Meridian Energy Annual Report for the year ended 30 June 2009

meridian

1

The year that was

10

Building on our first decade

100

Preparing for the future

About Meridian

Meridian is the largest state-owned electricity generator in New Zealand, providing around 30% of New Zealand's total generation. We also retail electricity to 187,000 residential, rural and business customers.

We are committed to best practice development, operation and maintenance of generation plant fuelled only by pure renewable energy resources. We own, operate and generate electricity from hydro stations on the Waitaki River in the South Island and at Lake Manapouri in Fiordland National Park.

We also have three wind farms – one near Palmerston North (Te Apiti), another near Mossburn in Southland (White Hill) and the recently opened West Wind site at Makara near Wellington.

In our approach to long-term development, we are committed to meeting our share of the growing energy needs of New Zealanders. Meridian is also an active investor in wind generation in Australia and in a small number of subsidiaries, all of which strongly support our core business and company values.

Our main operational bases are in Christchurch, Twizel and Manapouri. Our head office is in Wellington.

Meridian's overriding objective is to be a very successful, long-term New Zealand company. We are building our business based on sustainable principles which include meeting our customers' highest expectations, caring for our staff, engineering excellence and a deep respect for the communities and the natural environment in which we operate.

* 12 POWER STATIONS PRODUCING AROUND 30% OF NZ'S GENERATION
* 2.5% INCREASE IN CUSTOMER NUMBERS SINCE 2007-08
* 95.8% OF MERIDIAN'S GENERATION FROM HYDRO AND 4.2% FROM WIND
* AROUND 187,000 CUSTOMERS (RESIDENTIAL, RURAL AND BUSINESS)
* NEW STATE-OF-THE-ART CUSTOMER CONTACT CENTRE IN CHRISTCHURCH
* NEW ZEALAND'S LANDMARK WIND FARM STARTED OPERATING ON WELLINGTON'S WESTERN HILLS

Key
- Hydro Power Station
- Wind Farm
- Office

HYDRO POWER – Meridian owns and operates nine hydro power stations in the South Island, generating about 30% of the country's electricity.

WIND POWER – Meridian wind farms already produce the equivalent energy requirements of 100,000 households – this will increase significantly by 2011.

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About this report

This report has a three-fold theme: one, ten, one hundred. We chose this to signify the importance of the medium and long term views in a business like ours. Annual reporting naturally requires a review of the past 12 months. This year we wanted to put this in the wider context of the developments of the previous decade and changes the next ten years may bring. We look out further still, to what it will take for Meridian to be a '100 year company' in pursuit of our company vision of becoming the global reference company in renewable energy.

Meridian Energy's Annual Report for 1 July 2008 to 30 June 2009 lets our stakeholders know how we performed relative to our key targets. Just as important, it details how this fits with our longer-term strategic outcomes, designed to contribute to New Zealand's ongoing prosperity. Most importantly, this report seeks to explain and report on the importance of factors contributing to Meridian's end of year results, both financial and non-financial.

This report covers the entire Meridian Group, including our Australian operations, our subsidiary companies (including Right House, Damwatch and Powershop), our internal business units (Arc Innovations, Energy for Industry) and our investments in Whisper Tech and other new ventures.

Meridian was the first electricity generator and retailer in New Zealand to adopt and report annually on the basis of an established sustainability policy, and we have been reporting against those sustainability objectives since the year ended 30 June 2000. As in previous years, the reporting against our sustainability objectives has been combined into this single integrated annual report, reflecting Meridian's commitment to wider accountability to the communities within which we operate and to our stakeholders and customers.

Meridian looks at the concept of sustainability in the context of our aspiration to be a 100-year company. We strive to report on the economic, socio-economic, and environmental aspects of our performance in a holistic manner, without division into separate 'bottom lines'.

We followed the principles of the Global Reporting Initiative (GRI) and AA1000, internationally referenced benchmarks for sustainability reporting, when we determined the contents of this report. This meant that content was selected on the basis of its materiality, relevance to stakeholders and completeness. Our measure of materiality was whether the content reflects and explains what was important in influencing Meridian's performance over the past year, and what might influence performance over the years to come.

In reporting on our economic, environmental and social performance, we have used the G3 Sustainability Reporting Guidelines as produced by GRI. The GRI is a multi-stakeholder governed institution collaborating to provide global standards in sustainability reporting. To ensure consistency with other sustainability reporting and to allow comparisons to other companies, we have included a GRI index table for easy location of the GRI components we have covered.

To summarise the highlights of our stakeholder engagement, we have included a stakeholder engagement summary table in the 100-year section.

This integrated report provides examples and measures of Meridian's achievements in the 2008-09 year. We have done this in a broad, long-term context that demonstrates how all aspects of Meridian's business are oriented towards our goals of creating outstanding value for our shareholder while shaping a positive future for New Zealand.

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The year that was

We began the year with our storage lakes at record lows, and ended in almost the opposite situation, with the company embracing the challenge of managing a series of large inflows – all in the context of global economic turmoil.

Our net profit attributable to shareholders of $89.3 million for the year to June 2009 was achieved in the face of extreme operational volatility and is largely due to close attention to managing the company's net contracted position.

However, 2008-09 was not just a story of Meridian confronting and overcoming a challenging set of climatic and economic conditions. We took our leadership in renewable energy to the capital, with the opening of the West Wind wind farm on the hills behind Wellington.

A focus for the company during the year has been a comprehensive review of our operating performance. We have identified, and are now implementing, a set of key initiatives that will deliver superior and sustainable financial performance.

The year that was

Chairman and Chief Executive's Report

Our performance at the start of the financial year was constrained by low South Island storage following the dry conditions experienced during the previous financial year. These conditions quickly reversed during September and our financial returns improved as a result.

Introduction

The theme for this report is "1, 10, 100" – this recognises that while we are reporting on one year, it comes at the end of the company's first 10 years as Meridian Energy.

The result outlined in this report acknowledges the strong business foundation built over the first 10 years and demonstrates our focus on creating sustainable high performance capability for the long term.

The 2008-09 year began with Meridian emerging from what industry commentators described as the "perfect storm" – nationwide drought, severely constrained transmission across Cook Strait, and the loss of key thermal generation in the North Island.

It ended in almost the exact opposite situation, with our South Island storage lakes almost full, following two weather events during late April and May 2009.

Taking the magnitude and timing of these conditions into account, Meridian turned in what can fairly be described as a satisfying performance for the 2008-09 financial year.

Financial performance

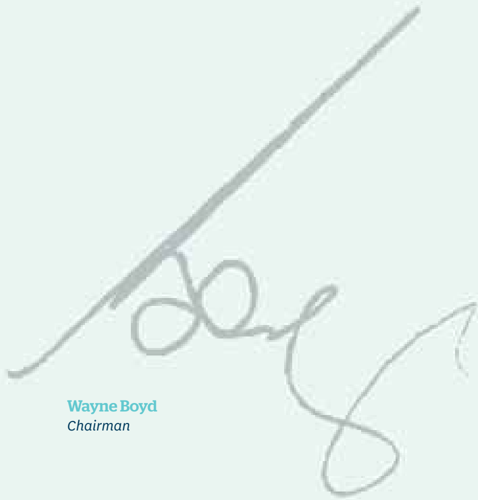
Our actual reported net profit attributable to the shareholders was $89.3m. This includes the impact of unrealised gains and losses from mark-to-market movements in the fair value of derivatives. Earnings before interest, tax, depreciation, amortisation and fair value movements on financial instruments (EBITDAF) were $512.4m. Underlying profit for the year was $195m, which was up significantly from last year's level of $104m.

Our performance at the start of the financial year was constrained by low South Island storage following the dry conditions experienced during the previous financial year. These conditions quickly reversed during September and our financial returns improved as a result.

During November, our largest customer, the Tiwai Point aluminium smelter, experienced its own operating difficulties and reduced consumption by up to 180 MW. This was in addition to the wider economic malaise resulting from the global financial crisis, which had a significant dampening impact on domestic demand for electricity through the final six months of the year.

The financial result achieved in the face of extreme operational volatility was largely due to close attention to managing the company's net contracted position. While we can never eliminate the impact of weather or economic conditions, we have sought to mitigate their impact.

This year we are pleased to declare an ordinary dividend of $144m including our $30m interim dividend (75% of net profit excluding the post-tax impact of movement in the fair value of derivatives). After year-end, the Board also approved payment of a one-off special dividend of $150m.



Wayne Boyd
Chairman

Tim Lusk
Chief Executive

The special dividend is possible due to better-than-planned underlying profit driven by improved net energy revenues, and lower-than-expected interest costs.

Customers

Some years ago, Meridian promised publicly to transform the customer experience of electricity.

We are by no means at our final goal yet, but during the year we made substantial progress towards that objective with the completion of installation of smart meters across our total Christchurch customer base. We are confident we have now established a metering platform that will allow us to bring to market a wide range of new products and services for customers.

In addition to this, we brought our Christchurch-based contact centre in-house with staff training and systems now in place to deliver a better level of service to our business and residential customers.

During the year, we completed a refresh of our brand, culminating in the roll-out of a Wellington-based campaign featuring high-profile media personality, Jeremy Wells. Independent market research showed the campaign to have achieved excellent results in bringing our all-renewables strategy to the fore and highlighting it as a key point of difference between ourselves and our competitors.

However, we recognise that we fell short of our targets to acquire new customers during the year, due to a combination of intense competitor activity and some delays in developing the products and services we are seeking to offer.

Our subsidiary retail business, Powershop, took its own first steps into the marketplace in early 2009. We have long recognised the importance of choice for customers, and Powershop's on-line channel offers an unprecedented degree of choice and control of electricity use. Powershop continues to attract a steady stream of new customers to its innovative offerings and somewhat irreverent approach.

Generation development and security of supply

The story of 2008-09 was not only one of confronting and overcoming adversity. It was also a year in which Meridian continued to strongly develop our renewable generation portfolio.

Notable among the achievements was the production of first power from Project West Wind, the 143 MW wind farm development on Wellington's southwest coast. West Wind is becoming known internationally as the "world's best wind farm".

While the nationwide drought caused problems for our hydro operations, it had the beneficial effect of providing ideal conditions for West Wind's considerable civil engineering challenge of moving two million cubic metres of earth, as well as facilitating the barging of turbine components across Cook Strait.

The year that was

The prolonged dry spell has allowed the project to advance ahead of schedule. Full commissioning is expected before the end of this calendar year.

The progress on West Wind is just one aspect of a broad portfolio of generation developments Meridian is pursuing as we strive to ensure New Zealand has the renewable electricity it needs to meet its future needs and also its international responsibilities to reduce emissions of greenhouse gases.

At year's end we had before the Environment Court:

- the water use resource consent application for the 220–280 MW North Bank Tunnel hydro concept
- the up to 630 MW Project Hayes wind farm in Central Otago
- the 120 MW Central Wind wind farm project in the central North Island
- the 67 MW Mill Creek wind farm near Wellington.

In addition, we are considering a possible start of construction on the 64 MW Te Uku wind farm near Raglan, we are awaiting the Commissioners' decision on resource consents for the 85 MW Mokihinui hydro proposal on the West Coast, and we are continuing to monitor a number of wind sites up and down the country.

Lengthy and expensive consenting processes continue to impede our renewable development programme, although we are heartened by the Government's moves to streamline the process for advancing projects of national importance.

In addition to new developments, we have continued our focus on getting the best out of our existing generation assets. Following on from the half-life refurbishment of Manapouri power station, we are now focusing on another of our iconic assets, the Benmore power station on the Waitaki River.

The $67m Benmore refurbishment and upgrade now under way will extend the life of the power station by a further 40 years and will improve the water efficiency of the station by at least 3%.

Lifting our performance

One of the most difficult exercises any company has to undergo is the process of taking a good, honest look at itself and asking the question, "Can we do better?"

Despite a proud record over our first decade, we came to the view that we had slipped off the pace in terms of financial performance, and there was considerable potential for us to lift our game.

With this in mind, the company implemented early in the year a comprehensive leadership development programme for our top 80 managers, redesigned the company-wide remuneration framework and introduced advanced individual performance and talent management processes.

Then, in late 2008, we embarked on our "Fit for Purpose" programme, which critically reviewed our operating performance and identified a set of key initiatives to deliver superior and sustainable financial performance.

The key initiatives include:

- a smaller, more effective corporate capability
- significant cost-to-serve reductions and improved customer service in retail
- highly disciplined capital allocation processes
- integrated decision-making architecture
- information technology and procurement performance improvements.

Implementation of these initiatives began in May 2009 with the restructuring of the executive team and will be substantially complete by the end of the calendar year.

While evolution and change on such a scale can be uncomfortable and unsettling, we are confident Meridian will emerge from the process with a culture and a configuration that will ideally equip us to meet the challenges that lie ahead, and deliver the outstanding performance of which we are capable.

Health, safety and wellness continues to be a top priority. The company, including our contractors, suffered a number of lost-time injuries during 2008-09. We are aiming to achieve zero lost-time injuries per annum within three years and sustain that safety level going forward.

As we enter the new financial year, we are working with the Government and regulators as they undertake a Ministerial Review to improve the performance of the electricity market, its institutions and its governance arrangements.

Regulatory issues

As we enter the new financial year, we are working with the Government and regulators as they undertake a Ministerial Review to improve the performance of the electricity market, its institutions and its governance arrangements.

We agree that there is significant opportunity to improve the operation of the market and we recognise that care will be required to appropriately match the unique qualities of the New Zealand market.

We intend to put forward practical long-term solutions for consideration.

Transmission charging for the HVDC link is also an ongoing issue for us, and we anticipate a conclusion to this long-running debate that will ensure New Zealand has a durable transmission pricing methodology for the medium to long term.

As the largest user of fresh water in New Zealand, Meridian is participating in the Government's consideration of water policy reform.

Our communities and environment

The twin impacts of the global financial crisis and a particularly cold winter on our customers and communities have been very clear during the year, particularly the effects on those who are vulnerable.

We have continued to work closely with community groups in our key Christchurch market to provide financial assistance and budget advice to those who have been hardest hit. We are currently looking at ways we can help community groups extend support to the growing numbers of people in need.

The community funds we operate in our generation communities continued to support a wide range of community and environmental initiatives, ranging from weed and pest control to developing new local sporting and recreational facilities and providing specialist emergency and medical facilities.

Our corporate sponsorship programme has also supported a major tree-planting programme through our partnership with Project Crimson, and has contributed to a flourishing arts sector in New Zealand through our principal sponsorship of the Royal New Zealand Ballet.

We continue to put our weight behind New Zealand's sporting endeavours at both grassroots and elite level through our sponsorship of Canterbury Rugby and South Island Rowing.

An initiative which attracted a great deal of attention was our launch in March 2009, in conjunction with Mitsubishi Motors Corporation, of a two-month demonstration of pure electric vehicles.

A large number of ordinary citizens and well-known New Zealanders were given the opportunity to drive the vehicles and expressed enormous enthusiasm for the "EV" as part of this country's future transport options.

Looking ahead

As Meridian closes out our first decade as a company, we view 2009-10 as a year of revitalisation, one that will renew Meridian's purpose.

Set against the backdrop of the economic environment and the possibility of market and regulatory change, we are confident that the upcoming year will be a favourable one for Meridian. We start the year on a positive note, with our hydro storage position well ahead of this time last year and new generation coming on line.

We have reconfirmed our strategy and have a challenging, but exciting, set of renewable development options to grow the generation side of our business. The 2009-10 year will be seen as a watershed year for Meridian, as we seek to further lift every aspect of our performance as a company.

In particular, we know that we have to continue to do more to improve the service and choices that we provide our customers – we acknowledge that we have to do that in a way that creates value for them and for our shareholder.

We would like to acknowledge the particularly resilient and determined performance of our staff, supported at all times by the Board and the many relationships we inevitably rely on to get through such a year – one that has encompassed a wide range of challenges, including the revitalisation of Meridian for the future.

Left to right: Catherine Drayton, Brett Shepherd, Stephen Reindler, Wayne Boyd, Ray Watson, Chris Moller, Anne Blackburn, Anne Urlwin.

Board of Directors

The Meridian Board of Directors is a talented, internationally-experienced team who not only complement each other, but provide governance for an organisation whose accountabilities span many functional areas and which prides itself on stakeholder engagement

Meridian's Board of Directors is chaired by **Wayne Boyd** and is made up of eight directors. As chair, Wayne brings extensive experience as a professional director following a career in the legal and investment banking sectors. With a tenure of four years, Wayne's background involves links to Meridian's current business including past representation on Ngai Tahu's board and his previous involvement in sporting organisations.

As Deputy Chairman, **Ray Watson** – affiliates to Kaitahu, Kati, Mamoe, Waitaha, Te Atiawa and Ngati Rarua and has supported Wayne for the past three years. He combines managing his own company with being a director of the sustainable advancement consultancy Omni Consulting, bringing relevant experience to Meridian's own sustainability values. With previous experience as Chief Executive of Ngai Tahu Development Corporation in the early part of this decade, Ray further enhances the relationship Meridian has developed with our key stakeholders.

Meridian's longest-standing Director, **Anne Blackburn**, brings commercial banking expertise to the Board following a 20-year career in New York, London and back here in New Zealand. Her presence on the Royal New Zealand Ballet Board allows Anne to bring experience to Meridian in leadership capability and people development.

Anne Urlwin is a practising chartered accountant and business consultant and has served on the Meridian Board for four and a half years. Holding a number of professional directorships, Anne has also been Deputy Chair of Landcare Research, which Meridian is closely involved with in ensuring we sustainably manage our land resources to care for the assets we are stewards of and the communities we partner with.

A recent appointment to Meridian's Board, **Brett Shepherd** is currently CEO of Deutsche Bank AG (New Zealand). He affiliates to Tainui, Ngati Tamatera and Ngati Maru. His lengthy career in investment banking is well-suited to Meridian's strategic goal of ensuring the effective use of capital and delivering improved shareholder returns. Brett is involved in a number of community- and arts-based organisations and this experience will serve Meridian well in its own commitment to celebrating the arts.

A former partner at PricewaterhouseCoopers (PwC) for Central and Eastern Europe, **Catherine Drayton** has served on Meridian's Board for the past three years. Having primary responsibility for Transaction Services for PwC has provided Catherine with buy-side privatisation involvement for electricity generators and distributors, and her areas of interest have included heavy engineering and utilities. Catherine also worked in the UK and USA for PwC, and she brings extensive multi-cultural and multi-jurisdictional experience to Meridian, enhancing both our people capability and regulatory processes.

Another new appointee to the Board is **Chris Moller**, who brings a distinguished pedigree in New Zealand business at both director and executive level. Presently a Director of Skycity, Rugby New Zealand 2011, New Zealand Cricket and NZX, Chris is also represented on the boards of two dairy companies in New Zealand – National Foods and Synlait. His previous executive role as Deputy Chief Executive of Fonterra complements his understanding of New Zealand's rural market, a key focus for Meridian, which has a strong presence in the agricultural sector, particularly in the Canterbury region.

Stephen Reindler was appointed to Meridian's Board in August 2008. He is the inaugural Chairman of the Chartered Professional Engineers Council. For an organisation with significant engineering demands, Stephen's previous experience at New Zealand Steel in the approvals, construction and commissioning of major projects is very valuable to Meridian. As General Manager of Engineering at Auckland International Airport, compliance with the Resource Management Act, liaison with regional government, sustainability and health, safety and wellness added to his portfolio of accountabilities. Having won a number of awards for engineering projects, Stephen is able to offer guidance on our development projects.

Left to right: James Hay, Kate Peterson, Steve Ferguson, Andrew Robertson (seated), Ken Smales, Garth Dibley, Tim Lusk (seated), Neal Barclay, Mike Roan.

Management Team

The 2008-09 year has seen significant change in accountabilities within Meridian's management team as the company readies itself for the challenges facing New Zealand's electricity industry. We believe the structure now in place will serve us well to meet the challenges that lie ahead.

Meridian's management team is led by **Tim Lusk**, Chief Executive, who took up this role in May 2008. Tim has a great deal of experience in the electricity industry, with exposure to engineering development, network pricing, system operations, marketing, customer relations and electricity market development at both Transpower New Zealand and Power NZ. His executive roles are complemented by exposure to public and private sector energy projects at directorship level. Having previously been on Meridian's Board of Directors, Tim is passionate about people and is championing the company's focus on health, safety and wellness as our top priority.

General Manager of Business Development, **Andrew Robertson** has extensive experience in the New Zealand electricity industry. Before joining Meridian, Andrew held a variety roles with ECNZ and was directly involved in the industry reform that led to the formation of Meridian. Having had exposure to senior generation business development roles in Meridian's asset management and growth areas, Andrew is ideally equipped now to head up a team which looks after our subsidiaries, mergers and acquisitions, corporate ventures and offshore markets.

Garth Dibley, as General Manager External Relations, has been with Meridian since its establishment, working in the field of asset management heading up our Markets and Production business unit. With prior experience in thermal and gas turbine plants at the Huntly Thermal Group, Garth now heads up a multi-faceted division which is responsible for Meridian's external relationships including government relations, regulatory relations, climate change and our dealings with the media.

James Hay, General Counsel, has been with Meridian since its inception. Accountable for legal, governance and resource policy, James previously worked in private and legal practice with in-house business roles in telecommunications in New Zealand and the UK. Providing internal assistance to other business units within Meridian, the General Counsel team implements governance structures and processes and ensures our legal responsibilities are appropriately met.

As General Manager of our Culture and Change business unit, **Kate Peterson** joined the Meridian management team early in 2009. Kate has a strong background in people and operations management, having spent many years with Lion Nathan and more recently PGG Wrightson Group through times of significant change. Her role at Meridian will encompass a much stronger strategic focus on developing our people to transition the company to being acknowledged as the global reference company in renewable energy.

Ken Smales, General Manager – Renewable Development, has more than 30 years' experience in the New Zealand electricity industry. One of Ken's early assignments was establishing Meridian's office in Twizel, from where we run our electricity generation. Expertise in design, construction, commissioning, operations and maintenance is a pre-requisite for leading our Renewable Development team, accountable for all new asset projects from investigation to build and handover to our Markets and Production business unit.

Mike Roan is Acting Markets and Production General Manager.

Neal Barclay, appointed General Manager – Markets and Production, 1 July 2009, is Acting Chief Financial officer and has held a number of general management roles in a 13-year career with Telecom covering finance, treasury, supply chain and shared services. His recent appointment to head up Markets and Production sees him take accountability for the company's asset portfolio, comprising 12 power stations which deliver around 30% of New Zealand's electricity generation and the company's wholesale trading and risk position.

Accountability for our residential, rural and business customers sits with **Steve Ferguson**, General Manager of Retail. Steve was previously with Kiwibank, where he was responsible for their customer distribution network, bringing many innovative developments to market including ATM, retail and mobile-banking services. With a customer base of 187,000 customers, an in-house Contact Centre and a team of dedicated account managers, Steve's remit includes customer service, marketing strategies, billing, process improvement and bringing innovation to our customer base.

The Year That Was

Our **Performance Scorecard** reflects our "balanced" approach to measuring and managing our business, and captures the essence of our objectives as a state-owned enterprise (SOE).

The scorecard contains measures that we have included in our Statement of Corporate Intent (SCI) and a number of others to provide further insight into our performance and progress as an organisation.

Our Statutory Objectives

Our primary objective as an SOE is to operate as a successful business and to be:

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

Overview of Content

This section of the Annual Report includes:

- A summary of the Meridian Group Income Statement and supporting analysis and commentary
- A summary of the Group Balance Sheet and supporting analysis and commentary
- A summary of Group Cash Flows and supporting analysis and commentary
- An overview of our performance against SCI financial performance targets
- Key Segment results and commentary
- Other content to round out the discussion of Meridian's overall performance for the past year.

Where relevant, we have included an indication of where our actual results for the year have met (green indicator) or missed (red indicator) our business plan targets.

For SCI measures, we provide the target information and quantify the performance variances.

Meridian Performance Scorecard 2008-09

Year to 30 June 2009	PAGE REF	UNIT OF MEASURE	2009 ACTUAL	VS TARGET	2008 ACTUAL	PERIOD CHANGE
MERIDIAN GROUP FINANCIAL RESULTS						
Total Group Revenue	18	$m	1,892.4		2,600.0	(27.2%)
Employee and Other Operating Expenses	19	$m	218.6		221.4	(1.3%)
Group EBITDAF	18	$m	512.4		373.9	37.0%
Underlying Profit After Tax	16	$m	195.0		104.5	86.6%
Reported Net Profit After Tax (NPAT)	16	$m	89.3		128.6	(30.6%)
STATEMENT OF CORPORATE INTENT RATIOS						
Equity to Total Assets	15	%	59.7		58.4	1.3pts
Return on Average Equity	15	%	2.1		3.0	-0.9 pts
Underlying return on Average Equity	15	%	4.6		2.4	2.2 pts
Net Debt/Net Debt + Equity	15	%	20.9		18.3	-2.6 pts
EBITDAF Interest Cover	15	times	5.9		6.0	-0.1 times
EBITDAF per MWh Generated	15	$	41.87		31.40	$10.47
WHOLESALE SEGMENT RESULTS AND RATIOS						
Electricity Generated (Hydro and Wind)	27	GWh	12,237		11,907	2.8%
Wholesale EBITDAF (at Spot)	23	$m	489.0		784.5	(37.7%)
Wholesale EBITDAF per MWh Generated	23	$/MWh	39.96		65.88	(39.3%)
Average Wholesale Price	23	$/MWh	48.53		111.25	(56.4%)
GENERATION OPERATIONAL PERFORMANCE						
Hydro Generation	27	GWh	11,721		11,430	2.5%
Wind Generation	27	GWh	516		477	8.1%
Total Generation		GWh	12,237		11,907	2.8%
Generation Efficiency	26	%	89.8		95.2	-5.4 pts
Hydro Plant Availability	26	%	92.6		94.4	-1.9 pts
Wind Availability	26	%	95.6		96.4	-0.8pts
Forced Outage Factor – Hydro	26	%	0.43		0.38	-0.05pts
RETAIL SEGMENT RESULTS AND RATIOS						
Retail (Spot and Fixed Price) Sales	28	GWh	7,763		7,570	2.6%
Retail Segment EBITDAF (at Spot)	28	$m	114.3		(312.7)	136.6%
Retail EBITDAF/MWh Sold	28	$/MWh	14.73		(41.31)	135.7%
Average Retail Purchase Price	28	$/MWh	62.13		121.69	48.9%
RETAIL CUSTOMER SATISFACTION						
Business Customer Satisfaction	29	%	51		n/a	
Rural Customer Satisfaction	29	%	50		n/a	
Residential Customer Satisfaction	29	%	54		n/a	
Leader in Renewable Energy	47	%	49		n/a	
Customer Numbers Total	29	000's	186.9		182.3	2.5%
VENTURES PORTFOLIO						
Portfolio EBITDAF	31	$m	(21.4)		(22.9)	(6.7%)
CAPITAL PROGRAMME EXPENDITURE						
New Generation Projects	22	$m	376.5		168.3	123.7%
Total Capital Expenditure	21	**$m**	**465.6**		**264.5**	**76.0%**
GHG EMISSIONS MANAGEMENT						
Meridian Facility Operational Emissions	131	t CO_2e	5,640		5,848	-3.5%
HEALTH AND SAFETY						
Medical Treatment Incidents	52	#	23		56	58.9%
Serious Harm & Lost Time Injuries	52	#	11		5	(120.0%)

Target Performance Key:

On Target

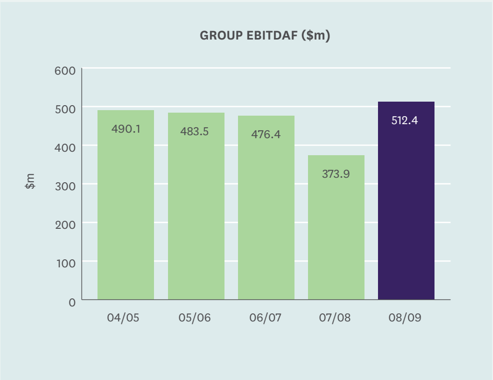
Behind Target

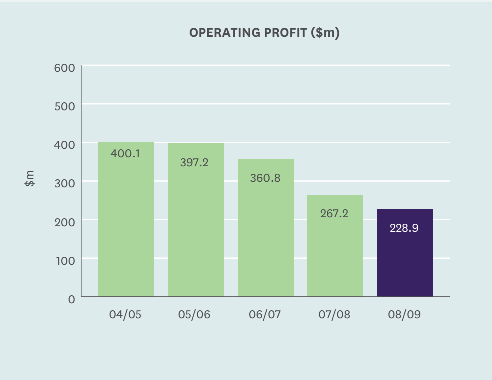
The year that was

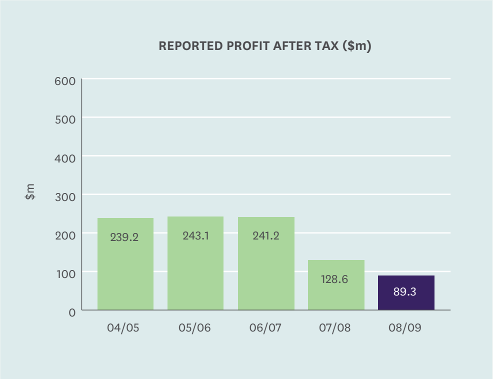
Group Financial Performance

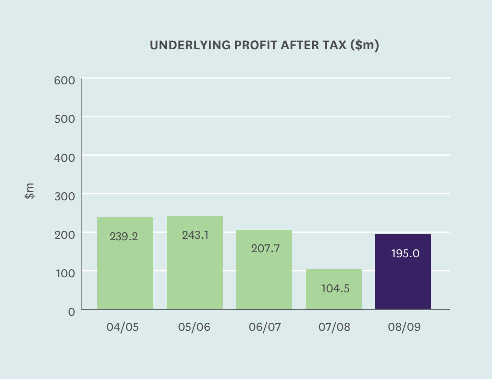
Meridian Group Summary Income Statement ($m)	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Group Operating Revenue	**1,892.4**	2,600.0	1,790.7
Group Operating Expenses	**(1,380.0)**	(2,226.1)	(1,314.3)
Group EBITDAF	**512.4**	**373.9**	**476.4**
Unrealised Net Gain (Losses) on Financial Instruments *	**(114.1)**	45.5	0.7
Depreciation and Amortisation	**(163.1)**	(152.6)	(117.3)
Impairments	**(9.2)**	0.0	0.0
Gain/(Loss) on Sale of Property, Plant and Equipment	**4.8**	0.5	1.0
Equity Accounted Earnings of Associates	**(1.9)**	(0.1)	0.0
Group Operating Profit	**228.9**	**267.2**	**360.8**
Net Finance Costs	**(68.4)**	(55.2)	(46.0)
Unrealised Net Gain (Losses) on Financial Instruments **	**(32.5)**	(14.3)	23.9
Group Profit before Tax	**128.0**	**197.7**	**338.7**
Income Tax Expense	**(38.7)**	(69.1)	(97.5)
Group Reported Profit After Tax	**89.3**	**128.6**	**241.2**
Group Underlying Profit After Tax	**195.0**	**104.5**	**207.7**

Meridian Group Income Statement Trends – Financial Years 2004-05 to 2008-09 – Continuing Operations









Notes:

* *Unrealised Net Gain (Losses) on Electricity Derivatives.*

** *Unrealised Net Gain (Losses) on Treasury Derivatives.*

Results for the last three years reflect New Zealand International Financial Reporting Standards (IFRS), while results for 2004-05 and 2005-06 reflect New Zealand generally accepted accounting principles at that time. Results under previous NZ GAAP have been re-classified to ensure comparability with NZ IFRS.

Statement of Corporate Intent Performance

Meridian Group Statement of Corporate Intent (SCI) Ratios***		SCI ANNUAL TARGET	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Shareholder's Equity ($m)			**4,284.1**	4,204.6	4,401.8
Total Assets ($m)			**7,177.3**	7,197.7	6,708.8
Equity to Total Assets		**59.9%**	**59.7%**	**58.4%**	**65.6%**
Reported After Tax Profit ($m)			**89.3**	128.6	241.2
Average Shareholder's Equity ($m)			**4,244.4**	4,303.2	4,319.6
Return on Average Equity		**3.3%**	**2.1%**	**3.0%**	**5.6%**
Underlying Profit after Tax ($m)			**195.0**	104.5	207.7
Average Shareholder's Equity ($m)			**4,244.4**	4,303.2	4,319.6
Underlying Return on Average Equity		**4.0%**	**4.6%**	**2.4%**	**4.8%**
Net Debt ($m)			**1,126.1**	932.9	706.1
Net Debt plus Equity ($m)			**5,393.2**	5,088.6	5,040.5
Net Debt/(Net Debt plus Equity)****		**20.3%**	**20.9%**	**18.3%**	**14.0%**
Group EBITDAF ($m)			**512.4**	373.9	476.4
Interest Cost ($m)			**86.9**	62.3	62.1
Group EBITDAF Interest Cover (times)		**5.1**	**5.9**	**6.0**	**7.7**
Electricity Generated (GWh)			**12,237**	11,907	12,679
Group EBITDAF per MWh Generated		**38.74**	**41.87**	**31.40**	**37.58**

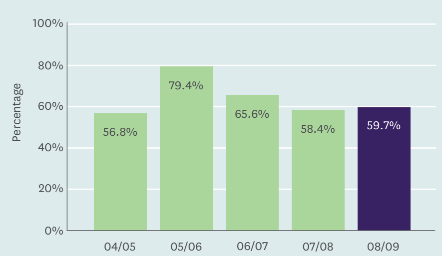
Notes:

**** Targets for the 2008-09 year as contained in Meridian's Statement of Corporate Intent for 2008-09.*

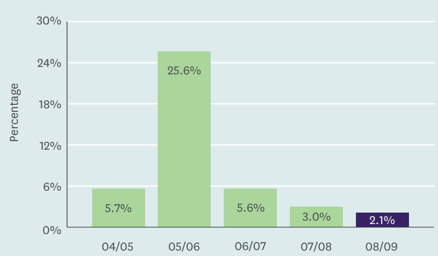
***** In calculating the Net Debt/Net Debt plus Equity ratio, adjustments have been made to comply with New Zealand IFRS.*

Historical Performance Trend for Meridian's Key SCI Ratios

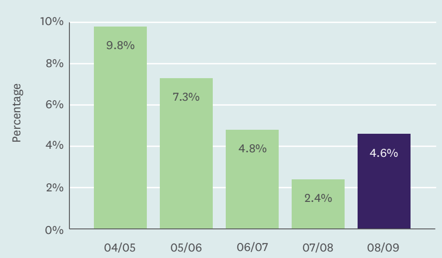
EQUITY TO TOTAL ASSETS (%)



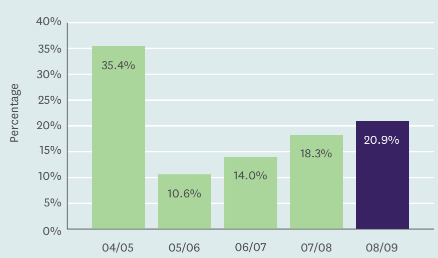
RETURN ON AVERAGE EQUITY (%)



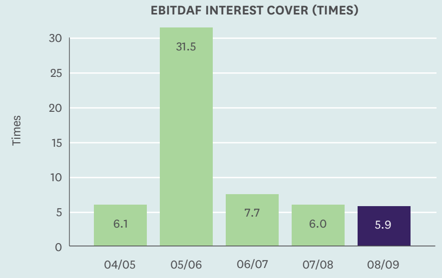
UNDERLYING RETURN ON AVERAGE EQUITY (%)



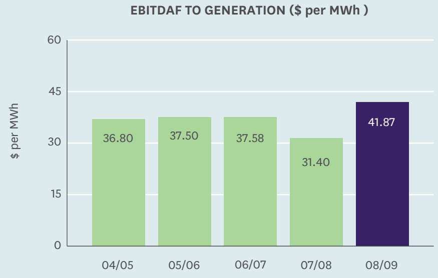
NET DEBT/(NET DEBT PLUS EQUITY) (%)



EBITDAF INTEREST COVER (TIMES)



EBITDAF TO GENERATION ($ per MWh)



Notes:

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The year that was

Group Performance Overview

Meridian's financial performance targets are recorded in our SCI. This document is published each year and tabled in Parliament under the provisions of the State-Owned Enterprises Act (1986).

In 2008-09, we published our SCI a little later than usual with the agreement of our shareholding Ministers at the time – September 2008. This was done to allow us to focus on ensuring the best possible generation and supply outcomes over the dry winter of 2008.

The preceding table and graphs provide an overview of how we performed in 2008-09 relative to previous years. We are very pleased to report that we have exceeded our operational performance targets and that our underlying return has improved in 2008-09. In brief:

- **Equity to Total Assets** has increased 1.3 points to 59.7% with Equity up $79.5m and Totals Assets down $20.4m. This ratio at 30 June 2009 is slightly lower than we planned for at the beginning of the year.
- **Return on Average Equity** at 2.1% is down against our target and below the 2007-08 result due to unrealised losses stemming from fair value movements on financial instruments.
- **The Underlying Return on Average Equity** at 4.6% is above target and an improvement on 2007-08 by 2.2 percentage points.
- **Net Debt/(Net Debt plus Equity)** has increased from June 2008 by 2.6 percentage points due to an increase in Net Debt of $193.2m. However, the ratio remains well within the limits established as a key element of the company's financial policy framework.
- **Group EBITDAF Interest Cover** at 5.9 times is down slightly on 2007-08 levels.
- **EBITDAF per MWh** increased from $31.40 in 2007-08 to $41.87 in 2008-09. This is a very positive outcome as we are targeting real improvement on this measure for future years. Our trading, retail and productivity strategies are focused around improved EBITDAF in relation to the electricity we generate.

The following pages provide a high-level analysis of the financial performance drivers, key balance sheet indicators and cash flow trends which contribute to the calculation of the SCI ratios.

Underlying Profit after Tax

Meridian's consolidated underlying earnings after tax (excluding fair value movements on financial instruments and other one-off items) was $195.0m for the year ended 30 June 2009. This represents an increase of 87% compared with $104.5m for the same period last year.

The significant feature of the two graphs on this page is the adverse result in the June quarter of 2008, (the final quarter of the 2007-08 year). During the June 2008 quarter, the effects of the dry winter of 2008 really took hold and the resultant effect on our lake levels and the transmission constraints between the North and South islands materially impacted earnings.

The rain returned in September 2008, and with more favourable environmental conditions, our financial performance improved as a result. As noted in our Interim Report, by the end of December 2008, our lakes were full – and we were also dealing with the impact of reduced consumption at the Tiwai Point aluminium smelter. These events brought a whole new set of challenges, which are discussed more fully in the Wholesale Segment section of this report.

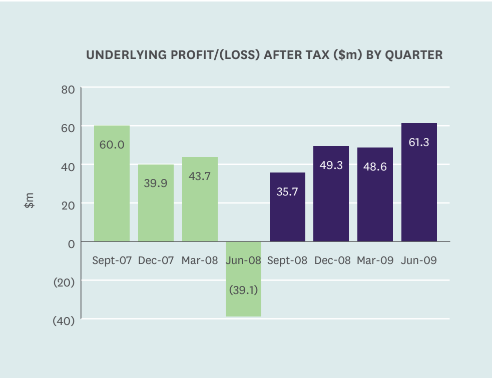
Looking at the five-year trend for Underlying Profit, it can be seen that we have recovered well from the dry winter of 2008 but our performance in the 2008-09 financial year has not been to historical levels. However, we did exceed our target for the year which was very pleasing given the volatile hydrology and other operating conditions and constraints.

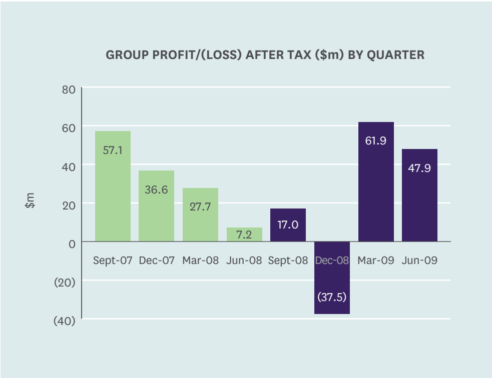
The improvement from 2007-08 has been significant (86%). The June quarter in 2009 was our best for some time and we are well placed to build on this in the coming year.

Profit after Tax

Profit after tax attributable to the shareholder of the company was $89.3m compared with $128.6m for the prior year. Income tax for the period was $38.7m (effective rate 30.3%) compared to last year of $69.1m (effective rate 35.0%).

Reported Profit after Tax includes the impact of fair value losses on financial instruments of $102.6m after tax. The New Zealand Aluminium Smelters Limited pricing agreement, effective 2013, contributed $120.3m of this impact and was largely due to a significant decline in forward aluminium prices in the first half of the year and an increase in estimated inflation assumptions.

