585)	(130,543)	(96,585)
Balance at End of Year	32,650	100,618	32,009	99,816

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

	GROUP	
	2008 $'000	2007 $'000
Through		
Shareholding in Parent Company	32,009	99,816
Indirect Interest in Subsidiaries	641	802
	32,650	100,618

7. Equity

	GROUP								
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000	MINORITY INTEREST $'000	TOTAL $'000
Balance at 1 July 2006	1,600,000	1,652,713	6	14,891	1,065	169,389	3,438,064	-	3,438,064
Effect of Acquisition of Controlled Entities	-	-	-	-	-	(2,133)	(2,133)	10,824	8,691
Restated Equity at 1 July 2006	1,600,000	1,652,713	6	14,891	1,065	167,256	3,435,931	10,824	3,446,755
Profit for the Year	-	-	-	-	-	240,444	240,444	786	241,230
Revaluation Increments	-	1,455,000	-	-	-	-	1,455,000	-	1,455,000
Effect of Acquisition of Controlled Entities		7,006					7,006		7,006
Cash Flow Hedges:									
Net (Loss)/Gain Taken to Equity	-	-	-	(18,944)	-	-	(18,944)	-	(18,944)
Available for Sale Reserve:									
Net Gain/(Loss) Taken to Equity	-	-	-	-	538	-	538	-	538
Exchange Differences Arising from Translation of Foreign Operations	-	-	(2)	-	-	-	(2)	-	(2)
Movement in Deferred Tax Liability Attributable to Equity	-	(482,138)	-	6,243	(178)	-	(476,073)	-	(476,073)
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	113,928	-	126	119	-	114,173	-	114,173
Total Recognised Income and Expenses for the Year	-	1,093,796	(2)	(12,575)	479	240,444	1,322,142	786	1,322,928
Dividends Paid	-	-	-	-	-	(367,893)	(367,893)	-	(367,893)
Balance at 30 June 2007	1,600,000	2,746,509	4	2,316	1,544	39,807	4,390,180	11,610	4,401,790

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

7. Equity (continued)

	GROUP						
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000
Balance at 1 July 2007	1,600,000	2,746,509	4	2,316	1,544	39,807	4,390,180
Profit for the Year	-	-	-	-	-	128,678	128,678
Effect of Reduction in Minority Interest	-	-	-	-	-	9,138	9,138
Cash Flow Hedges:							
Net (Loss)/Gain Taken to Equity	-	-	-	(38,070)	-	-	(38,070)
Available for Sale Reserve:							
Net Gain/(Loss) Taken to Equity	-	-	-	-	(2,842)	-	(2,842)
Exchange Differences Arising from Translation of Foreign Operations	-	-	81	-	-	-	81
Movement in Deferred Tax Liability Attributable to Equity	-	4,107	-	12,593	748	(4,107)	13,341
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	(373)	-	(1,191)	(123)	373	(1,314)
Asset Revaluation Reserve Transferred to Retained Earnings	-	(12,448)	-	-	-	12,448	-
Total Recognised Income and Expenses for the Year	-	(8,714)	81	(26,668)	(2,217)	146,530	109,012
Dividends Paid	-	-	-	-	-	(297,897)	(297,897)
Balance at 30 June 2008	1,600,000	2,737,795	85	(24,352)	(673)	(111,560)	4,201,295

	GROUP			
	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000	SHARE OPTIONS VESTED $'000	MINORITY INTEREST $'000	TOTAL $'000
Balance at 1 July 2007	4,390,180	-	11,610	4,401,790
Profit for the Year	128,678	-	(116)	128,562
Effect of Reduction in Minority Interest	9,138	-	(9,138)	-
Cash Flow Hedges:				
Net (Loss)/Gain Taken to Equity	(38,070)	-	-	(38,070)
Available for Sale Reserve:				
Net Gain/(Loss) Taken to Equity	(2,842)	-	-	(2,842)
Exchange Differences Arising from Translation of Foreign Operations	81	-	-	81
Movement in Deferred Tax Liability Attributable to Equity	13,341	-	-	13,341
Effect of Corporate Tax Rate Reduction on Deferred Tax	(1,314)	-	-	(1,314)
Asset Revaluation Reserve Transferred to Retained Earnings	-	-	-	-
Total Recognised Income and Expenses for the Year	109,012	-	(9,254)	99,758
Share Options Vested	-	981	-	981
Dividends Paid	(297,897)	-	-	(297,897)
Balance at 30 June 2008	4,201,295	981	2,356	4,204,632

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

7. Equity (continued)

	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 2006	1,600,000	1,652,527	14,891	1,065	34,776	3,303,259
Effect of Acquisition of Controlled Entities	-	-	-	-	716	716
Restated Equity at 1 July 2006	1,600,000	1,652,527	14,891	1,065	35,492	3,303,975
Profit for the Year	-	-	-	-	259,628	259,628
Revaluation Increments	-	1,455,000	-	-	-	1,455,000
Cash Flow Hedges:						
Net (Loss)/Gain Taken to Equity	-	-	(18,944)	-	-	(18,944)
Available for Sale Reserve:						
Net Gain/(Loss) Taken to Equity	-	-	-	538	-	538
Movement in Deferred Tax Liability Attributable to Equity	-	(480,150)	6,243	(178)	-	(474,085)
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	113,928	126	119	-	114,173
Total Recognised Income and Expenses for the Year	-	1,088,778	(12,575)	479	259,628	1,336,310
Dividends Paid	-	-	-	-	(367,893)	(367,893)
Balance at 30 June 2007	1,600,000	2,741,305	2,316	1,544	(72,773)	4,272,392
Balance at 1 July 2007	1,600,000	2,741,305	2,316	1,544	(72,773)	4,272,392
Profit for the Year	-	-	-	-	147,690	147,690
Revaluation Increments	-	-	-	-	-	-
Cash Flow Hedges:						
Net (Loss)/Gain Taken to Equity	-	-	(38,153)	(2,842)	-	(40,995)
Available for Sale Reserve:						
Gains Taken to Equity	-	-	-	-	-	-
Movement in Deferred Tax Liability Attributable to Equity	-	28,773	12,591	748	(28,773)	13,339
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	(2,616)	(1,164)	(123)	2,616	(1,287)
Asset Revaluation Reserve Transferred to Retained Earnings	-	(87,188)	-	-	87,188	-
Total Recognised Income and Expenses for the Year	-	(61,031)	(26,726)	(2,217)	208,721	118,747
Dividends Paid	-	-	-	-	(297,897)	(297,897)
Balance at 30 June 2008	1,600,000	2,680,274	(24,410)	(673)	(161,949)	4,093,242

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

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

7. Equity (continued)

Exercise Price	2008 NUMBER ISSUED	2008 NUMBER FORFEITED	2008 NUMBER VESTED	2008 VESTED VALUE $ 000	2007 NUMBER ISSUED	2007 NUMBER FORFEITED	2007 NUMBER VESTED	2007 VESTED VALUE $'000
$750	1,226	389	837	-	5,668	389	5,279	-
$1	2,563	-	2,563	-	2,563	-	2,563	-
$366.83	14,115	-	6,765	981	-	-	-	-
	17,904	389	10,165	981	8,231	389	7,842	-

The $750 options are all fully vested with the exception of 389 options where the employees resigned before their entitlement had fully vested. Under the terms of the option agreements these non vested options have now been forfeited. The final exercise date for all of the $750 options is 31 December 2009.

The $1 options are all fully vested with a final exercise date of 31 December 2009.

On 31 March 2008, the holders of 4,362 fully vested $750 options and 4,805 rights to $750 options who were at that date all members of staff forfeited those options and rights to options. Whisper Tech Limited then issued those holders 6,765 fully vested options at an exercise price of $366.83.

On this date Whisper Tech Limited also issued 7,350 $366.83 options to existing staff. All these options vest in three equal tranches with 5,550 options becoming fully vested by 1 July 2010 and the remaining 1,800 options becoming fully vested by 31 March 2011.

NZ IFRS 1 grants an exemption from valuing options that were granted on or before 7 November 2002. Meridian has chosen to take this exemption in relation to its $750 and $1 options. No vesting of these options occurred during the year ended 30 June 2008 and the comparative year.

Number of Options Vested	2008 $750 OPTIONS	2008 $1 OPTIONS	2008 $366.83 OPTIONS	2007 $750 OPTIONS	2007 $1 OPTIONS	2007 $366.83 OPTIONS
Opening Balance	5,279	2,563	-	5,585	2,563	-
New Fully Vested Options created	-	-	6,765	-	-	-
Options Forfeited 31 March 2008	(4,362)	-	-	-	-	-
Options Forfeited prior years	(80)	-	-	(389)	-	-
Options Vested	-	-	-	83	-	-
Closing Balance	837	2,563	6,765	5,279	2,563	-

The weighted average exercise price of options vested at 30 June 2008 is $96.24.

Number of Options Still Subject To Vesting	2008 $750 OPTIONS	2008 $1 OPTIONS	2008 $366.83 OPTIONS	2007 $750 OPTIONS	2007 $1 OPTIONS	2007 $366.83 OPTIONS
Opening Option Balance	5,279	2,563	-	5,668	2,563	-
Created or Vested During Year	-	-	14,115	-	-	-
Less Forfeited	(4,442)	-	-	(389)	-	-
Less Fully Vested	(837)	(2,563)	(6,765)	(5,279)	(2,563)	-
Subject to Future Vesting	-	-	7,350	-	-	-

5,550 of these options become fully vested by 1 July 2010 and the remaining 1,800 options will be fully vested by 31 March 2011.

8. Dividends

	GROUP & PARENT			
	2008 $'000	2007 $'000	2008 CENTS PER SHARE	2007 CENTS PER SHARE
2008 Interim Dividend Paid	235,888	-	14.74	-
2007 Final Dividend Paid	62,009	-	3.88	-
2007 Interim Dividend Paid	-	67,893	-	4.24
2006 Final Dividend Paid	-	300,000	-	18.75
	297,897	367,893	18.62	22.99

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

9. Cash and Cash Equivalents

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current Account	10,580	6,300	4,020	2,761
Money Market Account	54,065	38,455	52,928	36,605
	64,645	44,755	56,948	39,366

There are no cash and cash equivalent balances that are not available for use by the Group.

10. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Billed and Accrued Receivables	475,849	219,208	470,306	212,596
Less: Provision for Doubtful Debts	(2,839)	(3,057)	(2,839)	(3,118)
Net Trade Receivables	473,010	216,151	467,467	209,478
Prepayments	5,221	5,551	4,954	4,827
Total Accounts Receivable and Prepayments	478,231	221,702	472,421	214,305

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Movement in Provision for Doubtful Debts				
Opening Provision for Doubtful Debts	(3,057)	(3,730)	(3,118)	(3,730)
Provision Released During the Year	218	632	279	571
Provision Used During Year	-	41	-	41
Closing Provision for Doubtful Debts	(2,839)	(3,057)	(2,839)	(3,118)

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade Receivables				
Not Past Due	447,569	200,254	443,320	195,044
Past Due 1-30 days	20,518	13,708	20,180	12,327
Past Due 31-60 days	3,102	1,558	2,950	1,550
Past Due 61-90 days	876	643	456	634
Past Due > 91 days	3,784	3,045	3,400	3,041
	475,849	219,208	470,306	212,596

Trade receivables that are less than 90 days past due are generally not considered impaired. As at 30 June 2008 trade receivables of $25.441 million (2007: $15.897 million) were past due but not impaired. These relate to energy sales to a number of independent customers for whom there is no recent history of default.

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

Meridian maintains a doubtful debt provision that reflects the limited likelihood of payment defaults.

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

11. Inventories

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Inventories				
Consumable Spares and Stores	3,920	3,531	3,301	3,269
Work in Progress and Components	4,591	7,066	-	-
Finished Goods	928	1,644	-	-
	9,439	12,241	3,301	3,269
Less Provision for Obsolescence	(1,188)	(1,276)	-	-
	8,251	10,965	3,301	3,269

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Provision for Obsolescence				
Opening Provision	1,276	630	-	-
Provision Raised During the Year	-	646	-	-
Released During the Year	(88)	-	-	-
Closing Provision	1,188	1,276	-	-

In 2008, consumables and changes in finished goods and work in progress recognised as other operating expenses in the Group were $5.849 million and in the Parent were $0.043 million (2007: Group $5.739 million, Parent $nil).

Certain inventory items are subject to retention of title clauses.

