meridian

Meridian Energy Limited

Annual Report

FOR YEAR ENDED 30 JUNE 2011

GENERATION

64MW

Te Uku wind farm started to generate power in November 2010 – full commissioning, in March 2011, completed ahead of schedule and budget

CUSTOMERS

7%

Growth in our retail customer installation control points (ICPs) since June 2010

SAFETY

28%

Improvement in lost-time injury frequency rate since June 2010

PLANT

0.18%

Hydro forced outage factor. The lowest forced outage count in 19 years

SERVICE

14%

Improvement in average customer satisfaction across our retail segments

INTERNATIONAL

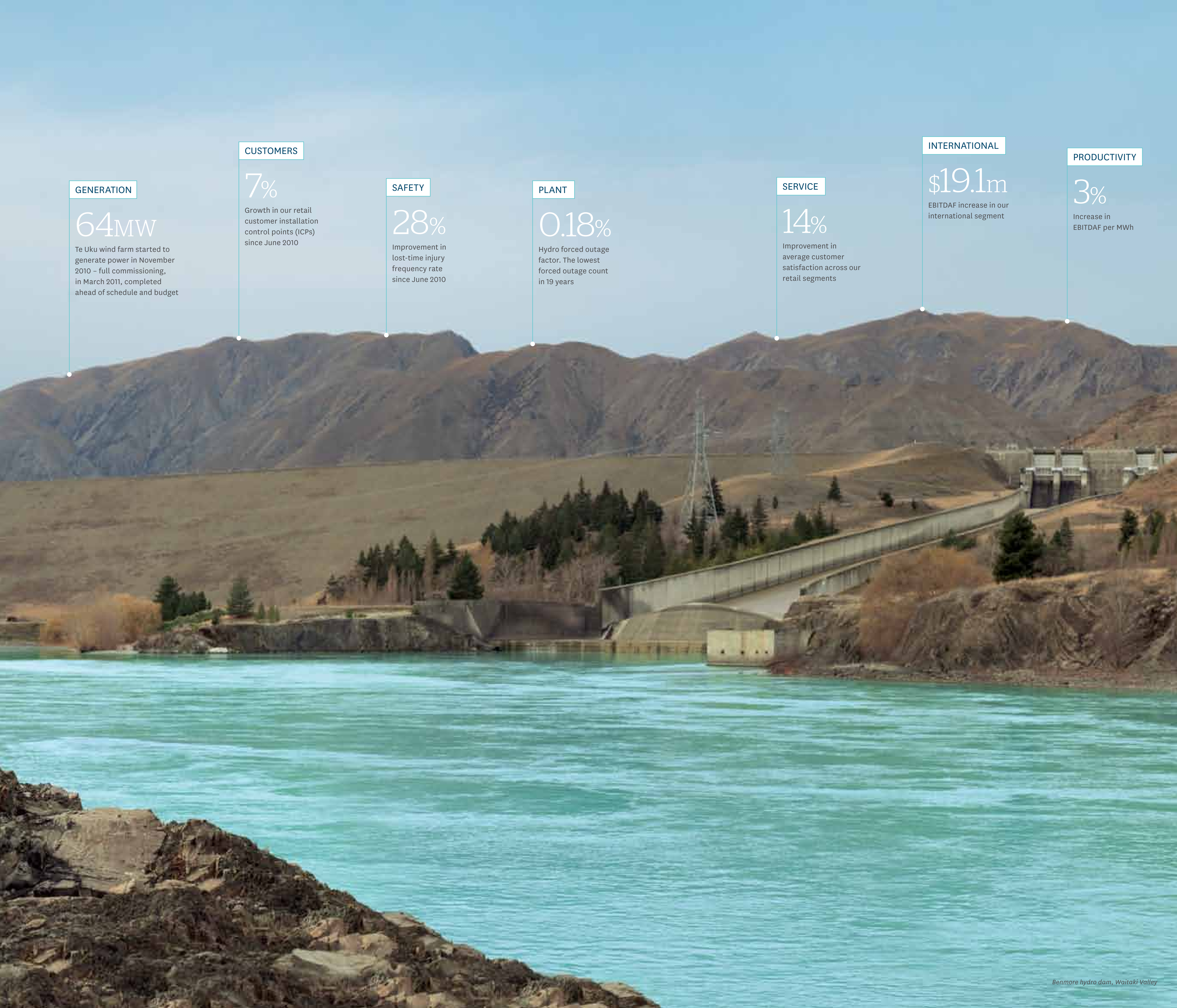
$19.1m

EBITDAF increase in our international segment

PRODUCTIVITY

3%

Increase in EBITDAF per MWh



Benmore hydro dam, Waitaki Valley

$659.9m

EBITDAF (EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION AND FINANCIAL INSTRUMENTS)

$303.1m

NET PROFIT AFTER TAX

$219.0m

UNDERLYING NET PROFIT AFTER TAX

$47.74

EBITDAF PER MWh* GENERATED

*MEGAWATT HOUR

$683.6m

RETURNED TO THE SHAREHOLDER IN DIVIDENDS

From Generation to our Customer

Meridian is New Zealand's largest electricity generator and generates from renewable resources – water, wind and sun.

GENERATION

Meridian operates power stations that convert natural energy into electricity. All electricity generated in New Zealand is sold into the wholesale electricity market for supply to retailers and wholesale customers.