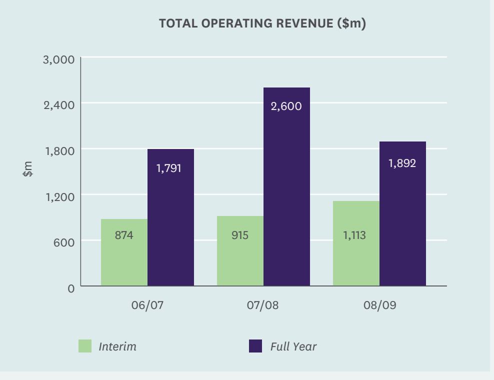


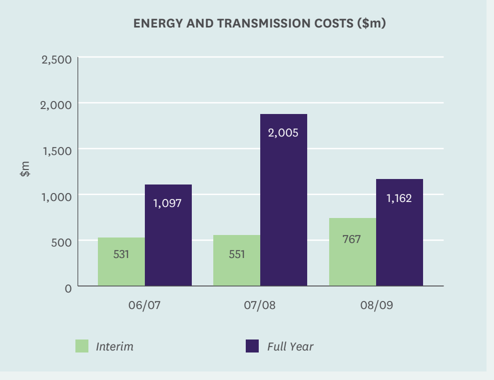


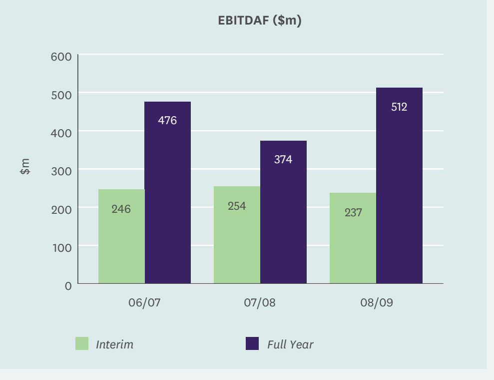
Group Income Statement and EBITDAF analysis

Meridian Group Earnings (EBITDAF) Analysis ($m)	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Energy Sales *	**1,865.3**	2,574.7	1,771.2
Energy Related Services Revenue	**6.6**	5.5	5.4
Other Revenue	**20.5**	19.8	14.1
Total Operating Revenue	**1,892.4**	**2,600.0**	**1,790.7**
Energy Related Costs **	**788.5**	1,591.0	720.4
Energy Transmission and Distribution Costs ***	**373.0**	413.7	376.3
Total Energy Related, Transmission and Distribution Costs	**1,161.5**	**2,004.7**	**1,096.7**
Employee Costs	**76.0**	69.1	55.3
Other Operating Expenses	**142.5**	152.3	162.3
Total Employee and Other Costs	**218.5**	**221.4**	**217.6**
Total Operating Expenses	**1,380.1**	**2,226.1**	**1,314.3**
EBITDAF	**512.4**	**373.9**	**476.4**

Meridian Group Revenue and Expense Trends – Financial Years 2006-07 to 2008-09







Notes:

* *Energy Sales includes both Wholesale and Retail gross revenues from the sale of electricity.*

** *Energy-related costs include the costs to purchase electricity from the New Zealand Electricity Market (NZEM) for retailing to our business and residential customers.*

*** *Energy Transmission and Distribution costs include costs of transmitting and distributing electricity.*

The year that was

EBITDAF (earnings before interest, tax, depreciation, amortisation and fair value movements)

For the twelve months to 30 June 2009, Meridian delivered earnings before interest, tax, depreciation, amortisation and fair value movements on financial instruments (EBITDAF) of $512.4m, an increase of $138.5m (+37%) on the previous year. The graphs below show our EBITDAF results and our key operational performance measure of EBITDAF per MWh (Megawatt hour) of generation on a quarterly basis.

A number of key factors contributed to the EBITDAF result including:

- continuing on from the last quarter of the 2008 financial year, low hydrology in South Island catchments during the first quarter contributed to lower generation output and higher wholesale electricity prices than in the same period last year. This resulted in Meridian being a net purchaser of electricity to meet our contracted customer commitments when prices were high.
- a constrained lower South Island transmission grid as inflows in the southern lakes increased and Tiwai Point aluminium smelter demand reduced due to a transformer outage. The outage resulted in a reduction in demand of approximately 180 MW (representing 10% of Meridian's South Island load) and impacted contract revenue (refer Note 31 of the financial statements).
- during the second half of the year, lake levels increased to unprecedented levels, exceeding maximum control levels a number of times, resulting in periods of controlled water release. Wholesale prices fell significantly, resulting in an average of $48.50/MWh for the year. Despite low wholesale prices during the second six months, our retail commitments were well-positioned in terms of our overall portfolio to ensure margins came in largely ahead of target.
- The June 2009 quarter result of $151.7m shows an increase of $150.3m on the same quarter last year, highlighting the financial effect of extremes in hydrology conditions experienced in our catchments coupled with transmission system constraints.

Key Drivers of EBITDAF

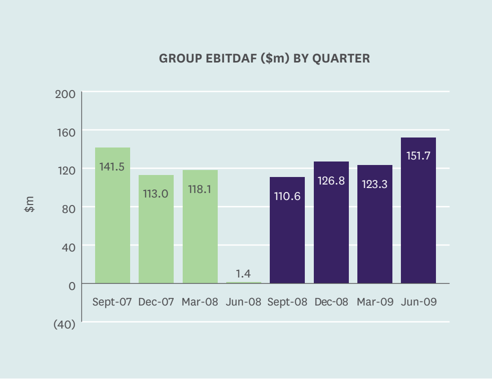
Operating Revenue

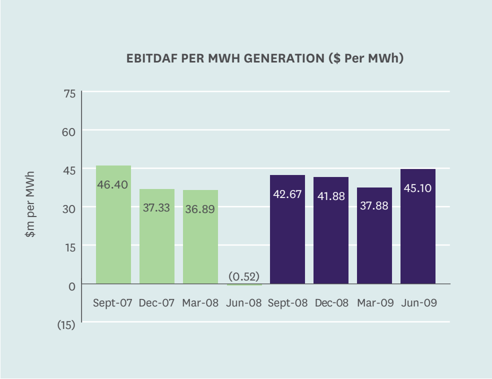
Total Group Operating Revenue for the year was $1,892.4m down from $2,600.0m in 2007-08. This decrease reflects considerably lower average wholesale electricity prices in 2008-09. The average wholesale price in 2007-08 was abnormally high due to the dry winter of 2008. The average wholesale price in 2008-09 was about $48 per MWh compared to $111 per MWh in 2007-08.

The graph on page 19 shows how the wholesale generation price varied over the last two years.

Operating Revenue and Expenses were below targets for the year, driven primarily by year-on-year reductions in energy-related costs stemming from the reduction in the average wholesale electricity price.

Further discussion on revenue is included in the segment performance sections of this report.





Energy Sales, Energy-Related Costs and Transmission and Distribution Costs

Our Group financial performance is largely influenced by our ability to manage margins in the wholesaling and retailing of electricity. Energy sales in 2008-09 were down from the previous year's level of $2,600.0m, driven primarily by the significant reduction in the average wholesale price and reduction in load from the Tiwai Point aluminium smelter, due to a transformer outage. Energy-related costs were also down as a result of the reduction in the average wholesale electricity price, reducing from $1,591.0m in 2007-08 to $788.5m in 2008-09.

The Net Position graph below shows Meridian's monthly net position (contracted commitments compared to generation) covering the current and previous financial years. During the first part of the 2008-09 financial year, Meridian was a net purchaser of energy from the market to meet its customer commitments. This situation reversed significantly in the November to June period.

Energy transmission and distribution costs in 2008-09, at $373.0m, were down from the previous year's level of $413.7m, driven primarily by higher Constraint Rental Rebates received. These rebates result from the separation in prices between the North and South Islands, caused by the constrained HVDC link (the HVDC has experienced constraints since the unexpected removal of Pole 1 in late 2007).

Employee and Other Operating Expenses

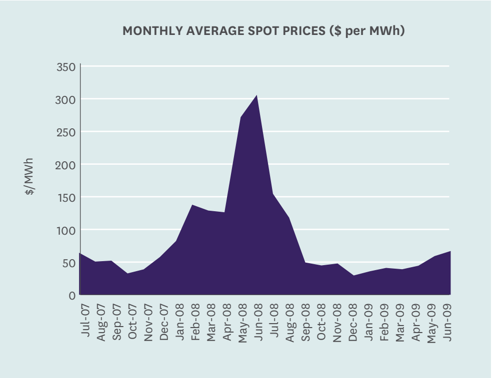
Employee and Other Operating Expenses reflect strategic priorities and programmes of work as well as business overheads and staff costs.

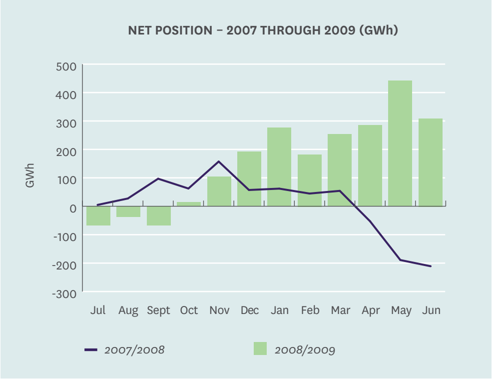
Employee and Other Operating Costs of $218.5m for the Group decreased by $2.9m (-1%) on the previous year. Employee costs increased by $7.0m (+11%) largely due to the costs of continuing the work to transform our customer processes and investments made in our contact centre, customer care and billing systems and our smart metering rollout.

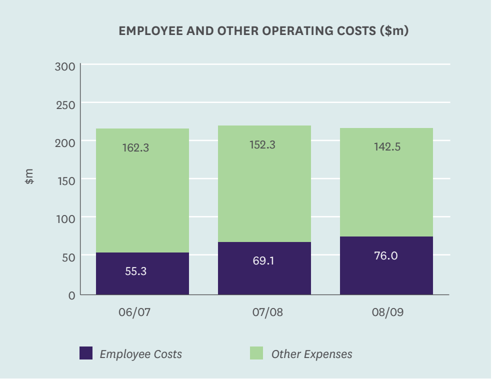
Other operating expenses decreased by $9.8m (-6%) largely due to Whisper Tech Limited reducing its New Zealand-based activity levels and more efficient use of in-house resources driving a reduction in advisory and other outsourced service costs.

We have effectively managed our Net Other Operating Expenses at about the same level over each of the last three years.

The EBITDAF improvement (up from the 2007-08 level of $373.9m) has been significant (37%) and we also exceeded our target for the year. The June 2009 quarter was our best for some time and we are well placed to build on this in 2009-10.





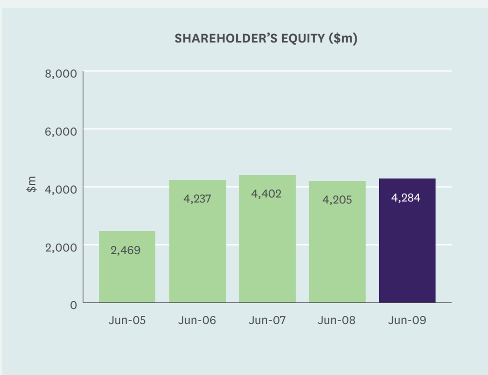


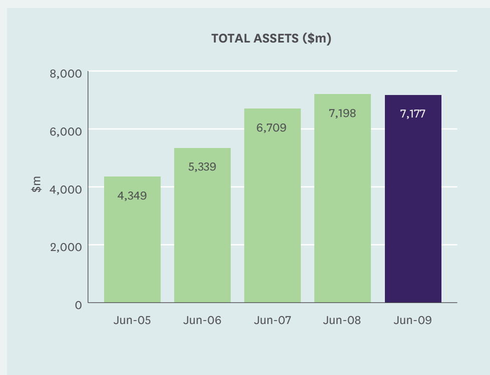
The year that was

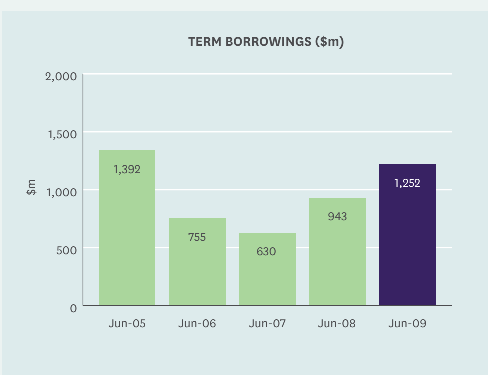
Group Balance Sheet

Meridian Group Summarised Balance Sheet ($m)	30 JUNE 2009	30 JUNE 2008	30 JUNE 2007
Share Capital	**1,600.0**	1,600.0	1,600.0
Reserves, Minority Interest and Share Options	**2,734.7**	2,716.2	2,762.0
Retained Earnings	**(50.6)**	(111.6)	39.8
Shareholder's Equity	**4,284.1**	**4,204.6**	**4,401.8**
Cash and Cash Equivalents	**47.9**	71.7	44.8
Other Current Assets	**219.0**	533.0	242.2
Total Current Assets	**266.9**	**604.7**	**287.0**
Derivative Financial Instruments (Non-Current Asset)	**114.0**	101.6	39.9
Property, Plant & Equipment	**6,743.1**	6,432.6	6,315.1
Other Non-Current Assets	**53.3**	58.8	66.8
Total Non-Current Assets	**6,910.4**	**6,593.0**	**6,421.8**
Total Assets	**7,177.3**	**7,197.7**	**6,708.8**
Current Portion of Term Debt	**123.2**	149.8	0.0
Other Current Liabilities	**233.6**	**595.8**	**221.4**
Current Liabilities	**356.8**	**745.6**	**221.4**
Derivative Financial Instruments (Non-Current Liability)	**106.4**	124.8	124.1
Term Borrowings	**1,128.7**	793.2	629.7
Deferred Tax Liability	**1,301.2**	1,329.5	1,331.8
Total Non-Current Liabilities	**2,536.3**	**2,247.5**	**2,085.6**
Total Liabilities	**2,893.1**	**2,993.1**	**2,307.0**

Meridian Group Balance Sheet Trends – Financial Years 2004-05 to 2008-09







Notes:

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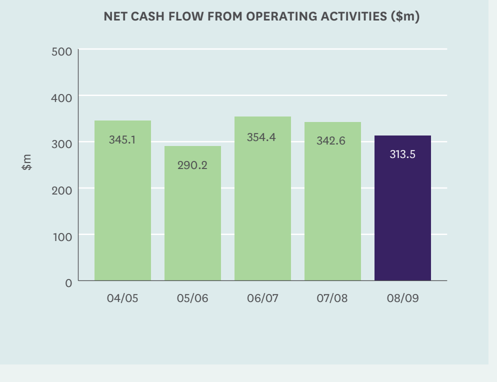
Meridian Group Cash Flow

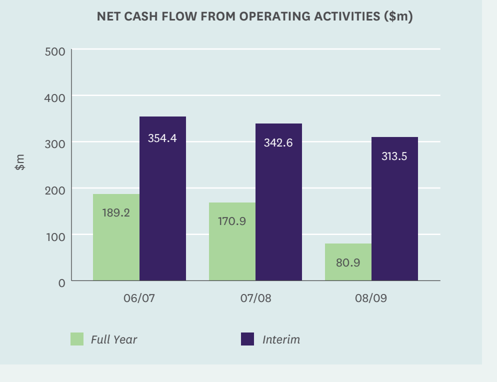
Meridian Group Summary of Group Cash Flows ($m)	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Cash receipts from Customers	**2,171.8**	2,346.4	1,797.0
Other operating cash received	**8.9**	4.5	10.3
Cash payments to Suppliers and Employees	**(1,757.5)**	(1,889.9)	(1,297.2)
Other operating cash outflows	**(109.7)**	(118.4)	(155.7)
Net Cash Flow from Operating Activities	**313.5**	**342.6**	**354.4**
Cash from Sale of Property Plant and Equipment	**19.9**	1.1	9.7
Cash from Sale of Investments	**3.6**	2.5	0.2
Cash applied to the Purchase of Property, Plant and Equipment	**(465.6)**	(264.5)	(184.0)
Cash applied for other Investment Purposes	**(34.7)**	(10.6)	(15.2)
Net Cash Outflow from Investing Activities	**(476.8)**	**(271.5)**	**(189.4)**
Cash proceeds from Borrowing	**575.8**	250.0	0.0
Cash Dividends paid	**(30.0)**	(297.9)	(367.9)
Loans repaid	**(406.4)**	0.0	0.0
Net Cash Flow from Financing Activities	**139.4**	**(47.9)**	**(367.9)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**(23.9)**	**23.2**	**(202.9)**
Cash and Cash Equivalents at Beginning of Period	**71.7**	**48.5**	**251.4**
Cash and Cash Equivalents at End of Period	**47.8**	**71.7**	**48.5***

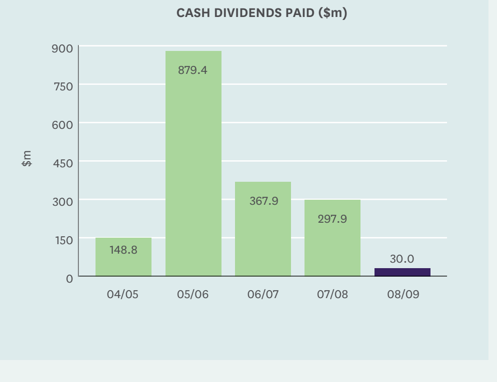
Notes:

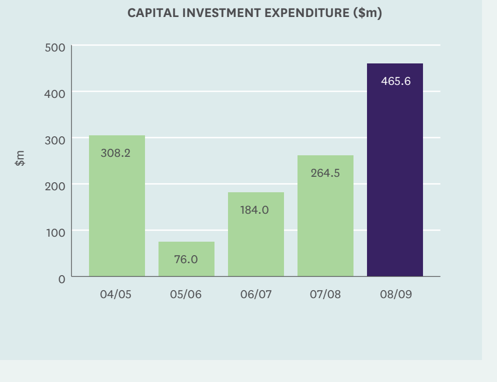
* *In 2007, due to the nature of the balance, ($3.7m) has been re-classified from Cash and Cash Equivalents to Accounts Receivable for the Group.*

Meridian Group Key Cash Flow Trends – Financial Years 2004-05 to 2008-09









Notes:

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The year that was

Group Balance Sheet and Cash Flow

Balance Sheet

Meridian's balance sheet is in a strong position with shareholder's funds of $4.284 billion and a gearing ratio of 20.9% (2008 18.3%).

Net cash borrowings increased by $169.4m during the year primarily to fund Meridian's capital expenditure programme. As at balance date, Meridian had $410.0m of undrawn bank facilities.

Electricity generation is an asset-intensive business and this is reflected in the level of investment in property, plant and equipment ($6,743m at balance date). Revaluations of generation structures and plant assets (including land and buildings) 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. Since inception, fair value adjustments of $3.9 billion have been recognised, impacting reported return on equity.

Cash Flow

Operating Cash Flow

Cash flow from operating activities recovered strongly in the second half of this year. Interim cash flows were affected by the low hydrology and system constraints experienced in the final quarter of last year. Full year operating cash flows of $313.5m were down from the previous year's level of $342.6m.

Investment Activities

Capital expenditure during the year was $465.6 million. The most significant spend was on the development of West Wind, Meridian's wind farm at Makara ($277.0m).

Financing Activities

The dividend payment of $30.0m was down on last year's dividend level of $297.9m largely due to last year's dry winter and transmission challenges. Total dividends paid by Meridian since inception are $2,242m, representing an average of $203m per year.

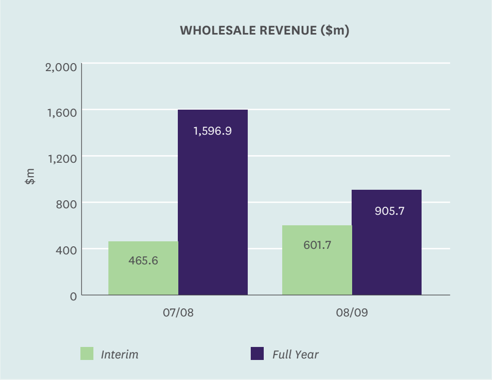
Meridian's balance sheet is in a strong position with shareholder's funds of $4.284 billion and a gearing ratio of 20.9% (2008, 18.3%).

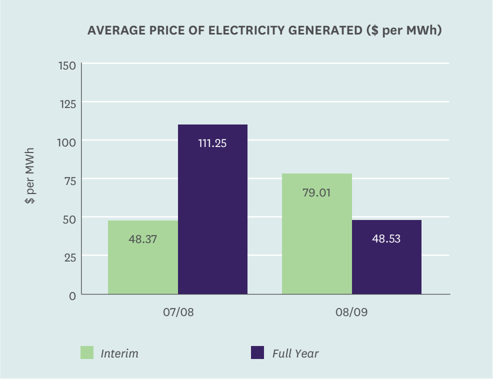
$4.3billion

Wholesale Segment

Meridian Group Wholesale Segment Performance ($m)	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008
Wholesale Electricity Revenue	889.8	1,582.6
Other Wholesale Energy Revenue	15.9	14.3
Wholesale Revenue	**905.7**	**1,596.9**
Wholesale Electricity Purchases	(286.3)	(630.5)
Electricity Transmission, Distribution and Levies	(74.4)	(125.4)
Employee Costs and Other Operating Expenses	(51.8)	(51.5)
Other Wholesale Energy Costs	(4.2)	(5.0)
Total Wholesale Operating Expenses	**(416.7)**	**(812.4)**
Wholesale EBITDAF	**489.0**	**784.5**
Hydro Generation (GWh)	11,721	11,430
Wind Generation (GWh)	516	477
Total Generation (GWh)	12,237	11,907
Wholesale EBITDAF per MWh ($ per MWh)	**$39.96**	**$65.88**
Average Price of Electricity Generated ($ per MWh)	**$48.53**	**$111.25**

Wholesale Segment – Financial Performance





The year that was

Wholesale Segment Financial Performance

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

The EBITDAF result of $489m was almost $296m lower than last year's result, reflecting the vastly different hydrological, demand and transmission conditions that existed this year.

The 2009 year began with our storage lakes reaching the lowest point in Meridian's history in August 2008. This quickly changed with a series of significant inflow events during early spring, a reduction in demand (a transformer outage at the Tiwai Point aluminium smelter led to reduced consumption at the smelter) and continuing constraints on the transmission network.

Lake levels subsequently increased to unprecedented levels, and during the second half of the year, exceeded the maximum control levels a number of times, resulting in periods of controlled release. Prices fell significantly, resulting in an average of $48.53/MWh for the year, 56% lower than last year's average price of $111.25/MWh. Generation volume increased from last year, with 290 GWh more hydro generation produced, driven by above average inflows, and 39 GWh additional wind generation provided by the West Wind asset.

Electricity Transmission, Distribution and Levy costs are $51m (41%) lower than last year, due to high Constraint Rental Rebates received. These rebates result from the separation in prices between the North and South Island, caused by the constrained HVDC link (the HVDC has experienced constraints since the unexpected removal of Pole 1 in late 2007).

Loss of Load at Tiwai Point

The transformer fault at Tiwai Point resulted in the closure of a potline and material loss of load. This had a significant impact on our wholesale financial result. As well as the reduction in demand of around 180 MW, or 10% of total South Island load, it also impacted contract revenue, with the customer claiming force majeure relief from its contractual obligations in respect of take or pay volumes. The matter has been referred to arbitration. The smelter began the gradual restoration of the production line in May.

The North-South Split

The unavailability of Pole 1 of the HVDC continued to constrain the transfer of energy between the North and South Islands and impacted wholesale electricity supply, especially during the dry winter. Price separation occurred (as shown in the graph below) during two distinct periods over the year. In the September-October period, weekly average prices in the South Island were significantly higher than in the North Island. This was a result of South Island generation supply not being able to meet demand, while energy flow from North Island thermal stations was constrained, further increasing prices.

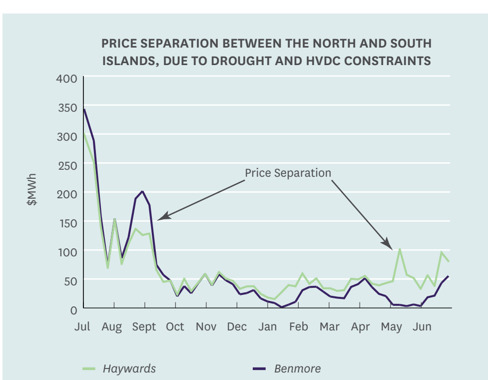
In the January-June period, price separation continued to occur, with North Island prices rising well above South Island prices, reflecting the much-improved South Island storage position from improved inflows, constrained South-North flow and North Island capacity constraints.

Operating Conditions

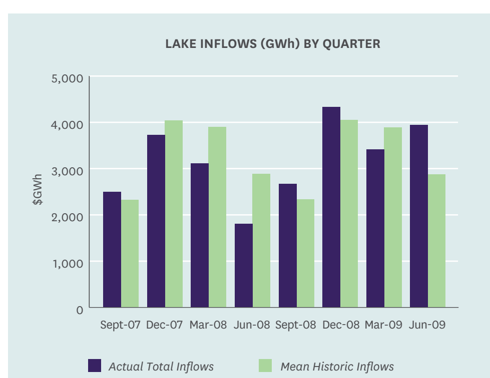
While the year saw Meridian meet its Net Energy Revenue and EBITDAF targets, the numbers on their own do not provide the full story, as this excellent result was achieved despite an extreme range of operating conditions across the year.

Meridian has processes, systems and mechanisms in place to constantly manage and balance hydrology, plant, transmission and wholesale market risks in order to ensure an optimal revenue outcome. The 2008-09 financial year witnessed extreme events for all these key factors, which made the year challenging indeed.

The start of the calendar year was characterised by below average autumn and winter inflows which in turn saw storage lakes reach the lowest point since 1992 in August 2008. This was followed by a recovery in inflows and storage through to the new calendar year, to the point where significant controlled water releases were necessary in January and May 2009 to stay within lake operating guidelines and maintain resource consent conditions.



PRICE SEPARATION BETWEEN THE NORTH AND SOUTH ISLANDS, DUE TO DROUGHT AND HVDC CONSTRAINTS



LAKE INFLOWS (GWh) BY QUARTER

This wide range of hydrological conditions was then coupled with continuing transmission issues, primarily southward/northward flow across the Cook Strait cable (HVDC), and significant loss of load from Meridian's primary customer, the aluminium smelter at Tiwai Point.

As a result, Meridian continually escalated its portfolio response in order to meet our primary obligations of security of supply and maintenance of agreed resource consent conditions. In practice, through the period April to September, Meridian sought to maximise storage levels, and also by working closely with other market participants, optimised the flow of power southwards across the HVDC from generation plant in the North Island.

All of these factors combined to truly test Meridian's wholesale management capabilities and systems. This meant undertaking portfolio management activities to optimise Meridian's revenue position, while balancing plant operation and lake storage requirements in the short to long term. All of this was conducted within the context of our obligations in terms of security of supply and resource consent conditions.

A Year of Two Halves – The Dry and the Deluge

The severity of the dry period experienced in 2008 is aptly demonstrated in the graph below, which shows storage levels for a number of years, along with that of 1991-2 which is seen as the 'benchmark' in terms of recent extreme dry periods. The dark blue line indicates storage levels for 2008-09. As can be seen, quarter 1 saw a steep decline in Meridian's storage position to less than 500 GWh, and then markedly improved inflows and storage necessitating controlled water releases in January 2009 and particularly during May 2009.

The First Half – Our Response to the Dry

Meridian led, or joined several cross-company and industry working groups to implement short- and long-term measures to manage demand and optimise our position in difficult times. These initiatives, along with prudent financial contracting with other parties in the wholesale electricity market, mitigated the drought's impact on our portfolio.

Meridian commissioned an independent review of our response to the dry winter which concluded that our actions were reasonable. The review also presented a number of recommendations which have since been implemented. Our efforts, and what we learned will stand us in good stead for the next dry period.

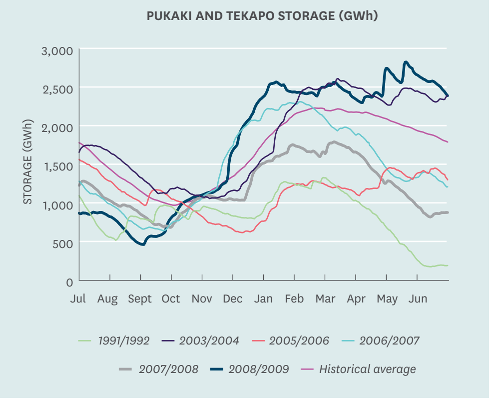
Those efforts included:

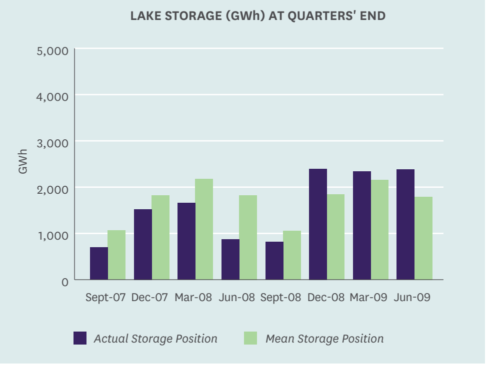
- Bringing together a team of Meridian hydrologists, traders, plant operators, generation controllers, customer services and external communications to coordinate storage improvements, under existing resource consent conditions.
- Promoting energy savings to our customers, to reduce demand and ease supply considerations.
- Negotiating with Rio Tinto Alcan New Zealand (RTANZ) to reduce its consumption.
- Negotiating with Transpower and others to maximise the southward flow of energy through the HVDC.
- Securing access to industrial diesel gensets which could be operated at times of constrained generation, and investigating the availability of mobile diesel gensets for relocation to existing consented locations to provide additional back-up generation.

The Second Half – Our Response to the Deluge

The dry period broke during the 2008 spring and summer. High rainfall then meant extended inflows into Lakes Tekapo and Pukaki, which reached their maximum control levels. As a result, we began to release water from each lake.

Controlled water releases used to be quite common and were once a normal annual operational event. However, as New Zealand's energy demand has increased, and as we come to the end of a relatively drier decade, surplus storage is much less common.





The year that was

Lake Tekapo reached its maximum control level first – a few days before Christmas, water was diverted into the normally dry upper Tekapo River. Lake Pukaki followed on 5 January 2009, and controlled water releases into the Pukaki river began.

Because both flows converged into Lake Benmore below Ohau C station where the Tekapo, Pukaki and Ohau river beds meet, there were effects downstream. Increased inflows into Lake Benmore, and discharge limitations caused by the refurbishment of Benmore Units 5 and 6, meant further controlled water releases were needed to maintain Lake Benmore within its normal operating range. In turn, further releases were required from Lakes Aviemore and Waitaki.

While controlled water release represents the loss of potential generation and revenue, increased flows, by definition, are a natural event with environmental benefits. Our managed release of water led to a successful flushing of didymo and assisted Environment Canterbury in their repositioning of the Waitaki river mouth. Fish and Game reported that anglers also benefited from the clearer waters. Meridian works with key stakeholders, Environment Canterbury, Fish and Game, and the Department of Conservation, to manage both day-to-day operations and longer-term strategic planning for managing future controlled water releases.

Key Generation Measures

Generation Efficiency

Generation efficiency is a measure of the total generation for the period less total losses (water not converted to electricity) expressed as a percentage, and is a measure of how well we utilise the hydro resource in terms of energy produced. We achieved an efficiency result of 89.8%, below our target of 95% due to controlled water releases resulting from several significant inflow events during the year. Excluding the three months where this was an influence, our average result was 96% – an excellent result demonstrating conversion of the water resource in an economical manner.

Hydro Plant Availability

Hydro Plant Availability is the percentage of time available to generate energy compared to the total time in the period. Availability for the year was 92.6%, 1.1 points above the target of 91.5%. This result was a consequence of both a change in our asset management plan (deferral of penstock remedial works at Manapouri and a change in the sequencing of outage related works for the Benmore Refurbishment programme) and a high percentage of adherence to our planned plant maintenance programme. There were other unplanned impacts, the most significant being remedial works to the Tekapo canal infrastructure, that were offset in terms of impact for the availability measure by the changes in our asset management plan.

Wind Availability

Wind asset availability was 95.6% across the Te Apiti and White Hill wind sites, 0.8 points below the targeted level of 96.4%. The result was impacted primarily by unplanned plant refurbishment (main bearing and blades) at Te Apiti. The reduced availability result did not adversely affect output which is more determined by wind speed.

Forced Outage Factor

This is the percentage of time unavailable to generate in a period due to plant being forced out of service, and is measured across all hydro plant. The Forced Outage factor for 2009 was above target at 0.43% (target 0.35%) primarily because of three events occurring in the first half of the year, one of which required a change in transformer. However the faults did not cause any market-related loss, or hydrology impacts, or depress plant availability. There were a total of 117 events for the year.

92.6%

Hydro plant availability

95.6%

Wind asset availability

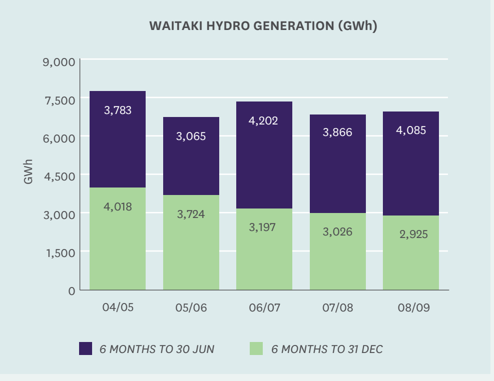
Wholesale Segment - Generation Summary

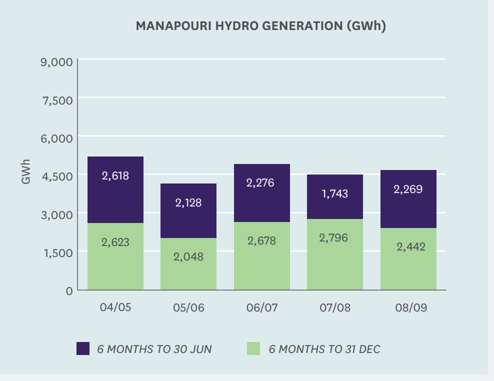
Meridian Energy Generation Summary	YEAR-END NUMBER OF GENERATORS	YEAR-END CAPACITY MW	GENERATION (GWh) YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008	YEAR TO 30 JUNE 2007
Tekapo A	1	25	124	124	146
Tekapo B	2	160	833	743	838
Ohau A	4	264	983	1,047	1,084
Ohau B	4	212	834	872	909
Ohau C	4	212	828	862	902
Benmore	6	540	2,035	1,977	2,143
Aviemore	4	220	890	833	908
Waitaki	6	90	483	434	470
Waitaki Hydro Generation	**31**	**1,723**	**7,010**	**6,892**	**7,399**
Manapouri Hydro Generation	**7**	**730**	**4,711**	**4,538**	**4,954**
Te Apiti – Palmerston North	55	90	309	323	323
White Hill – Southland	29	58	169	155	2
West Wind – Wellington*	40	92	38	0	0
Wind Generation	**168**	**240**	**516**	**478**	**325**
Meridian Total Generation		**2,693**	**12,237**	**11,908**	**12,678**

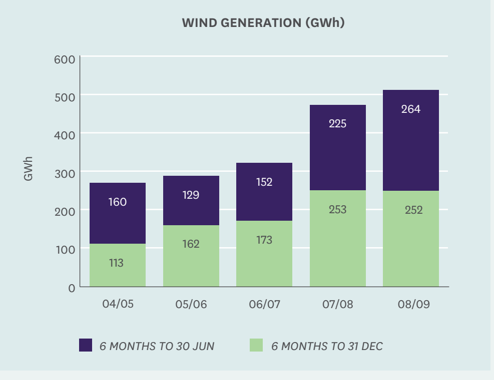
Notes:

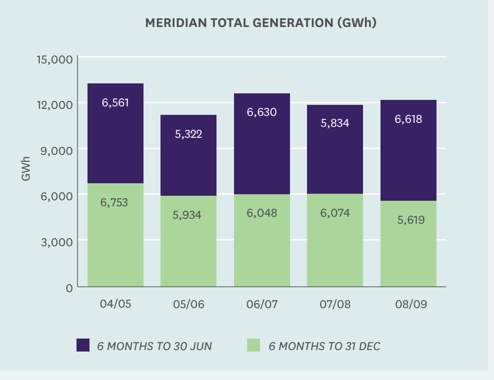
* *To be fully operational by the end of 2009.*

Electricity Generation Trends







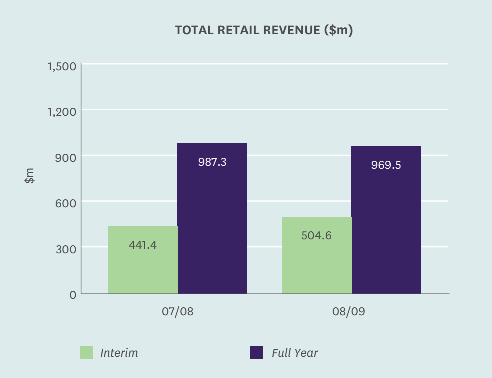


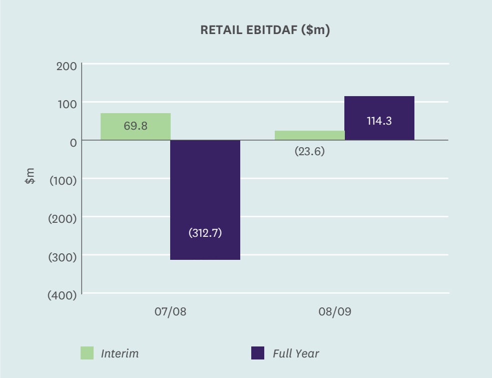
The year that was

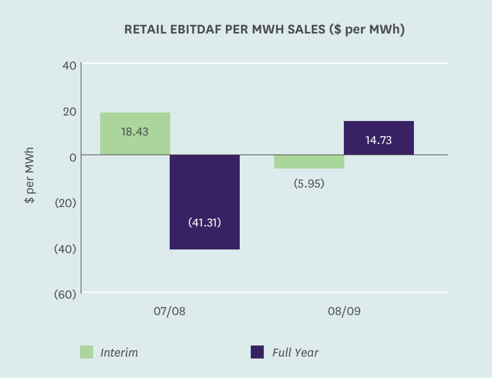
Retail Segment

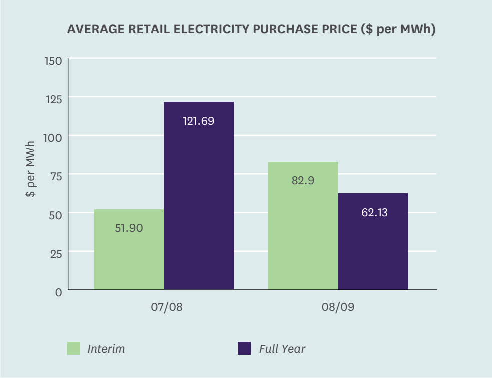
Meridian Energy Retail Segment Performance ($m)	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008
Retail Electricity and Lines Revenue	964.3	981.6
Other Retail Revenue	5.2	5.7
Total Retail Revenue ($m)	969.5	987.3
Retail Electricity Purchases	(495.0)	(954.1)
Electricity Transmission, Distribution and Levies	(298.4)	(288.2)
Employee Costs and Other Operating Expenses	(61.8)	(57.7)
Other Retail Energy Costs	0.0	0.0
Total Retail Operating Expenses	(855.2)	(1,300.0)
Retail EBITDAF	114.3	(312.7)
Fixed Price Electricity Sales (GWh)	6,034	5,649
Spot Electricity Sales (GWh)	1,729	1,921
Total Retail Sales (GWh)	7,763	7,570
Retail EBITDAF per MWh Sales ($ per MWh)	14.73	(41.31)
Average Retail Electricity Purchase Price ($ per MWh)	62.13	121.69

Retail Segment – Financial Performance









Retail Segment Financial Performance

Our Retail team works hard to ensure that the service that they deliver and the cost of delivering services consistently reflect a balance between the overall value to the customer and ensuring that we deliver sustainable results for our shareholder. The volatility of the energy market in the financial year caused significantly reduced supply costs, boosting profitability.

Retail EBITDAF was $114.3m – this result was an improvement of $427m compared to the ($312.7 m) result in the 2008 year.

A wide range of factors have influenced the positive result, ranging from hydrology and transmission conditions that determine our input costs, through to the intensifying of competition and scrutiny of regulatory bodies at both retail and distribution levels.

Additionally, with a focus on optimisation of our Retail portfolio we continue to manage balancing of our customer base to best meet outcomes for the company. This ensures our retail position is integrated into the company-wide portfolio to ensure retail risk, generation risk and market risk are actively managed.

Retail revenues were $970m, down $18m on the previous year. The lower energy revenue was a result of lower energy prices reducing corporate spot revenues throughout 2009 (the average spot rate at the end of June 2009 was $62 per MWh compared to $121 per MWh for the previous year).

Price reviews during the year contributed positively to retail revenues. Retail electricity sales for the period totalled 7,763 GWh for the year, up by 193 GWh on the previous year. This result demonstrates the success of our focus on maintaining a risk-appropriate retail position while proactively targeting customers to deliver ongoing value.

Employee costs and other operating expenses (including doubtful debts) were $61.8m, up 7.1% from 2008 at $57.7m. The increase is largely due to the costs of continuing the work to transform our customers' experience and investments made in our Contact Centre, Customer Care and Billing systems and the rollout of Smart Metering technology to many of our customers.