12. Assets and Liabilities Classified as Held for Sale

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

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

13. Investments in Subsidiaries

13 a) Investments in Subsidiaries

Subsidiaries

Investments in subsidiaries comprise shares at cost

NAME OF ENTITY	DATE [1]	PRINCIPAL ACTIVITY	INTEREST HELD BY PARENT 2008	INTEREST HELD BY PARENT 2007
Arc Innovations Limited		Technology Company	100%	100%
DamWatch Services Limited		Professional Services	100%	100%
Energy for Industry Limited		Non-Trading Entity	100%	100%
MEL Holdings Limited		Non-Trading Entity	100%	100%
Meridian Limited		Non-Trading Entity	100%	100%
Meridian Energy Captive Insurance Limited		Insurance Company	100%	100%
Meridian Energy International Limited		Non-Trading Entity	100%	100%
Meridian (Whisper Tech) Limited		Non-Trading Entity	100%	100%
Meridian (Whisper Tech No.2) Limited [2]		Non-Trading Entity	100%	100%
Powershop New Zealand Limited	03/09/07	Electricity Retailer	100%	-
Right House Limited		Non-Trading Entity	100%	100%
Woodville Windfarm Limited		Non-Trading Entity	100%	100%

1 The date the controlled entity was registered or became part of the Group during the reporting period.
2 During the Reporting period Meridian (Whisper Tech No.2) Limited changed its name from Orion (Whisper Tech) Limited.

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

13 a) Investments in Subsidiaries (continued)

Controlled Entities (Other Subsidiaries)

NAME OF ENTITY	DATE [1]	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP 2008	INTEREST HELD BY GROUP 2007
DamWatch Pty Limited [2]		Professional Services	100%	100%
MEL (Te Āpiti) Limited		Electricity Generation	100%	100%
MEL (West Wind) Limited		Electricity Generation	100%	100%
MEL (White Hill) Limited		Electricity Generation	100%	100%
Three River Holdings (No.1) Limited		Non-Trading Entity	100%	100%
Three River Holdings (No.2) Limited		Non-Trading Entity	100%	100%
Three River Holdings Pty Limited [2]		Non-Trading Entity	100%	100%
Meridian Wind Macarthur Pty Limited [2, 4]		Electricity Generation	100%	100%
Meridian International No 1 Limited	20/11/07	Non-Trading Entity	100%	-
Meridian International No 2 Limited	20/11/07	Non-Trading Entity	100%	-
Meridian Australia Holdings Pty Limited	20/11/07	Non-Trading Entity	100%	-
Meridian Wind Australia Holdings Pty Limited	20/11/07	Non-Trading Entity	100%	-
Meridian Wind Australia Pty Limited	20/11/07	Non-Trading Entity	100%	-
Meridian Wind Farm JV Pty Limited [2]	21/02/08	Non-Trading Entity	50%	-
WhisperGen Limited [5]		Non-Trading Entity	100%	100%
Whisper Tech Limited [5]		Technology Company	92.8% [6]	75.3%
WhisperGen (UK) Limited [3]		Technology Company	100%	100%

13 b) Acquisition of Controlled Entities – Whisper Tech Group

At 1 July 2006 the Company held a 31.3% investment in Whisper Tech Limited which was equity accounted as an associate and a 40% investment in the Whisper Tech joint venture held at fair value.

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

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

Summary of the Effect on Investment in Associates	GROUP 2008 $'000	GROUP 2007 $'000
Carrying Amount at Beginning of Year	-	716
Share of Total Recognised Revenues and Expenses	-	-
Effect of Acquisition of Controlled Entities	-	(716)
Carrying Amount at End of Year	-	-

1 The date the controlled entity was registered or became part of the Group during the reporting period.
2 Incorporated in Australia
3 Incorporated in United Kingdom
4 During the Reporting period Meridian Wind Macarthur Pty Limited changed it's name from Three River Australia Pty Limited.
5 The Parent holds 18.8% of Whisper Tech Ltd with WhisperGen Ltd holding 74%.

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

13 b) Acquisition of Controlled Entities – Whisper Tech Group (continued)

Summary of the Effect of Acquisition of Controlled Entities	GROUP 2008 $'000	GROUP 2007 $'000
Assets and Liabilities acquired at fair value:		
Cash and Bank Balances	-	224
Accounts Receivable and Prepayments	-	1,985
Property, Plant and Equipment	-	2,027
Intangibles		
- Licence Agreement	-	22,380
- Patents and Trademarks	-	307
Inventories	-	6,101
Current Tax Receivable	-	1,934
Payables and Accruals	-	(7,404)
Net Assets Acquired	-	27,554
Acquisition of Control Adjustments		
Gain Recognised on Investment in Whisper Tech Joint Venture	-	(239)
Investment in Associate – Whisper Tech Limited	-	(716)
Post Acquisition Assessed Revaluation Reserve of Subsidiary	-	(7,005)
Post Acquisition Assessed Retained Earnings of Subsidiary	-	2,133
Recognition of Minority Interest	-	(10,824)
Total Acquisition of Control Adjustments	-	(16,651)
Goodwill Arising on Acquisition	-	2,459
Total Cash Paid	-	13,362
Cash Included in Net Assets Acquired	-	(224)
Net Cash Paid on Acquisition	-	13,138

On 31 March 2008 the Group increased its interest in Whisper Tech Ltd from 75.3% to 92.9% when Whisper Tech Limited issued shares under the terms of the licencing agreement. This had the impact of decreasing the minority interest of the Group by $9.138 million.

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

14. Equity Accounted Joint Ventures

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

NAME OF ENTITY	DATE[1]	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
			2008	2007
Efficient Home Energy, S. L.[1]	11/01/08	Manufacturing	40%	-
Elemental Energy Limited[2]	19/11/07	Electricity Generation Systems	50%	-

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

	GROUP	
	2008 $'000	2007 $'000
Total Assets	7,916	-
Total Liabilities	(899)	-
Net Assets	7,017	-
Group's Share of Net Assets of Joint Ventures	2,811	-
Total Revenue	676	-
Total Loss for the Period	(256)	-
Group's Share of Losses of Joint Ventures	(98)	-

	GROUP	
	2008 $'000	2007 $'000
Balance at Beginning of Year	-	-
New Investments	2,909	-
Share of Losses of Joint Ventures	(98)	-
Balance at End of Year	2,811	-

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

15. Available for Sale Investments

	GROUP AND PARENT		
	Currency	**2008 $'000**	2007 $'000
Listed Securities			
Ceramic Fuel Cells Limited	AUD	325	709
Unlisted Securities			
Nth Power Technologies	USD	1,986	2,576
Fonterra Co-Operative Group Limited	NZD	6,789	9,904
North Otago Irrigation Company Limited	NZD	2,148	3,378
Carbon Flow Inc	USD	532	-
		11,780	16,567

1 The date the Joint Venture became part of the Group during the reporting period.
2 Incorporated in New Zealand

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

15. Available for Sale Investments (continued)

	Note	GROUP AND PARENT 2008 $'000	2007 $'000
Balance at Beginning of Year		16,567	16,119
Additions		597	801
Disposals		(2,542)	(404)
Impairment Loss	3	-	(487)
Net Gains/(Losses) Taken to Equity	7	(2,842)	538
Balance at End of Year		11,780	16,567
Comprising:			
Non Current		11,780	16,567

Available-for-sale assets are carried at fair value except for the investment in North Otago Irrigation Company. This investment consists of shares in a privately owned company for which there is no market or quoted prices. Therefore the fair value of the share cannot be measured reliably and the carrying amount has been determined by the cost of the acquiring the shares in the company.

In 2007, Meridian's investment in Canterbury TX of $0.487 million was fully impaired due to the abandonment of key patent application processes.

16. Intangible Assets

	GROUP						
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS & TRADEMARKS $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost							
Balance at 1 July 2006	11,303	-	-	-	401	65,174	76,878
Acquisitions	3,448	-	-	211	-	-	3,659
Recognised on Acquisition of Controlled Entities	-	6,883	22,380	855	-	-	30,118
Balance at 30 June 2007	14,751	6,883	22,380	1,066	401	65,174	110,655
Balance at 1 July 2007	14,751	6,883	22,380	1,066	401	65,174	110,655
Acquisitions	5,525	-	-	356	-	-	5,881
Disposals	-	-	-	(156)	-	-	(156)
Balance at 30 June 2008	**20,276**	**6,883**	**22,380**	**1,266**	**401**	**65,174**	**116,380**
Accumulated Amortisation and Impairment							
Balance at 1 July 2006	(7,689)	-	-	-	(229)	(42,366)	(50,284)
Amortisation During Year	(2,232)	-	(1,119)	(140)	(76)	(6,664)	(10,231)
Recognised on Acquisition of Controlled Entities	-	-	-	(548)	-	-	(548)
Balance at 30 June 2007	(9,921)	-	(1,119)	(688)	(305)	(49,030)	(61,063)
Balance at 1 July 2007	(9,921)	-	(1,119)	(688)	(305)	(49,030)	(61,063)
Amortisation During Year	(3,507)	-	(3,357)	(80)	(76)	(6,095)	(13,115)
Disposals	-	-	-	156	-	-	156
Balance at 30 June 2008	**(13,428)**	**-**	**(4,476)**	**(612)**	**(381)**	**(55,125)**	**(74,022)**
Net Book Value							
Net Book Value 30 June 2006	3,614	-	-	-	172	22,808	26,594
Net Book Value 30 June 2007	4,830	6,883	21,261	378	96	16,144	49,592
Net Book Value 30 June 2008	**6,848**	**6,883**	**17,904**	**654**	**20**	**10,049**	**42,358**

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

16. Intangible Assets (continued)

The licence agreement between WhisperGen Ltd and Whisper Tech Ltd terminated on 31 March 2008. On 2 April Whisper Tech Ltd entered into a new Licence Agreement with its wholly owned subsidiary WhisperGen (UK) Ltd whereby it granted WhisperGen (UK) Ltd the exclusive right to exploit the mains gas fired AC WhisperGen system in the European Union excluding Great Britain. As a result the useful life of the licence agreement has been revised from 20 to ten years.

The effect in the current period is an increase in amortisation of $2.238 million and future periods an increase of $1.119 million.

	PARENT			
	SOFTWARE $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value				
Balance at 1 July 2006	10,378	401	65,174	75,953
Acquisitions	2,114	-	-	2,114
Balance at 30 June 2007	12,492	401	65,174	78,067
Balance at 1 July 2007	12,492	401	65,174	78,067
Acquisitions	3,549	-	-	3,549
Balance at 30 June 2008	**16,041**	**401**	**65,174**	**81,616**
Accumulated Amortisation and Impairment				
Balance at 1 July 2006	(7,507)	(229)	(42,366)	(50,102)
Amortisation During Year	(1,887)	(76)	(6,664)	(8,627)
Balance at 30 June 2007	(9,394)	(305)	(49,030)	(58,729)
Balance at 1 July 2007	(9,394)	(305)	(49,030)	(58,729)
Amortisation During Year	(2,898)	(76)	(6,095)	(9,069)
Balance at 30 June 2008	**(12,292)**	**(381)**	**(55,125)**	**(67,798)**
Net Book Value				
Net Book Value 30 June 2006	2,871	172	22,808	25,851
Net Book Value 30 June 2007	3,098	96	16,144	19,338
Net Book Value 30 June 2008	**3,749**	**20**	**10,049**	**13,818**

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

17. Property, Plant and Equipment

	GROUP						
	GENERATION STRUCTURES & PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2006	4,609,256	35,013	9,806	7,851	75,910	94,869	4,832,705
Additions	-	3,090	405	-	611	175,290	179,396
Transfers from Capital Work in Progress	166,222	-	366	-	15,698	(185,734)	(3,448)
Disposals	(771)	(1,749)	(81)	-	(3,563)	-	(6,164)
Reclassification	(735)	-	-	735	-	-	-
Revaluation Increments	1,444,493	-	-	-	-	10,507	1,455,000
Offset of Accumulated Depreciation on Revalued Assets	(98,003)	-	-	-	-	-	(98,003)
Effect of Acquisition of Controlled Entities	-	-	-	-	4,783	-	4,783
Balance at 30 June 2007	6,120,462	36,354	10,496	8,586	93,439	94,932	6,364,269
Balance at 1 July 2007	6,120,462	36,354	10,496	8,586	93,439	94,932	6,364,269
Additions	-	-	-	-	617	268,594	269,211
Transfers from Capital Work in Progress	16,301	7,890	2,351	-	30,913	(53,937)	3,518
Transfers to Assets Classified as Held For Sale	-	(6,656)	(917)	-	(668)	-	(8,241)
Disposals	(1,656)	(3,844)	(1,041)	-	(6,222)	-	(12,763)
Reclassification	108	-	(7)	-	(101)	-	-
Balance at 30 June 2008	**6,135,215**	**33,744**	**10,882**	**8,586**	**117,978**	**309,589**	**6,615,994**
Accumulated Depreciation and Impairment							
Balance at 1 July 2006	-	-	(1,229)	(1,151)	(38,349)	-	(40,729)
Depreciation Expense	(98,003)	-	(260)	(170)	(8,699)	-	(107,132)
Disposals	-	-	5	-	3,413	-	3,418
Offset of Accumulated Depreciation on Revalued Assets	98,003	-	-	-	-	-	98,003
Effect of Acquisition of Controlled Entities	-	-	-	-	(2,756)	-	(2,756)
Balance at 30 June 2007	-	-	(1,484)	(1,321)	(46,391)	-	(49,196)
Balance at 1 July 2007	-	-	(1,484)	(1,321)	(46,391)	-	(49,196)
Depreciation Expense	(129,267)	-	(352)	(180)	(9,757)	-	(139,556)
Disposals	11	-	144	-	4,936	-	5,091
Transfer to Assets Classified as Held For Sale	-	-	92	-	165	-	257
Balance at 30 June 2008	**(129,256)**	**-**	**(1,600)**	**(1,501)**	**(51,047)**	**-**	**(183,404)**
Net Book Value							
Net Book Value 30 June 2006	4,609,256	35,013	8,577	6,700	37,561	94,869	4,791,976
Net Book Value 30 June 2007	6,120,462	36,354	9,012	7,265	47,048	94,932	6,315,073
Net Book Value 30 June 2008	**6,005,959**	**33,744**	**9,282**	**7,085**	**66,931**	**309,589**	**6,432,590**