HYDRO

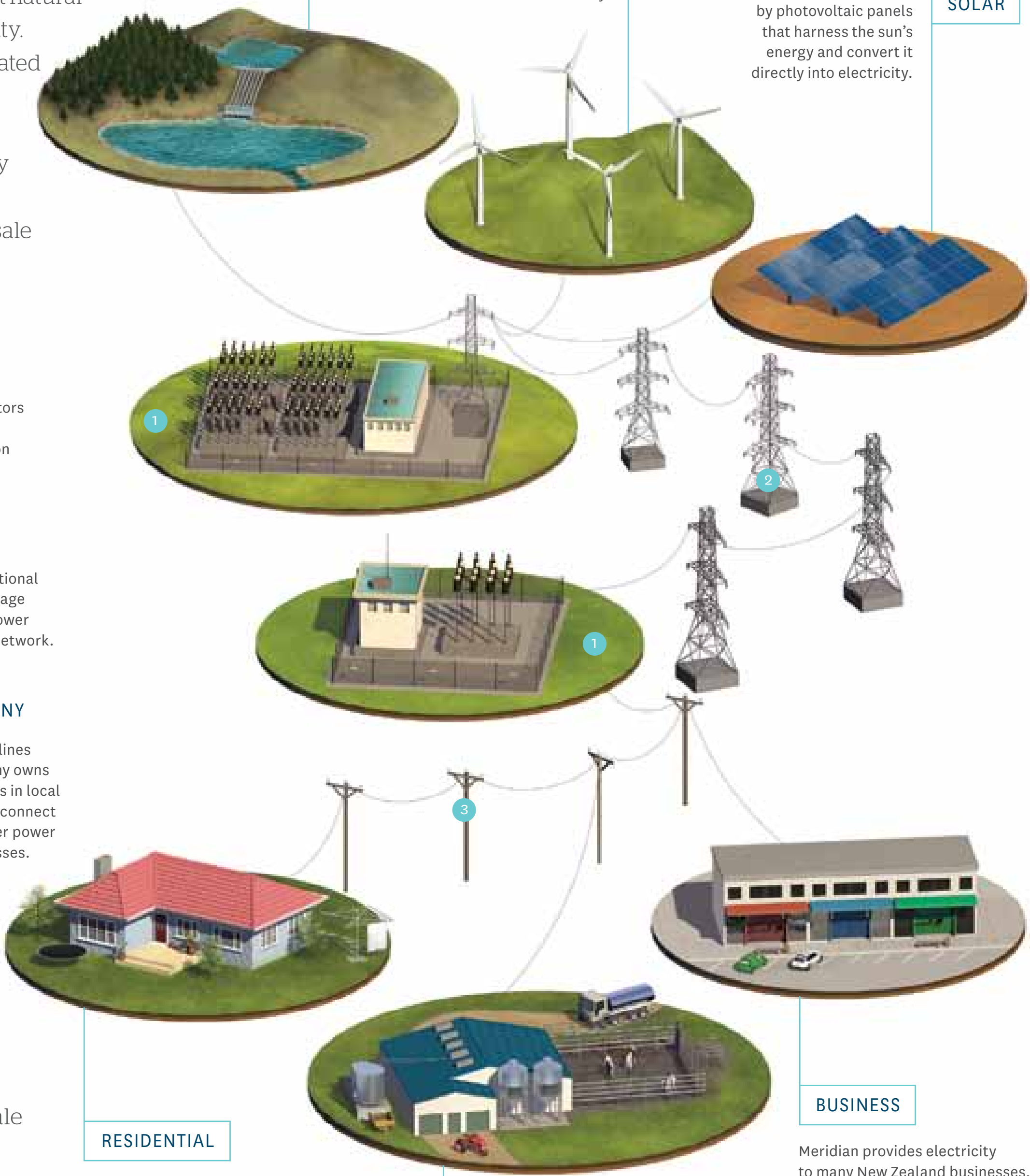
Hydro power stations generate electricity by using the force created by falling water, which drives a water turbine and generator, creating electricity.

WIND

Wind turbines use the force of the wind to turn turbine blades that in turn spin a shaft connected to a generator that makes electricity.

SOLAR

Solar power is generated by photovoltaic panels that harness the sun's energy and convert it directly into electricity.



1 SUBSTATIONS

Substations connect generators and network companies to the high-voltage transmission network (National Grid).

2 TRANSMISSION

Transpower operates the National Grid, the system of high-voltage power lines that connects power stations to the distribution network.

3 NETWORK COMPANY

Also called a distribution or lines company, a network company owns the power lines and networks in local areas. These local networks connect to the National Grid to deliver power to homes, farms and businesses.

RETAIL

Meridian and Powershop buy electricity on the electricity wholesale market to sell on to customers whose usage is measured by individual meters.

RESIDENTIAL

Meridian provides electricity to homes throughout New Zealand.

RURAL

Meridian provides electricity to many farms in New Zealand, from dairy operations to lifestyle blocks.

BUSINESS

Meridian provides electricity to many New Zealand businesses, from the largest corporations to the smallest enterprises.

New Zealand Generation

HYDRO GENERATION

	NO. OF GENERATORS	PLANT CAPACITY MW	TOTAL GWh† PRODUCED YEAR TO 30 JUNE 2011	2010
1 Tekapo A*	1	25	154	152
2 Tekapo B*	2	160	861	817
3 Ohau A	4	264	1,174	1,134
4 Ohau B	4	212	992	948
5 Ohau C	4	212	985	940
6 Benmore	6	540	2,239	2,284
7 Aviemore	4	220	916	948
8 Waitaki	6	90	533	500
9 Manapouri	7	730	4,775	5,134
Total Hydro Generation		**2,453**	**12,629**	**12,857**

* The Tekapo A and B power stations were sold to Genesis Energy on 1 June 2011.
† Gigawatt hours.

WIND GENERATION

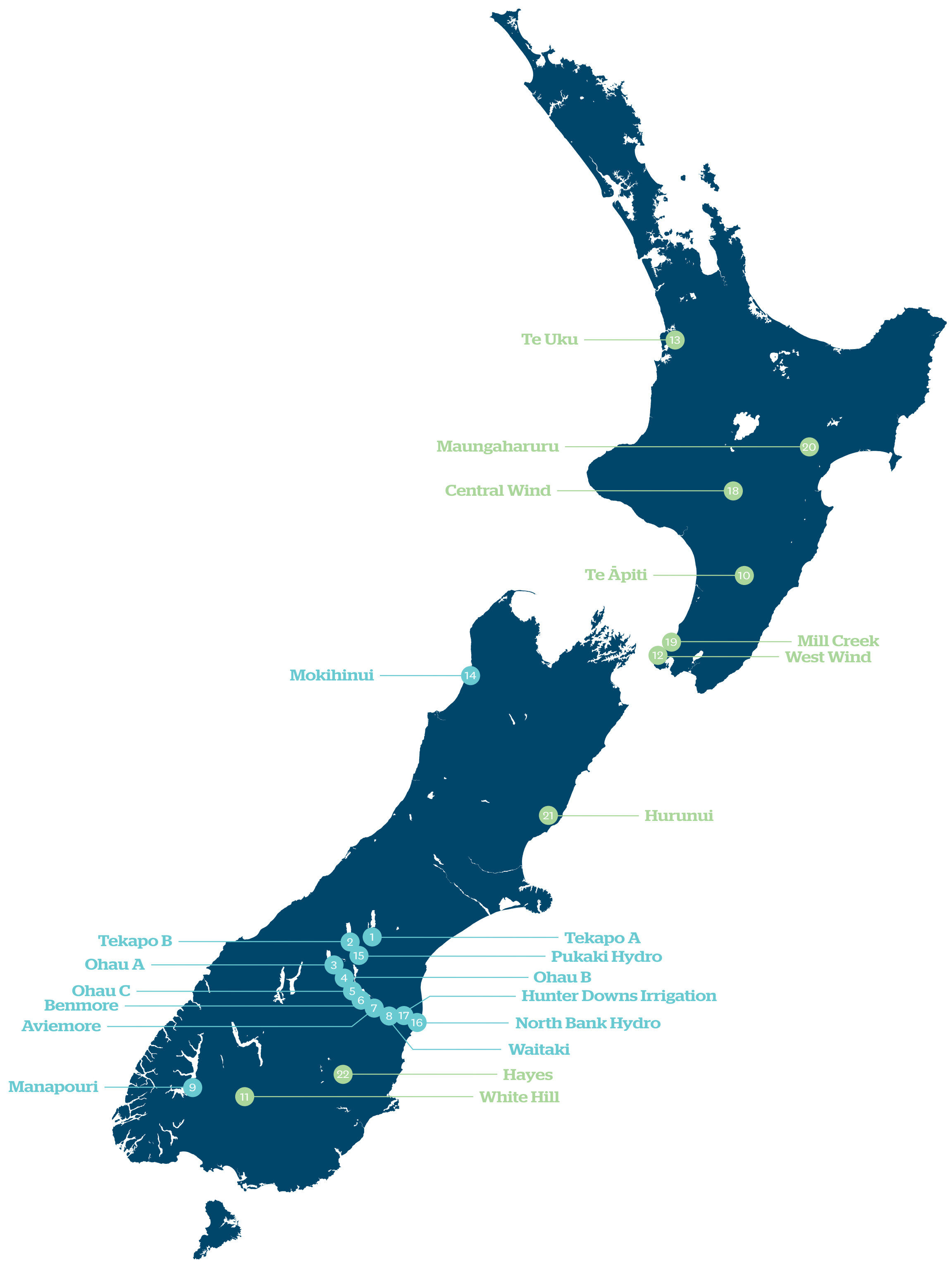
	NO. OF TURBINES	PLANT CAPACITY MW	TOTAL GWh PRODUCED YEAR TO 30 JUNE 2011	2010
10 Te Āpiti	55	90	267	325
11 White Hill	29	58	161	183
12 West Wind	62	143	503	497
13 Te Uku*	28	64	92	-
Total Wind Generation		**355**	**1,023**	**1,005**

* The full commissioning of Te Uku wind farm was in March 2011.