Our Customers

Customer Satisfaction

The satisfaction of our customers is a critical measure for the success of our business and is a prime focus for Meridian. Customer satisfaction with our Residential customers has continued to improve and exceeded our target of 52%. We know we can always do better and we're confident we will continue to improve this result in the new financial year.

Rural segment satisfaction has remained steady throughout the year ending at 50.1% at the end of June with a slight drop in the Business area at 51.1% for the same period. This is the first year that we have set independent targets for Rural and Business segments. Improvement in this area is a clear focus for our Retail team in the coming year. Nonetheless, despite growing competitive pressure and a tough economic environment, Meridian continues to lead the market in service and satisfaction in key segments that we operate in.

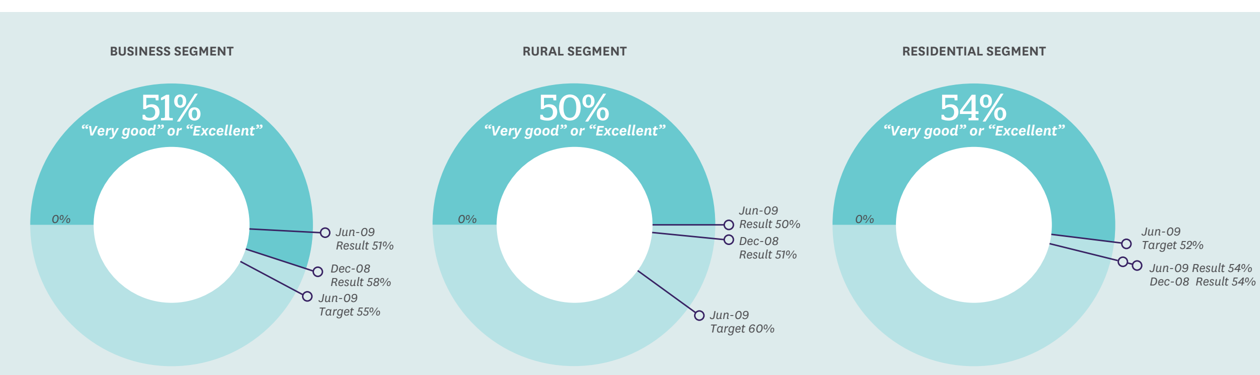
Retaining and Attracting New Customers

Market rivalry, particularly in the residential and small business segments caused some fluctuations in customer numbers throughout the year. Despite this, Meridian's total customer base increased overall by 2.5% (4,500 customers) year-on-year to approximately 187,000 customers at year-end. This positive growth has occurred despite the stronger competitive environment and reflects customers actively seeking better value from their energy provider and seeking out Meridian.

There has been a marked increase in competition across all segments with other Retailers embarking on campaigns to grow and retain customers. We welcome a heightened level of market competition which can only be good for the customer, as the industry focuses on products, services and lowering costs.

Meridian continually reviews its pricing in the market and is able to reassure our customers that we are committed to managing our business to minimise the impact of price volatility and to control our operating and capital costs. Our long-term investments are similarly positioned, to create efficiencies that will minimise price rises.

Price increases do reflect the growing supply and demand imbalance in New Zealand and the need for new generation. We understand the impact price increases have on our customers, and we are working to counter the inevitable rising costs through the introduction of new products and services and worked closely with customers to help them manage their energy usage.



The year that was

Christchurch Customer Contact Centre

In 2008, Meridian's Board approved a business case to develop a state-of-the-art customer contact centre in Christchurch. We aim to provide a top-of-the-line experience for our customers, and we believe it is therefore important for our people to manage the crucial customer-Meridian relationship, as opposed to having a third party manage these relationships.

The Meridian Energy Centre is an in-house customer centre of excellence that is staffed by a well-trained team, recruited locally and empowered to respond to customer needs. Our Energy Centre team have the knowledge and tools they need to recommend products and services to best suit our customers' needs.

During 2008-09, Meridian answered more than 400,000 calls. From June 2009, all calls have gone through our new Energy Centre, with customers receiving service with a real 'Meridian feel'. Our call routing ensures customers are placed with the staff member best skilled to deal with their inquiry.

MyMeridian

We know that for many customers, price is not everything – customers are also looking for great service. That is why we are always looking for new ways to add value to what we offer.

MyMeridian is our new customer portal. With a simple click of their mouse, customers can receive their bill, pay by direct debit and view their energy use on line. It gives our customers the information they want in a way that suits their lifestyle. The initiative has many positive spin-offs, including:

- giving customers much more control over their accounts
- reducing our costs to serve customers
- positive environmental effects

By year-end, more than 13,000 people had registered with MyMeridian, and we continue to receive very positive feedback about the site.

Richard and Nicky Read, Wellington – *"We originally moved to Meridian because it had the best price. Since then, Meridian's electricity has become certified carboNZero, which is important to us as we are very concerned about greenhouse gas levels and the link to climate change. Also, the ability to have complete electronic records of bills and use is great. We hate getting paper bills; they just fill up the filing cabinet. MyMeridian means we have all the info on use and bills in one place. It's easy to use and gives trends and comparisons to last year; very cool! MyMeridian combined with direct debit means it all just happens and I always get the prompt payment discount".*

In 2008, Meridian's Board approved a business case to develop a state-of-the-art customer contact centre in Christchurch.

CASE STUDY

CarboNZero[certTM] programme

Our decision to seek recertification of our electricity by the carboNZero programme this year enables us to provide tangible proof of our emission management commitments. In 2008, subsidiary Right House was certified as a carboNZero organisation, and our business unit EFI was the first organisation in New Zealand to receive certified emission management and reduction scheme (CEMARs) status.

The certified carbon neutral status of Meridian's electricity has not been without controversy. In July 2008, the Commerce Commission (the Commission) received a complaint that our carbon neutral position misled consumers. Following a year-long investigation, the Commission concluded that the certification claims advertised by Meridian are sound. In closing the investigation, the Commission sent us a compliance advice letter, which recognised that in this relatively new field of carbon accounting, we need to take great care in the way we present our carbon neutrality to our customers. We will continue to take great care how we represent our carbon neutrality to the public.

CASE STUDY

Our support programme in the Garden City

Our Christchurch support programme, a joint initiative with the Christchurch Consumers' Advisory Panel and other advisory services, helps people facing difficulty paying their power bills, particularly during winter. Services include providing advice on energy conservation, budget advice and administration of an emergency budget fund.

The difference the money has made in each family has been tremendous, and they are all extremely thankful to have received assistance.

A huge thank you to Meridian from them all, and from ourselves, that we have been able to offer them a hand up.

- *Jan McKillop, Christchurch Budget Service Inc.*

CASE STUDY

Caring for vulnerable customers

As a commercial entity, we take our corporate social responsibilities very seriously. That means striking the right balance between running a business and supporting our customers when they face difficult times. To that end, Meridian engages with community and advisory groups to provide support and help for customers in hardship situations.

Meridian has robust processes in place to identify vulnerable customers – in 2008-09 we registered 3,336 customers as vulnerable, including:

- *1,500 flagged as 'medically dependent'*
- *163 (11 percent) with debt greater than 60 days.*

Our well-trained Energy Centre people work closely with vulnerable customers to help them manage their debt and minimise the likelihood of disconnection. Our successful prepay facility is one of the alternative solutions we offer to help customers manage their energy bills.

Other Segment

Overview

The Other Segment includes Meridian's portfolio of subsidiaries that provide micro-combined heat and power technologies (Whisper Tech Limited), home energy efficiency products and services (Right House Limited), dam consultancy services (Damwatch Services Limited), internet-based energy retailing services (Powershop Limited) and our Australian-based subsidiaries.

Our ventures portfolio is a group of early stage businesses that we invest in to position the business to capture future value, either by hedging against risks to our core business or by broadening out our offer to customers to introduce new and complementary products and services. We expect our ventures portfolio to yield positive EBITDAF in a 24-month time frame

The Other Segment now excludes our smart metering technology business unit (Arc Innovations) as its results are included in our Retail Segment.

Financial Performance

The combined result for our new ventures subsidiary portfolio in 2008-09 has improved slightly on 2007-08. Revenue from external customers has increased from $10.6m to $11.2m and EBITDAF has improved from a loss of $22.9m to a loss of $21.4m.

Meridian Energy Other Segment Performance ($m)	YEAR TO 30 JUNE 2009	YEAR TO 30 JUNE 2008
Total Segment Revenue	**11.2**	10.6
Inter-Segment Revenue	**(3.3)**	(1.9)
Revenue from External Customers	**7.9**	**8.7**
Other Segment Operating Expenses	**(29.3)**	(31.6)
Other Segment EBITDAF	**(21.4)**	**(22.9)**

10

Building on our first decade

Ten years ago Meridian began operating as the largest of the three electricity state owned enterprises created from the split of ECNZ.

In our first 10 years, we have confronted challenges both in New Zealand and overseas, we have learned from those experiences and the knowledge – and confidence – we have gained from them sets us in good stead for the future.

Looking back at our successes, we have pioneered wind energy in New Zealand, made an extremely profitable foray into Australia, increased the efficiency of our iconic hydro generation assets, and set the stage for transforming the customer experience of electricity by a rollout of world-leading metering technology in our main market.

We are now embarking on our second decade with a renewed focus and commitment to delivering outstanding shareholder value and producing energy in the most reliable, cost- efficient way with the least impact on the environment. We recognise our people's engagement and their dedication to Meridian's core values in embarking on this journey.

Building on our first decade

Meridian's vision, purpose and strategy reflect our commitment to a renewables-led future.

Current trends, both in New Zealand and globally, continue to be supportive of renewable electricity production and sustainable energy consumption. Importantly, Meridian believes that renewable energy options will dominate generation investment in the future.

Globally, the three driving forces that support the resilience of a renewables strategy are – growing electricity consumption, rising oil and gas prices and the international response to climate change.

Meridian's strategy map demonstrates our core focus on earnings improvement and accelerated growth. This emphasis is built upon the strengths we have in renewable energy development and the operational management of our hydro and wind assets as well as our plans to improve our customer performance and demonstrate leadership in innovation. A brief discussion of our key strategy themes follows.

Our vision

To be "The Global Reference Company in Renewable Energy"

Our vision is to be the Global Reference Company in Renewable Energy

We are focused on delivering outstanding shareholder value and producing energy in the most reliable, cost-effective way with the least impact on the environment. Our aim is to achieve our vision by shaping a positive future for our customers, our people and our communities. We will do this by bringing innovation and imagination to all that we do and staying true to our proud heritage in renewable energy.

Great Results	Renewables Growth	Customer Value	Leading Innovation
We sustainably improve our earnings	We responsibly deliver renewable generation	We significantly lift our service performance for customers	We wisely invest in new solutions and capabilities
We achieve or exceed our energy trading targets	We commercialise renewables to maximise customer value	We offer more to our customers to inspire their loyalty	We build our venturing expertise
We mitigate wholesale and retail trading risks	We develop valuable renewable growth options	We rebalance our customer profile to create more value	We develop our Plan for successful Innovation
We prudently manage our generation assets and costs	We prudently manage renewable development costs	We prudently manage customer servicing costs	We prudently manage our development costs

Our Enabling Processes

We ensure our processes are efficient to help drive great results	We support renewables development processes	We streamline our customer processes	We contribute ideas and expertise to support business development

Our People and Culture

We care for our people's safety and wellbeing	We value, grow and recognise our talent	We value genuine engagement	We are proud to be part of Meridian's culture

The Meridian Way >> Working like you own the Company – Rapport – Challenge – Dream – Sustaining

Building on our first decade

The essence of our strategy is captured in four strategic themes:

1

Theme 1
Great results

This theme is about improving and sustaining the productivity and profitability of our core business by coordinating our generation, wholesale and retail operations in an effective manner.

Our aim is to achieve operational excellence through the efficient production, trading and retailing of energy while also balancing the need to operate within the risk limits of our business.

This theme reflects the need to sustainably improve our earnings based on operational excellence in our core New Zealand operations. The focus is on achieving great results as measured by underlying returns, improving EBITDAF and EBITDAF per MWh (earnings yield) performance ratios, and improved efficiency in the core processes of our business.

2

Theme 2
Renewables growth

Our second theme is about having the best renewable generation portfolio in Australasia by securing renewable energy development options and building generation assets that create long-term value across the Meridian Group. Our aim is to be widely regarded as the premier Australasian developer of renewable generation, both in New Zealand and abroad.

We recognise that our reputation will be driven by delivering on commitments, having the best portfolio of long-term options, executing an effective consenting programme and using our merit order delivery programme as a source of competitive advantage.

3

Theme 3
Customer value

Our third theme is about delivering a profitable, differentiated offering to customers that transforms the way they think about, buy and consume electricity. Our aim is to deliver innovative energy solutions to our customers in a way that provides more economic value for Meridian and provides value to our customers.

Looking forward, we are aiming to deliver innovative solutions and new products for our customers. To do so, we are developing a better understanding of our customers' needs and tailoring a clear value proposition for each of our customer segments. We are on track to providing relevant and imaginative offers, competitive and simple pricing, and great service.

4

Theme 4

Leading innovation

Our final strategic theme is about being a leader in the adoption and commercialisation of new renewable energy technologies and solutions to create and capture future value. In this theme, we are focused on developing a clear picture of how new technologies and services offer the potential to grow our business in the future.

Our people and culture goals

Our four strategic themes are founded on our approach to developing our people and our organisational culture. Our people and culture goals are built around the principles of engagement and alignment, to create ownership for strategy execution, to create and sustain a positive culture and to deliver outstanding performance results. First and foremost, our highest priority is to ensure the safety and wellbeing of our people.

Our people and culture goals are underpinned by Meridian's leadership model and our organisational values which are captured in "The Meridian Way". The Meridian Way is a behavioural code we expect everyone at Meridian to adhere to. We believe the Meridian Way sets Meridian apart from other companies.

WORKING LIKE YOU OWN THE COMPANY

RAPPORT

CHALLENGE

DREAM

SUSTAINING

Building on our first decade

Continuous improvement in asset management

2009 marks Meridian's tenth anniversary.

Over the past 10 years, we have pursued excellence in our generation operations by making significant investment to upgrade systems and generation facilities.

Continuous improvement is a fundamental component of Meridian's multi-year asset management efforts. Our programmes aim to ensure our generation portfolio operates as efficiently as possible to optimise generation output.

Manapouri

For the past five years a $94.7m asset management project has been underway at the Manapouri hydro power station. Manapouri is New Zealand's largest hydro power station and is located on the edge of Lake Manapouri's West Arm in the Fiordland National Park. The station is underground, with its generating units housed in a cavern excavated from rock 200 metres below the surface of Lake Manapouri. When commissioned in 1972, the station's seven Francis turbines were designed to generate up to 700 MW of electricity, but in reality were unable to exceed 585 MW because of friction in the 10-kilometre tailrace tunnel. In 2002 a second tailrace tunnel was commissioned to allow the water to flow away much faster, increasing the hydraulic haul and productivity.

The recently completed refurbishment project involved a half-life upgrade of the station's turbines. This has increased Manapouri's potential capacity to 840 MW and ensures another 25 years of operation. The upgrade also improved the plant's environmental monitoring and protection systems, and provides better reliability and plant use.

Manapouri currently provides enough energy for the equivalent of half a million average households.

Meridian is looking to increase still further the productivity of the Manapouri station. We have lodged with Environment Southland a resource consent application for the Manapouri Tailrace Amended Discharge project (MTAD), to increase the permitted maximum discharge from Manapouri Power station. The current maximum discharge is capped at 510 cumecs, and the proposed new maximum would be 550 cumecs. The maximum would not occur all the time as it would be subject to water being periodically available in Lake Manapouri. The application was lodged following extensive consultation with stakeholders and community representatives over several years.

Similar development options are also under investigation with regard to the Waitaki catchment, including future station refurbishments and revised resource consent conditions for lakes Pukaki and Tekapo.

To some extent, new generation potential based on existing assets can represent an easier development path, and additional modifications to an already modified environment, as opposed to transformation of a pristine natural resource. However,

CASE STUDY

Effective asset management

One operational issue that emerged in 2008-09 was increased seepage from the Tekapo Canal. Our response combined short-term measures to address the immediate problem, followed by long-term remediation.

The problem was in the canal's lining material above twin culvert pipes. These allow for land drainage through the canal embankment. While seeps had been known about for some time, discovery of physical changes to the lining material sparked a more in-depth investigation.

Several techniques were used to find out why the problem had worsened and to identify potential risks for the canal's structure. The techniques used included dye-tracing water from the canal, sonar and dive surveys to map the defects, collecting and quantifying seepage flows, land deformation surveys, and ground-penetrating radar.

The radar identified voids around the culvert pipes, which could have been present from construction days, or may have developed through movement of material around the culverts. Voids could result in an increased seepage flow, which in a worst case could have destabilised the canal bank.

The immediate response, based on our subsidiary Damwatch's technical advice, was for divers to staunch the voids using fill material. While this reduced the seepage, movement in the liner continued. Two layers of capping mat placed above the culverts successfully stabilised the canal invert and side batters, and gave us time to come up with longer-term remediation.

A united effort by Meridian, landowners, stakeholders, Mackenzie District Council and Environment Canterbury allowed the required resource consents to be granted within three days of submission. This enabled the canal to continue operation (with some constraints) while the remedial action was taken.

Divers back-filled the leak points in the canal floor and applied a capping mat over the leaking area. At the same time, a gabion basket wall was built around the culvert outlet. Water can flow through these baskets, but they prevent the toe of the canal bank being washed out during significant flows.

The medium-term solution, recommended by Damwatch, was to construct side buttresses to maintain the integrity of the bank and reduce the risk of a seepage causing instability.

Over the coming year, Meridian and Damwatch will progress development of longer-term measures to stabilise the canal structure and implement a permanent solution.

Our response demonstrates the effectiveness of Meridian's emergency management systems and dam safety assurance programme. These processes are core to our asset management, and ensure the long-term viability of our plant and other structures.

in both cases, environmental, social and sustainable development obligations are stringent, and meeting these obligations is a cornerstone of any generation growth considered or undertaken by Meridian.

Benmore

With Manapouri's upgrade complete, our focus moved to the 540 MW Benmore station. Its refurbishment represents a five-year investment of more than $67m, which will ensure the station's reliability and efficiency for the next 40 years.

In 2008-09, we completed the upgrade of the local services, installed a new interconnecting transformer, and overhauled two out of the six generating units. The unit overhaul combined new turbine runners from Toshiba in Japan and new 'excitation' equipment from Basler Electric Company in France. The dismantling, reassembly and mechanical overhaul was carried out by Transfield Services, with support from local companies, and site project management support from Alan Bulling Associates, as well as Meridian engineering and operational staff. These relationships demonstrate Meridian's ongoing commitment to partnerships and the creation of teams of technical excellence.

The refurbishment programme is already delivering value, with increased turbine performance. Operational savings will be realised through lower cost of maintenance. When complete, the upgrade will provide a significant increase in the amount of electricity generated from the same volume of water.

Damwatch – www.damwatch.co.nz

Our subsidiary company, Damwatch Services Limited, is an award winning centre of excellence in dam safety engineering in New Zealand with a developing international reputation. Set up in 1999 as part of the establishment of Meridian, it has a reputation for understanding dam owners' needs, and is responsible for monitoring and maintaining the safety of many global hydro assets.

While dam safety is the company's core business, the diverse technical and commercial proficiency within Damwatch has the company involved in projects ranging from earthquake engineering, wind farm construction and asset management, wind data surveillance, geophysical surveys, river and floodplain engineering and Building Act compliance and resource consent input.

2008-09 has been Damwatch's best revenue-generating year. Also, as part of the Arapuni Alliance, it won the Supreme Award at the 2008 New Zealand Engineering Excellence Awards for the ground-breaking and innovative Arapuni Dam Foundation Remediation Project on the Waikato river.

Meridian's investment in Damwatch secures our access to high quality dam monitoring and safety engineering surveillance services, which are instrumental to the continued safe operation of our own and other New Zealand hydro assets. Damwatch also enhances our reputation as a global reference company in renewable energy.

CASE STUDY

Disaster Planning & Emergency Response Preparedness

Meridian provides an essential service – electricity – and is classed as a 'lifeline utility', giving us obligations under the Civil Defence Emergency Management (CDEM) Act 2002.

The main requirement of the CDEM Act is to ensure we are "able to function to the fullest possible extent, even though this may be at a reduced level, during and after an emergency." The focus of the CDEM Act requirements is on the generation of electricity, but our overall business continuity arrangements also include other key activities and functions that must recover as quickly as possible after an emergency or crisis event.

We take our responsibility to keep the lights on very seriously, and our ability to keep functioning under difficult circumstances has been demonstrated during events such as the big snowstorms on the South Island in 2007.

We are also prepared for more serious events. Should a disaster such as a large earthquake occur, our primary emergency co-ordination centre is our control centre in Twizel, as this is where all our power stations are controlled remotely. We also have a full standby site that can be used in the event of major damage occurring at the Twizel control centre, that enables full remote control to be maintained of all stations. This standby facility is located in the control room at Ohau B power station and virtually 'mirrors' the main Twizel control room.

Building on our first decade

Powering New Zealand's growth with renewable generation

Over the past decade, Meridian has pursued significant renewable energy projects to harness New Zealand's natural resources and allow us to contribute to future-proofing the country's energy supply.

Long-term trends in New Zealand's electricity consumption demonstrate that continued investment in new generation options is essential, balanced by investment in solutions to manage demand and improve how efficiently we use energy.

In addition to meeting demand growth, investment in new generation will be required to replace generation plant that has, or is approaching, the end of its design life.

At Meridian we take our responsibilities to New Zealand and the environment very seriously. We are committed to meeting these challenges by using energy resources that do not deplete over time, and which do not add to New Zealand's greenhouse gas emission liabilities. Meridian generates electricity using renewable resources and, when developing new projects, we work to preserve, as far as possible, the natural environment. This begins with our site selection, and continues through design, consenting, construction and operation. In our view:

- renewable energy projects will remain an important part of New Zealand's electricity supply mix;
- the introduction of a price on carbon through an emissions trading scheme will mean that more renewable energy projects are likely to proceed; and
- New Zealand's high use of hydro generation allows us to support a relatively high penetration of wind generation.

These insights and commitments inform our generation growth strategy which will help meet New Zealand's electricity requirements over the coming 10-15 years. The operation of the Resource Management Act 1991 is determining our rate of progress. Uncertainty in pricing and providing transmission capability could also limit New Zealand's ability to fully tap into its natural advantages – world-class wind and hydro resources.

Developing options

Our development focus is 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 the focus is mainly wind, because of the limited availability of suitable hydro generation sites.

As part of our generation growth strategy, we maintain data on more than 70 development opportunities throughout New Zealand. These range from early stage ideas, through to consented projects, some of which are nearing completion. The viability of these opportunities is continuously assessed across multiple criteria, including resource attractiveness, alignment of the project with local and national planning guidelines and frameworks, the ability to connect to the national grid, proximity to load centres and financial viability. The table and figures (see below) summarise the status of our publicly announced development programme at 30 June 2009.

MERIDIAN'S PUBLICLY ANNOUNCED DEVELOPMENT PROGRAMME AT 30 JUNE 2009

Development project	Status	Capacity (MW)
West Wind	Under construction	143
Ross Island	Under construction	1
Te Uku	Consented – design begun	64
Hayes	Environment Court appeal	Up to 630
North Bank tunnel (water consent)	Environment Court appeal	220-280
Central Wind	Environment Court appeal	120
Mill Creek	Environment Court appeal	67
Hunter Downs irrigation	Consent pending	
Mokihinui hydro	Consent pending	85
Gumfields	Department of Conservation concession pending	70-100
Manapouri amended discharge	Consent application lodged	100

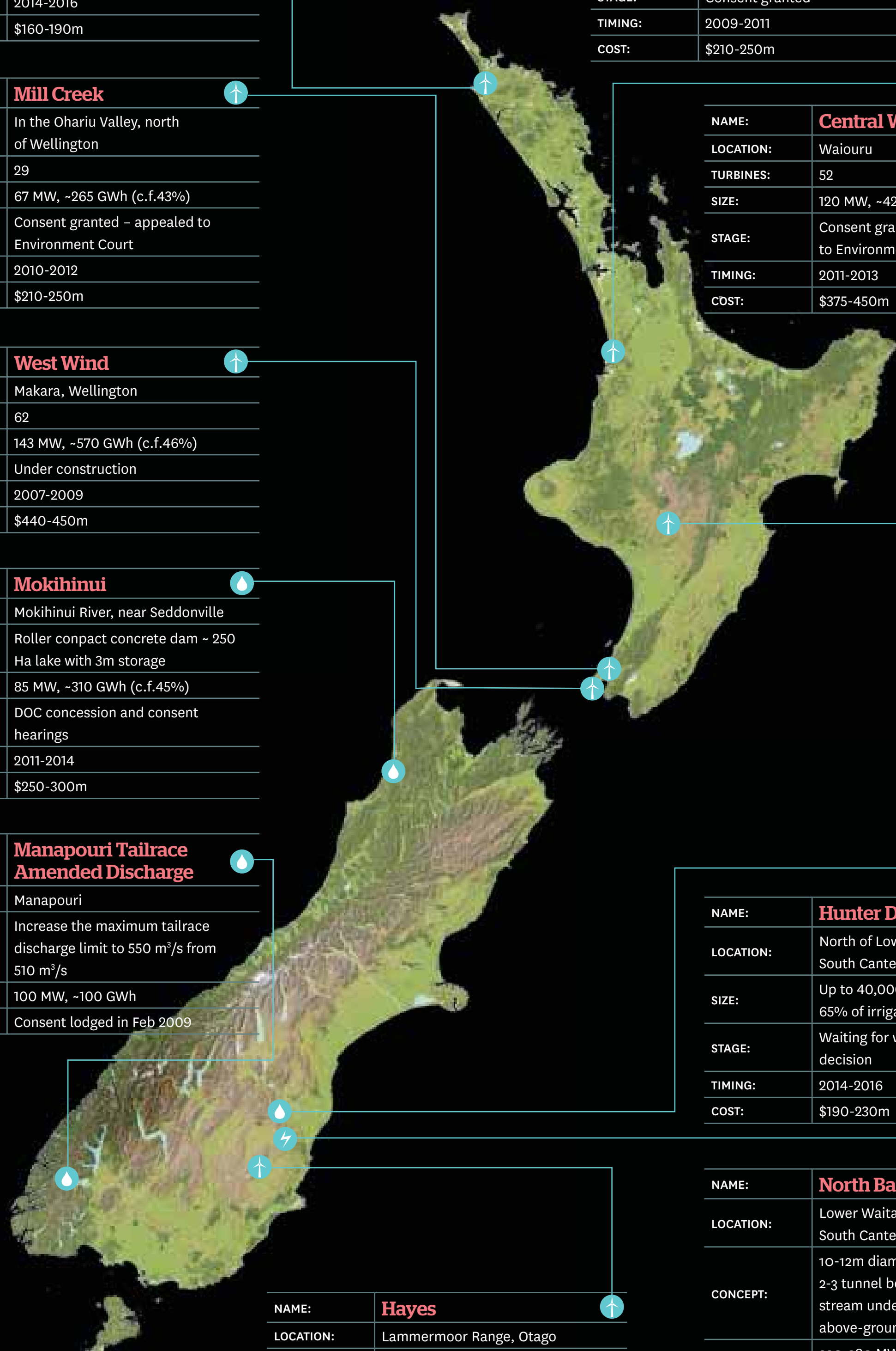
Our New Zealand Development Projects

NAME:	Gumfields
LOCATION:	Near Ahipara, southwest of Kaitaia
TURBINES:	36
SIZE:	70-100 MW, ~285 GWh(c.f.39%)
STAGE:	DOC concession pending
TIMING:	2014-2016
COST:	$160-190m

NAME:	Te Uku
LOCATION:	Wharauroa Plateau, 30km west of Hamilton
TURBINES:	28
SIZE:	64 MW, ~220 GWh (c.f.39%)
STAGE:	Consent granted
TIMING:	2009-2011
COST:	$210-250m

NAME:	Mill Creek
LOCATION:	In the Ohariu Valley, north of Wellington
TURBINES:	29
SIZE:	67 MW, ~265 GWh (c.f.43%)
STAGE:	Consent granted – appealed to Environment Court
TIMING:	2010-2012
COST:	$210-250m

NAME:	Central Wind
LOCATION:	Waiouru
TURBINES:	52
SIZE:	120 MW, ~420 GWh (c.f.39%)
STAGE:	Consent granted – appealed to Environment Court
TIMING:	2011-2013
COST:	$375-450m



NAME:	West Wind
LOCATION:	Makara, Wellington
TURBINES:	62
SIZE:	143 MW, ~570 GWh (c.f.46%)
STAGE:	Under construction
TIMING:	2007-2009
COST:	$440-450m

NAME:	Mokihinui
LOCATION:	Mokihinui River, near Seddonville
CONCEPT:	Roller conpact concrete dam ~ 250 Ha lake with 3m storage
SIZE:	85 MW, ~310 GWh (c.f.45%)
STAGE:	DOC concession and consent hearings
TIMING:	2011-2014
COST:	$250-300m

NAME:	Manapouri Tailrace Amended Discharge
LOCATION:	Manapouri
CONCEPT:	Increase the maximum tailrace discharge limit to 550 m^3/s from 510 m^3/s
SIZE:	100 MW, ~100 GWh
STAGE:	Consent lodged in Feb 2009

NAME:	Hunter Downs Irrigation
LOCATION:	North of Lower Waitaki River, South Canterbury
SIZE:	Up to 40,000 Ha irrigated (5 stages) 65% of irrigable area
STAGE:	Waiting for water rights consent decision
TIMING:	2014-2016
COST:	$190-230m

NAME:	North Bank Tunnel
LOCATION:	Lower Waitaki River, South Canterbury
CONCEPT:	10-12m diameter, 34km tunnel (using 2-3 tunnel boring machines). Up-stream underground or downstream above-ground station
SIZE:	220-280 MW, 1050-1400 GWh (c.f.60%)
STAGE:	Water consent granted – appealed to Environment Court
TIMING:	2011-2016
COST:	$950-1,100M

NAME:	Hayes
LOCATION:	Lammermoor Range, Otago
TURBINES:	176
SIZE:	Up to 630 MW, 2200 GWh, depen-dent on turbine selection (c.f.37%)
STAGE:	Environment Court appeal decision pending
TIMING:	2011-2015
COST:	$1,700-2,000m

Building on our first decade

2009

2008

2007

2006

2005

Project West Wind will use one of Wellington's most renowned natural resources. The funneling effect of Cook Strait means the site has strong and consistent wind speeds, making it the perfect place for a wind farm.

In 1942, the Makara Farm part of the site was acquired by the Crown for a radio receiving station. The former Electricity Corporation of New Zealand (ECNZ) purchased Makara Farm from Telecom in 1995 with the intention of developing a wind farm. Makara Farm was then acquired by Meridian in the split of ECNZ in 1999.

Project West Wind

Over the past five years, Meridian has gained much 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.

One of these is Project West Wind, which uses one of Wellington's most renowned natural resources – wind. Funnelled by Cook Strait, the consistently strong winds make the region's western hills the perfect place to farm wind.

Not only that, the renewable energy project is located very near an energy demand – New Zealand's capital city – which allows us to deliver electricity more efficiently.

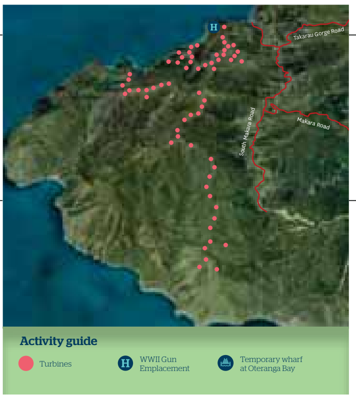
When the Prime Minister officially opened the site in April 2009, it marked the end of a very long journey for the project, begun in 1995 by the former Electricity Corporation of New Zealand (ECNZ). Gaining consent took three years and an Environment Court hearing but, once granted in 2007, construction began quickly. By the end of the 2008-09 financial year, half of the turbines were operational and contributing energy to the national grid. The entire project is expected to be fully commissioned by December 2009.

Project West Wind's capacity factor is more than double the international average, thanks to the strong winds and state of the art technology. With 62 turbines of 2.3 MW capacity each, it can produce enough energy to supply the equivalent of approximately 70,000 average homes each year.

The wind farm is located within about 53 square kilometres of farmland. Each steel tower is 67 metres high, weighs 124 tonnes, and is built in two sections. The nacelle at the top of each tower weighs 87 tonnes. Each of the three fibreglass blades attached to it is 40 metres in length and weighs 10 tonnes. Towers and foundations have been designed to withstand strong winds and storms. Each foundation contains approximately 370 cubic metres of concrete and 48 tonnes of reinforcing steel.

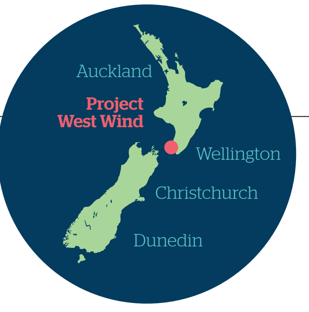
Another significant challenge for this project was getting components on site. Busy city streets and narrow winding country roads meant trucking the tower sections, hubs and blades from Wellington's port to Makara was not possible. The solution was to build a temporary wharf at Oteranga Bay, on the south coast, and barge the components from

To avoid having to use Wellington's busy streets, Meridian constructed a temporary wharf at Oteranga Bay. The wharf is an essential element in the design of Project West Wind, and will ensure the delivery of large turbine components to the site without associated traffic disruption to the city and local community. The 128 metre long wharf is designed to be removed after two to three years, with both the decking and piles to be recycled.



DID YOU KNOW?

Wind farm development is compatible with farming, providing an additional income stream for farmers while using a small proportion of the land.



Picton. Our barging contractor, SeaWorks Limited, brought more than 500 individual components on 293 barge trips across the Strait on schedule and within budget. The 128-metre-long wharf incorporated reusable decking and is designed to be removed within the consented period of three years.

42 kilometres of road link the wharf, storage areas and turbine foundations. The turbines themselves are connected via approximately 45 kilometres of underground cabling.

Meridian is proud to contribute to reducing the emissions intensity of New Zealand electricity with the connection of new renewables projects to the electricity grid. Close to 40,000 tCO_2e of greenhouse gas emissions are attributable to construction of the wind farm, and these emissions (both embodied in the materials and from construction activities) have been measured, managed and then offset under our carboNZero certification process over the past two years. The wind farm will produce at least 11,000 GWh over its operational life (typically 20 years) without generating any greenhouse gas emissions from combustion of fuel. To put this into context, a modern combined cycle gas turbine plant would create around 4,170,000 tCO_2e in producing this much electricity.

While Meridian considers that Project West Wind is likely to become an iconic tourist attraction, adding to the capital's vibrancy and economy, the most important community of interest is people living at Makara. Meridian acknowledges that wind farms change the visual and aural landscape of an area, and, while this was minimised as much as possible in the design phase of the project, all wind farms make noise and will be seen by many people, often from a long distance away.

New Zealand standards limiting wind farm noise focus on reducing the annoyance that may result from hearing a wind farm too clearly. Because each area has different topography, we carry out extensive monitoring and modelling to assess the noise effects of each project's unique circumstances. Following a rigorous consenting process, comprehensive noise conditions have been placed to limit the operational noise from Project West Wind. These conditions go beyond the New Zealand Standard and set a lower wind farm noise limit under quiet local conditions.

In keeping with our policy to support local communities near Meridian's generation assets, we are setting up a community-led fund which will provide $200,000 over the first three years to support projects which are important to the community.

The experience gained on Project West Wind and other wind farm projects means Meridian now has a core team of experienced staff skilled in constructing wind farms, and New Zealand has a nationwide contracting industry skilled at providing a range of services, from excavating and concreting turbine foundations, through to cable laying and installing turbines.

Building on our first decade

A challenging construction environment

Project Hayes is a 176-turbine wind farm proposed for the Lammermoor Range, 70 kilometres northwest of Dunedin. Council consents granted in October 2007 were appealed to the Environment Court, and the appeal hearing ended in February 2009. The appeal hearing focused on cumulative effects, the project's economic cost benefit, and the ecology of the project site. A decision is awaited.

The scale and location of Project Hayes would require a new approach to construction planning, with up to 176 turbines within a 92 square kilometre area. Constructing a wind farm on this scale will take several years, given the inability to work over the winter period when temperatures on site can fall well below freezing, particularly in places more than 1000 metres above sea level. When complete, Project Hayes will generate up to 630 MW of renewable power and provide a huge boost to South Island and national security of supply.

The project is named after engineer and inventor Eben Ernest Hayes, one of the first people to harness Central Otago's winds for commercial application. In 1910, Hayes developed a windmill to power his engineering works, which was in operation until about 1927. He also invented a windmill to pump water, which is still used on many New Zealand farms.

Central Wind - central North Island

Project Central Wind is a relatively new proposal across five privately owned rural properties between Waiouru and Taihape, with the smaller settlement of Moawhango lying to the east. Council consent was granted in February 2009, and is now subject to appeal to the Environment Court. A hearing is expected in late 2009.

If work proceeds, the wind farm could have up to 52 turbines with an estimated combined generation capacity of 120 MW, capable of producing enough energy for 46,000 to 50,000 average homes each year.

Ross Island - Antarctica

Meridian is helping reduce the greenhouse gas footprint of New Zealand's Antarctic operations by building the world's southernmost wind farm – on Crater Hill, Ross Island. This work is in conjunction with Antarctica New Zealand and the United States Antarctic Program.

Three wind turbines, each 330 kW, will supply renewable energy to power Scott Base and McMurdo Station via a linked electrical grid. The turbines will reduce the amount of fuel used to generate power by more than 460,000 litres, reducing the stations' greenhouse gas emissions and the environmental risks inherent in transporting diesel fuel to Antarctica.

Equipment was transported to the site in the 2008-09 Antarctic summer season and preparatory work completed. The turbines will be erected and commissioned early in 2010.

North Bank Tunnel - South Canterbury

The **North Bank Tunnel project** is a proposed 220-280 MW hydro project on the lower Waitaki River. Water will be taken from Lake Waitaki, through a tunnel and power station, and discharged back into the river about 34 kilometres downstream. It will enable Meridian to generate an additional 1100-1400 GWh a year, equivalent to two to three years of electricity load growth in New Zealand.

Our approach has been to achieve resource consent to extract and use the lake's water before investing millions of dollars on detailed engineering investigations. The council water consent was issued in December 2008. Although challenged by five appeals to the Environment Court, four have been successfully resolved. The hearing for the remaining appellant is scheduled for September 2009.

Meridian has now engaged design consultants to begin the next round of engineering planning and investigation works, which will provide detail for our land use consent applications. The tunnel will be excavated over several years, using tunnel boring technology first used by Meridian for the second Manapouri tunnel, built between 1998 and 2001.

Winter sastrugi

Wind farm photo simulation

Foundations on Crater Hill, Ross Island

Projects in partnership

Project Te Uku has 28 wind turbine sites consented on private land on the Wharauroa plateau – about 30 kilometres west of Hamilton, and southeast of Raglan. In December 2008, we bought the development from WEL Networks, a community-owned lines company, and entered into a collaboration agreement over the site's construction and operation.

All Environment Court appeals have been resolved, and project design and scoping is progressing. A decision whether to proceed with construction is expected in 2009-10.

Hunter Downs Irrigation is a project that, if approved, could provide water for up to 40,000 hectares on the South Canterbury plains. It is being developed by Meridian in partnership with the South Canterbury Irrigation Trust, initiated by the mayors of Timaru, Mackenzie and Waimate. The partnership's aim is to bring water from the Waitaki River to large parts of the region, in a least cost, resource-efficient manner. We are providing consenting expertise, as well as project design and input into evaluating the economic benefits. Independent experts have estimated that $117m a year will be injected into the South Canterbury economy, with flow-on benefits for community services and infrastructure.

This has been a considerable consenting task for the commissioners, who also heard more than 25 applications from others wanting to use Waitaki River water. The consent hearing for the Hunter Downs water-only consents was completed in December 2007, and a decision is now pending.

Irrigation is a business development opportunity that builds on Meridian's strengths in developing and operating water infrastructure assets.

Project Mill Creek is located in the Ohariu Valley, northwest of Wellington, and north of Project West Wind. The potential for generating electricity in this area was first recognised 10 years ago by a group of local farmers looking for ways to keep their farms viable in the longer term. They established Wind Corp Limited, and selected Meridian to develop a wind farm within their five properties. The site shares the same excellent wind resource as neighbouring Project West Wind. Mill Creek is expected to generate enough renewable energy for the equivalent of 35,000 average homes each year.

A resource consent hearing for this project was completed in October 2008, and, in February 2009, consent was granted for 29 of the proposed 31 turbines. The decision has been appealed to the Environment Court by numerous parties, including Meridian. A hearing is expected in late 2009.

Bringing power to the regions

The **Mokihinui River**, on the West Coast of the South Island, has been investigated as a potential source of hydro generation since the 1960s. During 2006, we completed pre-feasibility studies, and, in 2007, sought resource consents for an 85-100 MW station. In 2008, we applied for a land-use concession from the Department of Conservation, and submitted a land exchange proposal later that year.