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

17. Property, Plant and Equipment (continued)

	PARENT						
	GENERATION STRUCTURES & PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2006	4,609,258	35,013	9,806	7,851	75,974	94,869	4,832,771
Additions	-	3,090	405	-	3	155,979	159,477
Transfers from Capital Work in Progress	22,222	-	366	-	9,781	(34,484)	(2,115)
Disposals	(772)	(1,750)	(81)	-	(10,194)	(144,000)	(156,797)
Reclassification	(735)	-	-	735	-	-	-
Revaluation Increments	1,444,493	-	-	-	-	10,507	1,455,000
Offset of Accumulated Depreciation on Revalued Assets	(98,003)	-	-	-	-	-	(98,003)
Balance at 30 June 2007	5,976,463	36,353	10,496	8,586	75,564	82,871	6,190,333
Balance at 1 July 2007	5,976,463	36,353	10,496	8,586	75,564	82,871	6,190,333
Additions	-	-	-	-	-	97,155	97,155
Transfers from Capital Work in Progress	15,907	7,670	2,295	-	5,239	(26,361)	4,750
Transfers to Assets Classified as Held For Sale	-	(6,656)	(917)	-	(668)	-	(8,241)
Disposals	(234,656)	(5,105)	(1,358)	-	(3,858)	-	(244,977)
Reclassification	108	-	(7)	-	(101)	-	-
Balance at 30 June 2008	**5,757,822**	**32,262**	**10,509**	**8,586**	**76,176**	**153,665**	**6,039,020**
Accumulated Depreciation and Impairment							
Balance at 1 July 2006	-	-	(1,229)	(1,151)	(37,965)	-	(40,345)
Depreciation Expense	(98,003)	-	(260)	(170)	(6,717)	-	(105,150)
Disposals	-	-	5	-	4,226	-	4,231
Offset of Accumulated Depreciation on Revalued Assets	98,003	-	-	-	-	-	98,003
Balance at 30 June 2007	-	-	(1,484)	(1,321)	(40,456)	-	(43,261)
Balance at 1 July 2007	-	-	(1,484)	(1,321)	(40,456)	-	(43,261)
Depreciation Expense	(110,476)	-	(346)	(180)	(6,543)	-	(117,545)
Disposals	11	-	144	-	2,377	-	2,532
Transfer to Assess Classified as Held For Sale	-	-	92	-	165	-	257
Balance at 30 June 2008	**(110,465)**	**-**	**(1,594)**	**(1,501)**	**(44,457)**	**-**	**(158,017)**
Net Book Value							
Net Book Value 30 June 2006	4,609,258	35,013	8,577	6,700	38,009	94,869	4,792,426
Net Book Value 30 June 2007	5,976,463	36,353	9,012	7,265	35,108	82,871	6,147,072
Net Book Value 30 June 2008	**5,647,357**	**32,262**	**8,915**	**7,085**	**31,719**	**153,665**	**5,881,003**

Generation Structures and Plant assets (including land and buildings) were revalued at 30 June 2007, resulting in an uplift of $1,455 million to the asset revaluation reserve. The total fair value of the Generation Structures and Plant at 30 June 2007 was $6,120 million.

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

As a consequence of the revaluation, accumulated depreciation on these assets was reset to nil at 30 June 2007 in line with treatment prescribed under NZ IAS 16: *Property, Plant and Equipment*.

Finance costs totalling $7.180 million (2007: $1.260 million) have been capitalised in relation to refurbishment of certain Generation structures and Plant assets. A capitalisation rate of 8.86% p.a. was used during the year (2007: 6.92% p.a.).

At 30 June 2008 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 $2,280 million (2007: $2,343 million).

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

17. Property, Plant and Equipment (continued)

Land

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

18. Payables and Accruals

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Trade Creditors and Accruals	528,900	193,707	506,039	180,525
GST	5,510	6,478	7,432	6,964
Employee Entitlements	7,116	8,592	4,997	6,790
Unearned Income	6,038	5,603	5,215	5,215
	547,564	214,380	523,683	199,494

19. Provisions

	GROUP			PARENT	
	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000	RESTRUCTURING $'000	TOTAL $'000
Current					
Balance at 1 July 2006	-	-	-	-	-
Recognised on Acquisition of Controlled Entities	-	1,096	1,096	-	-
Additional Provision Recognised	1,742	1,922	3,664	1,742	1,742
Amount Utilised	(452)	(868)	(1,320)	(452)	(452)
Balance at 30 June 2007	1,290	2,150	3,440	1,290	1,290
Balance at 1 July 2007	1,290	2,150	3,440	1,290	1,290
Additional Provision Recognised		621	621		-
Amount Utilised	(1,290)	(831)	(2,121)	(1,290)	(1,290)
Balance at 30 June 2008	-	1,940	1,940	-	-

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

In 2007 the Parent went through a process of restructuring, impacting the Retail and Wholesale operating groups and several enabling functions that support these groups.

20. Borrowings

	GROUP AND PARENT						
	Currency	Interest Rate	Year of Maturity	**FACE VALUE 2008 $'000**	**CARRYING VALUE 2008 $'000**	FACE VALUE 2007 $'000	CARRYING VALUE 2007 $'000
Current Portion of Term Borrowings							
Unsecured Fixed Rate Notes	NZD	7.36%	2009	50,000	49,808	-	-
Unsecured Bank Funding	NZD	8.90%	2008	100,000	100,000	-	-
				150,000	149,808	-	-
Term Borrowings							
Unsecured Bank Funding	NZD	8.93%	2010	150,000	150,000	-	-
Unsecured Fixed Rate Notes	NZD	-	-	-	-	50,000	49,515
Unsecured Floating Rate Notes	AUD	8.33%	2012	123,000	123,277	123,000	106,822
Fixed Rate Bond Issue	USD	5.22%	2012-2019	581,649	519,949	581,649	473,370
Total Term Borrowings				854,649	793,226	754,649	629,707
Total Borrowings				1,004,649	943,034	754,649	629,707

20. Borrowings (continued)

The foreign currency denominated borrowings are reported in the financial statements at fair value and are hedged by Cross Currency Interest Rate Swaps (CCIRS). The NZD equivalent of these borrowings after the effect of foreign exchange hedging of the borrowings is $704.649 million (30 June 2007 $704.649 million).

The NZD denominated borrowings are reported at amortised cost, which is considered to approximate fair value given their term and nature.

For more information about Meridian's exposure to interest rate and foreign currency risk, see Note 22.

Security

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

Credit Facilities

Meridian has committed bank facilities of $700 million of which $450 million were undrawn at 30 June 2008 ($700 million at 30 June 2007). The expiry of these facilities range from December 2008 to December 2012.

In addition to its borrowings, Meridian has entered into a number of letter of credit arrangements which provide credit support of $140 million to support the collateral requirements of Meridian's trading business. Of the $140 million, $90 million expires in 2012 with the balance having no expiry date. Meridian indemnifies the obligations of the bank in respect of the letters of credit issued by the bank to counterparties of Meridian.

21. Deferred Tax Liability

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

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Balance at Beginning of Period	1,331,735	970,827	1,325,131	970,962
Movement in Temporary Differences Recognised in:				
- Income Statement	11,507	11,328	1,083	10,970
- Equity	(13,341)	476,073	(13,339)	474,085
- Goodwill	-	4,424	-	-
Effect of Corporate Tax Rate Reduction on:				
- Income Tax Expense	(2,859)	(16,744)	(1,355)	(16,713)
- Revaluation Reserve	-	(113,928)	-	(113,928)
- Cash Flow Hedge Reserve	1,191	(126)	1,164	(126)
- Available for Sale Reserve	123	(119)	123	(119)
	1,328,356	1,331,735	1,312,807	1,325,131
Consisting of Temporary Differences on the following:				
Property, Plant and Equipment	1,320,348	1,317,989	1,317,806	1,317,743
Financial Instruments	(7,413)	9,503	(7,388)	9,503
Other	15,421	4,243	7,389	(2,115)
	1,328,356	1,331,735	1,312,807	1,325,131

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

		GROUP		PARENT	
	Note	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Property, Plant and Equipment		4,131	(11,441)	(3,170)	(11,743)
Financial Instruments		9,350	7,287	9,350	7,288
Other		(4,833)	(1,262)	(6,452)	(1,288)
	6	8,648	(5,416)	(272)	(5,743)

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

21. Deferred Tax Liability (continued)

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 balance sheet purposes:

	GROUP		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deferred Tax Liability	1,329,478	1,331,772	1,312,807	1,325,131
Deferred Tax Asset	(1,122)	(37)	-	-
	1,328,356	1,331,735	1,312,807	1,325,131

22. Financial Risk Management

Meridian's activities expose it to a variety of financial risks: market risk (including electricity and other price risk, currency risk, interest rate risk, cash flow risk) credit risk, and liquidity risk. Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. Meridian uses derivative financial instruments such as foreign exchange contracts and options 'FEC', cross currency interest rate swaps 'CCIRS', interest rate swaps 'IRS' including forward rate agreements and interest rate options, and electricity contracts for differences 'CfD's' to hedge certain risk exposures. Meridian uses sensitivity analysis to measure the amount of risk it is exposed to for price risk, foreign exchange risk and interest rate risk and aging analysis for credit risk.

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

a) Market Risk

i) Foreign Exchange Risk

Meridian borrows in foreign currencies and is exposed to foreign exchange risks, primarily in respect of the U.S. 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 U.S. dollars, Japanese yen, Australian dollars and the Euro. Meridian does not enter into foreign exchange contracts 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 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 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 and the foreign denominated borrowings (refer to Note 23 – Derivative Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRS at 30 June 2008 was $704.649 million (30 June 2007: $704.649 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 and options "FEC". 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 $100,000NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FEC at 30 June 2008 was $269.757 million (30 June 2007: $579.247 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 23 – Derivative Financial Instruments).

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

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

a) Market Risk (continued)

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
NZ Dollar/U.S. Dollar	-10%	-	4	70	3,365
	+10%	-	(3)	(58)	(2,753)
NZ Dollar/Australian Dollar	-10%	-	43	1,155	43
	+10%	-	(35)	(945)	(35)
NZ Dollar/Japanese Yen	-10%	-	-	1,368	1,198
	+10%	-	-	(1,120)	(980)
NZ Dollar/EURO	-10%	1,597	-	27,158	21,441
	+10%	(1,307)	-	(22,220)	(17,542)

ii) Cash Flow and Interest Rate Risk

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

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

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

Meridian does not designate the IRS as hedging instruments and therefore classifies them as held for trading. The aggregate notional principal amounts of the outstanding IRS at 30 June 2008 was $750 million (30 June 2007: $696 million).

The table below summarises the impact of increases/decreases in the forward price of interest, as at 30 June, on Meridian's profit and equity on the assumption that all other variables are held constant.

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
New Zealand BKBM	-100 bps	(5,564)	(13,495)	(5,564)	(13,495)
	+100 bps	30,176	19,604	30,176	19,604

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

	GROUP AND PARENT							
		TOTAL FACE VALUE	1-2 YEARS		2-5 YEARS		GREATER THAN 5 YEARS	
	Currency	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:								
Unsecured Bank Funding	NZD	150,000	8.9%	150,000		-		-
Unsecured Floating Rate Notes	AUD	123,000		-	8.3%	123,000		-
Fixed Rate Bond Issue	USD	581,649		-	4.6%	101,789	5.4%	479,860
Total Term Borrowings		854,649		150,000		224,789		479,860

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

a) Market Risk (continued)

iii) 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 futures contracts traded on the energy hedge market and bi-lateral CfD's with other electricity generators and major customers. Meridian estimates both expected generation and electricity purchase requirements and determines its net position of generation less sales. Based on this net position, Meridian enters into CfD's to protect against price volatility within trading parameters set and monitored by the Board. Although Meridian considers itself economically hedged in relation to electricity price risk, it has decided to meet the requirements to enable it to adopt hedge accounting for only a portion of its CfD's. Consequently, for accounting purposes, some of the CfD's are classified as held for trading with movements in fair value recognised in the income statement whilst others are considered as part of an effective cash flow hedge relationship with the effective portion of the gains and losses deferred in a cash flow hedge reserve until the forecast electricity sales/purchases designated as the hedged item are transacted (refer to Note 23 – Derivative Financial Instruments). The aggregate notional volume of the outstanding electricity derivatives at 30 June 2008 is 76,793Gwh.