NEW ZEALAND DEVELOPMENT PROJECTS

	PLANT CAPACITY MW	STATUS AS AT 30 JUNE 2011
14 Mokihinui	100	Consent granted – appealed to Environment Court
15 Pukaki Hydro	35	Consents held
16 North Bank Hydro	260	Water consent held Land use consent under preparation
17 Hunter Downs Irrigation	N/A	Water rights consent appealed to Environment Court
18 Central Wind	120	Investment ready
19 Mill Creek*	60	Consents held
20 Maungaharuru	94	Consents held
21 Hurunui	76	Consultation
22 Hayes	630	Environment Court

* Mill Creek received consent on August 2011.



International Generation

Australia

WIND GENERATION

	LOCATION	NO. OF TURBINES	PLANT CAPACITY MW	TOTAL GWh PRODUCED YEAR TO 30 JUNE 2011	2010
Mt Millar*	South Australia	35	70	162	10

* Mt Millar wind farm acquisition was completed on 31 May 2010.

USA

SOLAR GENERATION

	LOCATION	NO. OF PV PANELS	PLANT CAPACITY MW	TOTAL GWh PRODUCED YEAR TO 30 JUNE 2011	2010
CalRENEW-1*	California	50,000	5	10	2

* CalRENEW-1 commenced generation from April 2010.

INTERNATIONAL DEVELOPMENT PROJECTS

	LOCATION	PLANT CAPACITY MW	STATUS AS AT 30 JUNE 2011
Macarthur*	Victoria, Australia	420	Construction
Mt Mercer	Victoria, Australia	130	Pre-construction design
Jacobs Corner	California, USA	20-60	Feasibility
San Luis	Colorado, USA	40-120	Investigations
Popua	Tongatapu, Tonga	1	Feasibility

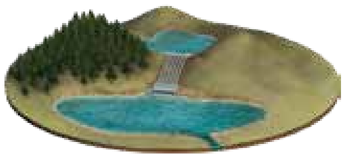
* 50/50 unincorporated joint venture with AGL Energy.

Retail Statistics

North Island ICPs
130,734
9% Market Share*

South Island ICPs
142,042
29% Market Share*

* Source: Electricity Authority 30 June 2011.



Hydro Power

Approximately 90% of Meridian Energy's electricity is made from the energy of falling water. Meridian operates seven South Island hydro power stations – six in the Waitaki Hydro Scheme plus the Manapouri power station. We also have a number of generation projects in the resource consent phase in the South Island of New Zealand.

Wind Power

New Zealand is uniquely positioned to take advantage of wind as an energy resource. We have some of the most consistent wind in the world, with higher-than-average wind speeds. Wind contributes to the diversity of Meridian's electricity generation. Meridian currently owns and operates four wind farms across New Zealand and one in Australia. We continue to explore opportunities to grow our portfolio.

Solar Power

Solar energy is an abundant energy source that is free, non-polluting and renewable. We currently own and operate one solar farm in the USA. While we don't have any solar farms in development in New Zealand, we are exploring opportunities in Australia, the Pacific and the USA.

Contents

About us

Meridian is an integrated renewable energy developer, generator and retailer. We are the largest electricity generator in New Zealand, while internationally we are investing in developments in Australia, the Pacific and the USA. Within New Zealand we retail through our Meridian and Powershop brands, offering innovative energy products and services.

800

THE GROUP EMPLOYS APPROXIMATELY 800 STAFF

272,776

THROUGH OUR MERIDIAN AND POWERSHOP BRANDS, WE RETAIL TO 272,776 ICPS

2,883MW

OUR TOTAL GENERATION PLANT CAPACITY

West Wind, Wellington – 62 turbines, 143MW

Our Strategy

Our strategy creates value through our activities as: an integrated developer, generator and retailer of renewable electricity in New Zealand; a developer of offshore renewable electricity generation; and an innovator in energy products. We manage our strategy through the following strategic themes.

IMPROVING OUR COMMERCIAL PERFORMANCE

ENSURING MERIDIAN IS A HIGH-PERFORMING BUSINESS THAT CAN FUND ITS GROWTH PLANS

CONTINUING A STRONG RECORD OF SHAREHOLDER RETURNS

7.2% Total shareholder return (TSR*) this year.

* TSR measures the combined return from dividends and growth in the value of the company.

15.8% Average TSR in the past five years.

STRONG PROFITABILITY

18.5% Underlying return on equity in 2010/11 (excluding the effect of revaluations).

MAINTAINING OUR CREDIT RATING WHILE DELIVERING HIGH DIVIDEND YIELD

$683.6m Dividends paid in 2010/11.

BBB+ (stable outlook) credit rating with Standard & Poor's.

COORDINATED GENERATION, WHOLESALE AND RETAIL OPERATIONS TO OPTIMISE OUR PORTFOLIO

27% Improvement in EBITDAF per MWh in the past five years.

Optimising our electricity portfolio and ensuring future flexibility.

INDUSTRY-LEADING ASSET MANAGEMENT PERFORMANCE

0.18% Hydro forced outage factor. Hydro operating costs that benchmark in the lowest quartile globally.

LIFTING OUR CUSTOMER GAME

DELIVERING A VALUABLE, DIFFERENTIATED OFFER TO OUR CUSTOMERS

A MULTI-YEAR PROGRAMME TO DELIVER SERVICE AND OPERATIONAL IMPROVEMENTS

Velocity billing system upgrade.

Roadmap of future initiatives to enable operational excellence.

IMPROVING RETAIL CONTRIBUTION

7% Increase in active ICPs during the year.

Rebalancing our customer portfolio from South Island to North Island.

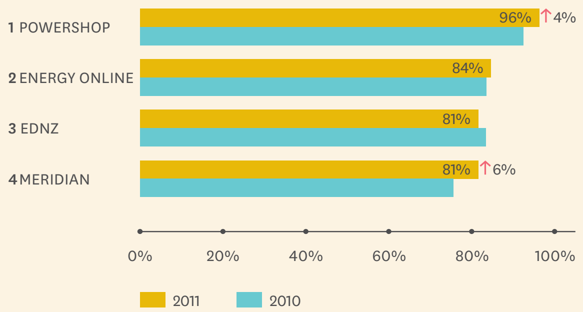
ENHANCING CUSTOMER SERVICE

14% Increase in average customer satisfaction (% of customers rating Meridian excellent or very good).