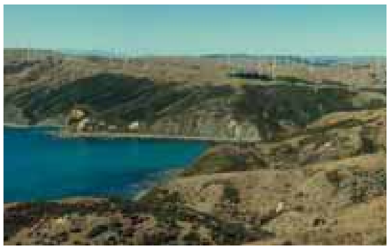
The proposed power station would generate 310-360 GWh each year, enough to meet the West Coast's current and immediate future electricity needs. Locally sourced power would significantly boost the area's security of supply, and reduce the electrical losses currently experienced by one of the longest transmission routes in the country.

The consent hearing began in August 2008, and concluded in April 2009. A decision is now pending.

Meridian has been investigating a project located near Ahipara, southwest of Kaitaia, known as **Gumfields**. In 2006, Meridian applied to the Department of Conservation for a concession, as about half the proposed wind farm is on public conservation land the Department manages on behalf of the Crown. While this concession application is being processed, Meridian continues to monitor the wind resource and engage with local stakeholders.

TBM Cutter Face

Irrigation machinery



Mill Creek photo simulation

Building on our first decade

Renewing our Australian connection

During 2008-09, Meridian re-entered the Australian electricity sector.

Specifically, we re-entered its renewable energy sector, which is receiving strong government support at both federal and state level. While we are fundamentally focused on developing new generation in New Zealand, the move offers considerable opportunities for value-creating growth and investment, and strategically positions us to maximise our capability in renewable energy development and operations.

The renewable energy target scheme

Australia's new 'renewable energy target' scheme (RET) expands the legislated target from 9,500 GWh of renewable energy generation in 2010 to a target of 45,000 GWh by 2020 and maintains this targeted level through to 2030. The scheme works by requiring electricity retailers to acquire and surrender "renewable energy certificates" (RECs) to the Government. These certificates are created by renewable generators and energy efficiency aggregators and sold to electricity retailers at market prices. The aim is to accelerate deployment of renewable technologies such as wind, biomass and geothermal. The scheme also includes solar credits to help with the upfront costs of installing small-scale solar systems.

Although there have been delays in the legislation's passage, it was finally passed in late August 2009.

Our team in Sydney

Meridian Energy Australia Pty. Limited (MEAPL) re-established a small experienced team in our Sydney office in October 2008. It will draw on group-wide skills and resources.

MEAPL plans to build a significant base of primarily wind-based generation, with growth determined by evolving portfolio and risk management requirements.

The team is actively pursuing renewable prospects, ranging from existing and well-advanced projects, to greenfield sites in South Australia and New South Wales. Acquisition opportunities are emerging as the global credit crisis impacts developers and infrastructure funds.

Under a joint venture arrangement with AGL Energy Limited, Meridian has progressed the pre-construction phases of the circa 330 MW Macarthur wind farm in western Victoria to near completion. While volatility in the financial and commodity markets over the past year has impacted the project's economics, the recent strengthening of the Australian dollar and keener competition in the turbine supply market have improved the project's prospects.

Also, MEAPL has acquired the fully permitted, but not yet constructed, 130 MW Mount Mercer wind farm project, and begun negotiations on a further 200-300 MW of prospective wind sites, which are either in development or at the pre-feasibility stage.

Harnessing the sun

Meridian believes solar energy is likely to play a significant role in New Zealand's future energy needs because of its ability to contribute to carbon reduction, energy security and grid support.

That is why we have developed a market entry strategy that will bring solar technology firmly into our renewable generation portfolio. The long-term aim is to be a market-leading solar photovoltaic developer in our home markets.

The cornerstone of our entry strategy is utility-scale projects in the USA, one of the world's most promising solar markets. Our entry point was acquiring Cleantech America Inc., a solar photovoltaic development company operating in West Coast markets.

Through Cleantech America, we have begun constructing CalRenew-1, our first utility-scale 5 MW (AC), solar photovoltaic project. When complete, it will be the largest grid-connected project of its type in California, and electricity sales are already under a 20-year contract with Pacific Gas and Electric.

Our acquisition of Cleantech America also included a 380 MW development pipeline, which we are now converting into projects that can be executed.

Closer to home

Meridian is also investigating solar development opportunities closer to home. We are engaged in potential projects in Australia, and have begun scoping solar projects to replace high-cost diesel-fired electricity generation in the Pacific Islands.

We believe solar will play a significant role in New Zealand's long-term energy future, contributing to greenhouse gas emission reductions, energy security and grid support. Because we intend to be a 100-year company, solar will command a growing position within Meridian's generation portfolio.

"I'd put my money on the sun and solar energy. What a source of power! I hope we don't have to wait until oil and coal run out before we tackle that." Thomas Edison

Putting the customer first

Since mid-2007, Meridian has been implementing a customer-focused five-year business transformation programme to put our customers first.

The aim is to deliver change throughout our entire business so that our customers can access enhanced products and services that enable them to better manage their electricity use.

During 2008-09, we focused on designing and refining operational processes, creating new infrastructure (such as the new contact centre and smart meters) and developing products. These are now coming together to allow us to reduce costs while delivering greater customer value. Particular innovations are in the electronic and online space.

A selection of packages unique to the New Zealand market were launched to offer greater choice to our key segments – residential, business and rural customers – and put decisions in their hands. As we recognise, they know best what they need. Customers can now select options that match their energy and service needs, including:

- A more environmentally tuned package that uses technology to reduce paper consumption. It includes electronic billing and the use of text reminders.
- A fixed-rate option that provides customers with price certainty for two years, along with increased prompt payment discounts.

The response has already been strong and positive, and we will continue to innovate and improve our service offerings.

Future technology benefits for our customers

As we celebrated our 10-year anniversary, our business unit Arc Innovations (previously a subsidiary) has completed its 'smart meter' rollout in the Cantebury area. By June 2009, 110,000 of our retail customers have had smart metering installed. Combined with installation in Hawkes Bay, Meridian now has more than 120,000 smart meters in service.

Meridian invested in Arc more than four years ago because we recognised smart metering would become a worldwide phenomenon.

Already, real-time information about power consumption, and comparisons of energy use on a daily, weekly or monthly basis is enabling our customers to more actively manage their electricity use and lower their energy bills. This consumption data will enable us to accelerate the development of customer-driven products and services. In addition, smart meters reduce the need for manual meter reading services, and increase customer convenience and privacy.

A report during the year by the Parliamentary Commissioner for the Environment noted that the majority of smart meters are not fitted with a particular chip that allows a meter to 'talk' to appliances in the home. The smart meters installed by Meridian can potentialy provide our customers the same functionality through other means such as the internet.

CASE STUDY

Perception is everything

Our customers' perception of how environmentally responsible we are as a company is important to us. To understand these perceptions, we regularly survey how customers view our environmental credentials. The level of positive feedback has consistently improved throughout 2008-09, hitting the 50 percent target of customers who 'strongly agree' or 'agree' that we are market leaders in environmentally sustainable energy supply.

Alongside this research, we ask new customers why they have chosen Meridian. In 2008, up to 25 percent said a key reason is because we are 'green and we care for the environment'.

Since 2005 we have measured and minimised all greenhouse gas emissions associated with our electricity product and offset the remainder in accordance with the requirements of the carboNZero programme. For the last three years the electricity sold to our customers has been a carboNZero certified product.

Building on our first decade

A fast evolving international market has challenged Arc's plans to expand internationally. Following resolution of remaining technical issues from the end of its Christchurch deployment in June 2009, Arc will focus on more fully developing its offering to retailers and lines companies in New Zealand by facilitating the introduction of value added products such as weekend tariff discounts and other customer-focused initiatives. These initiatives will drive realisation of the benefits associated with the roll-out of smart meters across the industry. We are proud to have been a catalyst in this game-changing area.

Further advances in our retail offering – Powershop

Powershop launched in February 2009 as the world's first online energy store, backed by a Meridian investment of $6m. Powershop allows customers to buy electricity online, much as we can now buy groceries. Customers choose what they want to buy, and then monitor and control their use to save both power and money.

Meridian has invested in Powershop to bring real innovation to a sector often criticised for its inability to give the customer choice and control. Powershop also helps future-proof our business against risks arising from regulatory change, intensified competition and evolving customer preferences and innovation.

Powershop's systems and processes provide Meridian with a robust platform to support our drive to attract more than 75,000 new customers over the coming three years.

Saving on customer communications

Meridian has worked to make our external print supply chains more effective. Following a multi-stage procurement process, Blue Star Print Group Limited was selected as our preferred supplier. This agreement has enabled Meridian to optimise how we design, print and distribute printed materials. Our aim is to be more cost-effective and to minimise waste. The first 12 months have provided great results, with a 26 percent reduction in print cost across our business, and the introduction of more environmentally friendly demand management practices, which significantly reduce waste.

Blue Star is a market leader in "clean" print management with globally recognised certifications across materials used in their supply chain. As a result of transitioning to Blue Star, 99.9% of Meridian's printed material for this financial year was produced on paper sourced from Forest Stewardship Council (FSC) managed forests using mineral oil free vegetable inks.

CASE STUDY

Provoking thought

A new Meridian branding campaign was launched in the Wellington region in early 2009. We re-affirmed our position as a leader in renewable generation. The campaign delivers a brand platform that will support all of our varied activities across all of our business functions over the coming years.

We aim to provoke positive interest and discussion amongst customers, non-customers and the media, to shift public perception from what Meridian does at a functional level to what our commitments to renewable energy, and our environmental, social and economic responsibilities, represent for our shareholder and various stakeholders, and New Zealand as a whole.

CASE STUDY

Investing in the future

During 2008-09, we made a significant investment to develop and amalgamate our customer care and billing systems. The initiative, which will be delivered in 2010, will provide a modern platform to streamline customer processes and services, and allow us to offer greater value and choice, while reducing our costs. As with MyMeridian and our contact centre, it supports our commitment to deliver exceptional customer service.

Offering expertise, as well as electricity

Meridian is committed to not only developing generating and selling electricity, but also to offering a range of solutions to help our customers use less electricity.

Bringing together the strengths and expertise found across the Meridian Group enables us to develop and deliver innovative solutions, products and services that maximise the value our use of renewable resources can offer to customers and partners.

Right House

Our subsidiary company Right House exemplifies our commitment to helping New Zealanders get the most out of the electricity we generate.

Launched in 2007, Right House has a unique competitive advantage in providing a "one-stop" shop for customers planning to renovate or build their own home. Right House provides customised and integrated total home solutions that make homes more comfortable, healthy and energy-efficient and reduce energy costs.

Right House provides advice and design assistance through to supply and installation of insulation, heating and hot water systems. Right House also supplies and installs innovative technologies, such as solar electricity, wind turbines and ground source heat pumps.

Right House is authentic in its application of sound environmental practice by undergoing the CarboNZero certification process.

In the past year Right House has been working with the Hobsonville Land Company – a project seeking to develop one of New Zealand's leading sustainable communities of more than 3,000 homes when complete – and Right House also works with many group home builders to offer integrated solutions in the new-home market.

Meridian's total investment to date is $16m. While Right House's launch coincided with a significant downturn in the building industry, the Government's new insulation and clean heating programme has been a great boost and we are seeing good sales growth as a result.

Energy for Industry

Our business unit Energy for Industry (EFI) was established in 2000 when we saw an opportunity to provide best practice solutions to help our industrial customers improve their energy efficiency, reduce their environmental impact and achieve cost-effective outcomes.

EFI demonstrates Meridian's innovation culture at work. Energy solutions are designed to meet each customer's individual needs – in some cases, this can mean we fully fund energy improvement projects and share the savings with customers.

The key to developing and operating great solutions is EFI's partnership model, where our facility or service becomes embedded in the business we are serving. Our aim is to develop a total energy and utility partnership on a long-term basis.

2008-09 was a big year for EFI:

- It became New Zealand's first business to be certified under Landcare Research's new emissions management programme – the certified emissions measurement and reduction scheme (CEMARS). CEMARS reflects an organisation's commitment to measure and manage its greenhouse gas emissions profile. EFI's certification complements its work with partners to reduce their emissions, including developing biomass and waste-to-energy conversion projects.
- It won two ENERGYWISE™ awards from the Energy Efficiency and Conservation Authority (EECA), for excellence and innovation in energy efficiency and renewable energy (see below).

CASE STUDY

Winstone Pulp International

EFI took top honours in the large business category at the 2009 EECA Awards for a heat recovery project that has saved Winstone Pulp International more than $2m a year in energy costs, and cut the company's annual greenhouse gas emissions by 6,000 tonnes. Judges said it was a good initiative with spectacular savings, making it extremely cost-effective in terms of initial investment and payback.

CASE STUDY

Silver Fern Farms Limited

EFI developed and commissioned a ground-breaking project for the meat processing company, Silver Fern Farms, to turn process waste sludge into fuel. This fuel is used to fire an 8.5 MW bubbling fluidised bed bio-fuel boiler, replacing an old coal boiler. Judges for the EECA Awards said the solution was an elegant and innovative way of being sustainable – and was a potential waste management solution across a range of other industries.

Building on our first decade

Changing the game

Trading in Alternative Markets

ASX

2008-09 was a significant year for New Zealand electricity futures, which began trading on the Australian stock exchange (ASX).

Futures are financial products that allow participants to buy and sell forward contracts for a predetermined price and period. Trading is a great step forward, as robust futures enable firms to better manage their risk and exposure. In our case, that means managing wholesale revenue risk related to volatile hydrology of the type experienced with this year's drought and deluge. Managing this revenue risk relates directly to improving current business performance and delivering on Meridian's growth aspirations.

Trading on the ASX allows Meridian to participate in a globally recognised futures exchange. Energy is just one of five asset classes traded on the ASX, and the ASX itself is but one of many such exchanges around the world, including Nordpool, Chicago Mercantile Exchange and NYMEX. Positioning Meridian to trade on launch date demonstrated the Meridian Way in action, bringing together trading, information technology and finance business teams within the company in a profitable collaboration.

Carbon Market Activity

Meridian contributes positively to development and debate of New Zealand's policy response to climate change issues. We were a sponsor of the fourth Climate Change and Business Conference, and made submissions on the Emissions Trading Scheme (ETS) legislation and regulations, and to the special Select Committee reviewing the current emissions trading scheme. We support using a market-based mechanism that prices the environmental externality of greenhouse gas emissions. However, certainty over the timing and long-term policy is more important to us than the mechanism chosen. In our view, putting a price on carbon starts the process of changing behaviour, assisting New Zealand to meet its international obligations. It also creates incentives that encourage cost-effective investment and adoption of clean technologies, including development of renewable generation projects.

We remain active in the carbon market. Last year we received the first tranche of Kyoto credits awarded to us for Te Apiti wind farm. This year we received the first credits for White Hill wind farm and Energy for Industry's (EFI) Nelson landfill gas utilisation project. The units from the wind farms were transferred through the New Zealand Emission Unit Register respectively to their Dutch and Swiss purchasers. Credits earned by the landfill gas project are under contract to the New Zealand Government. Our sales of verified emission reductions have continued through the year, albeit in a contracting voluntary market.

Venture investments – securing the future

Meridian's core business is clear – generating and retailing electricity and related products and services.

We also create opportunities to shape Meridian's long-term future and grow our business. We have $206m invested in a portfolio that complements our core business and will ensure we are well positioned to help meet New Zealand's future energy needs. These start-up businesses centre on themes of energy efficiency, health, comfort, better choice and better value for consumers.

The Kiwi ingenuity we invest in is not confined to New Zealand shores. For example, our Whisper Tech subsidiary is providing innovative energy technology solutions to European markets via a joint venture in Spain. We believe this represents New Zealand's largest single investment in that country's economy and places us at the forefront of global development in combined heat and power units.

CASE STUDY

Kiwi technology powering European homes – Whisper Tech

Meridian is a major shareholder of Whisper Tech Limited, an innovative company that uses smart technology and creative thinking to address the world's need for cleaner and more efficient energy use.

The core innovative technology behind the success of its WhisperGen™ heat and power system is a Stirling engine. Two variations are on offer – an on-grid system for domestic use, and an off-grid system for small remote dwellings and applications. Both deliver more economical home heat and power, with the added benefit of reduced environmental impact. They achieve this by displacing typical electricity generating systems, which are often fuelled by coal or oil.

Meridian has invested in Whisper Tech since 1999 because we recognise that distributed generation through combined heat and power systems is a game-changing technology with enormous growth potential, and because its innovations enhance our commitment to sustainable energy supply.

Our investment is coming to fruition, with Whisper Tech's products well positioned to benefit from the high profile that combined heat and power systems have in Europe and other overseas markets. In fact, 2009 provided a significant milestone – our joint venture with Spanish manufacturer Mondragon Cooperativa took the domestic unit from prototype development to commercial production for European markets.

Realising this growth potential illustrates the importance of the long-term strategic position we take with our venture portfolio.

Achieving great outcomes through our people

Meridian has a very challenging vision, one that will only be achieved through the efforts of our people.

2008–09 saw a strong commitment to drive higher levels of performance from our people. A number of initiatives either began or were further refined, with the most significant being the establishment of the Taking the Lead programme.

Taking the Lead

Taking the Lead is an initiative designed to ensure Meridian's leaders have the capability, tools, support and, most importantly, the confidence to deliver outstanding results through their people. This programme has focused on:

- leadership development
- recognition and reward
- performance management
- the Meridian Way
- employee engagement

Leadership development

We established a leadership model in consultation with our people. It describes the leadership behaviours we believe will deliver the results required. This model has been the basis for a 360-degree feedback tool, developed so our leaders know how others think they are performing against each of the agreed behaviours. The output of this feedback is informing the individual and collective development of our leaders.

So far this model has been rolled out to those of our leaders with people management responsibilities.

Recognition and reward

A new reward framework has been developed to support our drive to be a better performing company and, ultimately, achieve our vision to be the global reference company in renewable energy. The key drivers in developing the framework have been achieving best practice and market alignment.

The reward framework uses both formal and informal recognition to create and embed the desired behaviours we believe are necessary to deliver our vision. In addition, we have developed a cost-neutral and at-risk incentive scheme, which shifts the focus to more strongly reflect performance at a company, team and individual level.

Performance management

Considerable effort has been put into performance management to ensure this critical process delivers good value. There has been a stronger focus on creating high quality objectives, supported by genuinely useful and regular conversations around people's performance as the year progresses.

An online tool to support the performance management process was introduced this year.

Organisational review

These initiatives are all taking place against the backdrop of an organisational review designed to ensure that we have the right structures and processes in place to support even higher levels of performance. While we absolutely believe in the need for the review, we fully appreciate its effects on our people and have ensured change management through this review is our major priority.

CASE STUDY

Applying the 'Meridian Way' to our retail operations

The 'Meridian Way' encourages us to behave in a positive way in everything we do, and to own our actions – it is how we do what we do. The Meridian Way assists our retail team to drive exceptional performance at an individual and team level.

We work like we own the company.

David Allo called our Energy Centre about a recent price increase. Team leader, Rachel Herangi, took the call and listened to his concerns. And then she took action.

Rachel checked David's account to see if anything could be done to mitigate the price increase.

She dispatched a technician to the property to check the metering.

She called David back with the results.

There was another pricing option which not only meant David's energy bills would be cheaper, but also provided a credit on their previous energy consumption.

David was very impressed with the service – something he says is rare these days.

Building on our first decade

The Meridian Way

The Meridian Way has been in place from the company's inception. It drives exceptional performance at an individual and team level, shaping and guiding how we work together to achieve our goals.

In 2008, when we launched our new brand position, we revisited the Meridian Way to provide further clarity to our people around the behaviours needed for success. The Executive Team set the cornerstone attitudes based on the strong legacy the Meridian Way provided. The company value statements and behaviours were developed by our people. They are:

- Working like you own the company – taking the same care as we would with our own business, money and reputation
- Creating rapport – by putting energy into positive relationships with colleagues and stakeholders
- Challenging ourselves to aim higher
- Dreaming – being powered by imagination
- Sustaining – making decisions with a long-term view.

Employee engagement

Every year Meridian runs an employee satisfaction survey, and this year we decided to change it to better measure whether the Taking the Lead initiative delivers the intended benefit, and to enable us to better understand where we sit in the external market. We have shifted the survey's focus from 'satisfaction' to 'engagement', and contracted a provider to give us credible external benchmarks.

We have now engaged JRA – 'Great Places to Work' – to run our annual engagement survey, the first of which will be early in 2009-10.

Graduate and apprentice programmes

Despite the effects of the global recession and a softening of the overall employment market, there remains a tight market for some of our key technical talent. To future-proof the company, we have continued our graduate and apprentice programmes. Both programmes have been further developed during 2008-09 to ensure we attract the right calibre of person in coming years.

Health, Safety & Wellness

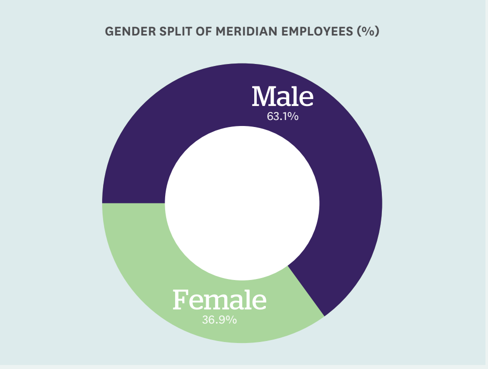
Health, safety and wellness underwent a number of changes during the year including the shift of key resources within the business units considered to present the key operational health and safety risks. Through this process health, safety and wellness has continued to remain the top priority for Meridian.

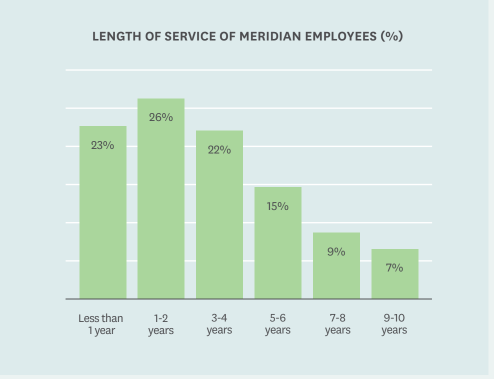
The company did record an increase in the number of lost-time incidents compared to the previous year. The number of lost-time injuries recorded for the year equated to a lost time injury frequency rate of 4.19 against a target set of 5.6, which was based on the latest average frequency rate established for the industry generators.

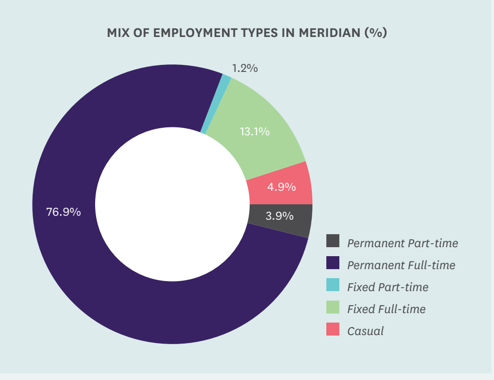
The health, safety and wellness performance for the year also recorded some positive results, with a reduction in the number of medical treatment injuries compared to the previous year. Additionally, the preventative reporting performance within Meridian significantly improved in the latter part of the year enabling Meridian to exceed the performance target set for preventative reporting.

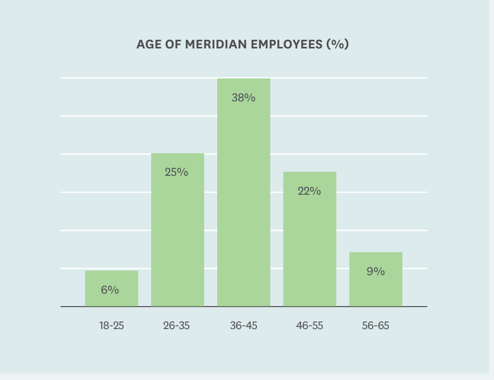
OUR HEALTH AND SAFETY STATISTICS	
CATEGORY	2008-09 TOTAL
Fatal	0
Serious Harm	4
Lost Time Incidents	7
Medical Treatments	23
First Aid Treatments	59
Near Miss Incidents	273
Positive Safety Observations	177

Note: Totals include incidents involving contractors engaged by Meridian.









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Preparing for the future

We don't know what the world will be like in 100 years, but we know we want to be there.

To do that we know we have to create value not just for today, but value that endures. This happens when we deliver superior and sustainable financial performance, when we engage with the environment in a way which is responsible, and when we form strong, positive and lasting relationships with the communities in which we live and work.

By having at heart the long-term interests of our customers, communities and country, we will help keep our company in business for the long haul.

Preparing for the future

Creating value that will endure

Meridian's aspiration to be the **global reference company in renewable energy** commits us to showing leadership in sustainable business practice, and to creating value that will endure. For Meridian, aspiring to be a 100-year company is the essence of what 'sustainability' means to us.

Enduring value is created when our engagement with the environment is responsible, the relationships we form throughout society last, we create value for our shareholder and we contribute to New Zealand's future prosperity. Meridian strives to develop and enhance new and existing energy-related business with a long-term view. To this foundation, we have added an aspiration, embodied our company purpose, to contribute to a positive future for our customers, our people and our communities.

Over 2008-09, we have further developed our understanding of the link between our stakeholders and enduring value. We seek to build on our engagement with stakeholders to form meaningful and valuable long-term relationships, partnerships and alliances. Through these relationships we will deepen our understanding of current and emerging opportunities and risks. We will strive to develop responses that will position us to develop our business in ways that create value for our stakeholders, as well as ourselves. Being responsive to the long-term interests of our customers, communities and country in this way will help keep our company in business for the long haul.

We know that the quality and strength of these relationships is very important for creating positive outcomes for our shareholder, communities, tangata whenua society, employees and environment. We are in the course of developing and refining key performance indicators to help us understand and measure the stakeholder impacts of our operations. These will cover our:

- contribution to the livelihood and lifestyles of staff, customers and communities
- stewardship of renewable resources
- renewable generation of energy to underpin the growth of New Zealand's economy
- return to our shareholder
- effectiveness in forming partnerships to achieve outcomes not open to us acting alone
- application of design and technology to meet our goals
- innovation to achieve all of the above ends.

We know that to inspire others to support our sustainability initiatives we must have a story to tell about the actions that demonstrate what we stand for, and a performance record that engages far reaching interest.

Throughout this annual report, we have identified how our business has impacted on our stakeholders and how we have sought to respond to their interests. This year one tangible way we have deepened their engagement in our annual report process has been to invite a panel of stakeholders to help review and refine this report before its publication. As in previous years, we have discussed our performance using the Global Reporting Initiative Reporting Framework to identify relevant and material issues and indicators on which to report. Detail on the stakeholder review process and our GRI index table are provided at the back of the report.

The following section summarises the key topics of interest to our stakeholder groups, how we have responded throughout the last year, and what the relevant key events were.

Generation Communities

Key Interests and Concerns

That Meridian should be a valuable member of the community, maintain and operate its assets safely, comply with consent conditions, demonstrate environmental responsibility, seek open honest and straight forward relationships in which it recognise and support the community's interests and economic and social aspirations.

Our Response

Regular safety audits and maintenance of civil structures, compliance with resource consents, environmental monitoring and mitigation programmes including dissemination of findings to local authorities and interest groups, provision of Community Funds, surveying community satisfaction with Funds, entry into stakeholder agreements.

Significant Events 2008-09

- Management of highest seasonal inflows into Waitaki for nearly a decade
- Repairs to Tekapo canal leakage
- Major refurbishment of Benmore powerstation begun
- 5-yearly survey of environmental parameters in Waiau, including invertebrates and periphyton and eel and elver passage
- Ongoing red tussock restoration programme at White Hill
- 7-yearly review of Waitaki mitigation agreements
- Review and update of agreement with Lower Waitaki irrigators, work with Upper Waitaki irrigators on proposed development
- New Community Fund for White Hill
- Community Fund support including new Regional Park at Tekapo; noxious weed control at Lake Ohau; restoration of Kurow Island; predator removal from Pomona Island in Lake Manapouri; remedial reading support at schools; salaries for youth workers in communities; equipment for a community gym and a community radio station; contributions to Te Anau medical centre; Sir Edmund Hillary Museum at the Hermitage, Mount Cook; emergency response vehicles; emergency generators; IT equipment for remote rural schools; and equipment for Alpine Rescue dogs.

Tangata Whenua

Key Interests and Concerns

That Meridian should engage in constructive and respectful relationships in generation and development sites to support enduring vibrant communities (socially, culturally, economically) built upon thriving natural environments.

Our Response

Identify the concerns of tangata whenua through consultation, and address these concerns through mitigation initiatives, acknowledging the role tangata whenua have in their rohe.

Significant Events 2008-09

- Meridian support for whanau of Nga Mokai marae near Ohakune
- Home insulation project with Hokonui Runanga Social Services Trust
- Ongoing discussions with Ngai Tahu on Waitaki Stakeholder Agreement and mitigation of potential impacts of North Bank Tunnel Project
- Ongoing discussions with Ngati Waewae relating to Mohikinui Hydro Project
- Meridian worked with tangata whenua to protect an urupa in the Wellington region
- The Port Nicholson Block Settlement (Taranaki Whanui ki Te Upoko o Te Ika) Claims Settlement Act will vest land made available by Meridian to Trustees representing iwi for use as an urupa once necessary consents are obtained
- Meridian and tangata whenua interests in water potentially affected by launch of government reform of freshwater policy, Te Waka Stage 2 decision in Environment Court and Waikato-Tainui River Settlement
- Mana whenua kaumatua blessed and opened West Wind and blessed and launched our Mararoa vessel.

Customers

Key Interests and Concerns

That Meridian should provide affordable power, good customer service, accurate billing, security of supply (effect on price and potential black outs), energy efficiency, support customers in hardship and operate a sustainable business.

Our Response

Five-year retail transformation programme, commitment to exceptional customer experience, survey customer satisfaction, careful management of vulnerable customers, innovative product development, strong relationships with consumer advocacy groups including leadership and development of the Christchurch Consumer Advocacy Panel.

Significant Events 2008-09

- Call centre for residential customers brought in-house
- Provision of new servicing options including our MyMeridian online service and interactive voice response (IVR) system in our residential call centre
- Development and amalgamation of our new customer care and billing systems paving the way for improved billing accuracy, streamlined customer processes and new offers
- Roll out of smart meters reached 110,000 customers in Canterbury and Hawkes Bay regions
- Launch of Powershop
- Launch of new "Really Simple", "Super Friendly" and "Heaps of Choice" account options for residential customers, "Super Friendly", "Partner Premium" and "Straight Up" packages for business customers, and "Land", "Mates Rates" and "No Nonsense" packs for rural customers
- Increased level of management of vulnerable customers including specialist team to minimise likelihood of disconnection
- Provision of financial assistance and budgetary advice to vulnerable customers in Christchurch as global recession challenged the economy
- New Zealand's first electric vehicle demonstration in partnership with Mitsubishi Motors New Zealand Limited enabling consumers nationwide to experience zero emission motoring in fully electric Mitsubishi commuter car
- Commerce Commission confirmation that Meridian's claims to supply certified carbon neutral electricity to customers are legitimate.

Preparing for the future

Employees

Key Interests and Concerns

That Meridian provides an employment experience that delivers upon the initial promises made, and is an employer that genuinely cares for the well-being of staff.

Our Response

Health, safety and wellness is our top priority, Meridian Way, comprehensive Training and Development programme, "Taking the Lead" leadership programme, graduate and apprentice, employment programme.

Significant events 2008-09

- Health insurance and superannuation programmes including 4% Kiwisaver contribution
- Health, safety and wellness programme refocused
- Refresh of Meridian Way
- Organisational review – recognition of a need to drive better company performance through our people
- Initiation of "Taking the Lead" to deliver a renewed focus on leadership
- New best practice and market aligned at-risk incentive scheme
- Launch of Rewarding Great Results (RGR) tool for stronger focus on performance management and alignment to company
- Initiation of internal review that will lead to organisational change.

Government and Electricity sector

Key Interests and Concerns

That Meridian contributes to development of policy relating to sector, security of supply, is environmental and socially responsible, provides good quality engagement with industry forums, and demonstrates fair and competitive market behaviour.

Our Response

Constructive engagement in political and industry processes and forums, provision of high quality analysis to central and local politicians, officials, regulators and industry groups, support for pricing carbon and market based mechanisms to set that price, adherence to guidelines on disconnection and vulnerable customers, initiatives to manage demand in times of constrained hydrology.

Significant events 2008-09

- Change of government increased the likelihood of change to regulatory environment
- Meridian contributed to industry initiatives to manage demand through the dry winter of 2008, through the decommissioning of HVDC Pole 1 and load changes (Tiwai Point potline outage and reduction in consumption) and to manage through subsequent deluge by controlled water releases
- Reform of freshwater policy underway. Meridian made submission to Board of Inquiry on Freshwater National Policy Statement
- Release of Wolak and Commerce Commission Reports on investigations into anti-competitive behaviour
- Launch of Ministerial Working Group
- Meridian made submissions on the Coastal National Policy Statement and the National Policy Statement on Renewable Generation, the Review of Winter 2008 and the Period Leading Into Winter, on transmission grid upgrades, on the revision to the Electricity Government Policy Statement, on the review of the Electricity Commission's advisory groups, on RMA amendments, the Electricity (Continuance of Supply) Amendment Bill, the Electricity (Renewable Preference) Amendment Bill, on the Electricity Commission's work on matters relating to its work on Retail, Wholesale, Transmission, Common Quality and System Operation, Security of Supply, and the Market Development Programme
- Meridian participated in the Chief Executives Forum on Transmission Pricing, the Electricity Commission's Transmission Pricing Technical Group, Investment Advisory Group and several Meridian staff have been appointed to the new Electricity Commission advisory groups
- Commencement of Emission Trading Scheme delayed. Meridian made submissions to the Select Committee reviewing the scheme and on associated regulations
- Options Choices Decisions: 2009 Update publication
- ASX began trading New Zealand electricity futures.

CASE STUDY

Our sustainable procurement guidelines

Meridian has placed increased focus on sustainability in our supply chain. Our sustainable procurement guidelines not only influence our own decisions and those of our suppliers, but also our suppliers' suppliers. These guidelines are based on the foundation principles that:

- *We are looking for preferred suppliers who 'walk the talk' and are able to demonstrate that they are committed to sustainability.*
- *We will encourage suppliers to develop and continually enhance their performance to deliver superior products and services and make a real difference to their environment.*
- *Their actions influence our decisions – we will consider a potential supplier's performance in relation to sustainability as part of our sourcing decision-making.*

Our sustainable procurement approach aligns our financial, social and environmental responsibilities through values and behaviours that underpin our everyday business activities. It encompasses our desire to minimise negative impacts while seeking to maximise positive impacts, and our confidence that this approach will deliver value for our customers, partners and shareholders, our staff and the communities where we work, the environment and for Meridian. We execute our approach through transparency, fair dealing and the promotion of the Meridian Way, and a commitment to sustainability beyond our own boundaries.

Suppliers and contractors

Key Interests and Concerns

That Meridian provides accurate and timely service request data, competitive procurement processes, fair contracting terms and enables:

- Effective resource planning, recruitment and training against an increased level of work certainty;
- Reduced cost to serve through effective deployment of resources; and
- Commitment to retaining capacity in the local market through having more visibility and certainty on future work opportunities.

Our Response

To clearly communicate our requirements and through participation in the resource consent process to provide notification of our forward work programme and future procurement requirements.

Significant events 2008-09

- Meridian Sustainable Procurement Guidelines developed and approved
- Meridian Strategic Asset Management Team procurement strategy advanced by development of framework agreements with key asset service providers, presentation to service providers of our 5 year forward programme of work based on our asset management plan, working together with our service providers to scope, cost and plan the resource requirements for executing the programme of works and collective improvement to relationships between Meridian and our service providers
- Benmore project utilised national and local service providers with Electrix Limited completing the Local Services upgrade and the Grid Injection Point upgrade projects
- The Transfield Services mechanical refurbishment team following completion of the Manapouri Half-Life Project is undertaking the refurbishment of the Benmore generating units.

General community

Key Interests and Concerns

That Meridian is a socially responsible corporate, provides reliable and affordable electricity, takes action on climate change and renewable generation, and has a sound generation development programme.

Our Response

Contribute to ensuring New Zealand security of electricity supply through our renewable development programme, compliance with consumer and safety laws and regulations, sponsorship programme, adherence to company Sustainable Development Policy, including seeking to influence environmental performance of suppliers.

Significant events 2008-09

- Project West Wind opened, Manapouri half-life upgrade completed, Benmore refurbishment commenced
- Eight publicly announced renewable generation projects at various stages of development process which will contribute more than 1000 MW of new capacity
- New brand campaign to highlight Meridian's commitment to renewable generation
- Meridian recommitted to New Zealand Royal Ballet sponsorship, other major sponsorship initiatives include the Corporate Rowing Regatta, Cuba Street Carnival, Kids' Bike Jams, planting events with Project Crimson
- Greenhouse Gas Measurement and Management Policy approved.

Preparing for the future

Investing in people and communities

Meridian recognises the special contribution neighbouring communities make to our hydro and wind operations, and to the country's electricity sector. We also recognise that it is crucial to invest in initiatives that local people value, so that we can sustain and strengthen these relationships over the long term.

One of the ways we do this is by establishing community funds and letting communities decide what initiatives to support.

The model to distribute the money is transparent. An advisory panel of community members and Meridian employees work together to allocate the money, based on an agreed set of objectives. The funds ethos is to ensure the best outcomes for the area and people who live there, by investing in real and valuable community-led initiatives.

To date, funds have been established in the Te Apiti, Waitaki and Manapouri Te Anau communities. We regularly conduct research on their ongoing suitability, and this provides a benchmark against which to track how the funds are perceived, what value they add, and how they may have changed community perceptions about us.

Because of the funds' proven positive contribution, Meridian's Board has approved new three-year funding commitments for Te Apiti, Waitaki and Manapouri Te Anau, beginning in October and November 2009. Additionally, a new fund has been established for three years to the communities connected with the White Hill wind farm.

The funds are one part of our comprehensive programme of external relations, which includes regular meetings and briefings to solicit community involvement in projects and major decisions we make.

We engage with a wide range of community and stakeholder groups, including local government, tangata whenua, environmental advocates, landholders and farmers, irrigation concerns, tourism operators, trusts and other locally-based charitable bodies.

Our relationships with Tangata Whenua

Meridian has a number of kanohi ki te kanohi (face-to-face) relationships with tangata whenua because of our mutual interests in natural resources. These create a common place for us to develop deeper understanding of our respective values and needs.

Kaumatua blessed and opened Meridian's West Wind wind farm, and blessed and launched the Mararoa vessel, which now carries Meridian staff and contractors safely on the waters of Lake Manapouri. Ngati Rangi and Te Atihaunui a Paparangi representatives accompanied Meridian to deliver the Mararoa to its new home at Manapouri. The whanau of Oraka Aparima Runanga welcomed and acknowledged the manuhiri, in doing so recognised their long-held relationship and whakapapa when they handed over the vessel at the April 2009 ceremony. Tangata whenua celebrated the whanaungatanga that this event enabled. Meridian supported Nga Mokai marae in the Ngati Rangi rohe by providing a heat pump during the Whare Tupuna restoration project. In collaboration with Right House and Hokonui Runanga Social Services Trust, we are embarking on a home insulation project where the goal is to insulate and heat up to 15,000 whanau homes over the next four years. In Wellington, we have worked with the Crown to transfer land to be used as an urupa (burial site).

We acknowledge tangata whenua and Ngai Tahu in particular as Kaitiaki in Te Waipounamu.

We will work diligently with our tangata whenua partners to realise mutual opportunities and interests for future generations. Our goal is to be the tangata whenua partner of choice, a goal that will inform our strategies and guide our tangata whenua relationships and initiatives.

Looking to the long term – Waitaki 2025

Looking to our long-term use of water in the Waitaki catchment, Meridian has taken a fresh approach in developing strategies around consent renewals in 2025.

Contemplating what the world will be like in 2025 has been no easy task, and determining what will be required for the lifetime of any consents, granted through to 2060 (ie 35-year maximum term), has proved even more difficult.

A cross-company team was set up to meet the challenge, and a framework for development implemented that seeks to balance our long-term ambitions for the use of natural resources, with those of other existing and potential users. Meridian is now working closely with a number of irrigation concerns to determine the best collaborative use of water for electricity generation and farming, both essential for the ongoing prosperity of New Zealand and its economy.

Trading stoats for birds

Funding from Meridian's Manapouri Te Anau Community Fund has been used to help native species restoration work by the Pomona Island Charitable Trust and Kepler Challenge stoat-trapping project.

During 2009, Pomona Island Charitable Trust returned 58 South Island robins to Pomona and Rona Islands in Lake Manapouri. Although not a threatened species, robins are generally in decline on the mainland. They are inquisitive birds, often seen on the forest floor, which makes them highly susceptible to predation by stoats and rats and is probably why they disappeared from the islands.

Before their release, each of the 58 robins was banded and the Trust will monitor to see whether unbanded birds appear, as this will indicate that they have begun breeding.

The Kepler Challenge stoat trapping project aims to help the survival of a variety of bird species around the Kepler track. The community funds have been used to establish traps at 200 metre intervals around the length of the Kepler track. The Kepler Challenge is the premier mountain running event in New Zealand and has been held annually since 1988.