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

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

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Electricity Prices	-10%	106,612	74	114,794	8,829
	+10%	(106,612)	(74)	(114,794)	(8,829)
Interest Rates	-100 bps	(37,857)	-	(38,092)	(143)
	+100 bps	33,169	-	33,398	138
Aluminium LME	-10%	(37,348)	-	(37,348)	-
	+10%	37,348		37,348	-

b) Credit Risk

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

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

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

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

c) Liquidity Risk

Meridian maintains sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions as part of its management of liquidity risk. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed surplus credit lines available. Details are included in Note 20.

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

	GROUP 2008				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	541,526	541,526	-	-	-
Borrowings	1,236,624	347,119	37,569	291,333	560,603
Net Settled Derivative Financial Liabilities:					
Contracts for Differences	51,607	39,282	4,197	7,266	862
Interest Rate Swaps	385	(154)	48	491	-
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts – Cash Flow Hedges					
- Inflow	16,733	9,638	3,651	3,444	-
- Outflow	19,224	10,526	4,515	4,183	-
Cross Currency Interest Rate Swaps					
- Inflow	927,478	37,973	37,569	291,333	560,603
- Outflow	1,116,795	60,331	55,822	364,755	635,887

	PARENT 2008				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	518,468	518,468	-	-	-
Borrowings	1,236,624	347,119	37,569	291,333	560,603
Net Settled Derivative Financial Liabilities:					
Contracts for Differences	51,607	39,282	4,197	7,266	862
Interest Rate Swaps	385	(154)	48	491	-
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts – Cash Flow Hedges					
- Inflow	16,733	9,638	3,651	3,444	-
- Outflow	19,224	10,526	4,515	4,183	-
Cross Currency Interest Rate Swaps					
- Inflow	927,478	37,973	37,569	291,333	560,603
- Outflow	1,116,795	60,331	55,822	364,755	635,887

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

c) Liquidity Risk (continued)

	GROUP 2007				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	208,778	208,778	-	-	-
Borrowings	990,473	40,004	89,970	72,209	788,290
Net Settled Derivative Financial Liabilities:					
Contracts for Differences	791	35	3	47	706
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts – Cash Flow Hedges					
- Inflow	222,037	53,500	163,781	4,756	-
- Outflow	240,670	56,241	177,318	7,111	-
Forward Exchange Contracts – Held for Trading					
- Inflow	550	550	-	-	-
- Outflow	653	653	-	-	-
Cross Currency Interest Rate Swaps					
- Inflow	927,126	34,966	35,044	303,822	553,294
- Outflow	1,173,964	63,171	55,651	380,029	675,113

	PARENT 2007				
	TOTAL CONTRACTUAL CASH FLOWS $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Financial Liabilities:					
Trade and Other Payables	194,279	194,279	-	-	-
Borrowings	990,473	40,004	89,970	72,209	788,290
Net Settled Derivative Financial Liabilities:					
Contracts for Differences	791	35	3	47	706
Gross Settled Derivative Financial Liabilities:					
Forward Exchange Contracts – Cash Flow Hedges					
- Inflow	222,037	53,500	163,781	4,756	-
- Outflow	240,670	56,241	177,318	7,111	-
Forward Exchange Contracts – Held for Trading					
- Inflow	550	550	-	-	-
- Outflow	653	653	-	-	-
Cross Currency Interest Rate Swaps					
- Inflow	927,126	34,966	35,044	303,822	553,294
- Outflow	1,173,964	63,171	55,651	380,029	675,113

Capital Risk Management Objectives

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

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

Consistent with others in the industry, Meridian monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings less cash and cash equivalents.

Total capital is calculated as 'equity attributable to shareholders of the Parent' as shown in the balance sheet, adjusted for the effect of the fair value of financial instruments, plus net debt.

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

During 2008 Meridian's strategy, which was unchanged from 2007, was to maintain the gearing ratio below 35% and a BBB+ credit rating. The gearing ratios at 30 June 2008 and 30 June 2007 were as follows:

	GROUP	
	2008 $'000	2007 $'000
Borrowings – NZD Equivalent Net of Foreign Exchange Hedging	1,004,649	754,649
Less: Cash and Cash Equivalents	64,645	44,755
Net Debt	940,004	709,894
Equity Attributable to Shareholders of the Parent	4,201,295	4,390,180
Adjust for Net Effect of Fair Value of Financial Instruments	3,472	(18,762)
Adjusted Shareholders' Equity	4,204,767	4,371,418
Total Capital	5,144,771	5,081,312
Gearing Ratio	18.27%	13.97%

All externally imposed capital requirements have been complied with.

23. Derivative Financial Instruments

		GROUP		PARENT	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Assets					
Held for Trading	CfD's	58,069	164	58,069	164
	Interest Rate Swaps	13,096	26,927	13,096	26,927
	Foreign Exchange Contracts	111	-	111	-
Cash Flow Hedges	CfD's	42,217	13,831	42,217	13,831
	Foreign Exchange Contracts	25,649	21	25,567	21
Total		139,142	40,943	139,060	40,943
Disclosed as:					
Current		37,500	1,055	37,426	1,055
Non-current		101,642	39,888	101,634	39,888
Liabilities					
Held for Trading	CfD's	12,837	239	12,837	239
	Interest Rate Swaps	489	-	489	-
	Foreign Exchange Contracts	-	79	-	79
Cash Flow Hedges	CfD's	101,617	2,794	101,617	2,794
	Foreign Exchange Contracts	1,344	6,691	1,344	6,691
	Cross Currency Interest Rate Swaps (margin)	(292)	1,106	(292)	1,106
Fair Value Hedges	Cross Currency Interest Rate Swaps	54,907	116,793	54,907	116,793
Total		170,902	127,702	170,902	127,702
Disclosed as:					
Current		46,068	3,583	46,068	3,583
Non-current		124,834	124,119	124,834	124,119

Meridian considers that the carrying amount of derivative instruments, accounts receivable and available for sale investments approximates their fair values.

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

23. Derivative Financial Instruments (continued)

The table below shows the changes in the fair value of financial instruments recognised in the income statement.

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Cross Currency Interest Rate Swaps	61,885	(131,751)	61,885	(131,751)
Borrowings	(61,904)	131,910	(61,904)	131,910
	(19)	159	(191)	159
Interest Rate Swaps	(14,321)	23,750	(14,321)	23,750
Cross Currency Interest Rate Swaps (margin)	8	(21)	8	(21)
Unrealised Net (Loss) Gain on Financial Instruments Included in Other Finance Related Expenses	(14,332)	23,888	(14,332)	23,888
Foreign Exchange Contracts	191	33	191	33
CfD's	45,306	625	45,306	625
Unrealised Net (Loss) Gain on Financial Instruments Included in Operating Profit	45,497	658	45,497	658
Total Unrealised Net (Loss) Gain on Financial Instruments	31,165	24,546	31,165	24,546
Total amount of change in fair values of financial instruments valued with reference to non-observable data recognised in the income statement	51,930	-	51,930	-

Cash Flow Hedges – CfD's

Meridian currently sells and purchases electricity at spot prices from the market exposing it to changes in the price of electricity. As described in Note 22, 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.

Cash Flow Hedges – Foreign Exchange Contracts

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

Cash Flow Hedges – Cross Currency Interest Rate Swaps

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

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

23. Derivative Financial Instruments (continued)

The table below shows the movements in the cash flow hedge 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 2006	7,626	5,520	9,079	(7,334)	14,891
Amount Recognised in Equity	(12,317)	(6,605)	10,672	-	(8,250)
Amount Removed from Equity					
- Electricity Sales/Costs	-	-	(8,714)	-	(8,714)
- Included in Initial Cost of Assets	(1,980)	-	-	-	(1,980)
- Deferred Taxation	-	-	-	6,369	6,369
Closing Balance at 30 June 2007	(6,671)	(1,085)	11,037	(965)	2,316
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	(21)	-	-	-

	GROUP AND PARENT				
	FEC'S $'000	DEBT – CFH OF MARGIN $'000	CFD'S $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2007	(6,671)	(1,085)	11,037	(965)	2,316
Amount Recognised in Equity	117,181	1,391	1,393	-	119,965
Amount Removed from Equity					
- Electricity Sales/Costs	-	-	(71,829)	-	(71,829)
- Included in Initial Cost of Assets	(86,206)	-	-	-	(86,206)
- Deferred Taxation	-	-	-	11,402	11,402
Closing Balance at 30 June 2008	24,304	306	(59,399)	10,437	(24,352)
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	8	-	-	-

The table below shows when the amounts held in the cash flow hedge reserve are expected to impact the profit and loss account.

	GROUP AND PARENT – 2008			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Contracts for Differences	(48,228)	(6,337)	(4,411)	(423)
Cross Currency Interest Rate Swaps	-	-	(239)	545
Total	(48,228)	(6,337)	(4,650)	(122)

	GROUP AND PARENT – 2007			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Contracts for Differences	2,893	2,419	6,160	(435)
Cross Currency Interest Rate Swaps	-	-	(541)	(544)
Total	2,893	2,419	5,619	(979)

23. Derivative Financial Instruments (continued)

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. The Day 1 adjustment is amortised to profit and loss as electricity volumes contracted in the derivative expire. The carrying value of the derivative is disclosed net of the Day 1 adjustment. (Refer Note 26)

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

	GROUP & PARENT	
	2008 $'000	2007 $'000
Opening Balance	514,970	-
Additions During the Year	-	-
Amortised During the Year	-	-
Closing Balance	514,970	-

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

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Profit after Tax for the Period	128,562	241,230	147,690	259,628
Adjustments for Non-Cash Items:				
Depreciation	139,556	107,132	117,545	105,150
Amortisation of Intangible Assets	13,115	10,231	9,069	8,627
Unrealised Net Loss/(Gain) on Financial Instruments	(31,165)	(24,546)	(31,165)	(24,546)
Movement in Deferred Tax	8,648	(5,416)	(272)	(5,743)
Transfer of Tax Losses to Parent	-	-	(1,280)	11,048
Impairment of Investments	-	487	12,866	487
Amortisation of Prepaid Debt Facility Fees	1,422	1,422	1,422	1,422
Share Based Payments	981	-	-	-
Other Non-Cash Items	467	-	(607)	(375)
	133,024	89,310	107,578	96,070
Items Classified as Investing Activities:				
Net (Gain)/Loss on Sale of Property, Plant and Equipment	(508)	(1,040)	(12,351)	(1,074)
Gain Recognised on Investment in Whisper Tech Joint Venture	-	(239)	-	-
	(508)	(1,279)	(12,351)	(1,074)
Changes in Working Capital Items				
Decrease in Accounts Receivable and Prepayments	(256,649)	12,111	(258,236)	15,812
Decrease/(Increase) in Inventory	2,714	(7,859)	(32)	(163)
(Decrease)/Increase in Payables and Accruals	333,184	21,243	324,189	13,861
(Decrease)/Increase in Provisions	(1,500)	3,440	(1,290)	1,290
Increase/(Decrease) in Current Tax Payable	503	(10,633)	759	(10,639)
Net Working Capital of Subsidiary Acquired	-	2,616	-	-
	78,252	20,918	65,390	20,161
Net Cash Flow from Operating Activities	339,330	350,179	308,307	374,785

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

25. Commitments

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Operating Lease Commitments				
Non cancellable operating lease payments are as follows:				
Less than One Year	6,425	2,503	3,513	1,837
Between One and Five Years	12,067	3,800	10,176	2,743
More than Five Years	683	320	593	320
	19,175	6,623	14,282	4,900

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

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Capital Expenditure Commitments				
Property, Plant and Equipment	243,406	13,101	14,081	4,389
	243,406	13,101	14,081	4,389

26. NZAS Agreement

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

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

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

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

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

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

Accounting Treatment of the NZAS Contract

Under the new agreement, part of the arrangement with NZAS includes a contract for difference (CfD) which will be accounted for at fair value in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Subsequent fair value changes will be recognised in profit and loss.

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. For financial reporting purposes, the carrying value of the CfD at Day 1 is Nil as outlined in the table below.

At 30 June 2008, the carrying value of the CfD is as follows:

	30 JUNE 2008 $'000	1 OCTOBER 2007 $'000
Present value of estimated cash flows	(463,040)	(514,970)
Less: Day 1 adjustment[1]	514,970	514,970
Carrying value	51,930	-

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

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

27. Related Party Transactions

Parent Entity

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.