Survey completed by Colmar Brunton, June 2011.

Top rankings in *Consumer NZ* satisfaction survey (June 2011).

CONSUMER NZ – CUSTOMER SATISFACTION



Underpinned by our core competencies

Organisational capability Attracting and developing the best people

Brand A leader in renewable energy

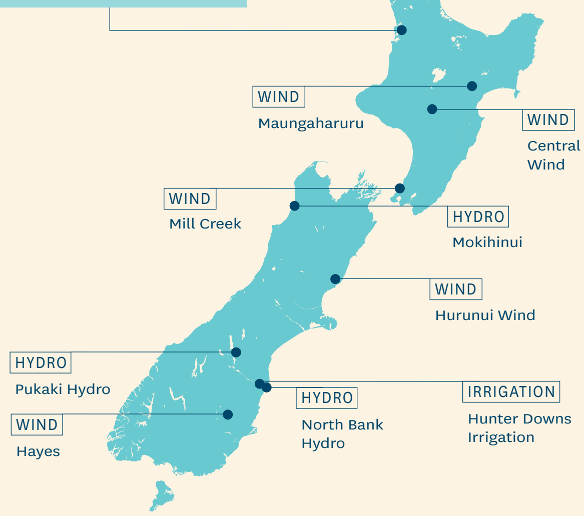
GROWING VALUE THROUGH THE DEVELOPMENT OF RENEWABLES

CONTINUING TO DEVELOP A PORTFOLIO OF VALUE-ENHANCING GENERATION OPTIONS

A STRONG PIPELINE OF NEW ZEALAND GENERATION OPTIONS (WIND, HYDRO, IRRIGATION)

64MW

Te Uku wind farm fully commissioned in March 2011.



DEVELOPING OFFSHORE MARKETS

162GWh

Production from Mt Millar wind farm.

Construction commenced on 420MW Macarthur* wind farm.

** 50/50 unincorporated joint venture with AGL Energy.*

DIVERSIFICATION THROUGH NEW GENERATION TECHNOLOGIES

10GWh Output from our USA CalRENEW-1 solar plant.

INNOVATING TO CREATE VALUE

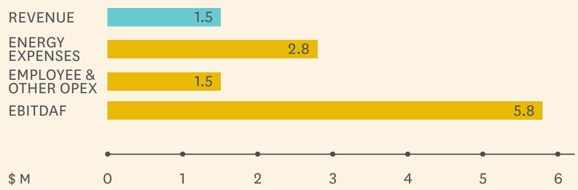
LEADING THE ADOPTION OF NEW RENEWABLE ENERGY TECHNOLOGIES

VALUE REALISATION AND GROWING SHAREHOLDER RETURNS FROM EXISTING VENTURES PORTFOLIO

74% Improvement in Other Segment EBITDAF in 2010/11.

OTHER SEGMENT PERFORMANCE

$ Million improvement compared with 2010



Significant improvement in Energy for Industry financial performance.

Sale of Right House to Mark Group agreed during the year.

COMMERCIAL PRODUCT AND SERVICE INNOVATION

125,000 Advanced Metering Infastructure (AMI) meters now installed by Arc Innovations.

41% Of customers now receive bills electronically. Improved online capability in Meridian retail allowing simpler join and e-billing services for customers.

Daily energy monitoring for customers.

Smart phone application.

Developing solar hot water packages for customers.

Asset management
Practices that optimise yield and risk

Sustainability
Sustainable business practices

Commercial focus
Risk and performance management processes

A Solid Financial Performance in a Challenging Year

FINANCIAL PERFORMANCE

It's been a challenging year, both in terms of the operating environment, with high hydro storage levels and relatively flat demand, and external factors that have impacted on our business. The biggest challenge we've had to face this year has been overcoming the significant impacts of the earthquakes in Christchurch, home to 50% of our staff and 37% of our customer base.

It's testament to the strength and determination of our team that we achieved an EBITDAF of $659.9 million. This result is a 3% improvement on last year, even though average wholesale electricity prices received for our generation were down by 14% on the previous year.

Underlying profit fell back against the prior period reflecting increased depreciation charges, following the revaluation of our generation assets at 30 June 2011, and increased finance costs from additional investments in renewable generation capacity.

We continued to focus on operating a strong, integrated business, optimising our portfolio of assets and paying close attention to costs.

Our total shareholder return (TSR) for this financial year was 7.2%, bringing the average TSR in the past five years to 15.8%. A final dividend of $69.4 million has been approved for distribution with respect to the year to 30 June 2011.

ELECTRICITY SECTOR REFORMS

After working closely with all parties, the specific requirements for Meridian of the Electricity Act 2010 were successfully implemented. Most significant of these was the sale of the Tekapo A and B power stations, at the head of the Waitaki Hydro Scheme, to Genesis Energy on 1 June 2011. A Water Management Agreement with Genesis Energy is in place until 2025, providing clear guidelines for managing the water flowing through the Scheme, ensuring water availability to both generators and adherence to environmental requirements.

The Virtual Asset Swap (VAS) agreements (15 year swaps of electricity) between Meridian in the South Island and Genesis Energy and Mighty River Power in the North Island took effect on 1 January 2011.

In its first year of existence, the Electricity Authority stepped up to the challenge of a heavy workload of priority issues, having to make difficult decisions, and, in May, launching a customer switching campaign to increase retail competition.

INVESTING IN OUR FUTURE

We're continuing to invest in creating a better energy future and working towards being a global reference company in renewable energy. Meridian's greatest contribution to sustainability in New Zealand is our 100% commitment to building renewable generation. We also aim to look after the environment, communities near our generation sites and our customers, by ensuring that long-term sustainable practices are embedded across our entire business. This approach to sustainability is captured in our recently refreshed sustainability framework and demonstrated this year in the Te Uku wind farm project.

The full commissioning of Te Uku wind farm in March 2011 was a significant highlight of the year. The wind farm has added 64MW of renewable energy capacity to New Zealand's total generation and employed sustainable practices throughout the construction.

Te Uku wind farm provides our first upper North Island generation capacity, enabling us to expand our North Island customer base. The project was awarded the inaugural Earthworks of the Year Award by Environment Waikato and in August 2011 won the Environmental Excellence category in the Deloitte Energy Excellence Awards.

The completion of the Benmore refurbishment in May 2011 increased the efficiency of the hydro station, enabling generation of an additional 70GWh of electricity from processing the same amount of water.

All our assets performed exceptionally well during the year, with achievements including a reduction in the hydro forced outage count to its lowest level in 19 years and improvements in the availability of our hydro and wind assets. The high performance of our hydro assets was recognised in a global benchmarking study published by *Generation Knowledge Service Hydro*.

Resource consents were granted for Pukaki Hydro and Central Wind during the year, adding to our growing pipeline of value-enhancing development options for the future.

Internationally, construction commenced on our Macarthur wind farm in Australia, a joint venture with Australia's largest renewable generator AGL Energy, funded by project finance. In California, our solar farm CalRENEW-1 is operating successfully. One day we aim to bring our solar expertise back to this region.