Planting partnerships

Meridian is the principal supporter of Project Crimson, a charitable conservation trust with a long-term vision – to protect and restore New Zealand pohutukawa and rata. In 2008-09, the Canterbury Rugby Football Union (also a Meridian sponsorship) joined forces with Meridian staff for a southern rata restoration planting at Washpen Falls, a popular Canterbury outdoor recreational area with high ecological values. The Canterbury Rugby Football Union also announced that Project Crimson will become its fifth charity of choice.

On Arbor Day, Meridian people held a planting project with staff of Project Crimson and the Wellington City Council. Around 200 children were also there to help put 2500 native plants in the ground, including 500 northern rata. Representatives from the Department of Conservation, including Director-General Al Morrison, also attended. The day was a great demonstration of partnership in action, and a good opportunity to work with other stakeholders, such as the Wellington City Council and Department of Conservation.

Meridian and Pomona Island Trust staff working on the robin programme

Sponsorship

Our sponsorships recognise our corporate social responsibilities, while delivering strategic benefits for our customers, stakeholders, our business, and for the sponsored partners. The aim is to add the most value to all concerned.

Our programme of sponsorships is an integral part of achieving our business objectives.

In 2008-09, we were involved in several successful events with our long-term sponsorship partners:

- Meridian was a finalist in the National Business Review Arts Sponsorship Awards in 2008. These recognise businesses that support the arts through commercial enterprise, where a high level of creativity, commitment and vision is demonstrated. Although Meridian did not take out the ultimate award, we were honoured with a Special Merit Award in recognition of our sponsorship of the Wind Sculpture Walkway with the Wellington Sculpture Trust.
- The Meridian Season of Don Quixote began in October 2008, incorporating our national sponsorship of the Royal New Zealand Ballet. Our annual ballet season involves a range of activities to help ensure the sponsorship continues to have broad reach, providing us with an effective channel to interact with our business partners, our customers and our communities in equal measure.
- In collaboration with South Island Rowing, the Corporate Rowing Regatta was held in November 2008, and attracted significant Christchurch business community interest. Sixteen teams entered the event, including Ngai Tahu Property, Christchurch City Council, Fletcher Construction Limited, Christchurch Casinos Limited, Christchurch Polytechnic, Fulton Hogan and Lincoln University. Erg competitions were held during the 10-week training programme leading up to the regatta, at Kerrs Reach. For the third year running, Ngai Tahu took line honours.
- New Zealand's largest street celebration, the Cuba Street Carnival, drew an estimated crowd of around 150,000. The highlight for us, and for many in the audience, was the Meridian Illuminated Night Parade – a kilometre-long procession through Wellington's central streets. It thrilled the crowds with thousands of performers representing a wide range of different artistic and cultural groups. The carnival's timing, in early 2009, was a great opportunity for us to reinforce our brand presence in Wellington during the launch of our new customer campaign.
- Meridian is pleased to be involved in a partnership with well-known fashion brand Starfish, where we share common values and goals around long-term sustainability being part of our business. That partnership was demonstrated this year when we both got involved at New Zealand Fashion Week.

The Meridian Kids' Bike Jams continued during the year, with record numbers taking part. At the Christchurch event alone, almost 1,000 children took part in what is now Australasia's largest mountain bike event for young people. Meridian customers were able to take advantage of discounted entry fees for their children.

CASE STUDY

Survey results

In our most recent survey about the community funds, 9 out of 10 people in these communities questioned were aware of our initiative. That is a pleasing result, and we are working on increasing our levels of engagement with our neighbouring communities even further.

A good example is the Waitaki community. Early research, before the fund began, showed that this community was the least receptive to Meridian. However, thanks to initiatives supported by the fund, the relationship has turned around. Survey results in Waitaki now reflect the most positive feedback of all the funds we operate.

Preparing for the future

2014

2013

2012

2011

2010

ELECTRIC CARS – THE WAY OF THE FUTURE?

Meridian has joined forces with Mitsubishi Motors and trialled the world's first mass produced, zero emissions, fully electric car – the Mitsubishi i-MiEV.

The i-MiEV is a four door hatchback with a maximum speed of 130kmh, and a driving range of up to 160kmh. Fuel costs are about a fifth of a petrol car – but even more importantly it can help reduce emissions and contribute to a cleaner environment.

The electric vehicle

'Can I stick a windmill on the back where the tailpipe used to be?'

'Will I be able to jumpstart it off my heater?'

These questions momentarily stumped us as we showcased during 2009 the first commercially-produced fully battery-powered electric vehicles to arrive in New Zealand.

It began in 2005, when we kicked off a research programme to identify how customers would experience our core product, electricity, in the future. Electric vehicles are not a new concept for New Zealand – initially introduced in the early 1900s, they were the vehicle technology of choice for businesses – but their recent commercialisation process is a new development.

In 2005, several electric vehicle makers were close to commercially producing commuter vehicles that might be ideal for New Zealand cities.

Our research showed New Zealand had some natural advantages that would enable an easy switch from internal combustion engines to battery-powered electric vehicles.

First, most car journeys New Zealanders make are very short – we travel a daily average of 38 kilometres. This is well short of the typical 160-kilometre-range of an electric city commuter vehicle. At that rate, most electric vehicles would require a recharge of around $3 of electricity two to three times a week.

Second, there is no domestic car manufacturing base to protect. Third, we are a keen motoring nation (second only to the United States for car ownership on a per person basis). Fourth, New Zealanders are environmentally aware and proven early adopters of new technology.

"Guilt-free driving"

WHY THE i-MiEV IS SO EASY TO LOVE

The Mad Butcher, Stephen Tindall, Tiki Taane, Peri Drysdale and Ewen Gilmour took the electric car for a spin. Wellington fashion designer Laurie Foon did as well, and she had great things to say about it.

"It drives like an automatic and takes off faster than a normal car. It's great around town and the brakes are good. I can sit at this traffic light and not get anxious about the exhaust, which is what I normally do when I drive! I'm just enjoying the fact that it's guilt-free! Guilt-free driving, that's what I reckon the slogan should be.

When I drive up hills, I'm always thinking "how much gas is that going to take up?" Again, I don't have to worry.

The great thing is that you wouldn't mind popping out. Normally, we wouldn't make that extra trip to the shop because it's going to cost and add more carbon dioxide into the air."

Laurie Foon of Starfish with the i-MiEV

DID YOU KNOW?

New Zealand was one of the first countries in the world to trial the i-MiEV. Our role is, of course, to work on matters of electrical supply. Our renewable energy generation and commitment to sustainability makes us the ideal partner for the project.

AN ELECTRIC VEHICLE TRAFFIC JAM, 1921

Carlton Mill Corner Bridge, the junction of Carlton Mill Road, Harper Ave, Bealey Ave and Park Tce. Christchurch, 1921

Credit: Orion New Zealand Ltd.

The New Zealand electricity system also offers some unique advantages – a predominance of renewable energy and a voltage rating that means electric vehicles will have much shorter recharge times here than in other countries.

Meridian identified a business opportunity – a new revenue stream from overnight electric vehicle refuelling, that was attractive commercially and complementary to hydro generation assets which are typically off-peak overnight.

In 2008, Meridian partnered with Mitsubishi Motors Corporation to bring the i-MiEV – Mitsubishi innovative electric vehicle – to New Zealand for evaluation. We were the first country selected by Mitsubishi for a major evaluation, because it recognised the natural fit with our commitment to embrace clean technologies and reduce greenhouse gas emissions.

The evaluation exercise involved technical and market research as we sought to identify the market opportunities created through transport electrification. It gave us insight into how New Zealanders are likely to use the vehicles, what refuelling services might be needed, and what we (and the electricity industry) would need to do to enable electric vehicles to fit smoothly into our customers' lives.

The great Electric Vehicle roadshow saw the i-MiEV travel all over the country, visiting a number of cities and townships. New Zealanders' reaction to the iMiEV confirmed our early thinking – New Zealanders are keen and ready to embrace electric transportation. We recognise that this a change that will take place over the long term, and as an organisation that aspires to be a 100-year company that embraces economic, environmental and social responsibility, we will work with customers, vehicle manufacturers and infrastructure providers to enable this change.

We are working to unlock a new future.

Preparing for the future

Harnessing New Zealand's natural resources

Meridian's operations are entirely reliant on natural resources – which means ensuring we use those resources responsibly sits at the very heart of our business. The natural resources that our power generation operations rely on are dynamic, and each season we can face a new set of challenges.

Meridian works to ensure compliance with our environmental permits (resource consents, biosecurity permits and concessions) and to manage our environmental effects monitoring and mitigation programmes.

We work extensively with local communities, environmental and recreational groups, tangata whenua and regulators who take an active interest in ensuring environmental effects are managed and minimised.

Meridian also works to ensure new hydro and wind generation proposals are designed and delivered in ways to minimise their impacts on the environment and local stakeholders. This occurs from the earliest opportunity, when concepts are first considered, during the consent process, and through the construction phase of a project.

Adaptive management tools, such as monitoring and management plans, are often used to manage impacts, in particular where there may be scientific uncertainty over the likely effect.

Meridian also monitors national, regional and district planning instruments that are being developed or reviewed, which may affect our current operations or future development aspirations. Working closely with central government and councils can ensure that policy outcomes are practical and readily able to be implemented to achieve the desired outcomes.

Manapouri

CASE STUDY

Wise use of natural resources – Manapouri

Because the Manapouri power scheme operates within Fiordland National Park, a listed World Heritage Area, our operations need to be carefully managed to ensure the high value biodiversity is not affected. We are also working with stakeholders and Tangata Whenua in the Waiau catchment to address concerns around the operation of the scheme.

Each year we monitor the environmental effects of the power scheme's operation on Lakes Manapouri and Te Anau, the Waiau River and the Doubtful Sound marine environment. Monitoring results are provided to Environment Southland, following consultation with local stakeholders – these include the Waiau Working Party, Guardians of Lakes Manapouri, Monowai and Te Anau, Oraka Aparima, Hokonui, Waihopai, Awarua Runanga, the Department of Conservation, Fish and Game and the Fiordland Marine Guardians.

Tools, such as adaptive management, are used to ensure effects continue to be appropriately managed. One is the Tuna (elver) trap and transfer programme, run in conjunction with local runanga members. In 2008-09, 181 kilograms of elvers were captured from the lower Waiau River, below the Manapouri lake control structure, and transferred to Lakes Te Anau and Manapouri. More than 800 longfin migratory eels were captured in the lakes and released to the lower Waiau River, so they could make their way to breeding grounds in the Pacific. An extensive study and monitoring programme is in place, with the aim to develop a long-term solution to ensure the effects of the power station on longfin eel are managed in a sustainable way, which match tangata whenua expectations.

Since we upgraded the Manapouri Station's generators, the discharge limit to the tailrace in Doubtful Sound has become the operational constraint that limits the station's potential output.

We applied for consent to increase the permitted maximum discharge from the Manapouri Power Station. The current maximum is capped at 510 cumecs, and the proposed new maximum would be 550 cumecs. The maximum discharge would not be continuous as it would be subject to water being available in Lake Manapouri. The application was lodged with Environment Southland in February 2009, following extensive consultation with stakeholders, tangata whenua and community representatives over several years. The effects of the proposal have been assessed in relation to the ecology and physical environment of the Waiau River, the shorelines and vegetation of Lakes Manapouri and Te Anau, and the Doubtful Sound marine environment, including impacts on surface water velocities, the low salinity layer in Doubtful Sound and the marine ecosystem.

We anticipate the resource consent hearing will begin in September 2009. If successful, the proposal will provide an additional 89 GWh of energy output, and increase the flexibility of power station operations.

Meridian's operations are entirely reliant on natural resources – which means ensuring we use those resources responsibly sits at the very heart of our business.

CASE STUDY

National policy initiatives

During 2008-09, Meridian participated in three Board of Inquiry processes which will have ongoing implications for the management of New Zealand's natural resources. These related to the proposed National Policy Statement on Renewable Electricity Generation, the National Policy Statement for Freshwater Management, and the proposed New Zealand Coastal Policy Statement.

All three policy initiatives represented an important opportunity for central government direction and guidance to territorial and local authorities over matters that are considered in the national interest, and each of the national policy statements have important consequences for Meridian's current operations and future development aspirations.

We await the final national policy statements from each Board of Inquiry with interest.

CASE STUDY

Wise use of natural resources – Waitaki

The Waitaki power scheme, with eight power stations, is critical to the nation's electricity generation. The scheme uses waters that fall within the Southern Alps and drain into the lakes of the Mackenzie Basin. Water from the lakes is used for electricity generation, and, in the upper part of the scheme, is conveyed to the next power station via canals. That means most of the water is diverted from rivers, in some instances leaving the upper portion of rivers dry until groundwater and tributary inflows replenish the supply.

Project River Recovery, run by the Department of Conservation, is funded by Meridian to mitigate the effects of the Waitaki scheme's operations on the habitat and ecology of the Mackenzie Basin, in particular the diversion of water from rivers.

Under Project River Recovery, the Department carries out habitat enhancement, pest control and research work throughout the upper Waitaki basin, with the ultimate aim of restoring and enhancing the McKenzie Basin's important braided river habitats. In 2008-09, work included:

- *a project to determine efficient sampling methods for future surveys of terrestrial insects in upper Waitaki Rivers*
- *planning for an intensive predator and rabbit control programme in the upper Ohau River, which could benefit black fronted terns nesting in the area*
- *weed control in the upper Ahuriri catchment to remove mature willows and restore the river's braided character.*

Alongside this work, Meridian continues to work with stakeholders and tangata whenua in the Waitaki catchment, and review and finalise mitigation agreements, which supports our resource consents.

The Native Fish Committee, made up of local runanga representatives and Meridian representatives, has continued work on the annual trap and transfer programme for Tuna (elver), which are transferred upstream from below Waitaki Dam to Lake Benmore. Downstream transfer of migratory eels has also continued.

In collaboration with Land Information New Zealand, we have continued our investment in the lagarosiphon major *(an aquatic weed) control programme in Lake Benmore. This initiative is voluntary, in the hope that the water weed will be effectively controlled so that it will no longer cause a nuisance for power station operations by blocking intake screens, or reduce lake amenity value through extensive infestations.*

Preparing for the future

Upper Waitaki irrigation proposal

Applications for resource consents to develop irrigation in the Mackenzie Basin are due to be heard in September 2009. Our interest is to ensure the development does not adversely affect our operations, through increased weed growths in waterways – these could block power station intakes and create pressure from stakeholders for flushing flows.

Meridian funded the collection of water quality baseline data by the National Institute of Water and Atmospheric Research (NIWA) over the 2008-09 summer. This will help Environment Canterbury set an appropriate nutrient limit for Lake Benmore, which tributaries and groundwater collectively drain into. Research has indicated that there could be water quality impacts in smaller waterways, such as the Wairepo Arm and increased didymo outbreaks in rivers in the upper basin.

We have worked with the applicants' scientific experts wherever possible to understand the likely effects of the development and their proposed mitigation methods. Meridian will take part in the hearings.

Environmental responsibility

Meridian is hugely proud of our ongoing track record of compliance with the wide range of consents and permits we hold. Our excellent compliance record is a testament to Meridian's commitment to sustainable development.

Meridian holds a very large number of resource consents and other environmental permits that support the operation of our generation assets and investigation activities. Other environmental permits include DOC concessions, fisheries permits, mining permits, wildlife permits and other authorisations.

These consents apply to our generation assets associated with the Waitaki and Manapouri hydro schemes, and the wind farms of White Hill (Southland), Te Apiti (Manawatu) and West Wind (Wellington).

Overall, there have been very few non-compliance incidents. Most have been assessed as minor in nature and scale and resulted in no adverse environmental effects and related to exceeding flow limits on a small scale and not meeting reporting timeframes on a small number of occasions. Once identified, non compliances are assessed and necessary corrective actions put in place.

At Project West Wind, four infringement notices were served. The effects of these incidents of non-compliance were satisfactorily mitigated with no long-term consequences.

CASE STUDY

Managing Didymo

Didymo (Didymosphenia geminata) represents a key, long-term risk to Meridian's Upper Waitaki power stations. While all existing stations have filters or strainers that prevent debris entering the water systems used to cool generators and turbines, these filters are very likely to be blocked by didymo if it is present in large quantities.

In 2009, Meridian engineers joined colleagues from E-Type Engineering Limited in Invercargill, to develop a new filter capable of filtering didymo-contaminated water. Their efforts identified a likely commercial demand for such a filter in New Zealand and overseas.

The filter was tested in April on a site on the Mararoa River, Southland, where didymo was abundant. Using a purpose-built testing rig, the filter was subjected to didymo in far greater quantities than ever could be expected in a Meridian hydroelectric station. It performed exceptionally well.

After each test, the filter was dismantled for an internal inspection and the filter basket was remarkably clean, proving we had developed a successful system. Further testing with other types of contaminants, such as plastic bags, paper, plant material, cardboard, sticks, pebbles and dirt, were also successful – all were screened, filtered and flushed away.

During 2009-10, the filter will be installed at the Ohau C station and its performance assessed over the year in a real-world hydro application. Following this, future implementation on Meridian stations will be considered, along with other commercial opportunities for the new technology.

Meridian also ran a trial during 2008-09 to determine the effectiveness of 'flushing flows' at shifting didymo mats which build up in the lower Waiau River and lower Waitaki. We are continuing to work with key stakeholders to investigate flow regime options that will deliver on their expectations for the river, and also minimise risks to operations and energy supply. Delivery of flushing flows are a voluntary initiative by Meridian that go above and beyond our resource consent requirements. They need to be very carefully managed to avoid compromising electricity generation and causing other downstream effects, for example on lake environments.

Where required or considered relevant, non-compliances are also reported to the authorities responsible. For the Waitaki and Manapouri power schemes, annual compliance reports for key operating consents are also formally provided to the relevant authorities on an annual basis.

At the White Hill and Te Apiti wind farms, bird strike monitoring is carried out on a regular basis. Meridian has complied with all the necessary requirements of these conditions and no remedial actions have been required. Both noise monitoring and monitoring of the New Zealand falcon population were also carried out for White Hill wind farm and these results have been reported to Southland District Council.

Adapting to climate change

Meridian understands that climate change could have a profound impact on every aspect of our business, and on the lives and businesses of our customers. We are focused on clean tech solutions, investing in renewable generation capacity and developing innovative solutions so consumers can buy and use electricity more smartly.

For Meridian, climate change creates a range of risks to our operations, including impacts on water resources and our infrastructure assets. Opportunities also arise in working with customers to deliver energy efficiency and carbon abatement products and solutions. These risks and opportunities are monitored regularly in our 'climate change risks and opportunities' register.

In 2008-09, we initiated development of a climate change adaptation plan. Its purposes are to:

- assess the possible medium- and longer-term impacts of climate change on our water and wind resources
- determine what additional information we need to improve understanding of these impacts
- initiate appropriate adaptive responses as early as possible.

To help stimulate broader thinking and understanding on the subject of climate change adaptation, Meridian co-sponsored the Climate Change Adaptation Conference: 'Managing the Unavoidable', held in Wellington in May 2009.

Part of our work is to try to understand how to optimise hydrology management and Meridian's position over the long-term.

Our climatologist, Jennifer Purdie, recently undertook two investigations – her reports follow.

CASE STUDY

Emissions Management

Our commitment to play our part in addressing the impacts of climate change was reinforced this year with the development of Meridian's Greenhouse Gas Measurement and Management Policy, setting out the rationale and processes by which we will deliver on the objectives of our emission reduction objectives. This year, Meridian developed three emission management plans – for the Meridian electricity facility (the parts of our business involved with generation and retail of electricity), for Energy for Industry, and for Right House. These plans set out initiatives and targets through which we strive to ensure the emissions intensity of our operations is set on a downward course. Our emission performance targets are intensity-based. We track our performance quarterly, and report regularly on progress to our Executive Team.

A summary of our greenhouse gas inventory report follows the financial statements. This shows that, compared with our plans, we have had overall success in meeting our emission reduction objectives. EFI has met its targets, Right House has exceeded its targets, and while the Meridian electricity facility fell short of the planned emission targets for its core business, it decreased emissions in absolute terms by 4%.

Preparing for future needs

The 'Noughties' – a drier decade

Recent analysis of the Waitaki catchment inflows has shown that in the past decade, 9 out of the 10 years have been drier than the long-term average. This is shown below.

Hydro inflows over the entire country have been 5% lower than the long-term average over the past decade. In the Waitaki, hydro inflows between 1999 and 2008 were 7% below the long-term average, and between 2001 and 2008 they were 10% below long-term.

In contrast, over the same period, the Manapouri and Taupo catchments had above average inflows, although all these catchment are usually weakly positively correlated with each other. However, the Manapouri catchment has only about half the inflows of the Waitaki catchment, and about 20% of the storage, so a wet year at Manapouri is less able to be capitalised upon.

Considering hydrological patterns on a longer-term basis raises some interesting questions for Meridian, and the implications for the operation of New Zealand wholesale electricity market could be profound. The relatively dry conditions have influenced the parameters under which the market has operated for most of its existence. What will happen if we revert to an inflow regime that looks more like the long term mean (i.e. wetter)?

- In time, wholesale electricity prices from 1999-2010 may be seen as relatively high, and we may see prices reset to a lower level.
- Thermal plant may not be needed as much as it has been in the last decade, and thermal generators may change their strategy around contracting for base fuels and/or longer term exploration.
- Similarly, south to north energy flows might increase which in turn will have implications for the transmission grid and in particular the high-voltage direct current (HVDC) link under Cook Strait.
- There are also potential implications for Meridian's new build programme in that lack of available generation over the past decade has contributed to an urgent need for new plant that may not be sustained.
- Westerly wind and southern hydro inflows are known to be highly correlated. This means that greater inflows in the Waitaki catchment are usually experienced at the same time as greater wind generation at our wind farms. This may have implications for hydro and wind generation, and their integration.

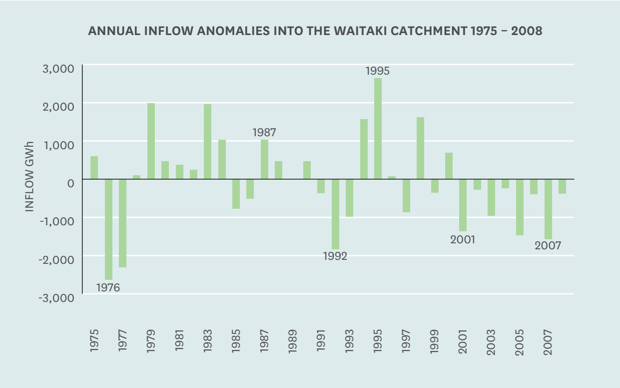
While further analysis is necessary, these potential scenarios need to be taken into consideration in terms of the dynamics that drive the wholesale electricity market.

And what of the future? Will the next ten years be dry, average or wet? Climatological forecasting is an inexact science over this time period. In our view, the three main forecasts we have of the next decade's inflows are:

A) Revert to mean: The long-term average is often the best predictor we have, and if this occurs then we will be wetter than in the past ten years.

B) Follow the cycle of the Interdecadal Pacific Oscillation (IPO): This could indicate that we may be in a 20 year dry period, in which case the next ten years will be similar to the last ten. However, our research has shown the IPO to have a weak, non-significant relationship to inflows in the Waitaki catchment.

C) Climate change: Research by New Zealand scientists would suggest that inflows to the Waitaki catchment could increase by between 0 and 4% in the next ten years due to climate change, although natural year to year variability probably drowns out this small increase.



Scientists reported that global warming has caused New Zealand to lose 2.2 billion tonnes of ice from its glaciers in 2008.

Where has all the ice gone?

This statement begs two questions: 'Where has all the water gone?' and 'Did it flow through Meridian hydro catchments?'

The answer is that yes, some of it did.

The 2.2 billion tonnes of ice, when melted, equates to approximately 2 billion cubic metres of water, lost from the whole of the Southern Alps. Most of New Zealand's 4000 glaciers are located in the Alps, and many of these are found in the Waitaki catchment – including the largest of them all, the Tasman Glacier. This lies at the head of Lake Pukaki and, if its tributaries are included, covers an area of 100 square kilometres. The Tasman glacier contains 60% of the stored ice in the Waitaki river catchment, and the Waitaki river catchment contains 48% of the ice in the Southern Alps.

Evidence of the advance and retreat of glaciers in the Waitaki catchment can be seen in the terraces on valley walls, particularly evident around the edges of Lake Pukaki, our biggest storage lake. The highest visible terrace was left by a glacier retreating 36,000 years ago.

It is believed that the last 100 years has seen these glaciers retreat faster than ever before.

Research has shown that seasonal snow melt in the Waitaki catchment makes up about 40-50% of our spring and summer inflows, while melting glacier ice contributes 5-10%. This is an important resource for our hydro reservoirs – the water has been stored in the catchment for a long time and will come into the lakes every summer, even when there is a drought. It is said that a single snowflake that falls at the top of the Tasman Glacier and gets incorporated into the ice river will take 800 years to reach the glacier's terminus, where it melts and enters our lakes.

So is the loss of 2 billion cubic metres of water distributed over the Southern Alps, over a year, a lot?

In the same period (the 2007-08 snow accumulation and melt year), Lakes Pukaki, Tekapo and Ohau received 7.6 billion cubic metres of water. If we imagine that the 2 billion cubic metres of water coming from ice melt is distributed over the entire Southern Alps, the Waitaki catchment share of this would be approximately 1 billion cubic metres of water. This means that 12.6% of our inflows in the Waitaki catchment over this time were from ice melt.

Will this 'bonus water' for our hydro lakes increase or decrease? Continuing warming temperatures would indicate that it will increase, but in reality, ice melt is even harder to predict than seasonal snow melt. The big glaciers in our catchment are covered with a 1–3 metre thick layer of rock debris, which insulates them. As well, their large meltwater lakes mean ice calving (icebergs falling off into the terminal lake) is the main way ice is lost at the end of the glacier. Both of these factors generally 'de-couple' glacial recession from climate, making it hard to predict how quickly they will melt.

However, we have had a go. Forecasts of glacial recession in the Waitaki catchment lead us to believe that we can expect this long-term stored water to keep coming into our lakes for at least another 50 years or so, before the significant ice reserves begin to be used up. They are a precious and disappearing resource.

Governance

Meridian's 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 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 Meridian's culture and success.

The following sections describe the framework and explain governance activities in operation.

Meridian's governance framework

Meridian is a limited liability company and a SOE under the State-Owned Enterprises Act 1986. As an SOE, all of Meridian's 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'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.

The Board monitors developments in the governance area and updates its governance practices to ensure Meridian continues to maintain the most appropriate standards of governance.

The Crown Companies Monitoring and Advisory Unit (CCMAU) provides the liaison between the Company and the shareholding Ministers. The Board operates under the CCMAU Owner's Expectation Manual. The manual set out the Ministers' expectations of the Meridian Board, including the reporting and accountability expectations and financial governance expectations. A copy of the Owner's Expectation Manual is available at www.ccmau.govt.nz.

Company's activities

Meridian's core business is the generation and retailing of electricity. Meridian operates primarily in New Zealand and, through subsidiaries and joint venture arrangements, has operations in Australia, the United Kingdom and Spain.

Business Planning

Around May each year the Meridian Board provides the shareholding Ministers with the draft Statement of Corporate Intent (SCI) and the company's business plan. In accordance with the SOE Act, the SCI includes objectives of the Group, the nature and scope of activities and the key financial and non-financial performance targets and measures for the company.

Shareholding Ministers make comments on the SCI. The Board then considers these comments and delivers a final SCI to shareholding Ministers on or before the start of the financial year, or a later date as shareholding Ministers have determined. The SCI is then tabled in Parliament; the latest Meridian SCI is available on the CCMAU website.

The business plan is not a public document and is not tabled. Meridian prepares and provides quarterly reports to shareholding Ministers at the end of the month following each quarter. Quarterly reports contain financial information and commentary and non-financial performance measures.

The company provides half-yearly reports to shareholding Ministers by the end of February each year. The half-yearly report is then tabled in public and is also available on the CCMAU website.

Board of Directors

Role and responsibility of the Board

The Board is appointed to protect and enhance the value of the assets of Meridian in the interests of Meridian and its shareholders. The Board is the overall and final body responsible for all decision-making within the Company. In carrying out its role, the Board has the responsibility to work to enhance the value of Meridian in the interests of its shareholders.

The Companies Act 1993 and the company constitution govern the Board's role and responsibilities.

To enhance efficacy, the Board has delegated to the Chief Executive and subsidiary company boards the day-to-day leadership and management of the Company. The Chief Executive has, in some cases, formally delegated certain authorities to direct reports and has established a formal delegation of authority policy for those direct reports to sub-delegate certain authorities.

Appointment, remuneration and composition of Meridian's Board

The Board is appointed by shareholding Ministers and can comprise up to nine non-executive directors, including the Chairman. As at 30 June 2009, there were currently eight non-executive directors of the Company. Under the Company's constitution, shareholding Ministers may appoint directors for a fixed term not exceeding three years and may choose to renew any Board appointments for further fixed terms of up to three years. The shareholding Ministers set the directors' remuneration. See the Financial Statements (page 129) for detail of the total remuneration paid to Meridian directors for the financial year ended 30 June 2009.

Shareholding Ministers' director-appointment letters set out arrangements for directors' appointments, including terms and conditions of their appointment, duties, the term of appointment, expectations of the role and remuneration.

The Board has a broad range of commercial engineering, accounting, legal and other relevant experience and expertise required to meet its objectives.

In the 2008-09 financial year, there were changes in the composition of the Board. Polly Schaverien resigned from 28 February 2009, and David Shand's term of appointment ended on 30 April 2009. Stephen Reindler was appointed with effect from 1 August 2008. Brett Shepherd and Chris Moller were appointed from 1 May 2009.

A number of appointments were renewed for further terms of three years each. Catherine Drayton was re-appointed from 1 May 2009.

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

Role of the Chairman

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

Governance

Board meetings

The Board will normally hold up to eight scheduled meetings per year. In the 2008-09 year the Board met 11 times. The Board meets to review and approve:

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

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

- the preparation and compliance with the Group's SCI
- 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.

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

The Chief Executive and Chair establish meeting agendas to ensure adequate coverage of key issues during the year. Directors generally receive materials for Board meetings five business days in advance. Meridian management, including the Chief Financial Officer and General Counsel, regularly attend Board meetings and are also available to directors between meetings.

The Board and its Committees meet regularly in executive session without the Chief Executive or other management present. These sessions are used to deal with management performance and remuneration.

The Board is kept appraised of issues throughout the Company by regular reporting and through the Board's business case approval function and in relation to funding of community and sponsorship initiatives. 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 Project West Wind. The Board approves business cases for material investments on all new activities. For example, during the financial year ended 30 June 2009, the Board approved business cases in relation to the upgrade and reconfiguration of the grid injection point at Benmore and approved the Meridian Community Funds for Te Apiti, Waitaki and Manapouri Te Anau communities.

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

Directors' conflicts of interest

The Board is conscious of its obligation to ensure that directors avoid conflicts of interest (both real and apparent) between their duty to Meridian and their own interests. Directors are required to ensure that they immediately advise the Board of any new or changed relationships. This is then recorded on the Board's interests register.

In accordance with the Companies Act 1993 the Board maintains an up-to-date interests register to ensure that conflicts of interest are avoided. The change in directors' interests are listed in the financial statements. No director, or any member of the director's immediate family, any accept gifts if they could influence or be perceived as influencing a business decision. In accordance with shareholding Ministers' expectations, no director may undertake consulting work for the company without shareholding Ministers' approval. This precludes directors undertaking work that would normally be contracted to third parties.

Director induction and education

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, usually with the Chief Executive and Chairman or their designates.

The Board introduces new directors to management through tailored induction programmes depending on particular circumstances. The programmes include meetings with management and visits to key Meridian sites.

Board access to information and advice

There is an ongoing programme of presentations to the Board by all business areas and subsidiaries to ensure that the Board is kept appraised of the company's activities. At each meeting, the Board receives information on activities throughout the company through the Group Scorecard Reporting. The Board receives additional information papers including such things as the North Bank Tunnel Consents Appeal.

All directors are regularly updated on relevant industry and company issues and undertake visits to company operations. The Board expects all directors to undertake continuous education so that they can effectively perform their duties.

Meridian's Group General Counsel and Company Secretary, James Hay, and his delegate Assistant General Counsel, Jason Stein, are responsible for supporting the effectiveness of the Board by ensuring that policies and procedures are followed and for coordinating the completion and dispatch of the Board agenda and papers.

All Directors have access to members of the Executive Team including the General Counsel and to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas. Directors have unrestricted access to Company records and information. The Board and Committees and each Director have the right to seek independent professional advice at Meridian's expense to assist them to carry out their responsibilities. The Board and Committees have the authority to secure the attendance at meetings of advisers with relevant experience and expertise.

Board performance review

The Board conducts a self-evaluation each year. The evaluation examines the performance of the Chairman and each director. Each committee also reviews its own performance against its terms of reference. Board evaluation surveys are undertaken to seek director feedback on a range of matters relating to Board performance including its role, procedures, practices and administration. The process also includes one-on-one meetings between the Chair and each director. In addition the Board regularly discusses governance and performance issues. The collective results of the evaluation are reported to the Board by the Chair. The results of each evaluation are provided to the CCMAU, which in turn supplies the report to the shareholding Ministers.

Indemnities and insurance

As permitted by Meridian's Constitution, Deeds of Indemnity have been given to directors for potential liabilities and costs they may incur for acting or omissions in their capacity as directors.

From 1 May 2009, Meridian's directors' and officers' liability insurance was renewed to cover risks normally covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

Board Committees

To ensure efficiency, the Board specifically delegates some of its roles to Board Committees. Board Committees observe the same rules of conduct and procedure as the Board unless the Board determines otherwise. They also act as standing committees to the full Board on specific issues. The Committees have a number of scheduled meetings each year to address the various responsibilities of each Committee.

Committee composition

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

Governance

Board Composition and Attendance (as at 30 June 2009)

MEMBER	ORIGINAL APPOINTMENT	CURRENT TERM EXPIRES	RESIGNED	BOARD (11 MEETINGS)	AUDIT & RISK COMMITTEE (10 MEETINGS)	REMUNERATION & HR COMMITTEE (7 MEETINGS)
Wayne Boyd	April 2005	April 2011		11 (Chair)		
Ray Watson	June 2005	April 2011		10 (Deputy Chair)		7
Anne Urlwin	January 2005	October 2010		11	10 (Chair)	
David Shand	May 2006	April 2009	April 2009	7	6	
Chris Moller	May 2009	April 2012		2		
Brett Shepherd	May 2009	April 2012		2	1	
Polly Schaverian	November 2007	November 2010	February 2009	5	4	2
Steve Reindler	August 2008	April 2011		10	6	
Catherine Drayton	May 2006	April 2012		11	9	
Anne Blackburn	June 2004	April 2010		11		7 (Chair)

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

Audit and Risk Committee

The Audit and 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 and Human Resources Committee

The Remuneration and 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 and Meridian's incentive performance scheme, which takes into account the financial and non-financial performance of the Company.

Management's involvement with governance framework

There is an excellent working relationship between the management of Meridian 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 the Institute of Professional Engineers, Electricity and Gas Complaints Commission, Energy Law Association and Institute for the Study of Competition and Regulation.

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.

External audit independence

Meridian's Board has adopted a strict policy to maintain the independence of the Company's external auditors.

The Audit and Risk Committee is responsible for making recommendations to the Board concerning the appointment of Meridian's external auditors and their terms of engagement. Under section 29 of the Public Finance Act 1989, the Auditor-General appointed Jamie Schmidt of Deloitte to audit Meridian.

Meridian ensures external audit independence by requiring Board approval for any non-external audit work completed by our external auditors, or by companies directly related to, or controlled by Meridian's external auditors. Meridian further enhances external audit independence by recommending to the Office of the Auditor General that there be lead audit partner rotation after a maximum of every six years.

Meridian's external auditors review Board and Committee minutes and attend the Audit and Risk Committee meetings when required to do so. The Committee meets with the external auditors when it wishes to do so. The External Auditor's Report is available in the financial statements.

Risk management

Approach to risk management

Meridian has a systematic approach to risk management. It regularly identifies, assesses and manages key risks that may impact the Company's ability to achieve its objectives and/or protect its people, assets or reputation. As set out in Meridian's Risk Management Policy, Meridian adopts a managed approach to risk that encourages appropriate risk taking, acceptance or avoidance, depending upon the consequences and likelihood of risks' occurrence, and the potential associated benefits or opportunities.

Risk management responsibilities

Risk management is ingrained in strategic and operational activities including business planning, investment analysis, portfolio and project management and day-to-day operations. Meridian's policies, including the Delegation of Authority policy, provide a framework for decision making and risk management.

In relation to financial risks around treasury transactions, the Board has approved principles and policies that specify who may authorise transactions and segregates the duties of those carrying them out.

The Audit and Risk Committee has overall responsibility for ensuring management's risk management framework, including policies and procedures, are appropriate and that they appropriately identify, consider and manage risks. The Audit and Risk Committee reviews the Company's risk profile regularly.

The Audit and Risk Committee also receives reports on the operation of risk management policies and procedures. The internal audit function reports to the Audit and Risk Committee on the extent and effectiveness of Meridian's risk management programme. The Committee reports this information to the Board.

Chief Executive Officer/Chief Financial Officer assurance

For the year ended 30 June 2009, the Chief Executive and Chief Financial Officer have prepared Letters of Representation to the Board, setting out that to the best of their knowledge and belief the consolidated financial statements of the company and of the group give a true and fair view of the company and of the group as of 30 June 2009 and have made a number of representations in connection with the year-end audit.

Internal audit

Internal audit in Meridian provides independent assurance to the Board and management that key risks are being adequately managed and the company's internal control framework is operating effectively.

Meridian's internal audit function is provided via an outsourced arrangement with Ernst and Young, managed by Meridian's Group Risk Manager. Ernst and Young were appointed as Meridian's internal auditor in 2008, after several years of service from PricewaterhouseCoopers.

The internal audit function reports to the Board through the Audit and Risk Committee. The Committee approves the appointment and replacement of the internal audit function, and requires a change of provider after a maximum of six years' provision of services. These conditions are in place to ensure that the outsourced provider of internal audit remains, and is seen to remain, independent of Meridian management, and that Meridian continues to receive innovative and best practice internal audit services.

Meridian's internal audit function is independent from the activities and operations it audits including risk management systems and has unrestricted access to Meridian records and staff. Internal audits are regularly carried out across the Company based on an internal audit plan approved by the Audit and Risk Committee. In the last financial year internal audits were undertaken in a range of financial and non-financial areas, including payroll, billings and collection, discretionary expenditure and asset management.

Promoting ethical behaviour

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

Meridian's Behavioural Commitment addresses:

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

Internal policies and procedures

Compliance with the many legal, regulatory and electricity industry requirements is a priority for the Board. Meridian takes its obligations seriously in this regard and continually looks for ways to improve its standard of compliance. Meridian employees are responsible for ensuring the Company carries out its business in a way that gives consideration to all applicable legal requirements, minimises the cost of legal risk and maximises business opportunities. Managers are responsible for making sure their staff understand what compliance means in their particular areas, by ensuring appropriate training and compliance information is available.

Meridian employees are required to comply with a number of policies and procedures including:

- anti-fraud
- risk management
- project closure and review
- discretionary expenditure
- compliance
- delegation of authority
- human resources policies (employment, induction, remuneration, discipline and dismissal, benefits)
- information and physical security.

Whistleblowing 'speaking up' policy

Meridian has a strong commitment to ensuring that all its business activities are carried out in a way that is both ethical and compliant. The Speaking Up Policy sets out the process for reporting serious wrongdoing in the organisation. Disclosures can be made to our Chief Executive and other designated staff. In addition disclosures can be made anonymously to external agencies by phone.

Political donations

Meridian does not make donations to political parties.

Provision of official information

Meridian is subject to the Official Information Act 1982. In handling requests made under that Act the Company complies with its obligation to make information available within the stated deadlines unless there is good reason to withhold information.

Statutory information

Statutory information is available in the financial statements.

Financial Statements for the year ended 30 June 2009

The Numbers

Meridian Energy Limited – Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 30 June 2009 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 2009 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 2009, as set out on pages 78 to 125.

The annual financial statements were authorised for issue by the Board on 26 August 2009.

For and on behalf of the Board.