Transactions with Related Parties

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

ENTITY	TRANSACTION	$'000	NATURE OF TRANSACTION
Royal New Zealand Ballet	Sponsorship Grant	307	Anne Blackburn, a Director of Meridian Energy Limited, is a trustee of the Royal New Zealand Ballet in her own personal capacity.
Landcare Research New Zealand Limited	Carbon Zero Certification and Consulting Advice	120	Anne Urlwin, a Director of Meridian Energy Limited, is also a Director of Landcare Research New Zealand Limited.
Transfield Services NZ Limited	Specialist Maintenance Services	7,327	Tim Lusk, the Chief Executive of Meridian Energy Limited, is also an Advisory Board Member of Transfield Services NZ Limited
Meteorological Service of New Zealand	Weather Related Services	84	Polly Schaverien, a Director of Meridian Energy Limited, is also a Director of the Meteorological Service of New Zealand.

Other Transactions involving a Related Party

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

ENTITY	TRANSACTION	$'000	NATURE OF TRANSACTION
Damwatch Services Limited	Consultancy Services	1,754	Damwatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $1.75 million (2007: $2.40 million).
Arc Innovations Limited	Meter Leasing Services	10,647	Arc Innovations Limited provided meter leasing services to Meridian Energy Limited during the year totalling $10.65 million (2007: $8.20 million).
MEL (West Wind) Limited	Sale of Assets	2,000	On 1 July 2007, Meridian Energy Limited sold assets to MEL (West Wind) Limited associated with resource consents and land relating to the proposed West Wind wind farm. This sale was transacted at carrying value and had no impact on the results of the Group and Parent for the year.
MEL (Te Āpiti) Limited	Sale of Assets	256,000	On 1 July 2007, Meridian Energy Limited sold assets to MEL (Te Āpiti) Limited primarily consisting of property, plant and equipment relating to the Te Āpiti wind farm. This sale resulted in a gain on sale to the Parent of $23 million and had no impact on the results for the Group.
Meridian Energy Captive Insurance Limited	Insurance Services	3,325	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties.

Advances to/from Subsidiaries are repayable on demand and are interest free except for advances to Arc Innovations Limited. Arc Innovations Limited has two advances on which interest is charged at a floating rate with repayment terms on expiry or, in the case of one of the advances, in equal portions from 30 June 2009 until expiry.

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

27. Related Party Transactions (continued)

Compensation of Key Management Personnel

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

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Directors' Fees	483	341	433	305
Chief Executive Officer and Senior Management Team:				
Salaries & Short Term Benefits	6,239	5,294	4,909	4,173
Post Employment Benefits	-	-	-	-
Termination Benefits	-	-	-	-
Other Long Term Benefits	-	-	-	-
	6,239	5,294	4,909	4,173

28. Subsequent Events

There have been no material events subsequent to 30 June 2008.

29. Contingent Assets and Liabilities

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

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

As stated in Note 1 these are Meridian's first consolidated financial statements complying with the measurement and recognition requirements of the New Zealand Equivalents to International Financial Reporting Standards "NZ IFRS" and NZ IFRS 1: *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. The accounting policies set out in Note 1 have been applied in preparing the:

- Consolidated Financial Statements for the year ended 30 June 2008 and for the comparative period ended 30 June 2007
- Opening NZ IFRS Balance Sheet at 1 July 2006 (Meridian's date of transition)
- NZ IFRS Transition Balance Sheet

In preparing the opening NZ IFRS Balance Sheet and the comparative NZ IFRS Financial Statements for the year ended 30 June 2008 Meridian has adjusted amounts reported under previous NZ GAAP.

The impact of the transition to NZ IFRS on the Group and Parent is set out in the following tables and the explanatory Notes that accompany the tables.

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

Effect of NZIFRS at Transition Date: 1 July 2006	Note	GROUP REPORTED UNDER PREVIOUS GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZIFRS AUDITED $'000	NZIFRS AUDITED $'000
Shareholders' Equity				
Share Capital		1,600,000	-	1,600,000
Revaluation Reserve	d	2,476,890	(824,177)	1,652,713
Foreign Currency Translation Reserve		6	-	6
Cash Flow Hedge Reserve	c	-	14,891	14,891
Available for Sale Reserve	b	-	1,065	1,065
Retained Earnings	a,c,d	160,455	8,934	169,389
Total Equity		4,237,351	(799,287)	3,438,064
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	242,416	(7,994)	234,422
Derivative Financial Instruments	c	-	60,553	60,553
Investments	a,b	22,679	(6,560)	16,119
Investment in Associates		716	-	716
Intangible Assets	f	22,980	3,614	26,594
Deferred Tax Assets	d	-	132	132
Property, Plant and Equipment	f	4,795,590	(3,614)	4,791,976
Other Assets		254,930	-	254,930
Total Assets		5,339,311	46,131	5,385,442
Liabilities				
Derivative Financial Instruments	c	-	21,004	21,004
Term Borrowings	e	754,649	5,545	760,194
Deferred Tax Liability	d	152,089	818,870	970,959
Other Liabilities		195,222	(1)	195,221
Total Liabilities		1,101,960	845,418	1,947,378
Net Assets		4,237,351	(799,287)	3,438,064

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

Effect of NZIFRS at Transition Date: 1 July 2006	Note	PARENT REPORTED UNDER PREVIOUS GAAP AUDITED $'000	 EFFECT OF TRANSITION TO NZIFRS AUDITED $'000	 NZIFRS AUDITED $'000
Shareholders' Equity				
Share Capital		1,600,000	-	1,600,000
Revaluation Reserve	d	2,476,704	(824,177)	1,652,527
Foreign Currency Translation Reserve		-	-	-
Cash Flow Hedge Reserve	c	-	14,891	14,891
Available for Sale Reserve	b	-	1,065	1,065
Retained Earnings	a,c,d	17,692	17,084	34,776
Total Equity		4,094,396	(791,137)	3,303,259
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	238,720	(7,994)	230,726
Derivative Financial Instruments	c	-	60,553	60,553
Investments	a,b	14,530	1,589	16,119
Investments in Subsidiaries		50,537	-	50,537
Intangible Assets	f	22,980	2,871	25,851
Deferred Tax Assets	d	-	-	-
Property, Plant and Equipment	f	4,795,297	(2,871)	4,792,426
Other Assets		287,820	-	287,820
Total Assets		5,409,884	54,148	5,464,032
Liabilities				
Derivative Financial Instruments	c	-	21,004	21,004
Term Borrowings	e	754,649	5,545	760,194
Deferred Tax Liability	d	152,224	818,738	970,962
Other Liabilities		408,615	(2)	408,613
Total Liabilities		1,315,488	845,285	2,160,773
Net Assets		4,094,396	(791,137)	3,303,259

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

Effect of NZIFRS at the end of the Last Reporting Period Under Previous NZ GAAP: 30 June 2007	Note	GROUP REPORTED UNDER PREVIOUS GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZIFRS AUDITED $'000	NZIFRS AUDITED $'000
Shareholders' Equity				
Share Capital		1,600,000	-	1,600,000
Revaluation Reserve	d	3,938,895	(1,192,386)	2,746,509
Foreign Currency Translation Reserve		4	-	4
Cash Flow Hedge Reserve	c	-	2,316	2,316
Available for Sale Reserve	b	-	1,544	1,544
Retained Earnings	a,c,d	(8,375)	48,182	39,807
Minority Interest		11,610	-	11,610
Total Equity		5,542,134	(1,140,344)	4,401,790
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	228,881	(6,570)	222,311
Derivative Financial Instruments	c	-	40,943	40,943
Investments	a,b	14,439	2,128	16,567
Intangible Assets	f	40,092	9,500	49,592
Deferred Tax Assets	d	-	37	37
Property, Plant and Equipment	f	6,319,903	(4,830)	6,315,073
Other Assets		64,268	-	64,268
Total Assets		6,667,583	41,208	6,708,791
Liabilities				
Derivative Financial Instruments	c	-	127,702	127,702
Term Borrowings	e	754,649	(124,942)	629,707
Deferred Tax Liability	d	152,979	1,178,793	1,331,772
Other Liabilities		217,821	(1)	217,820
Total Liabilities		1,125,449	1,181,552	2,307,001
Net Assets		5,542,134	(1,140,344)	4,401,790

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

Effect of NZIFRS on the Income Statement For the Year Ended 30 June 2007	Note	GROUP REPORTED UNDER PREVIOUS GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZIFRS AUDITED $'000	NZIFRS AUDITED $'000
Operating Revenue	g,h,i	1,773,991	16,731	1,790,722
Operating Expenses	a,h,i	(1,297,488)	(16,813)	(1,314,301)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		476,503	(82)	476,421
Unrealised Net Gain on Financial Instruments	c	-	658	658
Depreciation and Amortisation	f	(117,610)	247	(117,363)
Gain on Sale of Property, Plant and Equipment	h	1,086	-	1,086
Loss on Sale of Property, Plant and Equipment	h	(46)	-	(46)
Operating Profit		359,933	823	360,756
Finance Costs and Other Finance Income (Expenses)				
Finance Costs		(56,323)	-	(56,323)
Interest Income	g	-	10,364	10,364
Unrealised Net Gain on Financial Instruments	c,e	-	23,888	23,888
Profit Before Tax		303,610	35,075	338,685
Income Tax	d	(103,761)	6,306	(97,455)
Profit After Tax		199,849	41,381	241,230

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

Effect of NZIFRS at the End of the Last Reporting Period Under Previous NZ GAAP: 30 June 2007	Note	PARENT		
		REPORTED UNDER PREVIOUS GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZIFRS AUDITED $'000	NZIFRS AUDITED $'000
Shareholders' Equity				
Share Capital		1,600,000	-	1,600,000
Revaluation Reserve	d	3,931,704	(1,190,399)	2,741,305
Foreign Currency Translation Reserve		-	-	-
Cash Flow Hedge Reserve	c	-	2,316	2,316
Available for Sale Reserve	b	-	1,544	1,544
Retained Earnings	a,c,d	(120,709)	47,936	(72,773)
Minority Interest		-	-	-
Total Equity		5,410,995	(1,138,603)	4,272,392
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	221,483	(6,569)	214,914
Derivative Financial Instruments	c	-	40,943	40,943
Investments	a,b	102,873	2,128	105,001
Intangible Assets	f	16,240	3,098	19,338
Deferred Tax Assets	d	-	-	-
Property, Plant and Equipment	f	6,150,171	(3,099)	6,147,072
Other Assets		249,315	-	249,315
Total Assets		6,740,082	36,501	6,776,583
Liabilities				
Derivative Financial Instruments	c	-	127,702	127,702
Term Borrowings	e	754,649	(124,942)	629,707
Deferred Tax Liability	d	152,787	1,172,344	1,325,131
Other Liabilities		421,651	-	421,651
Total Liabilities		1,329,087	1,175,104	2,504,191
Net Assets		5,410,995	(1,138,603)	4,272,392

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

Effect of NZIFRS on the Income Statement For the Year Ended 30 June 2007	Note	PARENT REPORTED UNDER PREVIOUS GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZIFRS AUDITED $'000	NZIFRS AUDITED $'000
Operating Revenue	g,h,i	1,765,682	16,684	1,782,366
Operating Expenses	a,h,i	(1,255,540)	(27,097)	(1,282,637)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		510,142	(10,413)	499,729
Unrealised Net Gain on Financial Instruments	c	-	658	658
Depreciation and Amortisation	f	(113,778)	1	(113,777)
Gain on Sale of Property, Plant and Equipment	h	1,086	-	1,086
Loss on Sale of Property, Plant and Equipment	h	(12)	-	(12)
Operating Profit		397,438	(9,754)	387,684
Finance Costs and Other Finance Income (Expenses)				
Finance Costs		(56,323)	-	(56,323)
Interest Income	g	-	10,412	10,412
Unrealised Net Gain on Financial Instruments	c,e	-	23,888	23,888
Profit Before Tax		341,115	24,546	365,661
Income Tax	d	(112,339)	6,306	(106,033)
Profit After Tax		228,776	30,852	259,628

There are no material differences between the cash flow statements presented under NZ IFRS and the cash flow statements presented under previous NZ GAAP for the comparative financial year ended 30 June 2007.

Changes in Key Accounting Policies on Transition to NZ IFRS

a) Joint Ventures

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

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

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

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

b) Investments

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

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

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

c) Financial Instruments

Meridian enters into derivatives primarily to manage exposure to interest rate, foreign exchange and electricity price risk. Under previous NZ GAAP Meridian accounted for such derivatives on cash settled basis.