Chairman
CHRIS MOLLER

Chief Executive
TIM LUSK

In our retail operations, we have a multi-year programme in place to deliver service and operational improvements that will enhance our performance and benefit our customers. The implementation of our new billing system in December resulted in some teething issues, a disappointing short-term outcome. However, the upgrade offers improved billing accuracy for the future. With new systems we have the foundations in place to develop new, valuable, differentiated products and services for our customers.

MIXED OWNERSHIP PROSPECT

As a state-owned enterprise, we work with the Government to implement its policies. Meridian is well positioned to participate in the implementation of our shareholders' proposed mixed-ownership model should the Government be re-elected in November 2011. No matter who our shareholders are in the future, Meridian will remain focused on being a high-performing investment that can deliver strong shareholder returns and fund new developments for earnings growth.

OUR TEAM

In the past year Meridian staff have endured and overcome significant challenges. The February Christchurch earthquakes, in particular, caused a huge amount of disruption and heartache for our staff living and working there. Our Manchester Street office was left uninhabitable and people continued to work in temporary premises around Christchurch and other parts of the country. For a period of time it was a challenge for us to maintain services at a level of which we could be proud.

Full credit goes to our customer contact staff who relocated to Wellington so they could keep answering the phones and servicing our customers. There were many other teams too who worked under difficult circumstances to carry out business as usual. Throughout the period, the health and safety of our customers and employees remained our top priority.

In May 2011 we were pleased to relocate displaced staff to a refurbished office on Moorhouse Avenue in Christchurch.

Meridian's strong focus on health and safety was reinforced when we signed up to the Zero Harm Workplaces Pledge in 2010. The growing positive safety culture at Meridian, where everyone, including contractors, takes on a sense of ownership and responsibility, has resulted in improvements in our lost-time injury frequency rate (incidents per million hours worked). Although we are below the industry average, we're committed to reduce this to zero in future years.

This year saw an important change in the leadership of the Board with the retirement of Wayne Boyd. Wayne was instrumental in refocusing the business and demonstrated a deep understanding of the energy sector. After five years as Chair, Wayne leaves behind a legacy of a Meridian that has strong commercial credentials and an extremely bright future, for which we thank him.

OUTLOOK FOR THE NEXT YEAR

Meridian entered the 2012 financial year in a strong hydrology position and we continue to manage this position responsibly. The wholesale and retail parts of the business will continue to work together closely to optimise our customer portfolio and profitability.

Although electricity demand was flat during the 2011 financial year, the medium to long-term outlook is for increased demand. Meridian is well positioned with options for new generation capacity and capability in our retail team to meet this growth in demand.

Meridian's medium-term development pipeline has options well placed in the generation merit order. As a scale generator, Meridian will benefit as wholesale prices trend towards the marginal cost of new generation in the longer term.

The long-term supply contract with our largest customer, RTA Power (NZAS), gives both companies greater certainty for the future.

The alleviation of transmission grid constraints, through investments such as the high-voltage direct current (HVDC) upgrade, will improve Meridian's portfolio flexibility and risk position.

We expect high customer churn in the residential market to continue as customers seek to find the most cost-effective retailers. Lifting our customer game and promoting our renewable credentials will be more important than ever to attract and retain customers.

Steve Reindler

DIRECTOR SINCE SEPTEMBER 2008

Steve Reindler is an engineer who has received a number of awards for projects and brings to the Board a wealth of experience through his previous engineering leadership roles at New Zealand Steel and Auckland International Airport Limited, and through his industry position as inaugural Chairman of the Chartered Professional Engineers Council.

Current Directorships

DIRECTOR, STEVENSON GROUP LIMITED
DIRECTOR, PORT OF NAPIER LIMITED
INDEPENDENT ADVISOR, TRANSFIELD SERVICES LIMITED
DIRECTOR (ADVISORY), GLIDEPATH LIMITED
PRESIDENT, INSTITUTION OF PROFESSIONAL ENGINEERS NEW ZEALAND

Anne Urlwin

DIRECTOR SINCE JANUARY 2005

Anne Urlwin is a professional director, chartered accountant and business consultant with 20 years directorship experience in sectors ranging from health, construction, regulatory services, internet infrastructure, transport, research, private equity, forestry, banking and the primary sector to education, sports administration and the theatre. She recently completed a term as Chairman of New Zealand Blood Service and as Chairman of New Zealand Domain Name Registry Limited. Anne also has senior management experience in the corporate sector.

Current Directorships

CHAIRMAN, NAYLOR LOVE ENTERPRISES LIMITED
CHAIRMAN, LAKES ENVIRONMENTAL LIMITED
DIRECTOR, NEW ZEALAND CRICKET INC

Chris Moller – Chairman

DIRECTOR SINCE MAY 2009 AND APPOINTED CHAIRMAN JANUARY 2011

Chris Moller has extensive experience in New Zealand and international business at both director and executive level.

Chris is the former Chief Executive Officer of the New Zealand Rugby Union, co-leading New Zealand's successful bid to host the Rugby World Cup 2011. His 15-year career in the dairy industry included roles as Deputy Chief Executive of Fonterra, and Chief Financial Officer of the New Zealand Dairy Board.

Current Directorships

CHAIRMAN, NEW ZEALAND TRANSPORT AGENCY
CHAIRMAN, NEW ZEALAND CRICKET INC.
DIRECTOR, INTERNATIONAL CRICKET COUNCIL
DIRECTOR, RUGBY NEW ZEALAND 2011 LIMITED
DIRECTOR, SKYCITY ENTERTAINMENT GROUP LIMITED
DIRECTOR, NZX LIMITED
DIRECTOR, WESTPAC NEW ZEALAND LIMITED

John Bongard

DIRECTOR SINCE MAY 2011

John Bongard has more than 30 years experience in marketing appliances around the world and has established new sales companies in Australia and the USA. He has held a number of executive level positions within the Fisher & Paykel Group, most recently serving as Chief Executive Officer and Managing Director of Fisher & Paykel Appliances Holdings Limited, from 30 April 2004 to September 2009. John was awarded an ONZM for services to business in the New Year's Honours List 2010.

Current Directorships

CHAIRMAN, SOUTH AUCKLAND PARTNERS – BNZ
DIRECTOR, TOURISM HOLDINGS LIMITED
DIRECTOR, HJ ASMUSS & CO LIMITED
DIRECTOR, NETBALL NEW ZEALAND
DIRECTOR, NARTA AUSTRALIA PTY LIMITED
TRUSTEE, COUNTIES MANUKAU PACIFIC TRUST BOARD
CHAIRMAN, THE RISING FOUNDATION

Anake Goodall

DIRECTOR SINCE MAY 2011

Anake Goodall has diverse management and governance experience in a range of community-based organisations, most recently serving as Chief Executive Officer of Te Rūnanga o Ngāi Tahu. He is particularly interested in the use of strategy and organisational design to align environmental and economic assets to realise wider community objectives. Anake is also a New Zealand Harkness Fellow.