Wayne Boyd
Chairman
26 August 2009

Anne Urlwin
Chair of Audit and Risk Committee
26 August 2009

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Meridian Energy Limited — Income Statement for the year ended 30 June 2009

	Note	GROUP 2009 $'000	GROUP 2008 $'000	PARENT 2009 $'000	PARENT 2008 $'000
Operating Revenue					
Energy Sales		**1,865,340**	2,574,652	**1,839,391**	2,523,517
Energy-Related Services Revenue		**6,595**	5,511	**460**	996
Dividends Received		**-**	-	**167**	450
Other Revenue		**20,500**	19,844	**14,423**	12,189
Total Operating Revenue		**1,892,435**	2,600,007	**1,854,441**	2,537,152
Operating Expenses					
Energy Related Costs		**(788,511)**	(1,591,005)	**(784,887)**	(1,589,188)
Energy Transmission and Distribution		**(373,004)**	(413,661)	**(370,615)**	(411,575)
Employee Costs	5	**(76,068)**	(69,088)	**(56,382)**	(48,699)
Other Operating Expenses	5	**(142,500)**	(152,331)	**(127,380)**	(143,741)
		(1,380,083)	(2,226,085)	**(1,339,264)**	(2,193,203)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		**512,352**	373,922	**515,177**	343,949
Unrealised Net (Loss)/Gain on Financial Instruments	26	**(114,109)**	45,497	**(114,109)**	45,497
Depreciation	20	**(149,793)**	(139,556)	**(123,851)**	(117,545)
Amortisation of Intangible Assets	19	**(13,302)**	(13,115)	**(10,102)**	(9,069)
Impairment of Property, Plant and Equipment	20	**(6,428)**	-	**-**	-
Impairment of Available for Sale Investments	18	**(2,766)**	-	**(2,766)**	-
Gain on Sale of Property, Plant and Equipment		**4,797**	508	**4,795**	12,351
Equity Accounted Earnings of Joint Ventures	17	**(1,883)**	(98)	**-**	-
Operating Profit		**228,868**	267,158	**269,144**	275,183
Finance Costs and Other Finance Related Income/(Expenses)					
Finance Costs	6	**(73,026)**	(59,720)	**(89,714)**	(65,510)
Interest Income	7	**4,600**	4,561	**30,808**	11,145
Unrealised Net (Loss)/Gain on Financial Instruments	26	**(32,489)**	(14,332)	**(32,489)**	(14,332)
Profit Before Tax		**127,953**	197,667	**177,749**	206,486
Income Tax Expense	8	**(38,690)**	(69,105)	**(48,469)**	(58,796)
Profit After Tax		**89,263**	128,562	**129,280**	147,690
Profit After Tax Attributable to:					
Shareholders of the Parent Company		**90,209**	128,678	**129,280**	147,690
Minority Interest		**(946)**	(116)	**-**	-
		89,263	128,562	**129,280**	147,690
Earnings Per Share from operations attributable to equity holders of the Company during the year:					
Basic Earnings per Share ($)	9	**0.06**	0.08		
Diluted Earnings per Share ($)	9	**0.06**	0.08		

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 2009

		GROUP		PARENT	
		2009	2008	**2009**	2008
	Note	**$'000**	$'000	**$'000**	$'000
Equity at Beginning of Year		**4,204,632**	4,401,790	**4,093,242**	4,272,392
Profit After Tax Attributable to:					
- Shareholders of the Parent		**90,209**	128,678	**129,280**	147,690
- Minority Interest		**(946)**	(116)	**-**	-
Movement in Foreign Currency Translation Reserve	10	**255**	81	**-**	-
Movement in Cash Flow Hedge Reserve	10	**18,827**	(26,668)	**18,878**	(26,726)
Movement in Available for Sale Reserve	10	**1,053**	(2,217)	**1,053**	(2,217)
Total Recognised Income and Expenses		**109,398**	99,758	**149,211**	118,747
Retained Earnings on Amalgamation of Arc Innovations Limited	16	**-**	-	**(20,870)**	-
Share Options Vested in Whisper Tech Ltd	10	**98**	981	**-**	-
Dividends Paid	11	**(30,000)**	(297,897)	**(30,000)**	(297,897)
Equity at End of Year		**4,284,128**	4,204,632	**4,191,583**	4,093,242

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 2009

	Note	GROUP 2009 $'000	GROUP 2008 $'000	PARENT 2009 $'000	PARENT 2008 $'000
Shareholders' Equity					
Share Capital	10	**1,600,000**	1,600,000	**1,600,000**	1,600,000
Revaluation Reserve	10	**2,737,092**	2,737,795	**2,679,571**	2,680,274
Foreign Currency Translation Reserve	10	**340**	85	**-**	-
Cash Flow Hedge Reserve	10	**(5,525)**	(24,352)	**(5,532)**	(24,410)
Available for Sale Reserve	10	**380**	(673)	**380**	(673)
Retained Earnings	10	**(50,648)**	(111,560)	**(82,836)**	(161,949)
Equity Attributable to Shareholders of the Parent		**4,281,639**	4,201,295	**4,191,583**	4,093,242
Share Options Vested in Whisper Tech Ltd	10	**1,079**	981	**-**	-
Minority Interest	10	**1,410**	2,356	**-**	-
Total Equity		**4,284,128**	4,204,632	**4,191,583**	4,093,242
Represented by:					
Current Assets					
Cash and Cash Equivalents	12	**47,877**	71,742	**35,297**	64,045
Accounts Receivable and Prepayments	13	**188,156**	471,134	**181,594**	465,324
Inventories	14	**7,299**	8,251	**3,646**	3,301
Current Tax Receivable		**-**	8,045	**-**	7,919
Assets Classified as Held for Sale	15	**10,519**	7,984	**10,519**	7,984
Derivative Financial Instruments	26	**13,033**	37,500	**13,023**	37,426
Total Current Assets		**266,884**	604,656	**244,079**	585,999
Non-Current Assets					
Prepayments		**-**	729	**-**	729
Investments in Subsidiaries	16	**-**	-	**96,263**	100,096
Equity Accounted Joint Ventures	17	**2,211**	2,811	**-**	-
Available for Sale Investments	18	**6,993**	11,780	**6,993**	11,780
Advances to Subsidiaries		**-**	-	**937,187**	604,397
Derivative Financial Instruments	26	**113,983**	101,642	**113,983**	101,634
Intangible Assets	19	**43,633**	42,358	**19,578**	13,818
Deferred Tax Asset	24	**449**	1,122	**-**	-
Property, Plant and Equipment	20	**6,743,115**	6,432,590	**5,889,957**	5,881,003
Total Non-Current Assets		**6,910,384**	6,593,032	**7,063,961**	6,713,457
Total Assets		**7,177,268**	7,197,688	**7,308,040**	7,299,456
Current Liabilities					
Payables and Accruals	21	**170,472**	547,564	**148,752**	523,683
Provisions	22	**1,372**	1,940	**514**	-
Current Tax Payable		**28,041**	-	**28,467**	-
Current Portion of Term Borrowings	23	**123,166**	149,808	**123,166**	149,808
Advances from Subsidiaries		**-**	-	**272,986**	255,650
Liabilities Classified as Held for Sale	15	**194**	138	**194**	138
Derivative Financial Instruments	26	**33,567**	46,068	**33,567**	46,068
Total Current Liabilities		**356,812**	745,518	**607,646**	975,347
Liabilities					
Non-Current Liabilities					
Term Borrowings	23	**1,128,695**	793,226	**1,128,695**	793,226
Derivative Financial Instruments	26	**106,402**	124,834	**106,402**	124,834
Deferred Tax Liability	24	**1,301,231**	1,329,478	**1,273,714**	1,312,807
Total Non-Current Liabilities		**2,536,328**	2,247,538	**2,508,811**	2,230,867
Total Liabilities		**2,893,140**	2,993,056	**3,116,457**	3,206,214
Net Assets		**4,284,128**	4,204,632	**4,191,583**	4,093,242

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 2009

	Note	GROUP 2009 $'000	GROUP 2008 $'000	PARENT 2009 $'000	PARENT 2008 $'000
Operating Activities					
Cash was Provided from:					
Receipts from Customers		**2,171,797**	2,346,353	**2,135,348**	2,281,297
Net GST Received		**4,345**	-	**3,604**	468
Interest Received		**4,600**	4,561	**28,561**	9,761
Dividends Received		**-**	-	**167**	450
		2,180,742	2,350,914	**2,167,680**	2,291,976
Cash was Applied to:					
Payments to Suppliers and Employees		**(1,757,508)**	(1,889,904)	**(1,716,349)**	(1,857,938)
Net GST Paid		**-**	(967)	**-**	-
Interest Paid		**(71,608)**	(57,826)	**(86,524)**	(62,844)
Income Tax Paid		**(38,102)**	(59,588)	**(37,980)**	(59,588)
		(1,867,218)	(2,008,285)	**(1,840,853)**	(1,980,370)
Net Cash Inflows from Operating Activities	27	**313,524**	342,629	**326,827**	311,606
Investment Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment		**19,876**	1,095	**19,855**	1,091
Sale of Investments		**3,612**	2,540	**3,612**	2,540
Sale of Intangible Assets		**22**	-	**-**	-
		23,510	3,635	**23,467**	3,631
Cash was Applied to:					
Purchase of Property, Plant and Equipment		**(465,621)**	(264,488)	**(87,656)**	(108,229)
Capitalised Interest		**(18,460)**	(7,183)	**(1,772)**	(1,384)
Advances to Subsidiaries		**-**	-	**(387,184)**	(111,720)
Purchase of Intangible Assets		**(14,553)**	-	**(13,361)**	-
Purchase of Investments		**(1,630)**	(3,507)	**(30,047)**	(25,126)
		(500,264)	(275,178)	**(520,020)**	(246,459)
Net Cash (Outflows) from Investing Activities		**(476,754)**	(271,543)	**(496,553)**	(242,828)
Financing Activities					
Cash was Provided from:					
Proceeds From Borrowings		**575,790**	250,000	**575,790**	250,000
		575,790	250,000	**575,790**	250,000
Cash was Applied to:					
Dividends Paid	11	**(30,000)**	(297,897)	**(30,000)**	(297,897)
Term Borrowings Paid		**(406,425)**	-	**(406,425)**	-
		(436,425)	(297,897)	**(436,425)**	(297,897)
Net Cash Inflows/(Outflows) from Financing Activities		**139,365**	(47,897)	**139,365**	(47,897)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(23,865)**	23,189	**(30,361)**	20,881
Cash and Cash Equivalents at Beginning of Year		**71,742**	48,553	**64,045**	43,164
Cash on Amalgamation from Arc Innovations Limited		**-**	-	**1,613**	-
Cash and Cash Equivalents at End of Year	12	**47,877**	71,742	**35,297**	64,045

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

Meridian Energy Limited Group – Notes to the Financial Statements for the year ended 30 June 2009

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1. Summary of Accounting Policies

Reporting Entity and Statement of Compliance

Meridian Energy Ltd is domiciled in New Zealand and registered under the Companies Act 1993. The registered office of the Company is Level 1, 33 Customhouse Quay, Wellington. The shares in Meridian Energy 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 Energy Ltd'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" or the "Company") and its subsidiaries (together referred to as "Meridian" or the "Group").

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

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

The reporting period for these financial statements is the year ended 30 June 2009.

The financial statements were authorised for issue by the directors on 26 August 2009.

Basis of Preparation

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

The same accounting policies, presentation and methods of computation have been applied consistently to all periods presented in these consolidated financial statements except for the adoption of NZ IFRS 8 *Operating Segments* and NZ IAS 23 (Revised) *Borrowing Costs* in advance of their effective dates (refer accounting policies below, note 3 Segment Disclosures and note 23 Borrowings). There is no effect on presentation and measurement on application of these standards.

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.

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

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

Adoption status of relevant Financial Reporting Standards

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

- NZ IAS 1 (Revised) *Presentation of Financial Statements* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IFRS 2 (Amendment) *Share-based Payment – Group Cash Settled Shore-Based Payments* – effective for annual 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
- NZ IFRS 4 (Amendment) *Insurance Contracts* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IFRS 7 (Amendment) *Financial Instruments: Disclosures* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 19 (Amendment) *Employee Benefits* – 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
- NZ IAS 31 (Amendment) *Interests in Joint Ventures* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 32 (Amendment) *Financial Instruments: Presentation* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 36 (Amendment) *Impairment of Assets* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 38 (Amendment) *Intangible Assets* – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* – effective for annual reporting periods beginning on or after 1 July 2009
- NZ IFRIC 15 Agreements for the Construction of Real Estate – effective for annual reporting periods beginning on or after 1 January 2009
- NZ IFRIC 16 Hedges of a Net Investment in a Foreign Operation – effective for annual reporting periods beginning on or after 1 October 2008
- NZ IFRIC 17 Distributions of Non-Cash Assets to Owners – effective for annual reporting periods beginning on or after 1 July 2009
- NZ IFRIC 18 Transfers of Assets from Customers – effective for annual reporting periods beginning on or after 1 July 2009
- Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008 – effective for annual reporting periods beginning on or after various dates
- Omnibus Amendments – effective for annual reporting periods beginning on or after 1 January 2009
- Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009 – effective for annual reporting periods beginning on or after various dates.

The adoption of these standards is not expected to have a material impact on Meridian's income statement, balance sheet and cash flow statement.

Judgements and Estimations

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

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

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

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.

Common Control Amalgamation Transactions

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

Operating Segments

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

Joint Ventures

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

Under the equity method, investments in joint ventures are carried in the consolidated 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.

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

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 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 re-measured 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.

Intangible Assets

Customer Acquisition Costs

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

Computer Software

Acquired computer software licences, 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 twenty years.

Licence Agreement

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

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

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

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.

Investments in Subsidiaries and Joint Ventures

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

Trade Receivables

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

Cash and Cash Equivalents

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

Financial Liabilities

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

Borrowings

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

Trade Payables

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

Emission Rights

Meridian receives tradable emission rights from specific energy production levels of certain renewable generation facilities. The future revenue arising from the sale of these emission rights is a key matter in deciding whether to proceed with construction of the generation facility and is considered to be part of the value of the generation assets recorded in the 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 and net realisable value.

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

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

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

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement in unrealised net (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. Interest expense on the loans designated as fair value hedges is recognised in finance costs.

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

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in 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 CfDs 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.

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 (IRS, CCIRS, FEC, some CFD's), and non-observable data (some CFD's) 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 future 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 future 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 bank bill ("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 FEC's is determined using forward exchange market rates at balance date discounted to present value. The fair value of currency options is determined using appropriate binomial models or the Black-Scholes model.

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

The valuations determined for instruments not traded on an active market, particularly in respect to CfD's can vary significantly based on assumptions in relation to the forecast electricity price and interest rates and in the case of one CfD, fair value can also vary based on the price of aluminium published on the LME. The sensitivity to changes in assumptions is quantified in Note 25 – Financial Risk Management.

Reserves

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

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

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

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

Taxation

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

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

Deferred Tax

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

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and 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.

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

Employee Benefits

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

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

Goods and Services Tax

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.

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. Costs and expenditures related to ongoing operations are not included in the provision for restructuring.

Operating Leases

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

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

Revenue Recognition

Sale of Energy and Other Related Services

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

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

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

Dividend Income

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

Interest Income

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

Energy Related Costs

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

Share-Based Payments

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

Cash Flow Statement

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

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

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

Comparatives

Where necessary to facilitate comparison, comparative figures have been adjusted to conform with changes in presentation in the current year. These are disclosed in the relevant note to the accounts.

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[1] and unrealised net (losses)/gains on financial instruments are removed to arrive at underlying profit after tax.

Underlying Profit After Tax		GROUP		PARENT	
		2009	2008	**2009**	2008
	Note	**$'000**	$'000	**$'000**	$'000
Profit After Tax		**89,263**	128,562	**129,280**	147,690
Adjustments:					
Unrealised Net Loss/(Gain) on Financial Instruments – NZAS CfD	26	**119,974**	(51,930)	**119,974**	(51,930)
Unrealised Net Loss on Financial Instruments – Other	26	**26,624**	20,765	**26,624**	20,765
Net Gain on Sale of Property, Plant and Equipment		**(4,797)**	(508)	**(4,795)**	(12,351)
Impairment of Property, Plant and Equipment	20	**6,428**	-	**-**	-
Impairment of Available for Sale Investments	18	**2,766**	-	**2,766**	-
Impairment of Investments		**-**	-	**-**	12,866
Adjustments Before Tax		**150,995**	(31,673)	**144,569**	(30,650)
Income Tax Expense @ 30%		**(45,299)**	-	**(43,371)**	-
Income Tax Expense @ 33%		**-**	10,452	**-**	10,115
Corporate Tax Rate Reduction		**-**	(2,859)	**-**	(1,355)
Adjustments After Tax		**105,696**	(24,080)	**101,198**	(21,890)
Underlying Profit After Tax		**194,959**	104,482	**230,478**	125,800

3. Segment Reporting

Management has determined the operating segments based on the reports reviewed by the Chief Executive to assess performance, allocate resources and make strategic decisions. Segment reporting reflects Meridian's adoption of NZIFRS 8: *Operating Segments*.

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

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

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

In 2008 Meridian's smart metering technology subsidiary was a separate operating segment reported within other operating segments. In 2009 the subsidiary has been reported to the Chief Executive as part of the Retail operating segment and as a result 2008 comparative figures have been restated to reflect this change.

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

The accounting policies of the reportable segments are the same as Meridian's accounting policies described in note 1. Summary of Accounting Policies. The Chief Executive assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment without the allocation of central administration costs, Directors' salaries, share of profits of joint ventures, unrealised gains/losses on financial instruments finance costs and income tax expense.

[1] 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:

- disposals of interests in businesses
- discontinued operations
- impairments and impairment reversals
- change in tax rate.

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

3. Segment Reporting (continued)

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

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

	WHOLESALE $'000	RETAIL $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	TOTAL $'000
Segment Information					
Total Segment Revenue	905,692	969,521	11,164	9,314	**1,895,691**
Inter-Segment Revenue	-	-	(3,256)	-	**(3,256)**
Revenue from External Customers	905,692	969,521	7,908	9,314	**1,892,435**
EBITDAF	**489,000**	**114,322**	**(21,400)**	**(69,570)**	**512,352**
Depreciation and Amortisation	136,320	13,238	3,518	10,019	**163,095**
Additions to Non-Current Assets	373,336	40,608	30,591	46,256	**490,791**
Total Assets	6,507,950	188,454	106,014	374,850	**7,177,268**
Total Liabilities	1,432,484	9,879	117,382	1,333,395	**2,893,140**

The segment information provided to the Chief Executive for the reportable segments for the year ended 30 June 2008 is as follows:

	WHOLESALE $'000	RETAIL $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	TOTAL $'000
Segment Information					
Total Segment Revenue	1,596,933	987,252	10,588	7,151	2,601,924
Inter-Segment Revenue	-	-	(1,917)	-	(1,917)
Revenue from External Customers	1,596,933	987,252	8,671	7,151	2,600,007
EBITDAF	784,465	(312,687)	(22,938)	(74,918)	373,922
Depreciation and Amortisation	132,698	10,747	4,168	5,058	152,671
Additions to Non-Current Assets	161,638	33,424	12,885	67,145	275,092
Total Assets	6,649,998	227,658	72,334	247,698	7,197,688
Total Liabilities	1,820,298	70,849	77,634	1,024,275	2,993,056

Reconciliation of EBITDAF to Profit before tax provided as follows:

	GROUP	
	2009 $'000	2008 $'000
EBITDAF for Reportable Segments	**603,322**	471,778
Other Segments EBITDAF	**(21,400)**	(22,938)
Unallocated EBITDAF	**(69,570)**	(74,918)
Total Group EBITDAF	**512,352**	373,922
Unrealised Net (Loss)/Gain on Financial Instruments	**(146,598)**	31,165
Depreciation	**(149,793)**	(139,556)
Amortisation of Intangible Assets	**(13,302)**	(13,115)
Impairment of Property Plant and Equipment	**(6,428)**	-
Impairment of Available for Sale Investments	**(2,766)**	-
Gain on Sale of Property, Plant and Equipment	**4,797**	508
Equity Accounted Earnings of Joint Ventures	**(1,883)**	(98)
Finance Costs and Other Finance Income (Expenses)	**(68,426)**	(55,159)
Group Profit before Tax	**127,953**	197,667

3. Segment Reporting (continued)

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

	GROUP 2009 $'000	GROUP 2008 $'000
Segment Assets for Reportable Segments	**6,696,404**	6,869,637
Other Segment Assets	**106,014**	72,334
Unallocated Assets:		
Cash and Cash Equivalents	**33,683**	64,045
Tax Receivable	**-**	7,919
Assets Classified as held for sale	**10,519**	7,984
Derivative Financial Instruments	**110,680**	38,856
Available for Sale Investments	**6,993**	11,780
Intangible Assets	**10,667**	-
Property, Plant and Equipment	**224,111**	136,122
Other Assets	**223**	5,244
Intercompany Loans included in Other Segment Assets	**(22,026)**	(16,233)
Total Unallocated Assets	**374,850**	255,717
Total Assets	**7,177,268**	7,197,688

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

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

	GROUP 2009 $'000	GROUP 2008 $'000
Segment Liabilities for Reportable Segments	**1,442,363**	1,858,776
Other Segment Liabilities	**117,382**	77,634
Unallocated Liabilities:		
Payables and Accruals	**95,721**	118,816
Provisions	**-**	-
Derivative Financial Instruments	**52,055**	56,448
Borrowings	**1,251,861**	943,035
Tax Payable	**28,467**	-
Held for Sale Liabilities	**194**	138
Intercompany Loans included in Other Segment Liabilities	**(94,903)**	(61,791)
Total Unallocated Liabilities	**1,333,395**	1,056,646
Total Liabilities	**2,893,140**	2,993,056

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

Meridian's interest bearing liabilities are managed by the central treasury function and are not considered to be segment liabilities as they cannot be directly attributed to reportable segments.

4. NZAS Agreement

On 1 October 2007, Meridian and New Zealand Aluminium Smelters ("NZAS") entered into an electricity price agreement (which includes a CfD) based on 572 MW 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 will remain competitive for electricity demand of the unique type created by the smelter, while recognising both the commodity-price driven cycles of NZAS's business environment and the wholesale electricity price cycles to which Meridian is exposed.

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

Accounting Treatment of NZAS Contract

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

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

At 30 June 2009, the carrying value of the CfD is as follows:

	30 JUNE 2009 $'000	30 JUNE 2008 $'000	**1 OCTOBER 2007 $'000**
Present Value of Estimated Cash Flows	**(583,014)**	(463,040)	**(514,970)**
Less: Day 1 adjustment[1]	**514,970**	514,970	**514,970**
Carrying Value	**(68,044)**	51,930	**-**

Since the previous interim financial report at 31 December 2008, there has been a change in estimates used for valuing this CfD. The unfavourable change in carrying value from 1 January 2009 to 30 June 2009 has been impacted by weighted average cost of capital, electricity price, aluminium price and inflation assumptions amounting to $34.82 million.

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.

5. Expenses

	GROUP		PARENT	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Employee Costs include:				
Contributions to Defined Contribution Plans	**1,554**	1,356	**1,407**	1,265
Other Operating Expenses include:				
Auditors Remuneration to Deloitte for:				
– Audit of Financial Statements	**457**	288	**402**	234
– Other Assurance Services	**61**	172	**61**	172
Impairment of Investments	**2,766**	-	**2,766**	12,866
Operating Lease Payments	**4,194**	4,270	**4,035**	3,513
Net Loss/(Gain) on Foreign Exchange	**208**	(267)	**185**	(259)
Research and Development Expenditure	**4,262**	5,759	**-**	-
Share Based Payments	**98**	981	**-**	-

In 2008 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.

[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.

6. Finance Costs

	GROUP		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Interest on Borrowings	**91,486**	66,903	**91,486**	66,894
Less Capitalised Interest	**(18,460)**	(7,183)	**(1,772)**	(1,384)
	73,026	59,720	**89,714**	65,510

Total interest expense for financial liabilities at amortised cost is $24.452 million (2008: $7.074 million).

In 2008 debt facility fees of $2.82 million have been reclassified from other operating expenses to finance costs in accordance with the effective interest rate method for both Parent and Group.

7. Interest Income

	GROUP		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Interest Income on Financial Assets at amortised cost:				
- Cash and Cash Equivalents	**4,600**	4,561	**4,034**	4,161
- Loans to Subsidiaries	**-**	-	**26,774**	6,984
	4,600	4,561	**30,808**	11,145

8. Income Tax Expense

		GROUP		PARENT	
		2009	2008	2009	2008
	Note	$'000	$'000	$'000	$'000
(A) Income Tax Expense					
Current Tax		**74,538**	60,457	**96,649**	59,068
Deferred Tax	24	**(35,848)**	8,648	**(48,180)**	(272)
Income Tax Expense		**38,690**	69,105	**48,469**	58,796
Income Tax Expense can be reconciled to Accounting Profit as follows:					
Profit Before Tax		**127,953**	197,667	**177,749**	206,486
Income Tax at 30%		**38,386**	-	**53,325**	-
Income Tax at 33%		**-**	65,230	**-**	68,140
Tax Effect of Expenditure Not Deductible for Tax		**160**	1,932	**142**	1,758
Tax Effect of Income Not Subject to Tax		**(643)**	(243)	**(394)**	(243)
Income Tax (Over) Provided in Prior Year		**(1,154)**	(1,713)	**(1,156)**	(1,420)
Tax Credits Transferred from Subsidiary		**-**	-	**(3,031)**	(9,180)
Inter-company Dividend Received Not Subject to Tax		**-**	-	**(50)**	(149)
Inter-company Dividend Received Subject to Tax		**-**	6,544	**-**	-
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	24	**(720)**	(2,859)	**(689)**	(1,355)
Other		**2,661**	214	**322**	1,245
Income Tax Expense		**38,690**	69,105	**48,469**	58,796

A reduction in the corporate tax rate from 33% to 30% was announced in the 2007 Budget and was passed and received Royal Assent. For the Group, this reduction was 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 balance sheet.

In addition to the income tax charge to the income statement,a deferred tax charge of $8.274 million for the Group and $8.295 million charge for the Parent (2008: Group $13.341 million credit, Parent $13.339 million credit) has been recognised in equity for the year (see note 24 – Deferred Tax Liability).

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

8. Income Tax Expense (continued)

	GROUP		PARENT	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
(B) Imputation Credits				
Balance at Beginning of Year	**32,650**	100,618	**32,009**	99,816
Net Income Tax Paid	**34,802**	62,575	**34,605**	62,514
Credits Attached to Dividends Received	**-**	-	**72**	222
Credits Attached to Dividends Paid	**(12,857)**	(130,543)	**(12,857)**	(130,543)
Balance at End of Year	**54,595**	32,650	**53,829**	32,009

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

	GROUP	
	2009	2008
	$'000	$'000
Through		
Shareholding in Parent Company	**53,829**	32,009
Indirect Interest in Subsidiaries	**766**	641
	54,595	32,650

9. Earnings per Share

Basic and Diluted Earnings Per Share	GROUP	
	2009	2008
	$'000	$'000
Profit After Tax Attributable to Shareholders of the Parent Company	**90,209**	128,678
Weighted Average number of ordinary shares in issue (units)	**1,600,000,002**	1,600,000,002
Basic Earnings per Share ($)	**0.06**	0.08
Diluted Earnings per Share ($)	**0.06**	0.08

10. 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
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) Taken to Equity	-	-	-	(38,070)	-	-	(38,070)
Available-for-Sale Reserve:							
Net (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

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

10. Equity (continued)

	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) Taken to Equity	(38,070)	-	-	(38,070)
Available-for-Sale Reserve:				
Net (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

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

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

10. Equity (continued)

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

	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 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) 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

10. 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 2008	1,600,000	2,680,274	(24,410)	(673)	(161,949)	4,093,242
Profit for the Year	-	-	-	-	129,280	129,280
Revaluation Increments	-	-	-	-	-	-
Cash Flow Hedges:						
Net Gain Taken to Equity	-	-	26,968	-	-	26,968
Available-for-Sale Reserve:						
Gains Taken to Equity	-	-	-	1,258	-	1,258
Movement in Deferred Tax Liability						
Attributable to Equity	-	301	(8,090)	(205)	(301)	(8,295)
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	-	-	-	-	-
Asset Revaluation Reserve Transferred to Retained Earnings	-	(1,004)	-	-	1,004	-
Total Recognised Income and Expenses for the Year	-	(703)	18,878	1,053	129,983	149,211
Retained Earnings on Amalgamation of Arc Innovations Limited	-	-	-	-	(20,870)	(20,870)
Dividends Paid	-	-	-	-	(30,000)	(30,000)
Balance at 30 June 2009	1,600,000	2,679,571	(5,532)	380	(82,836)	4,191,583

Share Capital

The share capital is represented by 1,600,000,0002 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.

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

10. Equity (continued)

Whisper Tech Ltd share options convertible to ordinary shares

Exercise Price	2009 NUMBER ISSUED	2009 NUMBER FORFEITED	2009 NUMBER VESTED	2009 VESTED VALUE $ 000	2008 NUMBER ISSUED	2008 NUMBER FORFEITED	2008 NUMBER VESTED	2008 VESTED VALUE $ 000
$750	**1,226**	**389**	**837**	**-**	1,226	389	837	-
$1	**2,563**	**-**	**2,563**	**-**	2,563	-	2,563	-
$366.83	**14,115**	**900**	**8,915**	**1,079**	14,115	-	6,765	981
	17,904	**1,289**	**12,315**	**1,079**	17,904	389	10,165	981

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

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 2009 or the comparative year.

The fair value of the options is calculated by applying a binominal option pricing model. The model inputs were the share price at grant date of $366.83, exercise price $366.83, expected volatility range of 25% to 40%, no expected dividends, 4 years to the maturity date of the option, and a risk free interest rate range of 4.75% p.a. to 4.81% pa.

Number of Options Vested	2009 $750 OPTIONS	2009 $1 OPTIONS	2009 $366.83 OPTIONS	2008 $750 OPTIONS	2008 $1 OPTIONS	2008 $366.83 OPTIONS
Opening Balance	**837**	**2,563**	**6,765**	5,279	2,563	-
New Fully Vested Options created	**-**	**-**	**-**	-	-	6,765
Options Forfeited 31 March 2008	**-**	**-**	**-**	(4,362)	-	-
Options Forfeited Prior Years	**-**	**-**	**-**	(80)	-	-
Options Vested	**-**	**-**	**2,150**	-	-	-
Closing Balance	**837**	**2,563**	**8,915**	837	2,563	6,765

The weighted average exercise price of options vested at 30 June 2009 is $87.59 (2008: $96.24).

Number of Options Still Subject To Vesting	2009 $750 OPTIONS	2009 $1 OPTIONS	2009 $366.83 OPTIONS	2008 $750 OPTIONS	2008 $1 OPTIONS	2008 $366.83 OPTIONS
Opening Option Balance	**-**	**-**	**7,350**	5,279	2,563	-
Created or Vested During Year	**-**	**-**	**-**	-	-	14,115
Less Forfeited	**-**	**-**	**(900)**	(4,442)	-	-
Less Fully Vested	**-**	**-**	**(2,150)**	(837)	(2,563)	(6,765)
Subject to Future Vesting	**-**	**-**	**4,300**	-	-	7,350

3,700 (2008: 5,550) of these options become fully vested by 1 July 2010 and the remaining 600 (2008: 1,800) options will be fully vested by 31 March 2011.

11. Dividends

	GROUP & PARENT		GROUP & PARENT	
	2009 $'000	2008 $'000	2009 CENTS PER SHARE	2008 CENTS PER SHARE
2009 Interim Dividend Paid	**30,000**	-	**1.87**	-
2008 Interim Dividend Paid	**-**	235,888	**-**	14.74
2007 Final Dividend Paid	**-**	62,009	**-**	3.88
	30,000	297,897	**1.87**	18.62

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

12. Cash and Cash Equivalents

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current Account	**16,710**	17,677	**5,187**	11,117
Money Market Account	**31,167**	54,065	**30,110**	52,928
	47,877	71,742	**35,297**	64,045

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

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

In 2008 due to the nature of the balance, ($7.097) million has been reclassified from Cash and Cash Equivalents to Accounts Receivable for the Parent and Group.

13. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Billed and Accrued Receivables	**188,933**	468,752	**182,724**	463,209
Less: Provision for Doubtful Debts	**(3,239)**	(2,839)	**(2,997)**	(2,839)
Net Trade Receivables	**185,694**	465,913	**179,727**	460,370
Prepayments	**2,462**	5,221	**1,867**	4,954
Total Accounts Receivable and Prepayments	**188,156**	471,134	**181,594**	465,324

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Movement in Provision for Doubtful Debts				
Opening Provision for Doubtful Debts	**(2,839)**	(3,057)	**(2,839)**	(3,118)
Provision Made During the Year	**(557)**	-	**(315)**	-
Provision Released During the Year	**157**	218	**157**	279
Provision Used During Year	**-**	-	**-**	-
Closing Provision for Doubtful Debts	**(3,239)**	(2,839)	**(2,997)**	(2,839)

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade Receivables				
Not Past Due	**157,407**	440,472	**153,076**	436,223
Past Due 1-30 days	**18,680**	20,518	**18,026**	20,180
Past Due 31-60	**6,275**	3,102	**6,215**	2,950
Past Due 61-90	**1,233**	876	**1,061**	456
Past Due > 91 days	**5,338**	3,784	**4,346**	3,400
	188,933	468,752	**182,724**	463,209

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2009 trade receivables of $28.287 million (2008 $25.441 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.

In 2008 due to the nature of the balance, ($7.097) million has been reclassified from Cash and Cash Equivalents to Accounts Receivable for the Parent and Group.

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

14. Inventories

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Inventories				
Consumable Spares and Stores	**3,959**	3,920	**3,646**	3,301
Work in Progress and Components	**3,962**	4,591	**-**	-
Finished Goods	**486**	928	**-**	-
	8,407	9,439	**3,646**	3,301
Less Provision for Obsolescence	**(1,108)**	(1,188)	**-**	-
	7,299	8,251	**3,646**	3,301
Provision for Obsolescence				
Opening Provision	**1,188**	1,276	**-**	-
Provision Raised During the Year	**180**	-	**-**	-
Released During the Year	**(260)**	(88)	**-**	-
Closing Provision	**1,108**	1,188	**-**	-

In 2009, consumables and changes in finished goods and work in progress recognised as other operating expenses in the Group were ($4.595) million and in the Parent were ($231) thousand (2008: Group $5.849 million, Parent $43 thousand).

Certain inventory items are subject to retention of title clauses.

15. Assets and Liabilities Classified as Held for Sale

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

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

16. Investments in Subsidiaries

Subsidiaries

Investments in subsidiaries comprise shares at cost

NAME OF ENTITY	DATE [1]	PRINCIPAL ACTIVITY	INTEREST HELD BY PARENT 2009	INTEREST HELD BY PARENT 2008
Arc Innovations Limited		Technology Company	**-**	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		Non-Trading Entity	**100%**	100%
Powershop New Zealand Limited		Electricity Retailer	**100%**	100%
Right House Limited		Professional Services	**100%**	100%
Woodville Windfarm Limited		Non-Trading Entity	**100%**	100%

[1] The date the controlled entity was registered or became part of the Group during the reporting period.

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

16. Investments in Subsidiaries (continued)

Controlled Entities (Other Subsidiaries)

NAME OF ENTITY	DATE [1]	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
			2009	2008
Damwatch Pty Limited[2]		Professional Services	**100%**	100%
MEL (Te Apiti) Limited		Electricity Generation	**100%**	100%
MEL (Te Uku) Limited	26/11/08	Electricity Generation	**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%
Meridian Energy Australia Pty Limited[2,4]		Electricity Generation	**100%**	100%
Meridian Wind Macarthur Pty Limited[2]		Electricity Generation	**100%**	100%
Meridian International No 1 Limited		Non-Trading Entity	**100%**	100%
Meridian International No 2 Limited		Non-Trading Entity	**100%**	100%
Meridian Australia Holdings Pty Limited[2]		Non-Trading Entity	**100%**	100%
Meridian Wind Australia Holdings Pty Limited[2]		Non-Trading Entity	**100%**	100%
Meridian Wind Australia Pty Limited[2]		Non-Trading Entity	**100%**	100%
Meridian Wind Farm JV Pty Limited[2]		Non-Trading Entity	**50%**	50%
Meridian Wind Monaro Range Holdings Pty Ltd[2]	23/04/09	Non-Trading Entity	**100%**	-
Meridian Wind Monaro Range Pty Ltd[2]	23/04/09	Non-Trading Entity	**100%**	-
Mt Mercer Wind Farm Pty Limited[2]	23/02/09	Electricity Generation	**100%**	-
WhisperGen Limited[5]		Non-Trading Entity	**100%**	100%
Whisper Tech Limited[5]		Technology Company	**93.23%[5]**	92.8%[5]
WhisperGen (UK) Limited[3]		Technology Company	**100%**	100%

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

Summary of the effect of amalgamation of Arc:

ASSETS AND LIABILITIES AMALGAMATED	PARENT 2009 $'000	PARENT 2008 $'000
Assets	**66,738**	-
Liabilities (includes intercompany loan from Meridian)	**(4,617)**	-
	62,121	-
Carrying amount of shares in amalgamated subsidiary	**(33,545)**	-
Carrying amount of intercompany loan	**(49,446)**	-
Balance recognised in the Statement of Changes in Equity	**(20,870)**	-

The assets and liabilities have been bought into the Parent's financial statements at their carrying amounts and there was no cash effect. The operating results of Arc after the amalgamation have been included in the income statement of the Parent since 30 June 2009. The balance on amalgamation has been recognised in the statement of changes in equity of the Parent. The comparatives of the Parent have not been adjusted for the amalgamation.

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

[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 Energy Australia Pty Ltd changed its name from Three River Holdings Pty Ltd.
[5] The Parent holds 23% of Whisper Tech Ltd with WhisperGen Ltd holding 70.23%.

17. Equity Accounted Joint Ventures

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

NAME OF ENTITY	DATE	PRINCIPAL ACTIVITY	INTEREST HELD BY GROUP	
			2009	2008
Efficient Home Energy, S. L.	11/01/08	Manufacturing	**40%**	40%
Elemental Energy Limited[1]	19/11/07	Electricity Generation Systems	**50%**	50%

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

	GROUP	
	2009 $'000	2008 $'000
Current Assets	**3,744**	7,340
Non–Current Assets	**6,857**	576
Total Assets	**10,601**	7,916
Current Liabilities	**(3,300)**	(899)
Non–Current Liabilities	**(1,753)**	-
Total Liabilities	**(5,053)**	(899)
Net Assets	**5,548**	7,017
Group's Share of Net Assets of Joint Ventures	**2,211**	2,811
Total Revenue	**2,661**	676
Total Expenses	**(7,341)**	-
Total Loss for the Period	**(4,680)**	(256)
Group's Share of Losses of Joint Ventures	**(1,883)**	(98)

	GROUP	
	2009 $'000	2008 $'000
Balance at Beginning of Year	**2,811**	-
New Investments	**1,297**	2,909
Share of Losses of Joint Ventures	**(1,883)**	(98)
Foreign Exchange	**(14)**	-
Balance at End of Year	**2,211**	2,811

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

[1] Incorporated in New Zealand.

18. Available for Sale Investments

	Currency	GROUP AND PARENT 2009 $'000	2008 $'000
Listed Securities			
Ceramic Fuel Cells Limited	AUD	**141**	325
Comverge, Inc	USD	**538**	-
Unlisted Securities			
Nth Power Technologies Fund II, L.P.	USD	**1,606**	1,986
Fonterra Co- Operative Group Ltd	NZD	**4,176**	6,789
North Otago Irrigation Company Ltd	NZD	**-**	2,148
Carbon Flow Inc	USD	**532**	532
		6,993	11,780

	Note	GROUP AND PARENT 2009 $'000	2008 $'000
Balance at Beginning of Year		**11,780**	16,567
Additions		**333**	597
Disposals		**(3,612)**	(2,542)
Impairment Loss on Nth Power Technologies Fund II, L.P.	5	**(2,766)**	-
Net Gains/(Losses) Taken to Equity	10	**1,258**	(2,842)
Balance at End of Year		**6,993**	11,780
Comprising:			
Non Current		**6,993**	11,780

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

19. Intangible Assets

	GROUP						
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS & TRADEMARKS $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 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
Balance at 1 July 2008	**20,276**	**6,883**	**22,380**	**1,266**	**401**	**65,174**	**116,380**
Acquisitions	**14,179**	**98**	**-**	**276**	**-**	**-**	**14,553**
Transfer From Property, Plant and Equipment	**117**	**-**	**-**	**-**	**-**	**-**	**117**
Reclassified to Accumulated Amortisation	**-**	**-**	**-**	**(310)**	**-**	**-**	**(310)**
Disposals	**-**	**-**	**-**	**(22)**	**-**	**-**	**(22)**
Balance at 30 June 2009	**34,572**	**6,981**	**22,380**	**1,210**	**401**	**65,174**	**130,718**
Accumulated Amortisation and Impairment							
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)
Balance at 1 July 2008	**(13,428)**	**-**	**(4,476)**	**(612)**	**(381)**	**(55,125)**	**(74,022)**
Amortisation during Year	**(7,260)**	**(25)**	**(2,238)**	**(121)**	**(20)**	**(3,638)**	**(13,302)**
Transfer From Property, Plant and Equipment	**(71)**	**-**	**-**	**-**	**-**	**-**	**(71)**
Reclassified from Cost	**-**	**-**	**-**	**310**	**-**	**-**	**310**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2009	**(20,759)**	**(25)**	**(6,714)**	**(423)**	**(401)**	**(58,763)**	**(87,085)**
Net Book Value							
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
Net Book Value 30 June 2009	**13,813**	**6,956**	**15,666**	**787**	**-**	**6,411**	**43,633**

19. Intangible Assets (continued)

	PARENT			
	SOFTWARE $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value				
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
Balance at 1 July 2008	**16,041**	**401**	**65,174**	**81,616**
Acquisitions	**13,361**	**-**	**-**	**13,361**
Effect of Amalgamation of Arc	**4,274**	**-**	**-**	**4,274**
Balance at 30 June 2009	**33,676**	**401**	**65,174**	**99,251**
Accumulated Amortisation and Impairment				
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)
Balance at 1 July 2008	**(12,292)**	**(381)**	**(55,125)**	**(67,798)**
Amortisation During Year	**(6,444)**	**(20)**	**(3,638)**	**(10,102)**
Effect of Amalgamation of Arc	**(1,773)**	**-**	**-**	**(1,773)**
Balance at 30 June 2009	**(20,509)**	**(401)**	**(58,763)**	**(79,673)**
Net Book Value				
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
Net Book Value 30 June 2009	**13,167**	**-**	**6,411**	**19,578**

On 31 March 2008, the licence agreement between WhisperGen Ltd and Whisper Tech Ltd terminated. On 2 April 2008 WhisperTech 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 was revised from 20 to ten years.