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

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

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

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

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

d) Deferred Tax

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

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

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

e) Borrowings

Under previous NZ GAAP borrowings were stated at face value less unamortised discounts, premiums and prepaid interest. Costs directly attributable to the issuance of debt were recorded as a prepaid asset and written off over the life of the related debt. Under NZ IFRS borrowings are recognised initially at fair value, net of transaction costs. Borrowings not designated as hedged items are subsequently stated at amortised cost. Borrowings designated as hedged items are stated including the gain or loss attributable to the hedged risk in accordance with NZ IAS 39: *Financial Instruments*.

The key impact of this change in accounting principle is to recognise borrowings including the gain or loss attributed to the hedged risk on the balance sheet net of transaction costs.

f) Intangibles

NZ IAS 38: *Intangible Assets* requires computer software to be classified as an intangible asset when the software is not an integral part of the related hardware. Under previous NZ GAAP Meridian classified software as equipment. The key impact of this change in accounting principle is to reclassify software as an intangible asset.

In accordance with previous NZ GAAP goodwill is amortised on a straight-line basis over the period of expected benefit. Under NZ IFRS goodwill is no longer amortised but tested for impairment at least annually or when indication of impairment exists.

The key impact of this change in accounting principle is to reverse previous amortisation and increase the carrying amount of goodwill.

g) Interest Income

Under previous NZ GAAP interest income was reported as part of operating revenue. Under NZIFRS, interest income has been reclassified from operating revenue to net financing costs.

h) Gain/(Loss) on Sale of Property, Plant and Equipment

Under previous NZ GAAP gains and losses on sale of property, plant and equipment were reported as part of operating revenue and operating expenses respectively. Under NZIFRS, these have been reclassified to be reported separately as net gain/(loss) on sale of property, plant and equipment.

i) Miscellaneous Charges

Under previous GAAP, some charges were offset against operating income and reported as part of operating income. This treatment has been reconsidered under NZ IFRS and these charges are now reported as operating expense.

Report from the Audit Office

Audit Report to the Readers of Meridian Energy Limited and Group's Financial Statements
for the Year Ended 30 June 2008

The Auditor-General is the auditor of Meridian Energy Limited (the "Company") and Group. The Auditor-General has appointed me, Graeme Mitchell, 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 2008.

Unqualified Opinion

In our opinion:

The financial statements of the Company and Group on pages 38 to 83:

- 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 2008; 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 2008, 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.

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

Audit procedures generally include:

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

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

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

Report from the Audit Office (continued)

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 2008 and the results of their operations and cash flows for the year ended on that date. The Board of Directors responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

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

Independence

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

In addition to the audit, we have carried out other assurance assignments for the Company and Group in the areas of carbon emissions audits, the review of the half year financial statements and the adoption of NZ IFRS, which are 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.

Graeme Mitchell
DELOITTE
On behalf of the Auditor-General
WELLINGTON, New Zealand

This audit report relates to the financial statements of Meridian Energy Limited and group for the year ended 30 June 2008 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 2008 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.

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
Resigned 01/04/08

Catherine Drayton
Director
Appointed 01/05/06

David Shand
Director
Appointed 01/05/06

Polly Schaverien
Director
Appointed 01/11/07

Subsidiary Company Directors

DamWatch Services Limited
Keith Turner *(Resigned 31 March 2008)*
Murray Gillon *(Resigned 31 March 2008)*
Kenneth Smales
Peter Menzies
Michael Campbell
Timothy Densem
Peter Amos (Managing Director)
(Appointed 31 March 2008)
Brian Vass *(Appointed 31 March 2008)*

Damwatch Pty Limited
Murray Gillon *(Resigned 05 June 2008)*
Stan Brogan
Peter Amos (Managing Director)
(Appointed 5 June 2008)

Meridian Energy Captive Insurance Limited
Keith Turner *(Resigned 31 March 2008)*
Paul Smart *(Resigned 6 May 2008)*
Andrew Robertson *(Appointed 6 May 2008)*
James Hay *(Appointed 31 March 2008)*

Meridian Limited
Keith Turner *(Resigned 31 March 2008)*
Paul Smart *(Resigned 6 May 2008)*
Andrew Robertson *(Appointed 6 May 2008)*
James Hay *(Appointed 31 March 2008)*

Energy for Industry Limited
Andrew Robertson *(Appointed 6 May 2008)*
James Hay *(Appointed 31 March 2008)*
Keith Turner *(Resigned 31 March 2008)*
Paul Smart *(Resigned 6 May 2008)*

Woodville Windfarm Limited
James Hay *(Appointed 31 March 2008)*
Ken Smales *(Appointed 31 March 2008)*
Keith Turner *(Resigned 31 March 2008)*

Meridian Energy International Limited
Keith Turner *(Resigned 31 March 2008)*
Paul Smart *(Resigned 6 May 2008)*
Andrew Robertson *(Appointed 6 May 2008)*
James Hay *(Appointed 31 March 2008)*

Arc Innovations Limited
Keith Turner *(Resigned 31 March 2008)*
Paul Smart
Bill Highet
Phil Lough
Jason McDonald
Brian Vass *(Appointed 31 March 2008)*

Right House Limited
Keith Turner *(Resigned 31 March 2008)*
Jason McDonald
Paul Smart
Brian Vass *(Appointed 31 March 2008)*

Powershop New Zealand Limited
Jason McDonald *(Appointed 3 September 2007)*
Brian Vass *(Appointed 31 March 2008)*
James Hay *(Appointed 28 March 2008)*
Keith Turner *(Resigned 31 March 2008)*

MEL Holdings Limited
James Hay
Keith Turner *(Resigned 31 March 2008)*
Ken Smales *(Appointed 31 March 2008)*

MEL (West Wind) Limited
Keith Turner *(Resigned 31 March 2008)*
Ken Smales *(Appointed 31 March 2008)*
James Hay

Meridian (Whisper Tech No.2) Limited
[formerly called Orion (Whisper Tech) Limited]
James Hay
Keith Turner *(Resigned 1 April 2008)*
Jason McDonald *(Appointed 2 April 2008)*

Three River Holdings (No.1) Limited
James Hay
Ken Smales

MEL (Te Āpiti) Limited
James Hay
Keith Turner *(Resigned 31 March 2008)*
Ken Smales *(Appointed 31 March 2008)*

Three River Holdings (No. 2) Limited
James Hay
Ken Smales

MEL (White Hill) Limited
Keith Turner *(Resigned 31 March 2008)*
James Hay
Ken Smales *(Appointed 31 March 2008)*

WhisperGen Limited
Keith Turner *(Resigned 1 April 2008)*
James Hay
Jason McDonald
Paul Smart

WhisperGen (UK) Limited
David Moriaty
Bill Highet *(Resigned 5 March 2008)*

Whisper Tech Limited
Keith Turner *(Resigned 1 April 2008)*
David Moriaty
Bruce Boehm
James Hay
Jason McDonald
Brian Vass *(Appointed 31 March 2008)*

Meridian (Whisper Tech) Limited
James Hay
Paul Smart

Three River Holdings Pty Limited
James Hay
Peter Lowe
Ken Smales
Keith Turner *(Resigned 31 March 2008)*

Meridian Wind Macarthur Pty Ltd
[formerly called Three River Australia Pty Limited]
Keith Turner *(Resigned 31 March 2008)*
James Hay
Ken Smales
Peter Lowe

Meridian International No 1 Ltd
James Hay *(Appointed 20 November 2007)*
Ken Smales *(Appointed 5 December 2007)*

Meridian International No 2 Ltd
James Hay *(Appointed 20 November 2007)*
Ken Smales *(Appointed 5 December 2007)*

Meridian Australia Holdings Pty Ltd
James Hay *(Appointed 20 November 2007)*
Peter Lowe *(Appointed 20 November 2007)*
Keith Turner *(Resigned 31 March 2008)*

Meridian Wind Australia Holdings Pty Ltd
James Hay *(Appointed 20 November 2007)*
Peter Lowe *(Appointed 20 November 2007)*
Keith Turner *(Resigned 31 March 2008)*

Meridian Wind Australia Pty Ltd
James Hay *(Appointed 20 November 2007)*
Peter Lowe *(Appointed 20 November 2007)*
Keith Turner *(Resigned 31 March 2008)*

Statutory Information (continued)

General Disclosures

Disclosure of Directors' Interests

Declaration of general interest by directors for the Year Ended 30 June 2008 in accordance with Section 140 (2) of the Companies Act 1993:

Wayne Boyd
Telecom Corporation of New Zealand Limited, *Chairman*
Freightways Limited, *Chairman*
Vulcan Steel Limited, *Director*
Three Wise Guys Limited, *Director*

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

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

Raymond Watson
Ngai Tahu Associates Limited, *Director/Shareholder*
Ray Watson Associates Limited, *Director/Shareholder*
Mental Health Commission, *Commissioner*

Catherine Drayton
NZ Hockey Federation, *Director*
Industrial Research Limited Board, *Director*
Keith Douglas Drayton Trust Fund Vector Ltd, *Shareholder*

David Shand
Tertiary Education Commission, *Chairman*
Royal Commission on Auckland Governance, *Commissioner*
Origin Energy, *Shareholder*

Polly Schaverien
Meteorological Service of New Zealand, *Director*
Metra Information Limited, *Director*
Maarama Partners Limited, *Director*
Michael Bird & Associates Limited, *Director*

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

Information Used by Directors

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

Indemnification and Insurance of Officers and Directors

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

Directors' Remuneration – Meridian Energy Limited

	PARENT
	2008 DIRECTORS' FEE ($'000)
Wayne Boyd	98.0
Anne Blackburn	51.7
Anne Urlwin	51.7
Raymond Watson	51.7
David Shand	49.0
Tim Lusk	49.0
Catherine Drayton	49.0
Polly Schaverien	32.7
Total	432.8

Directors' Remuneration – Subsidiaries

	SUBSIDIARIES
	2008 DIRECTORS' FEE ($'000)
Peter Menzies *(Damwatch Services Limited)*	6.0
Phil Lough *(Arc Innovations Limited)*	14.0
Bill Highet *(Arc Innovations Limited)*	12.5
Tim Lusk *(Arc Innovations Limited consultancy work as part of the Independent Advisory Committee)*	12.0
Total	44.5

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

Shareholders

Shareholder Information

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

Employees

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

Statutory Information (continued)

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.

	2008	
	PARENT	SUBSIDIARIES
$100,000-109,999	42	19
$110,000-119,999	28	12
$120,000-129,999	25	14
$130,000-139,999	19	3
$140,000-149,999	13	2
$150,000-159,999	12	-
$160,000-169,999	6	1
$170,000-179,999	9	1
$180,000-189,999	13	-
$190,000-199,999	9	3
$200,000-209,999	5	1
$210,000-219,999	2	1
$220,000-229,999	2	4
$230,000-239,999	1	-
$240,000-249,999	1	-
$250,000-259,999	2	1
$260,000-269,999	4	1
$270,000-279,999	1	1
$290,000-299,999	2	-
$300,000-309,999	-	1
$320,000-329,999	1	-
$340,000-349,999	2	-
$360,000-369,999	1	-
$380,000-389,999	1	1
$410,000-419,999	1	-
$510,000-519,999	1	-
$1,400,000-1,409,999	1	-

Governance

The Company's governance framework is designed to ensure that the Company is effectively managed and that statutory obligations are met.

The governance framework ensures a clear understanding of the separate roles of the Board and management and demonstrates a shared commitment to the culture and success of the Company.

The following sections provide information about the Company's governance framework and provide examples of the governance activities undertaken in the year.

Meridian Energy Limited

Meridian Energy is a limited liability company and a State-Owned Enterprise (SOE) under the State-Owned Enterprises Act 1986. As an SOE all shares are owned by the Crown. The Crown's shares are held in equal proportions by the Minister of Finance and the responsible Minister, as appointed by the Prime Minister from time to time (currently this is the Minister for State-Owned Enterprises).

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

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

The principal objective underpins the activities of the Company.

Meridian Energy's core business is the generation and retailing of electricity, however the Company and its subsidiaries are involved with a number of wider, complementary activities, such as dam surveillance with DamWatch Services Limited , the provision of advanced metering with Arc Innovations Limited and energy efficiency consulting and products with Right House Limited. Meridian Energy operates primarily in New Zealand and through subsidiaries and joint venture arrangements has operations in Australia, the United Kingdom and Spain.

Appointment and Independence of Meridian Energy's Board

The Board is appointed by Shareholding Ministers and can comprise up to nine non-executive directors, including the Chairman. There are currently seven non-executive directors of the Company. Under the Company's constitution, the Shareholding Ministers may appoint directors for a fixed term not exceeding three years and may choose to renew any Board appointments for further fixed terms of up to three years. The Shareholding Ministers also set the directors' remuneration.

There were changes in the composition of the Board in the past year. Polly Schaverien was appointed from 1 November 2007 and Tim Lusk resigned as at 1 April 2008. Another appointment is expected to take the Board to eight non-executive members.