Current Directorships

MEMBER, ENVIRONMENTAL PROTECTION AUTHORITY
MEMBER, REVIEW PANEL CANTERBURY EARTHQUAKE RECOVERY AUTHORITY
CHAIRMAN, KAUPAPA UKA LIMITED
CHAIRMAN, MANAWAPOPORE TRUST
TRUSTEE, HILLARY INSTITUTE OF INTERNATIONAL LEADERSHIP

Catherine Drayton

DIRECTOR SINCE MAY 2006

Catherine Drayton is a chartered accountant with significant multi-cultural, multi-jurisdictional managerial and transactional experience, due largely to a former role as partner in charge of the Assurance Advisory practice of PricewaterhouseCoopers for Central and Eastern Europe.

Current Directorships

DIRECTOR, NGĀI TAHU HOLDINGS CORPORATION LIMITED
DIRECTOR, CHRISTCHURCH INTERNATIONAL AIRPORT
DIRECTOR, HOCKEY NEW ZEALAND
COUNCILLOR, UNIVERSITY OF CANTERBURY

Mary Devine

DIRECTOR SINCE MAY 2010

Mary Devine has extensive experience in managing director and executive roles in private New Zealand companies. Recently she was appointed as Managing Director of Ballantynes, becoming the first non-family managing director since 1938, and the first woman to head the business since it was founded in 1854. Previously she was Chief Executive of online store EziBuy and women's clothing retailer Max Fashions.

Current Directorships

MANAGING DIRECTOR, J.BALLANTYNE & CO. LIMITED
DIRECTOR, HOCKEY NEW ZEALAND
DIRECTOR, MCKENZIE & WILLIS LIMITED

Peter Wilson

DIRECTOR AND DEPUTY CHAIRMAN SINCE MAY 2011

Peter Wilson is a business consultant and chartered accountant, formerly a partner with Ernst & Young. Peter has extensive experience in banking, business establishment, problem resolution, asset sale and management of change functions. Peter was a director and (from 1991) Chairman of Trust Bank New Zealand Limited, which Westpac acquired in 1996.

Current Directorships

CHAIRMAN, WESTPAC NEW ZEALAND LIMITED
CHAIRMAN, KERMADEC PROPERTY FUND LIMITED
DIRECTOR, THE COLONIAL MOTOR COMPANY LIMITED
DIRECTOR, PF OLSEN LIMITED
DIRECTOR, FARMLANDS TRADING SOCIETY LIMITED

Tim Lusk

CHIEF EXECUTIVE

Tim Lusk has been Chief Executive of Meridian since May 2008. Tim has extensive experience in the energy and telecommunications industries. Tim has held executive and director-level positions in the public and private sectors, in engineering development, network and system operations, marketing, customer relations and electricity market development.

Tim will step down as Chief Executive in the new financial year.

Paul Chambers

CHIEF FINANCIAL OFFICER

Paul Chambers has been Chief Financial Officer at Meridian since 2009. Paul is a chartered accountant (NZICA and Institute of Chartered Accountants in England and Wales (ICEAW)) and has extensive senior finance experience in a variety of industries, including engineering services, ports, manufacturing and retail, in both New Zealand and Europe.

Paul's team has responsibility for strategy coordination, performance measurement, external reporting, funding, risk management coordination, procurement and financial transaction services.

Ken Smales

GENERAL MANAGER
RENEWABLE DEVELOPMENT

Ken Smales has 40 years' experience in the New Zealand electricity generation industry, including in the design, construction, commissioning, operation and maintenance of some of the country's most iconic generation assets. Ken helped establish Meridian Energy in 1999 as a member of the Management Team in the role of Generation Director, then established the Renewable Development Team as General Manager.

Ken's team has primary responsibility for delivering on Meridian's strategic goal of delivering more renewable generation growth and cementing Meridian's place as the premier Australasian developer of renewable generation.

Bill Highet

GENERAL MANAGER RETAIL

Bill Highet took up the position of General Manager Retail in October 2009. Bill has had numerous roles in the electricity industry, including in engineering, project management and business development, as well as at senior management and director levels.

The primary objective for Bill and his team is to lift the company's customer game; delivering a profitable and differentiated offer to customers and continually improving service.

Glen McLatchie

GENERAL MANAGER INFORMATION AND COMMUNICATIONS TECHNOLOGY

Glen McLatchie joined Meridian as General Manager Information and Communications Technology (ICT) in May 2010. Glen has an extensive background in delivering business and information technology change on a global scale, having held a number of ICT and commercial general management positions in Europe and Australasia.

Glen and his team are responsible for ensuring Meridian has the ICT infrastructure, data, processes and applications to enable the company to deliver against its objectives.

Andrew Robertson

GENERAL MANAGER
BUSINESS DEVELOPMENT

Andrew Robertson has been working in the New Zealand electricity industry for many years, and has been a member of the Meridian team since its inception. Andrew has held a variety of senior management roles in finance, operations, generation development and business development.

As General Manager Business Development, Andrew is responsible for Meridian's offshore generation development businesses in Australia and the USA, and Meridian's New Zealand subsidiary businesses that operate in the online energy retail, energy solutions and clean technology spaces.

Kate Peterson

GENERAL MANAGER
CULTURE AND CHANGE

Kate Peterson joined Meridian in early 2009. She brings to her role a strong background in people and operations management, having spent many years with organisations going through significant change.

At Meridian Kate has a particular focus on developing and executing strategies to build the capabilities and skills of Meridian's people further, enabling the company to deliver on its business objectives and aspirations.

Guy Waipara

GENERAL MANAGER EXTERNAL RELATIONS

Guy Waipara was appointed General Manager External Relations in August 2010. Guy previously held positions at Meridian working in offshore business development and company strategy setting. He has more than 20 years' experience in the electricity sector and previously worked at Transpower, where he was responsible for transmission planning and network development.

Guy is responsible for Meridian's corporate reputation, which includes company brand, relationship management, regulatory and external communications.

Neal Barclay

GENERAL MANAGER MARKETS AND PRODUCTION

Neal Barclay trained as a chartered accountant (NZICA) and has been with Meridian since July 2008, at that time as Chief Financial Officer. He has headed up Markets and Production since October 2009. Prior to joining Meridian, Neal held a number of senior management roles in a 13-year career with Telecom New Zealand.

Neal is accountable for the company's New Zealand asset portfolio and for the company's wholesale trading and risk position.

Jason Stein

GENERAL COUNSEL AND COMPANY SECRETARY

Jason Stein is a lawyer and has had in-house roles within financial institutions and the energy sector, including at vice president and senior counsel levels. Jason has been working in the New Zealand energy sector since 2004. He joined Meridian in 2008, and took on his current role in 2010.

Jason's team is responsible for providing and managing the company's legal services and providing the corporate governance and company secretariat functions to the company, the Board and the Management Team.

Group Performance

Our financial result is satisfying given the challenging year. It's testament to the strength and determination of our team that we've achieved an EBITDAF of $659.9 million, a 3% improvement on last year.

$18.2m

GROUP EBITDAF IMPROVEMENT FROM LAST YEAR

This result highlights the increased contribution of our international and subsidiary businesses, growth in our retail segment and a continued focus on managing our operating costs. The integrated management of our portfolio between our wholesale and retail operations helped reduce the financial impact of low wholesale prices.