The effect in 2008 was an increase in amortisation of $2.238 million and future periods an increase of $1.119 million per year.

Goodwill

For the purpose of impairment testing, all goodwill is allocated to the cash generating unit of Whisper Tech Ltd that includes Efficient Home Energy S. L. joint venture. The impairment test is based on a value in use discounted cash flow valuation. Cash flow projections are based on Whisper Tech's 5 year financial forecast.

Key assumptions in the value in use calculation for the Whisper Tech cash generating unit are:

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

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

20. 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 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
Balance at 1 July 2008	**6,135,215**	**33,744**	**10,882**	**8,586**	**117,978**	**309,589**	**6,615,994**
Additions	**-**	**-**	**-**	**-**	**106**	**476,132**	**476,238**
Transfers from Capital Work in Progress	**29,522**	**9,800**	**2,479**	**-**	**59,701**	**(101,424)**	**78**
Transfers to Assets Classified as Held For Sale	**-**	**(8,265)**	**(1,225)**	**-**	**(224)**	**-**	**(9,714)**
Disposals	**(123)**	**356**	**(141)**	**-**	**(3,133)**	**-**	**(3,041)**
Transfer to Intangible Assets	**-**	**-**	**-**	**-**	**(117)**	**-**	**(117)**
Impairment of Property, Plant and Equipment	**-**	**-**	**-**	**-**	**(111)**	**(6,317)**	**(6,428)**
Balance at 30 June 2009	**6,164,614**	**35,635**	**11,995**	**8,586**	**174,200**	**677,980**	**7,073,010**
Accumulated Depreciation and Impairment							
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)
Balance at 1 July 2008	**(129,256)**	**-**	**(1,600)**	**(1,501)**	**(51,047)**	**-**	**(183,404)**
Depreciation Expense	**(131,157)**	**-**	**(471)**	**(179)**	**(17,986)**	**-**	**(149,793)**
Disposals	**19**	**-**	**13**	**-**	**2,898**	**-**	**2,930**
Transfer to Assets Classified as Held For Sale	**-**	**-**	**165**	**-**	**136**	**-**	**301**
Transfer to Intangible Assets	**-**	**-**	**-**	**-**	**71**	**-**	**71**
Balance at 30 June 2009	**(260,394)**	**-**	**(1,893)**	**(1,680)**	**(65,928)**	**-**	**(329,895)**
Net Book Value							
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
Net Book Value 30 June 2009	**5,904,220**	**35,635**	**10,102**	**6,906**	**108,272**	**677,980**	**6,743,115**

20. Property, Plant and Equipment (continued)

	PARENT						
	GENERATION STRUCTURES & PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 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
Balance at 1 July 2008	**5,757,822**	**32,262**	**10,509**	**8,586**	**76,176**	**153,665**	**6,039,020**
Additions	**-**	**-**	**-**	**-**	**-**	**83,972**	**83,972**
Transfers from Capital Work in Progress	**29,099**	**9,800**	**2,479**	**-**	**34,469**	**(76,408)**	**(561)**
Transfers to Assets Classified as Held For Sale	**-**	**(8,265)**	**(1,225)**	**-**	**(224)**	**-**	**(9,714)**
Disposals	**(123)**	**356**	**(141)**	**-**	**(3,208)**	**-**	**(3,116)**
Effect of Amalgamation of Arc	**-**	**-**	**-**	**-**	**57,902**	**10,309**	**68,211**
Balance at 30 June 2009	**5,786,798**	**34,153**	**11,622**	**8,586**	**165,115**	**171,538**	**6,177,812**
Accumulated Depreciation and Impairment							
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 Assets Classified as Held For Sale	-	-	92	-	165	-	257
Balance at 30 June 2008	(110,465)	-	(1,594)	(1,501)	(44,457)	-	(158,017)
Balance at 1 July 2008	**(110,465)**	**-**	**(1,594)**	**(1,501)**	**(44,457)**	**-**	**(158,017)**
Depreciation Expense	**(111,299)**	**-**	**(460)**	**(179)**	**(11,913)**	**-**	**(123,851)**
Disposals	**19**	**-**	**13**	**-**	**2,843**	**-**	**2,875**
Transfer to Assets Classified as Held For Sale	**-**	**-**	**165**	**-**	**136**	**-**	**301**
Effect of Amalgamation of Arc	**-**	**-**	**-**	**-**	**(9,163)**	**-**	**(9,163)**
Balance at 30 June 2009	**(221,745)**	**-**	**(1,876)**	**(1,680)**	**(62,554)**	**-**	**(287,855)**
Net Book Value							
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
Net Book Value 30 June 2009	**5,565,053**	**34,153**	**9,746**	**6,906**	**102,561**	**171,538**	**5,889,957**

Revaluations of generation structures and plant assets (including land and buildings) 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. These were last revalued at 30 June 2007, resulting in an uplift of $1.455 billion to the asset revaluation reserve. The total fair value of the generation structures and plant at 30 June 2007 was $6.120 billion.

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 $18.460 million (2008: $7.183 million) have been capitalised in relation to new builds and refurbishment of certain generation structures and plant assets. A capitalisation rate of 8.16% p.a. was used during the year (2008: 8.15%p.a.).

At 30 June 2009 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 $2.231 billion (2008: $2.280 billion).

Impairment

In 2009 an impairment loss of $6.428 million has been recognised in the income statement. The impairment loss arose in the retail cash generating unit (CGU) as a result of obsolescence of specific assets due to Arc's unsuccessful execution of its international growth strategy. These assets no longer have any value in use to the retail CGU.

Land

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

Government Valuation of Land and Buildings

The aggregate of the Government Valuation of land and buildings is $1.878 billion.

The figure set out above represents the aggregate of the latest registered valuations of land and buildings, and the cost of any additions to land and buildings subsequent to the relevant valuation. Meridian has significant and complex land assets, including generation assets comprising dams, tailraces and associated infrastructure. Not all the assets have registered valuations, and some assets have registered valuations that have been prepared in conjunction with land not yet formally registered as owned by Meridian. The aggregate of the Government Valuation of land and buildings above is derived from all registered valuations of Meridian's land and buildings as at 30 June 2009, but does not (except where attributable to additions subsequent to the relevant valuation) attribute separate value to land and buildings that do not have a formal registered valuation. The valuations used for the purpose of this section reflect the Registered Values provided to Meridian only and do not represent an independent, or Meridian's own valuation of the relevant assets.

21. Payables and Accruals

	GROUP		PARENT	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade Creditors	**6,218**	6,228	**2,612**	2,925
Accruals	**134,421**	522,672	**121,034**	503,114
GST	**9,722**	5,510	**11,166**	7,432
Employee Entitlements	**10,595**	7,116	**9,240**	4,997
Unearned Income	**5,163**	6,038	**4,700**	5,215
Deferred Consideration	**4,353**	-	**-**	-
	170,472	547,564	**148,752**	523,683

22. Provisions

	GROUP			PARENT	
	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000	RESTRUCTURING $'000	TOTAL $'000
Current					
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	-	-
Balance at 1 July 2008	**-**	**1,940**	**1,940**	**-**	**-**
Additional Provision Recognised	**514**	**321**	**835**	**514**	**514**
Amount Utilised	**-**	**(1,403)**	**(1,403)**	**-**	**-**
Balance at 30 June 2009	**514**	**858**	**1,372**	**514**	**514**

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

The restructuring provision reflects the restructuring of the business operations of Arc which has commenced and is anticipated to conclude in the following financial year. Arc was amalgamated with the Parent on 30 June 2009 (refer Note 16 – Investments in Subsidiaries).

23. Borrowings

	Currency	Interest Rate	Year of Maturity	GROUP AND PARENT FACE VALUE 2009 $'000	CARRYING VALUE 2009 $'000	FACE VALUE 2008 $'000	CARRYING VALUE 2008 $'000
Current Portion of Term Borrowings							
Unsecured Fixed Rate Notes	NZD	**-%**	-	**-**	**-**	50,000	49,808
Unsecured Bank Funding	NZD	**-%**	-	**-**	**-**	100,000	100,000
Unsecured Renewable Energy Notes	NZD	**5.25%**	2009-2010	**123,533**	**123,166**	-	-
Total Current Portion of Term Borrowings				**123,533**	**123,166**	150,000	149,808
Term Borrowings							
Unsecured Bank Funding	NZD	**3.18%**	2011-2013	**345,000**	**345,000**	150,000	150,000
Unsecured Floating Rate Notes	AUD	**3.53%**	2012	**123,000**	**122,997**	123,000	123,277
Fixed Rate Bond Issue	USD	**3.75%**	2012-2019	**581,649**	**659,866**	581,649	519,949
Unsecured Renewable Energy Notes	NZD	**5.25%**	2011	**832**	**832**	-	-
Total Term Borrowings				**1,050,481**	**1,128,695**	854,649	793,226
Total Borrowings				**1,174,014**	**1,251,861**	1,004,649	943,034

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 $0.705 billion (30 June 2008 $0.705 billion). To reflect increased credit margins the decrease in fair value of foreign currency denominated borrowings not included in carrying values above equates to $32.348 million.

The NZD denominated borrowings are reported at amortised cost, which is considered to approximate fair value given their term and nature. To reflect increased credit margins the decrease in fair value of NZD denominated bank facilities equates to $16.400 million.

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

Security

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

Credit Facilities

Meridian has committed bank facilities of $0.755 billion ($0.7 billion at 30 June 2008) of which $0.410 billion were undrawn at 30 June 2009 ($0.450 billion at 30 June 2008). The expiry of these facilities range from December 2009 to December 2012.

In addition to its borrowings, Meridian has entered into a number of letter of credit and performance guarantee arrangements which provide credit support of $72.100 million to support the collateral requirements of Meridian's trading business. Of the $72.100 million, $20 million expires in 2012 with the balance having no expiry date. Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

24. Deferred Tax Liability

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

	Note	GROUP		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at Beginning of Period		**1,328,356**	1,331,735	**1,312,807**	1,325,131
Movement in Temporary Differences Recognised in:					
- Income Statement		**(35,128)**	11,507	**(47,491)**	1,083
- Equity		**8,274**	(13,341)	**8,295**	(13,339)
Effect of Corporate Tax Rate Reduction on:					
- Income Tax Expense	8	**(720)**	(2,859)	**(689)**	(1,355)
- Revaluation Reserve		**-**	-	**-**	-
- Cash Flow Hedge Reserve		**-**	1,191	**-**	1,164
- Available for Sale Reserve		**-**	123	**-**	123
Acquired on Amalgamation of Arc		**-**	-	**792**	-
		1,300,782	1,328,356	**1,273,714**	1,312,807
Consisting of Temporary Differences on the following:					
Property, Plant and Equipment		**1,326,830**	1,320,348	**1,307,348**	1,312,806
Financial Instruments		**(27,977)**	(7,413)	**(27,980)**	(7,388)
Other		**1,929**	15,421	**(5,654)**	7,389
		1,300,782	1,328,356	**1,273,714**	1,312,807

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

	Note	GROUP		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Property, Plant and Equipment		**5,914**	4,131	**(7,061)**	(3,170)
Financial Instruments		**(43,461)**	9,350	**(43,461)**	9,350
Other		**1,699**	(4,833)	**2,342**	(6,452)
	8	**(35,848)**	8,648	**(48,180)**	(272)

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Deferred Tax Liability	**1,301,231**	1,329,478	**1,273,714**	1,312,807
Deferred Tax Asset	**(449)**	(1,122)	**-**	-
	1,300,782	1,328,356	**1,273,714**	1,312,807

25. Financial Risk Management

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

- Foreign exchange contracts and options ('FEC')
- Cross currency interest rate swaps ('CCIRS')
- Interest rate swaps ('IRS') including forward rate agreements and interest rate options
- Electricity contracts for differences ('CfD's') to hedge certain risk exposures.

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

- Price risk
- Foreign exchange risk
- Interest rate risk
- Aging analysis for credit risk.

Risk management for interest rate risk and currency risk is carried out by the Group Treasury 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.

Market Risk

a) Foreign Exchange Risk

Meridian borrows in foreign currencies and is exposed to foreign exchange risks, primarily in respect of the US and Australian dollar. In addition, the Group incurs capital and operating expenditure denominated in foreign currencies which exposes the Group to foreign exchange risk primarily in respect of US dollars, Japanese yen, Australian dollars and the Euro. Meridian does not enter into 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 26 – Derivative Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRS at 30 June 2009 was $0.705 billion (30 June 2008 $0.705 billion).

In respect of foreign exchange exposures on capital and operating expenditures denominated in foreign currencies, Meridian hedges the foreign exchange risk through a combination of foreign exchange forward contracts and options 'FEC'. Capital projects which are approved by the Board are hedged 100% whilst capital projects which are anticipated but not approved are hedged up to 50% based on treasury limits. All committed foreign currency exposures of greater than $100 thousand NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FEC at 30 June 2009 was $0.188 billion (30 June 2008 $0.270 billion).

In cases where the capital expenditure qualifies as a highly probable transaction, Meridian establishes a combination of both cash flow and fair value hedges. To the extent these hedges are effective, gains and losses on the derivatives are included as a component of the cost of the capital expenditure. In instances where the forecast capital expenditure does not meet the highly probable requirements, hedge accounting is not sought and the derivatives are classified as held for trading (refer to Note 26 – Derivative Financial Instruments).

The Group has monetary assets and liabilities denominated in Australian dollars as at 30 June 2009. These monetary assets and liabilities have been converted to New Zealand dollars at a closing exchange rate of 0.8046.

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

Market Risk (continued)

The value of foreign currency derivatives and CCIRS are sensitive to changes in the forward prices for currencies. The table below summarises the impact of a 10% increase/decrease in the New Zealand dollar against the forward price of the U.S. dollar and Australian dollar (for foreign currency derivatives and CCIRS) and the forward price of Japanese yen and Euro (for foreign currency derivatives only), as at 30 June, on the Group'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	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
NZ Dollar/U.S. Dollar	-10%	**-**	-	**(1,472)**	70
	+10%	**-**	-	**(4,566)**	(58)
NZ Dollar/Australian Dollar	-10%	**438**	-	**558**	1,155
	+10%	**(229)**	-	**(332)**	(945)
NZ Dollar/Japanese Yen	-10%	**-**	-	**1,507**	1,368
	+10%	**-**	-	**(409)**	(1,120)
NZ Dollar/EURO	-10%	**(16)**	1,597	**9,233**	27,158
	+10%	**(118)**	(1,307)	**(19,227)**	(22,220)
NZ Dollar/Canadian	-10%	**-**	-	**117**	189
	+10%	**-**	-	**(135)**	(155)
NZ Dollar/GBP	-10%	**-**	-	**27**	32
	+10%	**-**	-	**(89)**	(26)
CCIRS – NZ Dollar/U.S. Dollar	-10%	**-**	-	**77,522**	61,723
	+10%	**-**	-	**(63,427)**	(50,500)
CCIRS – NZ Dollar/Australian Dollar	-10%	**-**	-	**14,126**	14,380
	+10%	**-**	-	**(11,558)**	(11,765)

b) Cash Flow and Interest Rate Risk

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

Meridian manages its interest rate exposure on a net grouped basis by using a two step approach. The first step is to enter into a number of "fixed to floating" IRS to reflect a floating interest rate exposure for all borrowings. The second step is to fix interest rates on portions of the borrowings (in relation to both face amounts and tenor) by entering into a number of "floating to fixed" IRS. 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 2009 was $1.052 billion (30 June 2008 $0.75 billion).

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	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
New Zealand BKBM	-100 bps	**(59,811)**	(5,564)	**(59,811)**	(5,564)
	+100 bps	**20,598**	30,176	**20,598**	30,176

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

Market Risk (continued)

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

GROUP AND PARENT – 2009													
		TOTAL FACE VALUE	2011		2012		2014		2016		2019	
	Currency	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:												
Unsecured Bank Funding	NZD	**345,000**	3.18%	170,000	3.18%	175,000		-		-		-
Unsecured Floating Rate Notes	AUD	**123,000**		-	3.53%	123,000		-		-		-
Fixed Rate Bond Issue	USD	**581,649**		-	3.64%	101,789	3.80%	61,073	3.74%	146,866	3.79%	271,921
Unsecured Renewable Energy Notes	NZD	**832**	5.25%	832		-		-		-		-
Total Term Borrowings		1,050,481		170,832		399,789		61,073		146,866		271,921

GROUP AND PARENT – 2008													
		TOTAL FACE VALUE	2010		2012		2014		2016		2019	
	Currency	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000	INTEREST RATE	$'000
Term Borrowings:												
Unsecured Bank Funding	NZD	**150,000**	8.90%	150,000		-		-		-		-
Unsecured Floating Rate Notes	AUD	**123,000**		-	3.53%	123,000		-		-		-
Fixed Rate Bond Issue	USD	**581,649**		-	3.64%	101,789	3.80%	61,073	3.74%	146,866	3.79%	271,921
Total Term Borrowings		854,649		150,000		224,789		61,073		146,866		271,921

(c) Price Risk

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

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

For the first six months of the year and the comparative reporting period Meridian applied hedge accounting to a portion of the hedge book. These contracts were considered as part of an effective cash flow hedge relationship with the effective portion of the gains and losses deferred in a cash flow hedge reserve until the forecast electricity sales/purchases designated as the hedged item are transacted (refer to Note 26 - Derivative Financial Instruments). Upon cessation of hedge accounting the balance in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

The aggregate notional volume of the outstanding electricity derivatives at 30 June 2009 is 77,860Gwh (2008: 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 (NZAS contract), the aluminium price published on the London Metal Exchange (LME). The table below summarises the impact of increases/decreases in changes to these assumptions as at 30 June on Meridian's profit and equity, on the assumption that all other variables are held constant and Meridian's current accounting policies are followed as stated.

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

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

Market Risk (continued)

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Electricity Prices	-10%	**119,169**	106,612	**119,169**	114,794
	+10%	**(119,166)**	(106,612)	**(119,166)**	(114,794)
Interest Rates	-100 bps	**(41,766)**	(37,857)	**(41,766)**	(38,092)
	+100 bps	**36,958**	33,169	**36,958**	33,398
Aluminium LME	-10%	**(34,747)**	(37,348)	**(34,747)**	(37,348)
	+10%	**34,748**	37,348	**34,748**	37,348

As noted earlier in the report, in the case of the NZAS Contract Meridian is exposed to movements in the spot price of aluminium as published on the LME. Meridian is seeking to manage this exposure by entering into a number of Aluminium Commodity Swaps "ACS" as an economic hedge against the aluminium price component of the NZAS contract. These swaps are not designated as hedging instruments and are therefore classified as held for trading.

The aggregate notional principle amount of the outstanding ACS at 30 June 2009 was $116.0 million.

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

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Interest Rates	-100 bps	**(155)**	-	**(155)**	-
	+100 bps	**145**	-	**145**	-
Aluminium Commodity Swap	-10 %	**268**	-	**268**	-
	+10 %	**(268)**	-	**(268)**	-

Credit Risk

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

The carrying amounts of financial assets recognised in the 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.

Liquidity Risk

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

The tables below analyse Meridian's financial liabilities, and net settled or gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, except for 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.

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

Liquidity Risk (continued)

	GROUP 2009						
	TOTAL CONTRACTUAL CASH FLOWS $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000
Financial Liabilities:							
Trade and Other Payables	**160,956**	160,956	-	-	-	-	-
Borrowings	**1,486,558**	514,378	39,732	271,491	27,221	92,306	24,007
Net Settled Derivative Financial Liabilities:							
Contracts for Differences	**(3,395)**	(2,370)	(1,393)	440	(207)	135	-
Interest Rate Swaps	**10,460**	(15,840)	(7,528)	2,789	4,344	5,401	4,122
NZAS Contract for Difference	**59,863**	-	3,681	10,476	(3,582)	(5,678)	1,533
Aluminium Contract for Difference	**(6,519)**	-	-	-	(1,254)	(1,318)	(1,384)
Gross Settled Derivative Financial Liabilities:							
Forward Exchange Contracts–Cash Flow Hedges							
– Inflow	**134,759**	114,620	20,104	35	-	-	-
– Outflow	**119,072**	101,595	17,444	33	-	-	-
Forward Exchange Contracts–Held For Trading							
– Inflow	**1,195**	1,195	-	-	-	-	-
– Outflow	**1,081**	1,081	-	-	-	-	-
Cross Currency Interest Rate Swaps							
– Inflow	**1,010,479**	38,298	39,732	271,491	27,221	92,306	24,007
– Outflow	**981,408**	23,943	37,657	266,530	32,946	93,053	28,822

GROUP 2009						
YEAR	BORROWINGS $'000	INTEREST RATE SWAPS $'000	NZAS CONTRACT FOR DIFFERENCE $'000	ALUMINIUM CONTRACT FOR DIFFERENCE $'000	CCIRS INFLOW $'000	CCIRS OUTFLOW $'000
2016	180,342	4,036	4,996	(1,440)	180,342	173,266
2017	15,862	4,435	1,744	(1,123)	15,862	18,845
2018	15,950	5,103	9,407	-	15,950	18,796
2019	305,269	3,598	19,680	-	305,270	287,550
2020	-	-	(5,110)	-	-	-
2021	-	-	(48,473)	-	-	-
2022	-	-	(38,022)	-	-	-
2023	-	-	(35,397)	-	-	-
2024	-	-	(58,503)	-	-	-
2025	-	-	(30,486)	-	-	-
2026	-	-	76,136	-	-	-
2027	-	-	107,517	-	-	-
2028	-	-	49,944	-	-	-

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

Liquidity Risk (continued)

	PARENT 2009						
	TOTAL CONTRACTUAL CASH FLOWS $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000
Financial Liabilities:							
Trade and Other Payables	**144,051**	144,051	-	-	-	-	-
Borrowings	**1,486,558**	514,378	39,732	271,491	27,221	92,306	24,007
Net Settled Derivative Financial Liabilities:							
Contracts for Differences	**(3,395)**	(2,370)	(1,393)	440	(207)	135	-
Interest Rate Swaps	**10,460**	(15,840)	(7,528)	2,789	4,344	5,401	4,122
NZAS Contract for Difference	**59,863**	-	3,681	10,476	(3,582)	(5,678)	1,533
Aluminium Contract for Difference	**(6,519)**	-	-	-	(1,254)	(1,318)	(1,384)
Gross Settled Derivative Financial Liabilities:							
Forward Exchange Contracts–Cash Flow Hedges							
– Inflow	**134,759**	114,620	20,104	35	-	-	-
– Outflow	**119,072**	101,595	17,444	33	-	-	-
Forward Exchange Contracts–Held For Trading							
– Inflow	**1,195**	1,195	-	-	-	-	-
– Outflow	**1,081**	1,081	-	-	-	-	-
Cross Currency Interest Rate Swaps							
– Inflow	**1,010,479**	38,298	39,732	271,491	27,221	92,306	24,007
– Outflow	**981,408**	23,943	37,657	266,530	32,946	93,053	28,822

PARENT 2009						
YEAR	BORROWINGS $'000	INTEREST RATE SWAPS $'000	NZAS CONTRACT FOR DIFFERENCE $'000	ALUMINIUM CONTRACT FOR DIFFERENCE $'000	CCIRS INFLOW $'000	CCIRS OUTFLOW $'000
2016	180,342	4,036	4,996	(1,440)	180,342	173,266
2017	15,862	4,435	1,744	(1,123)	15,862	18,845
2018	15,950	5,103	9,407	-	15,950	18,796
2019	305,269	3,598	19,680	-	305,270	287,550
2020	-	-	(5,110)	-	-	-
2021	-	-	(48,473)	-	-	-
2022	-	-	(38,022)	-	-	-
2023	-	-	(35,397)	-	-	-
2024	-	-	(58,503)	-	-	-
2025	-	-	(30,486)	-	-	-
2026	-	-	76,136	-	-	-
2027	-	-	107,517	-	-	-
2028	-	-	49,944	-	-	-

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

Liquidity Risk (continued)

	GROUP 2008						
	TOTAL CONTRACTUAL CASH FLOWS $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000
Financial Liabilities:							
Trade and Other Payables	**541,526**	541,526	-	-	-	-	-
Borrowings	**1,221,971**	342,025	33,433	34,876	251,033	23,088	78,292
Net Settled Derivative Financial Liabilities:							
Contracts for Differences	**51,607**	39,282	4,197	4,183	1,663	1,420	862
Interest Rate Swaps	**(16,643)**	(8,454)	(6,489)	(2,095)	(375)	436	205
NZAS Contract for Difference	**(230,347)**	-	-	(1,436)	(13,355)	(34,542)	(26,823)
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	**912,825**	32,879	33,433	34,876	251,033	23,088	78,292
– Outflow	**1,025,866**	44,459	23,943	37,657	266,529	32,946	93,053

GROUP 2008					
YEAR	BORROWINGS $'000	INTEREST RATE SWAPS $'000	NZAS CONTRACT FOR DIFFERENCE $'000	CCIRS INFLOW $'000	CCIRS OUTFLOW $'000
2015	20,362	129	(16,335)	20,362	28,822
2016	152,960	-	(10,726)	152,960	173,266
2017	13,454	-	(11,430)	13,454	18,845
2018	13,528	-	(2,000)	13,528	18,796
2019	258,920	-	8,935	258,920	287,550
2020	-	-	(16,880)	-	-
2021	-	-	(62,251)	-	-
2022	-	-	(54,415)	-	-
2023	-	-	(53,814)	-	-
2024	-	-	(78,657)	-	-
2025	-	-	(51,901)	-	-
2026	-	-	56,244	-	-
2027	-	-	94,418	-	-
2028	-	-	44,621	-	-

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

Liquidity Risk (continued)

	PARENT 2008						
	TOTAL CONTRACTUAL CASH FLOWS $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000
Financial Liabilities:							
Trade and Other Payables	518,468	518,468	-	-	-	-	-
Borrowings	1,221,971	342,025	33,433	34,876	251,033	23,088	78,292
Net Settled Derivative Financial Liabilities:							
Contracts for Differences	51,607	39,282	4,197	4,183	1,663	1,420	862
Interest Rate Swaps	(16,643)	(8,454)	(6,489)	(2,095)	(375)	436	205
NZAS Contract for Difference	(230,347)	-	-	(1,436)	(13,355)	(34,542)	(26,823)
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	912,825	32,879	33,433	34,876	251,033	23,088	78,292
– Outflow	1,025,866	44,459	23,943	37,657	266,529	32,946	93,053

PARENT 2008					
YEAR	BORROWINGS $'000	INTEREST RATE SWAPS $'000	NZAS CONTRACT FOR DIFFERENCE $'000	CCIRS INFLOW $'000	CCIRS OUTFLOW $'000
2015	20,362	129	(16,335)	20,362	28,822
2016	152,960	-	(10,726)	152,960	173,266
2017	13,454	-	(11,430)	13,454	18,845
2018	13,528	-	(2,000)	13,528	18,796
2019	258,920	-	8,935	258,920	287,550
2020	-	-	(16,880)	-	-
2021	-	-	(62,251)	-	-
2022	-	-	(54,415)	-	-
2023	-	-	(53,814)	-	-
2024	-	-	(78,657)	-	-
2025	-	-	(51,901)	-	-
2026	-	-	56,244	-	-
2027	-	-	94,418	-	-
2028	-	-	44,621	-	-

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 Group – Notes to the Financial Statements (continued)

Capital Risk Management Objectives (continued)

During 2009 Meridian's strategy, which was unchanged from 2008, was to maintain the gearing ratio below 35% and a BBB+ credit rating. The gearing ratios at 30 June 2009 and 30 June 2008 were as follows:

	GROUP	
	2009 $'000	2008 $'000
Borrowings – NZD Equivalent Net of Foreign Exchange Hedging	**1,174,014**	1,004,649
Less: Cash and Cash Equivalents	**47,877**	71,742
Net Debt	**1,126,137**	932,907
Equity Attributable to Shareholders of the Parent	**4,281,639**	4,201,295
Adjust for Net Effect of Fair Value of Financial Instruments	**(14,592)**	(45,631)
Adjusted Shareholders' Equity	**4,267,047**	4,155,664
Total Capital	**5,393,184**	5,088,571
Gearing Ratio	**20.88%**	18.33%

Meridian's debt facilities have externally imposed capital requirements that relate to the Guaranteeing Group. Members of the Guaranteeing Group are Meridian Energy Ltd, MEL (Te Apiti) Ltd, MEL (White Hill) Ltd, MEL (West Wind) Ltd and MEL Holdings Ltd.

During the year all externally imposed capital requirements relating to Meridian's debt facilities have been complied with.

26. Derivative Financial Instruments

		GROUP		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Assets					
Held for Trading	CfD's	**20,309**	58,069	**20,309**	58,069
	Interest Rate Swaps	**19,306**	13,096	**19,306**	13,096
	Foreign Exchange Contracts	**108**	111	**108**	111
Cash Flow Hedges	CfD's	**(3,983)**	42,217	**(3,983)**	42,217
	Cross Currency Interest Rate Swaps (margin)	**4,024**	-	**4,024**	-
	Foreign Exchange Contracts	**5,392**	25,649	**5,382**	25,567
Fair Value Hedges	Cross Currency Interest Rate Swaps	**81,860**	-	**81,860**	-
Total		**127,016**	**139,142**	**127,006**	139,060
Disclosed as:					
Current		**13,033**	37,500	**13,023**	37,426
Non-current		**113,983**	101,642	**113,983**	101,634
Liabilities					
Held for Trading	CfD's	**89,074**	12,837	**89,074**	12,837
	Interest Rate Swaps	**37,461**	489	**37,461**	489
	Foreign Exchange Contracts	**109**	-	**109**	-
Cash Flow Hedges	CfD's	**(1,159)**	101,617	**(1,159)**	101,617
	Foreign Exchange Contracts	**14,484**	1,344	**14,484**	1,344
	Cross Currency Interest Rate Swaps (margin)	**-**	(292)	**-**	(292)
Fair Value Hedges	Cross Currency Interest Rate Swaps	**-**	54,907	**-**	54,907
Total		**139,969**	**170,902**	**139,969**	170,902
Disclosed as:					
Current		**33,567**	46,068	**33,567**	46,068
Non-current		**106,402**	124,834	**106,402**	124,834

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

26. Derivative Financial Instruments (continued)

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

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cross Currency Interest Rate Swaps	136,767	61,885	136,767	61,885
Borrowings	(138,508)	(61,904)	(138,508)	(61,904)
	(1,741)	(19)	(1,741)	(19)
Interest Rate Swaps	(30,762)	(14,321)	(30,762)	(14,321)
Cross Currency Interest Rate Swaps (margin)	14	8	14	8
Unrealised Net (Loss) on Financial Instruments Included in Other Finance Related Expenses	(32,489)	(14,332)	(32,489)	(14,332)
Foreign Exchange Contracts	(112)	191	(112)	191
CfD's – NZAS Contract	(119,974)	51,930	(119,974)	51,930
CfD's – Other	5,977	(6,624)	5,977	(6,624)
Unrealised Net (Loss)/Gain on Financial Instruments Included in Operating Profit	(114,109)	45,497	(114,109)	45,497
Total Unrealised Net (Loss)/Gain on Financial Instruments	(146,598)	31,165	(146,598)	31,165
Total amount of change in fair values of financial instruments valued with reference to non-observable data recognised in the income statement	(119,974)	51,930	(119,974)	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 25 – Financial Risk Management, it is Group policy to manage this risk on a net basis by entering into CfD's which swap receipt (payment) of spot electricity prices based on a specified volume of electricity with fixed electricity payments (receipts) for an equivalent volume. Cash settlements are made on these instruments on a monthly basis and impact income on an accrual basis.

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 (US and Australian dollars). Income is affected by these settlements on an accrual basis.

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

	GROUP AND PARENT				
	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	(35,990)	83,975
Amount Removed from Equity:					
– Electricity Sales/Costs	-	-	(71,829)	21,530	(50,299)
– Included in Initial Cost of Assets	(86,206)	-	-	25,862	(60,344)
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	-	-	-

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

26. Derivative Financial Instruments (continued)

	GROUP AND PARENT				
	FEC'S $'000	DEBT – CFH OF MARGIN $'000	CFD'S $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2008	24,304	306	(59,399)	10,437	(24,352)
Amount Recognised in Equity	261,178	3,718	39,926	(91,447)	213,375
Amount Removed from Equity:					
– Electricity Sales/Costs	-	-	16,650	(4,995)	11,655
– Included in Initial Cost of Assets	(294,576)	-	-	88,373	(206,203)
Closing Balance at 30 June 2009	(9,094)	4,024	(2,823)	2,368	(5,525)
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	14	-	-	-

The tables below show when the amounts held in the cash flow hedge reserve are expected to impact the income statement (CfD's and CCIRS) or the balance sheet (FEC's).

	GROUP AND PARENT 2009			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
Contracts for Differences	(1,625)	(1,518)	319	-
Cross Currency Interest Rate Swaps	-	-	(204)	4,228
Foreign Exchange Contracts	(7,103)	(1,991)	-	-
Total	(8,728)	(3,509)	115	4,228

	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
Foreign Exchange Contracts	17,981	6,592	(268)	(1)
Total	(30,247)	255	(4,918)	121

The realised amounts of derivatives included in the profit and loss statement are as follows:

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Energy Sales	18,140	94,477	18,450	94,477
Energy Related Costs	39,894	(22,539)	39,894	(22,539)

In 2008 due to the nature of the transactions, $3.475 million of costs have been reclassified from energy sales to energy related costs for the Parent and Group.

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 4 – NZAS Agreement).

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

	GROUP AND PARENT	
	2009 $'000	2008 $'000
Opening Balance	514,970	514,970
Additions During the Year	-	-
Amortised During the Year	-	-
Closing Balance	514,970	514,970

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

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

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

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit after Tax for the Period	**89,263**	128,562	**129,280**	147,690
Adjustments for Non-Cash Items:				
Depreciation	**149,793**	139,556	**123,851**	117,545
Amortisation of Intangible Assets	**13,302**	13,115	**10,102**	9,069
Impairment of Property, Plant and Equipment	**6,428**	-	**-**	-
Unrealised Net Loss/(Gain) on Financial Instruments	**146,598**	(31,165)	**146,598**	(31,165)
Movement in Deferred Tax	**(35,848)**	8,648	**(48,180)**	(272)
Transfer of Tax Losses to Parent	**-**	-	**22,758**	(1,280)
Impairment of Investments	**2,766**	-	**2,766**	12,866
Amortisation of Prepaid Debt Facility Fees	**953**	1,422	**953**	1,422
Share Based Payments	**98**	981	**-**	-
Other Non-Cash Items	**1,883**	467	**(470)**	(607)
	285,973	133,024	**258,378**	107,578
Items Classified as Investing Activities:				
Net (Gain)/Loss on Sale of Property, Plant and Equipment	**(4,797)**	(508)	**(4,795)**	(12,351)
	(4,797)	(508)	**(4,795)**	(12,351)
Changes in Working Capital Items				
Decrease/(Increase) in Accounts Receivable and Prepayments	**283,707**	(253,350)	**284,459**	(254,937)
Decrease/(Increase) in Inventory	**952**	2,714	**(345)**	(32)
(Decrease)/Increase in Payables and Accruals	**(377,092)**	333,184	**(374,931)**	324,189
(Decrease)/Increase in Provisions	**(568)**	(1,500)	**514**	(1,290)
Increase in Current Tax Payable	**36,086**	503	**36,386**	759
Arc Working Capital Acquired on Amalgamation	**-**	-	**(2,119)**	-
	(56,915)	81,551	**(56,036)**	68,689
Net Cash Flow from Operating Activities	**313,524**	342,629	**326,827**	311,606

28. Commitments

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Operating Lease Commitments				
Non cancellable operating lease payments are as follows:				
Less than One Year	**4,969**	6,800	**4,035**	3,513
Between One and Five Years	**10,212**	12,267	**8,440**	10,176
More than Five Years	**-**	683	**-**	593
	15,181	19,750	**12,475**	14,282

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

28. Commitments (continued)

	GROUP 2009 $'000	GROUP 2008 $'000	PARENT 2009 $'000	PARENT 2008 $'000
Capital Expenditure Commitments				
Property, Plant and Equipment	**123,149**	243,406	**4,023**	14,081
Software	**644**	-	**635**	-
	123,793	243,406	**4,658**	14,081
Less than One Year	**123,793**	243,406	**4,658**	14,081
Between One and Five Years	**-**	-	**-**	-
More than Five Years	**-**	-	**-**	-
	123,793	243,406	**4,658**	14,081

29. Related Party Transactions

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	$279	Anne Blackburn, a Director of Meridian Energy Limited, is a trustee of the Royal New Zealand Ballet in her own personal capacity (2008: $307 thousand).
Landcare Research New Zealand Limited	Carbon Zero Certification and Consulting Advice	$181	Anne Urlwin, a Director of Meridian Energy Limited, is also a Director of Landcare Research New Zealand Limited (2008: $120 thousand).
Transfield Services NZ Limited	Specialist Maintenance Services	$8,446	Stephen Reindler, a Director of Meridian Energy Limited, is also an Advisory Board Member of Transfield Services NZ Limited (2008: 7.327 million).
Meteorological Service of New Zealand	Weather Related Services	$87	Polly Schaverien, a Director of Meridian Energy Limited, is also a Director of the Meteorological Service of New Zealand (2008: $84 thousand).

Other Transactions involving a Related Party

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

ENTITY	TRANSACTION	$'000	DETAILS OF TRANSACTION
Damwatch Services Limited	Consultancy Services	$2,632	Damwatch Services Ltd provided consultancy services to Meridian Energy Ltd during the year totalling $2.632 million (2008 $1.754 million).
Arc Innovations Limited	Meter Leasing Services	$13,578	Arc Innovations Limited provided meter leasing services to Meridian Energy Limited during the year totalling $13.578 million (2008 $10.647 million).
MEL (West Wind) Limited	Sale of Assets	-	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. In 2008, the sale amount of $2 million resulted in a loss on sale to the Parent of $11.273 million and had no impact on the results of the Group for the comparative year.
MEL (Te Apiti) Limited	Sale of Assets	-	On 1 July 2007, Meridian Energy Limited sold assets to MEL (Te Apiti) Limited primarily consisting of property, plant and equipment relating to the Te Apiti wind farm. In 2008, the sale amount of $256 million resulted in a gain on sale to the Parent of $23 million and had no impact on the results for the Group for the comparative year.
Meridian Energy Captive Insurance Limited	Insurance Services	$3,193	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties (2008: $3.325 million).

29. Related Party Transactions (continued)

On 30 June 2009 Arc Innovations Ltd was amalgamated into the Parent. The financial effects of this are outlined in note 16 – Investments in Subsidiaries.

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

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

Intercompany Loan Facility Balances

	PARENT	
	2009 $'000	2008 $'000
Loan Facility Balances to Subsidiaries		
Loan to MEL Holdings Ltd	**21,200**	6,991
Loan to Right House Ltd	**644**	6,690
Loan to MEL (Te Apiti) Ltd	**256,000**	256,000
Loan to MEL (West Wind) Ltd	**416,218**	116,543
Loan to WhisperGen Ltd	**41,677**	41,677
Loan to Meridian Energy Captive Insurance Ltd	**50**	50
Loan to MEL (White Hill) Ltd	**144,000**	144,000
Loan to Arc Innovations Ltd	**-**	32,372
Loan to Powershop New Zealand Ltd	**-**	75
Loan to MEL (Te Uku) Ltd	**44,898**	-
Loan Facility Balances from Subsidiaries		
Loan from Meridian Energy International Ltd	**219,163**	219,163
Loan from Powershop New Zealand Ltd	**1,616**	-
Loan from Arc Innovations Ltd	**-**	4,700
Loan from Whisper Tech Ltd	**1,200**	8,500

Compensation of Key Management Personnel

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

	GROUP		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Directors Fees	**499**	483	**437**	433
Chief Executive Officer and Senior Management Team:				
Salaries & Short Term Benefits	**6,049**	6,239	**4,696**	4,909
Post Employment Benefits	**-**	-	**-**	-
Termination Benefits	**860**	-	**860**	-
Other Long Term Benefits	**-**	-	**-**	-
	6,909	6,239	**5,556**	4,909

30. Subsequent Events

Subsequent to balance date, Meridian purchased a 100% interest in Cleantech America Inc, a US based solar power facility, for an initial consideration of US$5.400 million (NZD $8.284 million). Futher contingent consideration of up to US$6 million is payable, subject to the achievement of future milestones. It is impracticable due to timing to disclose each class of the acquiree's assets, liabilities and contingent liabilities. Meridian has also made commitments of US$9.400 million relating to the CalRENEW-1 project, a 5 megawatt solar development in Mendota, California.