Wayne Boyd, Anne Urlwin and Ray Watson's appointments were renewed for further terms of three years each.

In accordance with the Companies Act the Board maintains an up to date interests register to ensure that conflicts of interest are avoided.

External Audit

Meridian Energy's Board has adopted a strict policy to maintain the independence of the Company's external auditors. Under section 29 of the Public Finance Act 1989 the Auditor-General appointed Deloitte to audit Meridian Energy on his behalf. The Company ensures that Deloitte does not perform any work for the Group other than work that forms part of its external audit brief.

Board Information and Evaluation

All Board members undertake a comprehensive induction process to enhance their understanding of the industry and Meridian's business, including familiarisation tours of Meridian's assets and operations with the Chief Executive and Chairman. The Board receives information papers from Meridian management on an ongoing basis to ensure that the Board is kept appraised of the Company's activities. During the year the Board received information papers on activities throughout the group, including such things as the Company's customer satisfaction surveys.

The Board conducts a self-evaluation each year. The evaluation examines the performance of the Board, the Chairman and each director. The results of each evaluation are provided to the Crown Company Monitoring and Advisory Unit (CCMAU) which in turn supplies the report to the Shareholding Ministers.

Roles and Responsibilities of the Board

The Board has a responsibility to protect and enhance the value of the Group in the interests of the Group and of the Crown as shareholder.

The Board will normally hold up to eight scheduled meetings per year. In the 2007/08 year the Board met 12 times.

The Board meets to review and approve:

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

In terms of the State-Owned Enterprises Act 1986 the Board is responsible for:

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

The Board is kept appraised of issues throughout the Company by regular reporting and through the Board's business case approval function. Each division of the Company provides a monthly report of activities undertaken including performance against key objectives. Any material non-compliance with policies or law is also reported to the Board.

The Board also receives major project reports such as those relating to the Benmore refurbishment and Project West Wind and approving business cases on issues such as the Company's decision to re-certify the generation and retailing of its electricity as carbon neutral.

The reporting and business case processes enable the Board to oversee Meridian's economic, environmental and social performance.

Meridian Energy Management's involvement with Governance Framework

There is an excellent working relationship between Meridian Energy's management and the non-executive Board.

All management are employees of the Company. Management are involved in the governance framework of the Company to ensure the Company's objectives are met. In addition to their day to day roles within the Company, Meridian management are involved with a number of professional organisations including: Institute of Professional Engineers, Electricity & Gas Complaints Commission, the Energy Law Association and New Zealand Institute of Chartered Accountants.

All authority conferred on management is delegated by the Board through the Chief Executive. The Board agrees to the levels of delegated authority for those who report directly to the Chief Executive and throughout the Company.

Board Committees

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

The Board considers the balance of skills, experience and other qualities required when appointing directors to a particular committee.

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

Audit & Risk Committee

The Audit & Risk Committee is chaired by Anne Urlwin and sets the principles and standards for internal controls, accounting policies and the nature, Scope, objectives and functions of external and internal audit. It also evaluates post implementation reviews of investments, major capital expenditure projects and funding arrangements. With respect to risk it is responsible for ensuring the efficient and effective management of all business risk and compliance with the relevant legal, market and group policy requirements.

Remuneration & Human Resources Committee

The Remuneration & Human Resources Committee is chaired by Anne Blackburn and sets the principles and standards for remuneration structure, policy and practice and the human resources policy. It approves company-wide remuneration policy and reviews remuneration of senior executives as well as reviewing the succession strategy and conditions of employment. In the past year this committee has reviewed and reported on a variety of issues including the Employee Satisfaction Survey. Meridian's incentive performance scheme takes into account the financial and non-financial performance of the Company.

Board and Committee composition & attendance (as at 30 June 2008)

MEMBER	APPOINTED	EXPIRES	RESIGNED	BOARD (12 MEETINGS)	AUDIT & RISK (10 MEETINGS)	REMUNERATION & HR (6 MEETINGS)
Wayne Boyd	April 2005	April 2011		Chair (12)		
Ray Watson	June 2005	June 2011		Deputy Chair (11)		6
Anne Blackburn	June 2004	June 2010		11	1	6
Anne Urlwin	January 2005	January 2011		12	10	
Catherine Drayton	May 2006	April 2009		12	9	
David Shand	May 2006	April 2009		12	2	6
Polly Schaverien	November 2007	November 2010		7	7	
Tim Lusk	June 2005		April 2008	8	6	

Meridian Energy Group Greenhouse Gas (GHG) Inventory Report

Greenhouse Gas Inventory

The following information has been summarised from the full Meridian Energy Group Greenhouse Gas Inventory for the 1 July 2007 to 30 June 2008 period.

Statement of Greenhouse Gas (GHG) Inventory policies

Meridian seeks to adhere to best practice in its greenhouse gas emission reporting. For that reason the following GHG accounting methodologies have been applied to the Meridian Energy GHG Group Inventory:

- *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition)* developed by the World Resources Institute and the World Business Council for Sustainable Development (2004). This is referred to as GHGP.
- *ISO14064-1:2006 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals.* This is referred to as ISO14064-1.

Basis of preparing group GHG inventories

Organisational boundary and consolidation approach

The organisational boundary sets the parameters for GHG reporting in the Meridian Group GHG Inventory. The boundary is determined by the operations owned or controlled by Meridian depending on the consolidation approach taken. The consolidation approach is applied to subsidiaries, associate companies and joint ventures in the Meridian Energy group to determine how emission sources are reported in the Meridian Group GHG Inventory.

Meridian applies the equity share consolidation approach. This means that Meridian will account for greenhouse gas emissions from all activities within its corporate boundary and a percentage of the emissions from entities in which it has an equity interest according to its share of equity in the entity.

Facilities

The emissions for the group have been identified for separate facilities (as defined by ISO14064-1) as outlined below:

- **Meridian Energy**, this includes all activities associated with the generation and retail of renewable energy. It excludes activities associated with Agriculture, EFI, Powershop and Right House as they are classified as separate facilities. It includes the following legal entities: Meridian Energy Limited; Meridian Energy Captive Insurance Limited; Meridian Limited (non-trading); Meridian Energy International Limited (non-trading); Woodville Windfarm Limited (non-trading); MEL Holdings Limited (non-trading); MEL (Te Āpiti) Limited; MEL (West Wind) Limited; MEL (White Hill) Limited; Meridian International No.1 Limited (non-trading); Meridian International No 2 Limited (non-trading); Meridian Australia Holdings Pty Limited (non-trading); Meridian Wind Australia Holdings Pty Limited (non-trading); Meridian Wind Australia Pty Limited (non-trading)
- **Agriculture**, this is a business unit of Meridian Energy Limited. The Agriculture facility includes Meridian's equity share of activities associated with the share-milking joint ventures.
- **Arc Innovations**, this includes emissions arising from the development, deployment and management of Advanced Meter Management (AMM) technology and services that take place in Arc Innovations Limited.
- **DamWatch**, this includes emissions arising from consultancy services relating to dam safety and surveillance that take place in DamWatch Services Limited. This includes DamWatch Pty Limited (incorporated in Australia).
- **EFI (Energy for Industry)**, this is a business unit that is part of Meridian Energy Limited. The 100% owned subsidiary company named Energy for Industry Limited is also part of the EFI facility; however it is non-trading. EFI produces energy from a variety of fuel sources based at six industrial energy centres. Each centre is in itself a facility, and the six are consolidated on an equity share basis, along with EFI's corporate operations, into the EFI facility
- **Meridian Australia**, this includes emissions arising from development of wind energy generation opportunities in Australia, which during this reporting period are confined to office based activities. The following legal entities are included: Three River Holdings (No 1) Limited (non-trading); Three River Holdings (No 2) Limited (non-trading); Three River Holdings Pty Limited (non-trading); Meridian Wind Macarthur Pty Limited.
- **Powershop**, this includes the emissions arising from the energy retailing activities that take place in Meridian Energy Limited and Powershop New Zealand Limited under the Powershop brand.
- **Right House**, this includes the corporate and transport emissions arising from advice and installation activities undertaken by Right House as an independent supplier of energy efficiency advice and solutions for households, small business and government that take place in Right House Limited and Elemental Energy Limited.
- **WhisperTech**[5], this includes emissions arising from the manufacture and sales of micro-combined heat and power systems. The following legal entities are included: Whisper Tech Limited; Meridian (Whisper Tech) Limited (non-trading); Meridian (Whisper Tech No 2) Limited (non-trading); WhisperGen Limited (non-trading from 1/4/08); WhisperGen (UK) Limited; Efficient Home Energy SL (joint venture).

Changes to reporting

The methodology used to prepare the GHG inventories is unchanged.

Base Year

This is the first year formal inventories have been prepared for all facilities and the Group as a whole. There has been some reclassification in the 07/08 year to separately show subsidiaries/facilities which were previous reported under the Meridian Energy Facility.

The base year selected is 1 July 2007 to 30 June 2008.

As this is a revised base year a comparison with the footprint for the Meridian Energy facility published in last year's Annual Report is not being made. The total CO_2 emissions reported for the Meridian Energy facility for the 2006/07 year were 5,416 tonnes.

For consistency and treatment of all facilities in the Group, the 2007/08 base year will also apply to the Meridian Energy Facility in place of the 2005/06 base year applied for the first carboNZero$^{cert\ TM}$ certification of that facility.

	TONNES OF CO_2	MERIDIAN ENERGY	AGRICULTURE	ARC INNOVATIONS	DAMWATCH	EFI	MERIDIAN AUSTRALIA	POWERSHOP	RIGHT HOUSE	WHISPER TECH
Greenhouse Gas Emissions (t CO_2e emissions)[4]										
Operational Emissions										
Direct Emissions (Scope 1)										
Emissions from Electricity Generation	-	-	-	-	-	-	-	-	-	-
Emissions from Meridian Owned Boats	424	424	-	-	-	-	-	-	-	-
Emissions from Meridian owned Back Up Generators	91	91	-	-	-	-	-	-	-	-
Emissions from Owned Vehicles	388	278	72	-	-	6	-	-	32	-
Emissions from Leased Vehicles	74	69	-	3	2	-	-	-	-	-
Emissions from Sulphur Hexaflouride (SF6) leakage	77	77	-	-	-	-	-	-	-	-
Emissions from Livestock	2,642	-	2,642	-	-	-	-	-	-	-
Emissions from Fertiliser	414	-	414	-	-	-	-	-	-	-
Emissions from Stationary Combustion (BOOT contracts)	46,856	-	-	-	-	46,856	-	-	-	-
Emissions from LPG Gas used in Manufacturing and Energy Generation	88	-	-	-	-	-	-	-	-	88
Emissions from Gases used in Manufacturing and Energy Generation	7	-	-	-	-	-	-	-	-	7
	51,061	939	3,128	3	2	46,862	-	-	32	95
Energy Indirect (Scope 2) emissions										
Indirect Emissions from Purchased Electricity	8,517	2,909	46	70	9	5,376	20	5	16	66
Other Indirect (Scope 3) emissions										
Indirect Emissions from Rental Cars	134	64	-	1	5	3	2	-	7	52
Indirect Emissions from Air Travel	2,634	1,471	-	303	118	47	108	13	111	463
Indirect Emissions from Taxi Journeys	33	27	-	2	1	1	1	-	1	-
Indirect emissions from the Generation of Electricity that is Purchased and then On Sold to End Users	80	-	-	-	-	-	-	80	-	-
Indirect Emissions from Line Losses	38	38	-	-	-	-	-	-	-	-
Indirect Emissions from Load Reducting Generation by Customers	82	82	-	-	-	-	-	-	-	-
Indirect Emissions from Waste[6]	707	46	-	-	-	648	-	-	-	13
Indirect Emissions from Operational Maintenance	218	218	-	-	-	-	-	-	-	-
Indirect Emissions from Contractor Fuel and Oil[7]	55	55	-	-	-	-	-	-	-	-
Indirect Emissions from Feed Purchased	-	-	-	-	-	-	-	-	-	-
Indirect Emissions from Freight	628	-	-	-	-	628	-	-	-	-
Indirect Emissions from Stationary Combustion (CCDHB)	6,007	-	-	-	-	6,007	-	-	-	-
	10,616	2,000	-	306	124	7,334	111	93	119	528
Total Operational CO_2e emissions	70,194	5,848	3,174	379	135	59,572	131	98	167	689