Turbine pit Benmore power station – six generators, 540MW

Group Performance Summary

	FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP INCOME STATEMENT HIGHLIGHTS ($ MILLIONS)	**2011**	**2010**	**2009**	**2008**	**2007**
Energy and Related Services Revenue	2,032.7	2,039.6	1,871.9	2,580.2	1,776.6
Other Revenue	20.3	22.3	20.5	19.8	14.1
Total Group Operating Revenue	**2,053.0**	**2,061.9**	**1,892.4**	**2,600.0**	**1,790.7**
Energy Related Expenses	(703.3)	(743.6)	(788.5)	(1,591.0)	(720.4)
Energy Transmission and Distribution Expenses	(451.7)	(426.0)	(373.0)	(413.7)	(376.3)
Total Energy Related, Transmission and Distribution Expenses	**(1,155.0)**	**(1,169.6)**	**(1,161.5)**	**(2,004.7)**	**(1,096.7)**
Employee Expenses	(89.5)	(87.2)	(76.0)	(69.1)	(55.3)
Other Operating Expenses	(148.6)	(163.4)	(142.5)	(152.3)	(162.3)
Total Employee and Other Operating Expenses	**(238.1)**	**(250.6)**	**(218.5)**	**(221.4)**	**(217.6)**
Operating Expenses	**(1,393.1)**	**(1,420.2)**	**(1,380.0)**	**(2,226.1)**	**(1,314.3)**
EBITDAF	**659.9**	**641.7**	**512.4**	**373.9**	**476.4**
Net Change in Fair Value of Electricity, Aluminium and Foreign Exchange Derivatives	(89.3)	(48.0)	(114.1)	45.5	0.7
Depreciation, Amortisation and Impairments	(235.2)	(206.4)	(172.3)	(152.6)	(117.3)
Gain/(Loss) on Sale of Property, Plant and Equipment	174.1	0.3	4.8	0.5	1.0
Equity Accounted Earnings of Associates	(3.4)	(2.0)	(1.9)	(0.1)	-
Group Operating Profit	**506.1**	**385.6**	**228.9**	**267.2**	**360.8**
Net Finance Expenses	(107.6)	(85.1)	(68.4)	(55.2)	(46.0)
Net (Losses)/Gain on Financial Instruments	(14.2)	(23.3)	(32.5)	(14.3)	23.9
Group Profit Before Tax	**384.3**	**277.2**	**128.0**	**197.7**	**338.7**
Income Tax	(81.2)	(93.2)	(38.7)	(69.1)	(97.5)
Group Net Profit After Tax	**303.1**	**184.0**	**89.3**	**128.6**	**241.2**

	FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP UNDERLYING PROFIT AFTER TAX ($ MILLIONS)	**2011**	**2010**	**2009**	**2008**	**2007**
Group Net Profit After Tax	**303.1**	**184.0**	**89.3**	**128.6**	**241.2**
Net Change in Fair Value of Financial Instruments	89.6	71.3	146.6	(31.2)	(24.5)
Impairment of Property, Plant and Equipment, Investments and Intangibles	11.0	18.3	9.2	-	0.5
Net Gain on Sale of Property, Plant and Equipment	(174.1)	(0.3)	(4.8)	(0.5)	(1.0)
Adjustments Before Tax	**(73.5)**	**89.3**	**151.0**	**(31.7)**	**(25.0)**
Income Tax on Adjustments (excluding the adjustment for the Gain on Sale of the Tekapo Power Stations)	(30.4)	(26.8)	(45.3)	10.5	8.2
Effect of Gain on Sale of the Tekapo Power Stations	17.4	-	-	-	-
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	2.4	(9.4)	-	(2.9)	(16.7)
Effect of Change in Building Tax Depreciation on Deferred Tax	-	14.8	-	-	-
Adjustments After Tax	**(84.1)**	**67.9**	**105.7**	**(24.1)**	**(33.5)**
Group Underlying Profit After Tax	**219.0**	**251.9**	**195.0**	**104.5**	**207.7**

INCOME STATEMENT

Meridian's Group net profit after tax was $303.1 million for the year ended 30 June 2011 – an increase of $119.1 million (65%) on last year. The net gain (net of tax) of $157.4 million from the sale of the Tekapo A and B power stations to Genesis Energy on 1 June 2011 contributed significantly.

Underlying net profit after tax, an adjusted net profit after tax removing the effects of non-cash fair value movements and other one-off items, was $219.0 million – a reduction of $32.9 million (13%) on last year. This reduction was largely driven by an increase in depreciation charges ($35.0 million) arising mainly from the revaluation of our New Zealand generation assets at 30 June 2010 and the increase in net finance costs ($22.6 million) on borrowings to support the acquisition of the Mt Millar wind farm and the development of the Macarthur wind farm.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION AND FINANCIAL INSTRUMENTS (EBITDAF)

The principal factor influencing this year's performance was high inflows coupled with flat demand resulting in a softening of average wholesale prices. EBITDAF improved by $18.2 million from last year and included the $28.1 million (net of legal expenses) received following Meridian and RTA Power (NZAS) settling a dispute concerning liability for electricity during the 2008 pot line outage at the Tiwai smelter.

This result is satisfying given the challenging year that Meridian has faced.

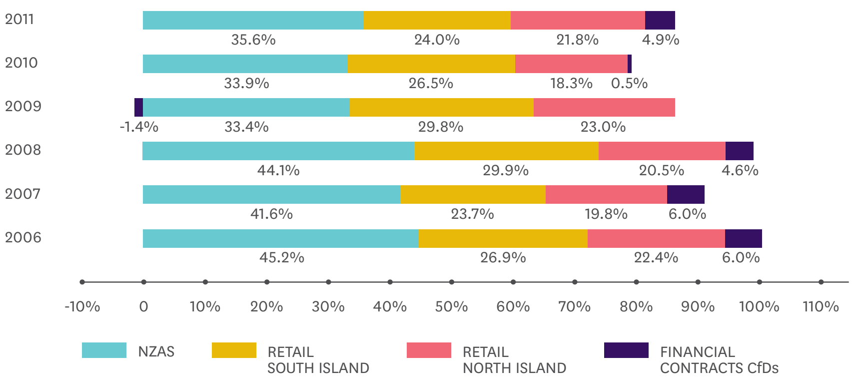
Of particular note was the increased contribution of our international and subsidiary businesses, growth in our retail segment and a continued focus on managing our operating costs.

Our key productivity measure of EBITDAF per MWh generated by our assets (including international generation) continued to improve, reaching $47.74/MWh – an improvement of $1.49/MWh (3%) from last year.

A year of high storage levels in all of New Zealand's hydro lakes, coupled with continued flat demand growth, resulted in suppressed average wholesale prices for our generation (14% reduction). The integrated management of our portfolio and alignment between our wholesale and retail segments, reduced the financial impact of low wholesale prices, principally through the sale of additional short-term physical and financial contracts.