There have been no other material events subsequent to 30 June 2009 (2008: nil).

31. Contingent Assets and Liabilities

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

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

There were no other contingent assets or liabilities at 30 June 2009.

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 2009

The Auditor-General is the auditor of Meridian Energy Limited (the "Company") and Group. The Auditor-General has appointed me, Jamie Schmidt, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

The financial statements of the Company and Group on pages 78 to 125:

- 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 2009; 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 26 August 2009, 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 our opinion.

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

Audit procedures generally include:

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

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

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support 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. The financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2009 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 audit and the review of the half year financial statements which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the Company and Group.

Jamie Schmidt
DELOITTE
On behalf of the Auditor-General
WELLINGTON, New Zealand

This audit report relates to the financial statements of Meridian Energy Limited and group for the year ended 30 June 2009 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 26 August 2009 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*

Catherine Drayton
Director *Appointed 01/05/06*

David Shand
Director *Appointed 01/05/06*
Resigned 30/04/09

Polly Schaverien
Director *Appointed 01/11/07*
Resigned 28/02/09

Chris Moller
Director *Appointed 01/05/09*

Stephen Reindler
Director *Appointed 01/08/08*

Brett Shepherd
Director *Appointed 01/05/09*

Subsidiary Company Directors

Damwatch Services Limited
Ken Smales
Peter Menzies *(Resigned 06/09/08)*
Michael Campbell
Timothy Densem *(Resigned 31/12/08)*
Peter Amos (Managing Director)
Brian Vass

Damwatch Pty Limited
Stan Brogan
Peter Amos (Managing Director)

Meridian Energy Captive Insurance Limited
Andrew Robertson *(Resigned 03/02/09)*
James Hay
Neal Barclay *(Appointed 03/02/09)*

Meridian Limited
Andrew Robertson *(Resigned 03/02/09)*
James Hay
Neal Barclay *(Appointed 03/02/09)*

Energy for Industry Limited
Andrew Robertson *(Resigned 03/02/09)*
James Hay
Neal Barclay (Appointed 03/02/09)

Woodville Windfarm Limited
James Hay
Ken Smales

Meridian Energy International Limited
Andrew Robertson *(Resigned 03/02/09)*
James Hay
Neal Barclay *(Appointed 03/02/09)*

Right House Limited
Jason McDonald
Paul Smart
Brian Vass

Subsidiary Company Directors (continued)

WhisperGen Limited
James Hay
Jason McDonald
Paul Smart

Arc Innovations Limited
Paul Smart *(Resigned 30/04/09)*
Bill Highet *(Resigned 01/05/09)*
Phil Lough *(Resigned 30/04/09)*
Jason McDonald *(Company amalgamated 30/06/09, no longer a director)*
Brian Vass *(Company amalgamated 30/06/09, no longer a director)*
Mark Bowman *(Appointed 30/04/09, Company amalgamated 30/06/09, no longer a director)*
Stephen Fuller *(Appointed 30/04/09, Company amalgamated 30/06/09, no longer a director)*
Tim Lusk *(Appointed 22/10/08, Company amalgamated 30/06/09, no longer a director)*

Powershop New Zealand Limited
Jason McDonald
Brian Vass
James Hay
John Journee *(Appointed 27/05/09)*

MEL Holdings Limited
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

MEL (West Wind) Limited
Ken Smales
James Hay
Neal Barclay *(Appointed 03/02/09)*

Meridian (Whisper Tech No.2) Limited
James Hay
Jason McDonald

Three River Holdings (No.1) Limited
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

MEL (Te Apiti) Limited
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

Three River Holdings (No. 2) Limited
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

MEL (White Hill) Limited
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

MEL (Te Uku) Limited
James Hay *(Appointed 26/11/08)*
Ken Smales *(Appointed 26/11/08)*
Neal Barclay *(Appointed 03/02/09)*

Whisper Tech Limited
David Moriaty
Bruce Boehm
James Hay
Jason McDonald
Brian Vass

Meridian (Whisper Tech) Limited
James Hay
Paul Smart
Neal Barclay *(Appointed 03/02/09)*

WhisperGen (UK) Limited
David Moriaty
Jason McDonald

Meridian Energy Australia Pty Ltd
(formerly called Three River Holdings Pty Limited)
James Hay
Peter Lowe
Ken Smales
Neal Barclay *(Appointed 19/02/09)*

Meridian Wind Macarthur Pty Ltd
James Hay
Ken Smales
Peter Lowe
Neal Barclay *(Appointed 19/02/09)*

Meridian International No.1 Ltd
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

Meridian International No.2 Ltd
James Hay
Ken Smales
Neal Barclay *(Appointed 03/02/09)*

Mt Mercer Wind Farm Pty Ltd
James Hay *(Appointed 03/03/09)*
Peter Lowe *(Appointed 03/03/09)*
Ken Smales *(Appointed 03/03/09)*
Neal Barclay *(Appointed 03/03/09)*
Gerard Meindertsma *(Resigned 03/03/09)*

Meridian Australia Holdings Pty Ltd
James Hay
Peter Lowe
Ken Smales *(Appointed 25/02/09)*
Neal Barclay *(Appointed 25/02/09)*

Meridian Wind Australia Holdings Pty Ltd
James Hay
Peter Lowe
Ken Smales *(Appointed 25/02/09)*
Neal Barclay *(Appointed 25/02/09)*

Meridian Wind Australia Pty Ltd
James Hay
Peter Lowe
Ken Smales *(Appointed 25/02/09)*
Neal Barclay *(Appointed 25/02/09)*

Meridian Wind Monaro Range Holdings Pty Ltd
James Hay *(Appointed 23/04/09)*
Peter Lowe *(Appointed 23/04/09)*
Ken Smales *(Appointed 23/04/09)*
Neal Barclay *(Appointed 23/04/09)*

Meridian Wind Monaro Range Pty Ltd
James Hay *(Appointed 23/04/09)*
Peter Lowe *(Appointed 23/04/09)*
Ken Smales *(Appointed 23/04/09)*
Neal Barclay *(Appointed 23/04/09)*

Statutory Information (continued)

General Disclosures

Disclosure of Directors' Interests

The following are particulars of entries made in the Interests Register for the period 1 July 2008 to 30 June 2009. Directors disclosed, pursuant to section 140 of the Companies Act 1993, an interest or cessation of interest in the following entities during the year ended 30 June 2009:

Anne Blackburn
New Zealand Venture Fund, *Director*
Sir Ernest Davies Diabetes (Auckland) Endowment Fund, *Trustee*
NZ Bio Advisory, *Council member*
Technical Advisory Board of the Export Credit Office, *ceased to be a director*

Catherine Drayton
University of Canterbury, *Council member*

Chris Moller
Urenui Consultants Limited, *Director*
Rugby New Zealand 2011 Limited, *Director*
NZX Limited, *Director**
SKYCITY Investments Australia Limited, *Director*
SKYCITY Entertainment Group Limited, *Director*
New Zealand Cricket Inc, *Director*
National Foods (Pty) Limited, *Director*
Synlait Limited, *Director*
Victoria University Foundation, *Trustee*
Wellington Regional Stadium Trust, *Trustee*
Contact Energy Limited, *Shareholder*
Origin Energy Limited, *Shareholder*
Rio Tinto Limited, *Shareholder*
Blackrock New Energy Technology Investment Limited, *Shareholder*
Trustpower Limited, *Bondholder*

* M-Co operates a number of market services in relation to the New Zealand Electricity Market. The operations of M-Co were purchased by, and are now operated as a business unit of, NZX Limited from July 2009.

Stephen Reindler
Port of Napier Limited, *Director*
Institution of Professional Engineers of New Zealand, *Vice President*
Transfield Services (NZ), *Advisory Board member*
Glide Pathe Limited, *Advisory Board member*
Contact Energy, *Shareholder*
Vector Limited, *Shareholder*
New Zealand Oil & Gas, Shareholder

Brett Shepherd*
Tutu 1 Limited, *Director*
Tutu 2 Limited, *Director*
Ranginui Station 2008 Limited, *Director*

* Employee/directorial relationship with the head company in the Deutsche Bank (New Zealand) Group of companies and therefore a director of all/many members of that Group and its related companies.

Anne Urlwin
Landcare Research New Zealand Limited, *ceased to be a Director*
Naylor Love Ltd, *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
	2009 DIRECTORS' FEE ($'000)
Wayne Boyd	98.0
Anne Blackburn	51.7
Anne Urlwin	51.7
Raymond Watson	51.7
Catherine Drayton	49.0
Stephen Reindler	44.9
David Shand	40.8
Polly Schaverien	32.7
Brett Shepherd	8.2
Chris Moller	8.2
Total	**436.9**

Statutory Information (continued)

Directors' Remuneration – Subsidiaries

	SUBSIDIARIES 2008 DIRECTORS' FEE ($'000)
Peter Menzies *(Damwatch Services Limited)*	3.0
Phil Lough *(Arc Innovations Limited)*	8.0
Bill Highet *(Arc Innovations Limited)*	12.0
Paul Smart *(Arc Innovations Limited)*	10.8
Stan Brogan *(Damwatch Pty Ltd)*	6.6
Paul Smart *(Right House Limited)*	22.1
Total	**62.5**

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.

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.

	2009	
	PARENT	SUBSIDIARIES
$100,000 – 109,999	36	22
$110,000 – 119,999	43	13
$120,000 – 129,999	39	10
$130,000 – 139,999	25	8
$140,000 – 149,999	15	3
$150,000 – 159,999	12	5
$160,000 – 169,999	8	1
$170,000 – 179,999	12	1
$180,000 – 189,999	10	-
$190,000 – 199,999	10	1
$200,000 – 209,999	2	1
$210,000 – 219,999	4	1
$220,000 – 229,999	3	2
$230,000 – 239,999	1	-
$240,000 – 249,999	2	-
$250,000 – 259,999	2	2
$260,000 – 269,999	5	1
$270,000 – 279,999	-	2
$280,000 – 289,999	1	-
$310,000 – 319,999	1	-
$330,000 – 339,999	1	-
$340,000 – 349,999	-	1
$350,000 – 359,999	1	1
$360,000 – 369,999	1	-
$420,000 – 429,999	1	-
$470,000 – 479,999	2	1
$480,000 – 489,999	1	-
$750,000 – 759,999	1	-
$1,030,000 – 1,039,999	1	-

Greenhouse Gas Inventory

This section provides a summary of the Meridian Energy Group Greenhouse Gas (GHG) Inventory Report for the period 1 July 2008 to 30 June 2009.

Approach to Greenhouse Gas Management

Meridian is committed to responsible use of resources and we have an explicit goal of reducing the greenhouse gas intensity of our operations. We seek to adhere to best practice in our greenhouse gas emission measurement and management. This year we have challenged ourselves to improve our greenhouse processes in a number of ways:

- Our Executive Team approved a Greenhouse Gas Measurement and Management Policy for the Meridian Group;
- We published our Greenhouse Gas performance results in our Interim Report for the first time; and
- We recertified our electricity product under the carboNZero^{CertTM} standard – and Meridian was the first company to have a certificate awarded after the CarboNZero^{CertTM} programme's JAS-ANZ accreditation; and
- We extended our participation in the carboNZero programme by having subsidiary Right House certified as a carboNZero organisation and by EFI becoming the first organisation in New Zealand to achieve CEMARS certification.

Statement of Greenhouse Gas Inventory policies

The GHG accounting methodologies applied to the Meridian Group GHG Inventory comprise:

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

Preparation of group GHG inventories

Organisational boundary and consolidation approach

The organisational boundary determines the parameters for GHG reporting in the Meridian Group GHG Inventory. This boundary encompasses operations owned or controlled by Meridian, its subsidiaries, associate companies and the joint ventures in the Meridian Group. Meridian accounts for GHG emissions from all activities within this organisational boundary.

Meridian applies the equity share consolidation approach and accounts for a percentage of the emissions from entities in which it has an equity interest according to its share of equity in the entity.

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

Facilities

The emissions for the group are recorded in inventory reports for nine separate facilities as outlined below: (as defined by ISO14064-1).

- **Meridian Electricity** – This facility relates to Meridian's core activities of renewable generation and retail of electricity. The inventory report for this facility also captures life cycle emissions reported for our electricity product. We historically named this facility the Meridian Energy Facility because it included business units and subsidiaries that were not at that time recognised as stand alone facilities. Since our 2007/8 report, these activities have been the subject of separate facilities. We have now changed the name to Meridian Electricity Facility. The boundaries and scope of the facility remain unchanged. It excludes activities associated with Agriculture, EFI, and Arc Innovations as they are classified as separate facilities. The facility includes the following legal entities: Meridian Energy Limited (excluding the Agriculture, EFI, and Arc Innovations operations); 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 Apiti) Limited; MEL (Te Uku) Limited; MEL (West Wind) Limited; MEL (White Hill) Limited; Meridian International No.1 Limited (non-trading); Meridian International No 2 Limited (non-trading).
- **Agriculture** – This facility relates to Meridian's share-milking joint ventures, carried out as a business unit within Meridian Energy Limited.
- **Energy for Industry (EFI)** – EFI 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. Most of the centres operate under a contract whereby EFI owns the energy producing plant and equipment.
- **Arc Innovations** – Arc Innovations develops, deploys and manages Advanced Meter Management (AMM) technology and services. On 30 June 2009, Arc Innovations was amalgamated into Meridian Energy Limited. It remains a separate facility.
- **Powershop** – Powershop conducts energy retailing activities within Powershop New Zealand Limited under the Powershop brand.
- **Right House** – Right House is an independent supplier of energy efficiency advice and solutions. The Right House facility is responsible for the corporate and transport emissions arising from advisory and installation activities undertaken by Right House that take place in Meridian Energy Limited, Right House Limited and Elemental Energy Limited. Under equity share Meridian reports 50% of the emissions from Elemental Energy.
- **Damwatch** – The Damwatch facility relates to consultancy services relating to dam safety and surveillance that take place in Damwatch Services Limited. The facility includes Damwatch Pty Limited (incorporated in Australia) because it is 100% owned by Damwatch Services Limited and performs the same type of activities.

Greenhouse Gas Inventory (continued)

- **Meridian Australia** – The Meridian Australia facility is made up of the following legal entities through which Meridian carries out generation development activities in Australia . The only companies trading in this group are Meridian Energy Australia Pty Limited, Meridian Wind Macarthur Pty Ltd and Mt Mercer Windfarm Pty Limited. The following legal entities are included: Three River Holdings (No 1) Limited (non-trading); Three River Holdings (No 2) Limited (non-trading); Meridian Energy Australia Pty Limited, formerly Three River Holdings Pty Limited; Meridian Wind Macarthur Pty Limited; MWF JV Pty Limited (joint venture); Meridian Australia Holdings Pty Limited (non-trading); Meridian Wind Australia Holdings Pty Limited (non-trading); Meridian Wind Australia Pty Limited (non-trading); Mt Mercer Windfarm Pty Limited; Meridian Wind Monaro Range Holdings Pty Limited; Meridian Wind Monaro Range Pty Limited.
- **Whisper Tech** – Whisper Tech is a 93.23% Meridian owned subsidiary company that manufactures and sells micro-combined heat and power systems. The Whisper Tech facility also includes WhisperGen (UK) Limited (incorporated in United Kingdom) because it is 100% owned by Whisper Tech Limited and performs the same type of activities. There was no significant activity during the 2008/09 period in the Efficient Home Energy SL joint venture. 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); WhisperGen (UK) Limited; Efficient Home Energy SL (joint venture).

Changes to reporting

The methodology used to prepare the GHG inventories is unchanged.

Base Year

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

This is Meridian's second Group inventory report. As shown in the table below, operational GHG emissions for Meridian were 70,194 tonnes of CO_2e for the period 1 July 2007 to 30 June 2008 (the base year), whilst there were 65,651 tonnes of CO_2e for the period 1 July 2008 to 30 June 2009. Our year end result is a reduction of 4,543 tonnes CO_2e from the previous year. The table below provides a high level comparison of operational emissions this year with the base year for each facility.

Facility	2007/08 tCO_2e	2008/09 tCO_2e	% CHANGE
Meridian Electricity	5,848	5,640	- 4%
Agriculture	3,174	6,260	97% increase
EFI	59,572	51,098	- 14%
Arc Innovations	379	373	- 2%
Powershop	98	655	568% increase
Right House	167	187	12% increase
Damwatch	135	207	53% increase
Meridian Australia	132	142	8% increase
Whisper Tech	689	1,089	58% increase
GROUP	**70,194**	**65,651**	**- 6%**

The Meridian Electricity facility shows a 4% reduction in emissions from the previous year. Some of the recorded reduction in emissions is attributable to the application of a lower electricity emission factor than that applied in 2007/08. Other significant influences on the emission volume include application of higher emission factors to travel in petrol and diesel vehicles, and by air, and to expenditure on taxis. We have also, for the first time included fuel used by contractors undertaking field services, a new emission source not reported in 2007/08. Taking account of changes in emission factors and emission sources since the base year, the emissions attributable to the Meridian Electricity facility have reduced by just over 2% since last year.

The 97% increase in emissions reported for the Agriculture facility is primarily due to our having for the first time used the Lincoln Carbon Calculator for Agriculture as it enabled a wider variety of emission sources to be included.

The decrease in emissions reported in the EFI facility was primarily driven by the substitution of gas generated electricity at ADHB for grid purchased electricity resold to ADHB. This was due to the relatively low spot electricity prices during the year. Emissions also decreased significantly from CCDHB only being under contract for three months in the current year, compared to a full 12 months in the prior year.

The reported reduction in emissions from the Arc Innovations facility is attributable to lower electricity emissions factors applying in 2008/09 compared with the previous year.

Powershop went from pilot phase to public launch in February 2009 and this increased level of business activity has resulted in a substantial increase in its emissions. The majority of these are attributable to the Scope 3 emissions from electricity purchased for resale and these emissions reflect the growth in its business.

Damwatch has also undergone a period of business expansion. It has taken on more staff, moved to larger premises and increased activity in both international and domestic markets. This has resulted in higher emissions from business travel and an overall increase in emissions over 2007/08.

Meridian Australia has also undergone a period of business expansion. Meridian Australia has taken on more staff and now has offices in both Sydney and Melbourne. We reduced emissions from business travel but have significantly increased emissions from electricity consumed.

An increase in the emissions attributable to the combustion of gas accounts for the increase in the Whisper Tech facility. Emission factors for more gases have been applied compared with last year and this has resulted in an increase in reported emissions.

Meridian Energy Limited (Group) Greenhouse Gas Inventory

	GREENHOUSE GAS EMMISIONS (tCO_2e)										
	MERIDIAN ELECTRICITY	AGRICULTURE	ARC INNOVATIONS	DAMWATCH	EFI	MERIDIAN AUSTRALIA	POWERSHOP	RIGHT HOUSE	WHISPER TECH	2008/2009 TONNES OF CO_2e	2007/2008 TONNES OF CO_2e
Operational Emissions											
Direct Emissions (scope 1)											
Stationary Combustion [1]	56	-	-	-	43,778 [4]	-	-	-	530	44,364	47,042
Mobile Combustion [2]	891	83	3	-	13	1	-	44	1	1,036	886
Fugituve Emissions	133	5,954 [6]	-	-	-	-	-	-	-	6,087	3,133
	1,080	6,037	3	-	43,791	1	-	44	531	51,487	51,061
Energy Indirect (scope 2) Emissions											
Purchased Electricity	2,262	38	64	11	1,056	56	3	17	26	3,533	8,517
Other Indirect (scope 3) Emissions											
Business Travel [3]	1,931	-	301	194	53	77	32	122	525	3,235	2,801
Stationary Combustion	4	-	-	-	1,980	-	-	-	-	1,984	6,089
Electricity Purchased and Resold	-	-	-	-	3,420	-	620	-	-	4,040	80
Line Losses	44	3	5	1	87	8	-	1	2	151	38
Waste	12	-	-	1	2	-	-	3	5	23	707
Operational Maintenance Activities	307	74	-	-	-	-	-	-	-	381	273
Freight	-	-	-	-	709	-	-	-	-	709	628
Purchased Feed	-	108	-	-	-	-	-	-	-	108	-
	2,298	185	306	196	6,251	85	652	126	532	10,631	10,616
Total Operational CO_2e Emissions	**5,640**	**6,260**	**373**	**207**	**51,098**	**142**	**655**	**187**	**1,089**	**65,651**	**70,194**

Meridian Energy Limited (Group) Greenhouse Gas Inventory (continued)

	GREENHOUSE GAS EMMISIONS (tCO_2e)										
	MERIDIAN ELECTRICITY	AGRICULTURE	ARC INNOVATIONS	DAMWATCH	EFI	MERIDIAN AUSTRALIA	POWERSHOP	RIGHT HOUSE	WHISPER TECH	2008/2009 TONNES OF CO_2e	2007/2008 TONNES OF CO_2e
One TIme Emissions [5]											
Other Indirect (scope 3) Emissions											
Mobile Combustion	4,443	-	-	-	-	-	-	-	-	4,443	3,712
Major Construction Materials	1,729	-	-	-	-	-	-	-	-	1,729	28,963
Freight	2,114	-	-	-	-	-	-	-	-	2,114	132
Total One Time CO_2e Emissions	**8,286**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,286**	**32,807**
One Time Emissions from Antarctica											
Other Indirect (scope 3) Emissions											
Business Travel	41	-	-	-	-	-	-	-	-	41	10
Mobile Combustion	45	-	-	-	-	-	-	-	-	45	-
Major Construction Materials	354	-	-	-	-	-	-	-	-	354	113
Freight	561	-	-	-	-	-	-	-	-	561	14
Total One Time CO_2e Emissions from Antarctica	**1,001**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,001**	**137**
Total Emissions	**14,927**	**6,260**	**373**	**207**	**51,098**	**142**	**655**	**187**	**1,089**	**74,938**	**103,138**
Less Emissions already Offset	-	-	(64)	(11)	(4,485)	-	(85)	(17)	(26)	(4,688)	(183)
Emissions after Intra Group Offsets	**14,927**	**6,260**	**309**	**196**	**46,613**	**142**	**570**	**170**	**1,063**	**70,250**	**102,955**
CO_2 Emissions from Wood Pulp	**-**	**-**	**-**	**-**	**66,283**	**-**	**-**	**-**	**-**	**66,283**	**89,418**
CO_2 Emissions from Landfill Gas	**-**	**-**	**-**	**-**	**3,537**	**-**	**-**	**-**	**-**	**3,537**	**1,870**
CO_2 Emissions from Sludge	**-**	**-**	**-**	**-**	**2,903**	**-**	**-**	**-**	**-**	**2,903**	**-**

Notes on table above

1 Emissions from direct stationary combustion include emissions from the generation of electricity, heat and steam including diesel use by back-up generators

2 Emissions from mobile combustion include fuel used in boats and owned and leased vehicles

3 Business travel includes rental cars, air travel and taxis

4 **EFI's stationary combustion emissions** include emissions from fuel used in generators, boilers and furnaces

5 **One time scope 3 emissions** – arise from the activities of contractors undertaking construction and major asset maintenance 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 and the Benmore Refurbishment Project

6 **Fugitive Agricultural emissions** – arise from ruminant livestock emissions and application of fertiliser.

Exclusions

Meridian Energy Limited (Group) Greenhouse Gas Inventory (continued)

Fugitive HFC emissions from use of air conditioning and fridges have been excluded for most sites due to lack of data. These have been estimated to be well below the materiality threshold of 1% per emission source.

Emissions from waste are reported for the Electricity, EFI, Damwatch, Right House and Whisper Tech facilities only. Emissions from office waste attributable to the EFI facility are included in the waste emissions reported in respect of the Electricity facility. Emissions from waste for the Powershop, Arc Innovations, Meridian Australia and Agriculture facilities were unable to be measured and are not reported.

During the period the Whisper Tech purchased and imported products from outside New Zealand. Emissions from freight of these 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 heat and power generation systems. No emission factor has been able to be obtained for nitrogen, acetylene, oxygen and balloon gas. These gases make up less than 0.1% of gases used by Whisper Tech.

Emissions from taxis are excluded for the Whisper Tech facility. They are believed to be immaterial as generally staff use rental vehicles.

Emissions from the Whisper Tech JV in Spain are excluded. There has been little activity in the period (only 10 units manufactured) and it is not cost effective to quantify these emissions at this time.

Scope 3 emissions from contractor fuel used in relation to metering services for the Electricity facility are excluded as these have not been able to be measured this year. These emissions are likely to be below the 1% materiality threshold. Emissions from contractor fuel in relation to field services activities have been included for the first time accounting for approximately 2% of operational emissions in the Electricity facility.

In the inventory report for the Electricity facility, Scope 3 emissions embodied in materials used in minor operational maintenance and associated with freight of those materials have not been measured nor have scope 3 emissions embodied in minor construction components as it is not technically feasible or cost effective to quantify these emissions.

Notes on Electricity that is purchased and OnSold 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) at financial year end only. The annual netting off approach has been approved by the carboNZero^CertTM programme, and conforms to green energy programme precedents in the US (Green-e), Australia (Greenpower), and Europe (Eugene).

Financial instruments such as contracts for difference do not involve the physical supply of electricity. 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 electricity 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.

Emission Factors Used

Except as stated, emission factors used were provided by Landcare Research under the terms of the carboNZero programme. These are expressed as total tonnes of carbon dioxide equivalent. Consequently, all calculations by Meridian are expressed in tonnes of carbon dioxide equivalent.

The quarterly electricity emission factors calculated by the Ministry for Economic Development (MED) are applied in accordance with the terms of the carboNZero programme. The September 2008 factor has been applied to electricity consumed in New Zealand from July to September, the December 2008 factor has been applied to consumption from October to December, and the March 2009 factor has been applied to consumption from January to June. 7.5% of each quarterly factor has been applied as transmission and distribution losses.

The emission factors applied to electricity consumption and transmission and distribution losses in Australia have been sourced from the Australian Government Department of Climate Change *National Greenhouse Accounts (NGA) Factors, June 2009*.

The emission factor applied to SF_6 leakage is sourced from the IPCC Second Assessment Report on the carboNZero website glossary.

Emissions from dairy cows, use of fertilisers on farm, operational maintenance and embodied in purchased feed have been estimated using the *Carbon Calculator for Agriculture and Horticulture* developed by Lincoln University and AgriLINK.

The emission factors applied to combustion of wood waste at WPI and to landfill gas at Nelson Hospital have been sourced from Ministry of Economic Development, *New Zealand Energy Greenhouse Gas Emissions 2008 Calendar Year Edition*.

The emission factors applied to combustion of wood waste and sludge at Silver Fern Farms have been sourced from Ministry for the Environment, *Guidance for Voluntary, Corporate Greenhouse Gas Reporting, Data and Methods for the 2007 Calendar Year.*

Verification of 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^CertTM verifier. A reasonable level of assurance has been given over the assertions and quantifications included in the report.

GRI Sustainability Reporting Index

Reporting Guidelines Version 3.0 including Electricity Utility Sector Supplement

Key

Yes | Partially | No | N/A (Not Applicable)

PROFILE DISCLOSURE		STATUS	PAGE	COMMENT
1	**Strategy and Analysis**			
1.1	Statement from the CE and Chairman		6-9	
1.2	Description of key impacts, risks and opportunities		56-59	
2	**Organisational Profile**			
2.1	Name of reporting organisation		83	
2.2	Primary brands, products and / or services		ifc	
2.3	Operational structure of the organisation		3, 11	
2.4	Location of the organisation's headquarters		83	
2.5	Countries in which the organisation operates		ifc, 46, 50	
2.6	Nature of ownership and legal form		70	
2.7	Nature of markets served		29	
2.8	Scale of the reporting organisation		12-31	
2.9	Significant changes in size, structure or ownership	N/A		None in this reporting period
2.10	Awards received in the reporting period		39-49	
EU1	Installed capacity		27	
EU2	Net energy output		27	
EU3	Number of customer accounts		29	
EU4	Length of transmission and distribution lines	N/A		Length not significant
EU5	Allocation of CO2e emissions allowances		50	
3	**Report Parameters**			
3.1	Reporting period		3	
3.2	Date of most recent previous report (if any)		3	
3.3	Reporting cycle (annual, biennial etc)		71	
3.4	Contact point for questions regarding the report or its questions		141	
3.5	Process for defining report content		3	
3.6	Boundary of the report		3	
3.7	Specific limitations on the scope or boundary of the report		3	
3.8	Basis for reporting on joint venture, subsidiaries, leased facilities, outsourced operations and other entities		3	
3.9	Data measurement techniques and the basis of calculations			Throughout this report
3.10	Explanation of the effect of any restatements	N/A		No restatements
3.11	Significant scope, boundary or measurement changes	N/A		No changes
3.12	GRI index table		136	
3.13	External assurance policy and practice		139-140	
4	**Governance, commitments and engagement**			
4.1	Governance structure of the organisation		70-76	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer		71	
4.3	Independence of the Board		72	
4.4	Mechanisms to provide recommendations to the Board		72	
4.5	Linkage between performance and compensation		51	
4.6	Processes for avoiding conflicts of interest		72	
4.7	Processes for determining qualifications and expertise of the members of the Board	N/A		Board appointed by the govt
4.8	Corporate mission or values		52, 76	
4.9	Board-level processes for identifying and managing risks and opportunities		75	
4.10	Processes for evaluating the Board's own performance		73	
4.11	How the precautionary principle is addressed		64	
4.12	External charters			
4.13	Memberships in associations			
4.14	List of stakeholder groups engaged by the organisation		57-59	
4.15	Identification and selection of stakeholders		56-59	
4.16	Approaches to stakeholder engagement		56	
4.17	Key topics and concerns from stakeholder engagement		57-59, 139-140	

PERFORMANCE INDICATORS		STATUS	PAGE	COMMENT
Economic – Main economic impacts of the organisation throughout society, flow of capital amongst stakeholders				
EC1	Direct economic value generated and distributed		12-31	
EC2	Financial implications and other risks and opportunities due to climate change		68-69	
EC3	Coverage of defined benefit plan obligations		89	
EC4	Significant financial assistance received from government	N/A		None received
EC5	Entry level wage compared to minimum wage			
EC6	Spending on locally-based suppliers			
EC7	Procedures for local hiring			
EC8	Infrastructure investments and services provided primarily for public benefit		57-61	
EC9	Significant indirect economic impacts		60-61	
EU6	Approach to electricity availability and reliability		40	
EU7	Demand-side management programs		49	
EU8	R&D aimed at providing reliable electricity and sustainable development			
EU9	Decommissioning of nuclear power sites	N/A		No nuclear power plants
EU10	Planned capacity against demand		40	
EU11	Average generation efficiency of thermal plants	N/A		Not at electricity utility scale level
EU12	Transmission & distribution efficiency	N/A		Responsibility of Transpower
Environmental – Impacts on living and non-living natural systems				
EN1	Materials used by weight or volume			
EN2	Percentage of recycled input materials		64-65	
EN3	Direct energy consumption by primary energy source			
EN4	Indirect energy consumption by primary source			
EN5	Energy saved due to conservation and efficiency improvements			
EN6	Initiatives to provide energy efficient or renewable energy-based products and services		49, 50, 62	
EN7	Initiatives to reduce indirect energy consumption		49	
EN8	Total water withdrawal by source			
EN9	Water sources significantly affected by withdrawal of water			
EN10	Percentage and total volume of water recycled and reused			
EN11	Land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas			
EN12	Impacts on biodiversity		64-65	
EU13	Biodiversity offset habitats		64-65	
EN13	Habitats protected and restored		64-65	
EN14	Strategies for managing impacts on biodiversity		64-65	
EN15	Endangered species with habitats in areas affected by operations		64-65	
EN16	Greenhouse gas emissions		131-135	
EN17	Other relevant indirect greenhouse gas emissions by weight		131-135	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved			
EN19	Emissions of ozone-depleting substances			
EN20	Emissions NO, SO, and other significant air emissions by type and weight			
EN21	Water discharge by quality and destination			
EN22	Total weight of waste by type and disposal method			
EN23	Total number and volume of significant spills	N/A		None in the reporting period
EN24	Transported hazardous waste			
EN25	Water bodies and associated habitats affected by discharge of water		64-65	
EN26	Initiatives to mitigate environmental impacts of products and services		64-67	
EN27	Percentage of products sold and their packaging materials that are reclaimed	N/A		No packaging materials used
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	N/A		No significant fines or sanctions
EN29	Enivronmental impact from transport of goods and staff			
EN30	Environmental protection expenditures and investments			

PERFORMANCE INDICATORS		STATUS	PAGE	COMMENT
Labour Practices and Decent Work – Adherence to internationally recognised universal standards				
EU14	Programs and processes to ensure the availability of a skilled workforce		51-52	
EU15	Percentage of employees eligible to retire		53	
EU16	Health & Safety policies for employees and contractor employees		8, 52	
LA1	Total workforce by employment type, employment contract, and region		53	
LA2	Total number and rate of employee turnover		53	
EU17	Days worked by contractors and subcontractor employees			
EU18	Percentage of contractor and subcontractor employees who have undergone relevant health and safety training			
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees			
LA4	Percentage of employees covered by collective bargaining agreements			
LA5	Minimum notice period(s) regarding significant operational changes			
LA6	Percentage of total workforce represented in formal health and safety committees			
LA7	Injury, absenteeism and fatality data		53	
LA8	Programmes to assist workforce members, their families, or community members regarding serious diseases			
LA9	Health and safety topics covered in formal agreements with trade unions			
LA10	Average hours of training			
LA11	Programmes for skills management and lifelong learning		51-52	
LA12	Percentage of employees receiving regular performance and career development reviews			
LA13	Composition of governance bodies and breakdown of employees		10-11	
LA14	Ratio of basic salary of men to women			
Human Rights – Extent of consideration of human rights in investment and supplier/contractor selection practices				
Society – Impacts on communities in which we operate and risks of unethical behaviour				
EU19	Stakeholder participation in the decision-making process		56-59, 64	
EU20	Approach to managing the impacts of displacement	N/A		No displacement
EU21	Disaster/emergency planning and response		39	
SO1	Programmes and practices that assess and manage the impacts of operations on communities		60	
EU22	Number of people physically or economically displaced and compensation given	N/A		No displacement
SO2	Business units analysed for risks related to corruption			
SO3	Employees trained in organisation's anti-corruption policies and procedures			
SO4	Actions taken in response to incidents of corruption	N/A		None in the reporting period
SO5	Public policy positions and participation in public policy development and lobbying		9, 58, 65	
SO6	Financial contributions to political parties	N/A		Prohibited in our financial delegation policy
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	N/A		None in the reporting period
SO8	Significant fines/sanctions for non-compliance with laws and regulations	N/A		None in the reporting period
Product Responsibility – Effect of our products/services upon customers				
EU23	Programs to improve or maintain access to electricity and customer support services		31	
EU24	Practices to address access issues			
PR1	Processes for assessing community health risks including monitoring, prevention measures and, if applicable, long term health-related studies			
PR2	Incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts	N/A		None in the reporting period
EU25	Number of injuries and fatalities to the public involving company assets	N/A		None in the reporting period
PR3	Type of product and services information required by procedures		30	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	N/A		None in the reporting period
PR5	Customer satisfaction practices and measures		29	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications			
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication	N/A		None in the reporting period
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	N/A		None in the reporting period
PR9	Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N/A		None in the reporting period
EU26	Percentage of population unserved in licensed distribution or service areas	N/A		Responsibility of lines companies
EU27	Number of residential disconnections for non-payment			
EU28	Power outage frequency	N/A		Not under our control
EU29	Average power outage duration	N/A		Not under our control
EU30	Average plant availability factor		26	

Annual Report Review Process

Review objectives

Our report on the year strives to be an honest and transparent commentary on the issues we've encountered, how we've engaged with stakeholders, and the impacts they and we have had on each other.

The objective of our review process is to evaluate whether our report is accurate and covers everything of material significance to our stakeholders. To achieve this objective we have:

- Completed internal data quality checks
- Convened a number of key stakeholders to discuss report content and coverage.

A stakeholder review panel was engaged comprising representatives from a selection of our key stakeholders: our residential customers (Paula Crean, Christchurch Methodist Mission), our business customers (Steve Woodside, Canterbury Employers Chamber of Commerce), our generation communities (Rick Ramsay, Waitaki Community Fund Panel), tangata whenua (Gerry Te Kapa Coates, Te Runanga o Ngai Tahu) and our industry (Cynthia Brophy, Transpower).

While we have a number of important stakeholder groups outside this group, we chose to limit participation in our first stakeholder panel to representatives of groups with whom we had mature and robust relationships. We felt our selection process was justified by the experimental nature of the consultation we were undertaking and we sought participants with whom we had relationships sufficiently well established to withstand potentially uncertain outcomes. We hope to extend the invitation to a broader range of stakeholders in future years.

Engaging our stakeholders in our review of the draft report is one way of showing the value we attach to their feedback on our performance. For previous reports (2001-2006), we used an external independent consultant to evaluate and report on materiality. We have found the more consultative stakeholder approach provides broader feedback and, as such, is very worthwhile.

Review process

Accuracy – For accuracy assurance we relied on our own internal data quality control processes, which we believe are robust and thorough. All of the quantitative data in the report is collected in accordance with detailed protocols. These protocols include requirements for quality assurance and formal evidence in the form of source documents for any factual information and statements made. We carried out a number of peer reviews on the completed report. Both the data quality assurance and the peer review of the draft report provide assurance that the reported values are accurate, that qualitative assertions made are justifiable and that data collection methodologies are consistent from year to year.

Materiality, inclusivity and responsiveness – To assess the report's application of the AA 1000 principles of materiality, inclusiveness and responsiveness we invited our stakeholder panel members to join Meridian in a workshop to review and comment on the draft report. We engaged URS New Zealand to facilitate the discussion which progressed through a series of questions designed to test whether or not the report content reflected topics the panelists would expect to be covered and whether, from their perspective, anything was missing or the right 'balance' had been applied.

Feedback received and our response
We received feedback from the panel on a wide range of issues both covered, and omitted from the report. We found the feedback received very useful. We were able to respond to some comments by making improvements in the report. We kept a record of other comments to inform our reporting next year.

With respect to accuracy, the panelists identified that in a number of places, in their view, the report did not present a full picture or was ambiguous. Where we have been able to make editorial changes to elaborate and correct errors, ambiguity, and omissions from the report we have done so. For example, our panelists provided particularly strong feedback about the strategic content of our Chief Executive and Chairman's report. This was taken on board in this final edition. Amongst the key issues on which the panel suggested amendment was needed were smart meters, on which they felt Meridian should acknowledge a perception that the meters installed over the year were ‘dumb’ rather than smart, and the impacts of our operational decisions on our experience of the dry period in the winter of 2008, which they considered ought to be more transparently discussed. We have made changes to the report in response to this feedback.

With respect to materiality, overall the panel considered that the report met stakeholders’ requirements. There were a few new topics that are of interest to the stakeholders that we will consider adding in the future. Further, the panel encouraged greater discussion of the challenges and strategic imperative of the company’s increased focus on customers’ needs. We will keep this feedback in mind when developing the report next year.

The panel was very positive in regards to the inclusivity and responsiveness of the report. The panelists considered that Meridian has some very good processes in place to identify, engage and understand our stakeholders, but could be more proactive in its stakeholder engagement. They also noted that our responses to the concerns they expressed in the workshop were meaningful and appreciated. We take on board their suggestion that we should expand the range of stakeholder groups involved in the report review process in future years and report more fully on how we identify and engage with these groups. These initiatives accord with our original plan to pilot, and then expand, stakeholder involvement in our annual report.

The panel was asked to rate the report against a scale of achievement in terms of materiality, inclusivity and responsiveness. Most panel members found we met the standard expected, or had provided a high quality report in each of these respects.

Our conclusions

We found the panel process insightful, thought-provoking and genuinely helpful. Our panelists were very positive in their evaluation of the workshop too. We remain committed to engaging stakeholders in helping us to understand the impacts of our business. We are very grateful to our panelists for contributing to our review this year.

Directory

Offices

33 Customhouse Quay
PO Box 10840
Wellington
Telephone: 04 381 1200
Facsimile: 04 381 1201

322 Manchester Street
PO Box 2454
Christchurch
Telephone: 03 357 9700
Facsimile: 03 357 9701

State Highway 8
Private Bag 950
Twizel
Telephone: 03 435 0818
Facsimile: 03 435 0939

Auditor

Jamie Schmidt
on behalf of The Office of the Auditor-General
Deloitte
PO Box 1990
Wellington

Bankers

Westpac
Wellington

Board

Wayne Boyd *(Chairman)*
Raymond Watson *(Deputy Chairman)*
Anne Blackburn
Anne Urlwin
Brett Shepherd
Catherine Drayton
Chris Moller
Steve Reindler

Management

Tim Lusk *(Chief Executive)*
Andrew Robertson
Garth Dibley
James Hay
Kate Peterson
Kenneth Smales
Neal Barclay
Steve Ferguson

If you would like to comment on our Annual Report, or if you have questions you'd like answered, please email **annual.report@meridianenergy.co.nz.**

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