	TONNES OF CO_2	MERIDIAN ENERGY	AGRICULTURE	ARC INNOVATIONS	DAMWATCH	EFI	MERIDIAN AUSTRALIA	POWERSHOP	RIGHT HOUSE	WHISPER TECH
One Time Emissions										
Other Indirect (Scope 3) emissions [2]										
Indirect Emissions from Petrol	-	-	-	-	-	-	-	-	-	-
Indirect Emissions from Diesel	3,712	3,712	-	-	-	-	-	-	-	-
Indirect Emissions from A1 Jet Fuel	-	-	-	-	-	-	-	-	-	-
Indirect Emissions from Cement	3,518	3,495	-	-	-	23	-	-	-	-
Indirect Emissions from Aggregate	1	-	-	-	-	1	-	-	-	-
Indirect Emissions from Concrete	166	-	-	-	-	166	-	-	-	-
Indirect Emissions Iron & Steel Imported	22,093	22,093	-	-	-	-	-	-	-	-
Indirect Emissions Iron & Steel Local	2,138	1,874	-	-	-	264	-	-	-	-
Indirect Emissions from Aluminium Imported	784	784	-	-	-	-	-	-	-	-
Indirect Emissions from Aluminium Local	28	3	-	-	-	25	-	-	-	-
Indirect Emissions from Stainless Steel Imported	156	156	-	-	-	-	-	-	-	-
Indirect Emissions from Stainless Steel Local	16	-	-	-	-	16	-	-	-	-
Indirect Emissions from Insulation	-	-	-	-	-	-	-	-	-	-
Indirect Emissions from Copper	58	58	-	-	-	-	-	-	-	-
Indirect Emissions from PVC	5	5	-	-	-	-	-	-	-	-
Indirect Emissions from Freight International Shipping	15	6	-	-	-	9	-	-	-	-
Indirect Emissions from Road Freight from Port	117	113	-	-	-	4	-	-	-	-
Total One Time CO_2e emissions	32,807	32,299	-	-	-	508	-	-	-	-
One Time Emissions from Antarctica Project										
Other Indirect (Scope 3) emissions										
Indirect Emissions from Business Air Travel	10	10	-	-	-	-	-	-	-	-
Indirect Emissions from Cement	52	52	-	-	-	-	-	-	-	-
Indirect Emissions from Aggregate	-	-	-	-	-	-	-	-	-	-
Indirect Emissions from Sand	1	1	-	-	-	-	-	-	-	-
Indirect Emissions Iron & Steel Local	12	12	-	-	-	-	-	-	-	-
Indirect Emissions from HV Cabling (HDPE)	48	48	-	-	-	-	-	-	-	-
Indirect Emissions from Freight International Shipping	12	12	-	-	-	-	-	-	-	-
Indirect Emissions from Road Freight from Port	2	2	-	-	-	-	-	-	-	-
Total One Time CO_2e emissions from Antarctica Project	137	137	-	-	-	-	-	-	-	-
Total emissions	103,138	38,284	3,174	379	135	60,080	131	98	167	689
CO_2e emissions from biomass	89,418					89,418				
CO_2e emissions from landfill gas	1,870					1,870				

Notes on tables

Notes on electricity that is purchased and on sold to end users

From time to time Meridian purchases electricity from the grid to supply to its retail customers in excess of the electricity supplied by Meridian to the grid. For the purposes of GHG reporting the difference between electricity generated by Meridian and the electricity supplied to its retail customers is calculated on an annual basis (Annual Netting Off). If, on an annual basis, the volume of electricity purchased exceeds more than the volume supplied, Meridian reports the net difference as a source of Scope 3 emissions.

Financial instruments such as contracts for difference, and agency relationships such as that between Meridian Energy and its grid-connected customers with Market Services Agreements are retail activities within the Scope of the inventory for the Energy Facility but the electricity consumed by customers under these arrangements is not sold by Meridian and is not reported as a source of Scope 3 emissions.

Notes on emissions reported

Detailed information about Meridian's approach to GHG reporting can be found in the sustainability section of our website www.meridian.co.nz.

1. EFI stationary combustion emissions

Emissions from Stationary Combustion (BOOT contracts) in the EFI from fuel used in generators, boilers and furnaces. EFI acts as an independent investor in on-site energy centres and related energy efficiency solutions, supplying heat and power to largely industrial and institutional energy market customers.

2. One time scope emissions

The one time Scope 3 emissions reported derive from the activities of contractors undertaking construction projects on behalf of Meridian. Meridian has reported emissions from contractor fuel use, emissions embodied in major construction components, and freight from transporting major construction components. Projects undertaken this year include: Project West Wind; Manapouri Half Life Refurbishment; Benmore Refurbishment; Dunedin Energy Centre Pipeline project and Silver Fern Farms Construction Project.

3. Agricultural facility

The Inventory Report for the Meridian Agricultural Facility includes estimates of emissions from livestock and some fertiliser and fuel use. Emission factions and data collection methodologies applicable to these activities are still being refined.

Notes on exclusions

4. Gases reported

CO_2 and SF6 emissions only are captured and reported in this report. Meridian will consider accounting and reporting other GHGs in the future if those emissions are deemed to be material and if it is technically feasible and cost effective to do so.

- there is no scientifically robust emission factor available for livestock emissions as yet and therefore emissions from livestock (3,169 dairy cows) have not been included in the inventory;
- there is not an emission factor for every type of fertiliser at this stage, so only partial fertiliser emissions have been included in the inventory. 80% of the fertiliser used by weight has been excluded;
- there is not an emission factor for feed at this stage, so it has not been included in the inventory. 488 dry matter tonnes of feed were used;
- data provided for contractor activity is based on hectares. It has not been possible at this time to convert this into litres of diesel used and therefore this is not reported in the inventory.

5. Whisper Tech

During the period the Whisper Tech purchased products from outside New Zealand. Emissions from freight of the components have not been included because it is not currently feasible to obtain this data.

Whisper Tech uses a variety of bottled gases in the manufacturing and testing of their heat and power generation systems. In some instances an emission factor has not been available and where this is the case it has been noted in the inventory. These gases account for approximately 20% of the gas used by volume.

6. Waste

Emissions from waste are included for the Meridian Energy and EFI facilities only. Emissions from office waste attributable to the EFI Facility are included in the waste emissions reported in the respect of the Meridian Energy Facility.

7. Metering fuel

Scope 3 emissions from contractor fuel use in provision of meter reading services are excluded from the Inventory Report of the Meridian Energy Facility. At present it is neither feasible nor cost effective to quantify these emissions. The quantum of emissions is likely to lie beneath a 5 percent materiality threshold.

Verification of the GHG Inventory

The full GHG inventory report (of which the above is a summary) has been verified by Deloitte, a third party independent assurance provider and Landcare approved carboNZero$^{\text{cert TM}}$ verifier. A reasonable level of assurance has been given over the assertions and quantifications included in the report.

GRI Sustainability Reporting Index

We have used the sustainability Reporting Guidelines set out in the Global Reporting Index (GRI), a globally accepted framework for reporting on an organisation's economic, environmental and social performance, as a guide in the development of content, and to demonstrate progress in corporate social responsibility.

The index below covers all of the GRI indicators. We have identified where they feature in this report, the extent to which they are reported, if they appear on our website only, and where we feel that they are not applicable for a New Zealand-based company that operates within stringent industrial, environmental and human rights legislation.

Key:

- Indicator is fully reported on in this report
- Indicator is partially reported on in this report
- Indicator is not reported on in this report
- Indicator is reported on in sustainability section of www.meridian.co.nz
- N/A Not applicable

Strategy and profile

DISCLOSURES		STATUS	PAGE REF
1	**Strategy and Analysis**		
1.1	Statement from the CE and Chairman	Fully	2
1.2	Description of key impacts, risks and opportunities	Fully	14-25
2	**Organisational Profile**		
2.1	Name of reporting organisation	Fully	89
2.2	Primary brands, products and / or services	Partially	89
2.3	Operational structure of the organisation	Fully	89
2.4	Location of the organisation's headquarters	Fully	Inside Back Cover
2.5	Countries in which the organisation operates	Fully	56
2.6	Nature of ownership and legal form	Fully	89
2.7	Nature of markets served	Partially	13
2.8	Scale of the reporting organisation	Fully	6-9
2.9	Significant changes in size, structure or ownership	Fully	56
2.10	Awards received in the reporting period	Partially	21
3	**Report Parameters**		
3.1	Reporting period	Fully	Front Cover, 37
3.2	Date of most recent previous report (if any)	Fully	42
3.3	Reporting cycle (annual, biennial etc)	Fully	42
3.4	Contact point for questions regarding the report or its contents	Partially	Inside Back Cover
3.5	Process for defining report content	Not reported	-
3.6	Boundary of the report	Fully	37
3.7	Specific limitations on the Scope or boundary of the report	Fully	37
3.8	Basis for reporting on joint venture, subsidiaries, leased facilities, outsourced operations and other entities	Fully	42-47
3.9	Data measurement techniques and the basis of calculations	Fully	91-94
3.10	Explanation of the effect of any restatements	Fully	76-83
3.11	Significant Scope, boundary or measurement changes	Fully	76-83
3.12	GRI index table	Fully	95-97
3.13	External assurance policy and practice	Partially	84-85
4	**Governance, commitments and engagement**		
4.1	Governance structure of the organisation	Fully	89
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Fully	89
4.3	Independence of the Board	Fully	89
4.4	Mechanisms to provide recommendations to the Board	Fully	89
4.5	Linkage between performance and compensation	Fully	87,89
4.6	Avoiding conflict of interest	Fully	89
4.7	Qualifications and expertise of the members of the Board	Fully	28-29
4.8	Corporate mission and values	Website	www
4.9	Board-level processes for identifying and managing risks and opportunities	Fully	89
4.10	Processes for evaluating the Board's own performance	Fully	89
4.12	External charters	Fully	89
4.13	Memberships in associations	Not reported	-
4.14	List of stakeholder groups engaged by the organisation	Partially / Website	18-20 www
4.15	Identification and selection of stakeholders	Fully	18-20
4.16	Approaches to stakeholder engagement	Partially / Website	18-20 www
4.17	Key topics and concerns from stakeholder engagement	Partially / Website	15-25 www

GRI Sustainability Reporting Index (continued)

Economic Performance Indicators

DISCLOSURES		STATUS	PAGE REF
EC1	Direct economic value		35
EC2	Financial implications and other risks and opportunities from climate change		25
EC3	Defined benefit plan obligations	N/A	-
EC4	Significant financial assistance received from government	N/A	-
EC5	Entry level wage compared to minimum wage		-
EC6	Spending on locally-based suppliers		www
EC7	Procedures and practice for local hiring		www
EC8	Infrastructure investments and services		6-8
EC9	Significant indirect economic impacts		18-20

Environmental Performance Indicators

DISCLOSURES		STATUS	PAGE REF
EN1	Materials used by weight or volume		91-94
EN2	Percentage of recycled input materials used		-
EN3	Direct energy consumption by primary energy source		www
EN4	Indirect energy consumption by primary source (core)		www
EN5	Energy saved: conservation and efficiency improvements		www
EN6	Renewable energy-based products and services		12,17
EN7	Initiatives to reduce indirect energy consumption		12,25
EN8	Water used for processing		22-24
EN9	Water sources significantly affected by withdrawal of water		22-24
EN11	Land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		www
EN12	Impacts on biodiversity		22-24
EN13	Habitats protected and restored		22-24
EN14	Strategies for managing impacts on biodiversity		22-24
EN15	Endangered species with habitats in areas affected by operations		-
EN16	Greenhouse gas emissions		91-94
EN17	Other relevant indirect greenhouse gas emissions by weight		91-94
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved		25 www
EN19	Emissions of ozone-depleting substances		91-94
EN20	Emissions NO, SO, and other significant air emissions by type and weight		91-94
EN22	Total weight of waste by type and disposal method		www
EN23	Total number and volume of significant spills		www
EN25	Impact on water bodies		22-24
EN26	Initiatives to mitigate environmental impacts of products and services		22-24 18-20
EN29	Transport impacts		91-94

Labour Practices and Decent Work Performance Indicators

DISCLOSURES		STATUS	PAGE REF
LA6	Health and safety programmes		16
LA7	Injury data		16
LA11	Programmes for skills management and lifelong learning		16
LA12	Performance and career development reviews		www
LA13	Composition of governance bodies and breakdown of employees		-

Human Rights Performance Indicators

N/A

Key:

- Indicator is fully reported on in this report
- Indicator is partially reported on in this report
- Indicator is not reported on in this report
- Indicator is reported on in sustainability section of www.meridian.co.nz
- N/A Not applicable

GRI Sustainability Reporting Index (continued)

DISCLOSURES		STATUS	PAGE REF
Society Performance Indicators			
SO1	Programmes and practices that assess and manage the impacts of operations on communities		18-20 www
SO5	Public policy positions and participation in public policy development and lobbying		-
Product Responsibility Performance Indicators			
PR1	Health and safety impacts of products and services		www
PR2	Incidents of non-compliance with regulations and voluntary codes concerning health and safety		-
PR3	Product and services information		12-13
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling		-
PR5	Customer satisfaction practices and measures		17

Key:

- Indicator is fully reported on in this report
- Indicator is partially reported on in this report
- Indicator is not reported on in this report
- Indicator is reported on in sustainability section of www.meridian.co.nz

N/A Not applicable

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