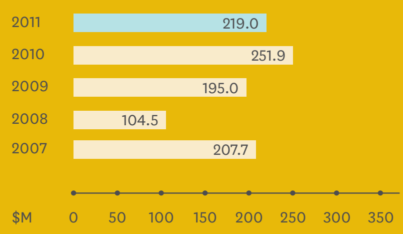
NET CONTRACT POSITION

Difference Between Volume Generated and Volume Purchased to Support Electricity Sales
Financial Year Ended 30 June



GROUP UNDERLYING NET PROFIT AFTER TAX*

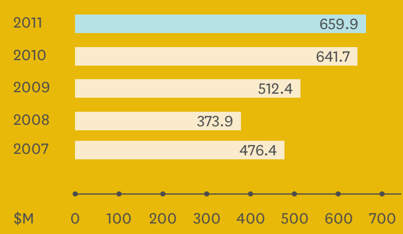
Financial Year Ended 30 June



** Group underlying net profit/(loss) after tax excludes unrealised fair value movements and other one-off items.*

GROUP EBITDAF*

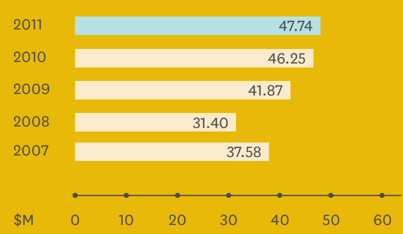
Financial Year Ended 30 June



** Earnings before interest, taxation, depreciation, amortisation and financial intruments.*

EBITDAF PER MWh*

Financial Year Ended 30 June



** EBITDAF per Megawatt hour (MWh) generated by our generation assets (including international assets).*

Our net contract position (the difference between volume generated and volume purchased to support electricity sales) for the year was 86%, 7% higher than in the prior year. This highlights the flexibility we have in managing our portfolio to optimise our earnings, given variable market and hydrology conditions.

Revenue from our retail segment increased by 5% from last year, reflecting a 2% increase in sales volumes and the rebalancing of our customer portfolio in both location and customer mix. This was a good outcome considering the continuation of residential price freezes and low demand, particularly in the Christchurch region following the earthquakes.

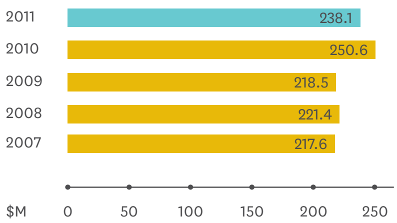
Transmission and distribution costs increased by $25.6 million from last year with higher charges from service providers and increased volumes in our retail segment. Further increases in HVDC charges are expected in the future as additional capital is spent upgrading the HVDC link between the North and South Islands.

The EBITDAF of our international segment improved by $19.1 million during the year, one of the key drivers of the profitability improvement of the Group. This segment benefited from a full year of operations from our Mt Millar wind farm in Australia and CalRENEW-1 solar farm in the USA.

Cost management and improved commercial practices remain a core focus. Employee and other operating expenditure reduced by $12.5 million (5%) from last year. This improvement was achieved despite increased retail costs from customer growth and high market competition, the growth of our international business and costs incurred following the Canterbury earthquakes.

EMPLOYEE AND OTHER OPERATING COSTS

Financial Year Ended 30 June



IMPACTS BELOW EBITDAF

The net change in fair value of electricity, aluminium and foreign exchange derivatives reflect movements in forward price curves. The change was primarily driven by a softening in the short-term forward electricity price, while a strengthening of forward aluminium prices helped offset electricity price movements. Aluminium prices are a factor in determining the strike price of our contract with NZAS.

The average cost of funds for the year was 6.77% (a 0.22% reduction from last year). Although the average cost of funds for the year reduced, total net finance costs increased by $22.6 million owing to the interest on increased average debt levels, primarily arising from the purchase of the Mt Millar wind farm in May 2010 and the funding of Meridian's investment in the Macarthur wind farm.

Group impairments of $11.0 million occurred during the year, partly as a result of the impacts of the Canterbury earthquakes, which caused the destruction and impairment of assets, including metering assets and office equipment, of $6.1 million. Our insurance claim relating to the earthquakes, including costs relating to re-establishing our office in Christchurch, is still being processed. We have received an initial progress payment of $3.0 million from our insurers, which is reflected in other revenues.

Additionally, as a result of the sale of our wholly owned subsidiary Right House on 1 July 2011, the Meridian Group wrote down its investment in Right House and recognised an impairment of $3.8 million.

Depreciation costs increased by $35.0 million following the revaluation of our assets on 30 June 2010, an increase in asset values of $1,214.0 million. Other increases in depreciation, from the full-year operations of the Mt Millar wind farm and the construction of Te Uku wind farm, were partially offset by the impact of the sale of the Tekapo power stations.

The low effective tax rate reflects the sale of the Tekapo power stations.

BALANCE SHEET

Meridian maintained a strong balance sheet, with total assets of $8,460.0 million, and an improved gearing ratio, moving 3.1 percentage points to 19.3%.

A revaluation of generation assets was undertaken by PricewaterhouseCoopers at 30 June 2011. This resulted in an uplift of $129.7 million.

Despite this, non-current assets reduced by $611.2 million following the sale of the Tekapo power stations to Genesis Energy on 1 June 2011. Proceeds from the sale of $820.2 million were partially utilised to pay a dividend to the shareholder of $521.0 million and to repay $50.0 million of debt. Excess funds remaining from the sale will repay maturing debt.

Year-end borrowings decreased by $33.9 million from last year. While additional funds were borrowed to complete Te Uku wind farm and commence construction of the Macarthur wind farm, this was offset by a $50.0 million debt repayment in June 2011, and favourable fair value movements on foreign currency debt during the year.

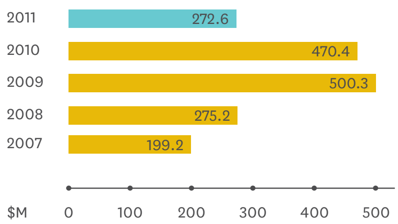
Meridian had committed bank facilities of $1,050.0 million, of which $406.0 million were undrawn at year end. This puts us in a strong position to fund future generation development opportunities.

CASH FLOW

The positive cash flow from investing activities is driven by the proceeds of the sale of the Tekapo power stations to Genesis Energy. This was partially offset by investment activities, including the completion of Te Uku wind farm and the commencement of the construction of the Macarthur wind farm in Australia.

MERIDIAN GROUP INVESTMENT EXPENDITURE

Financial Year Ended 30 June

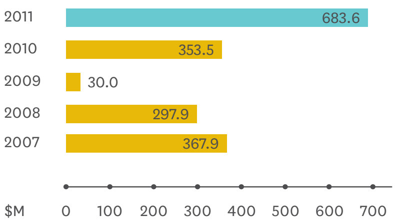


Dividends paid during the year were $683.6 million, including a final dividend of $68.5 million for the 2010 financial year, an interim dividend for 2011 of $94.1 million and a one-off special dividend of $521 million in June 2011 paid from the proceeds of the sale of the Tekapo power stations.

A final dividend of $69.4 million has been approved for distribution in respect to the year to 30 June 2011 to be paid in October 2011.

MERIDIAN GROUP CASH DIVIDENDS PAID

Financial Year Ended 30 June



DEBT MATURITY PROFILE

Financial Year Ended 30 June 2011

	FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP SUMMARY CASH FLOW $ MILLIONS	**2011**	**2010**	**2009**	**2008**	**2007**
Net Cash Flow from Operating Activities	368.7	451.8	313.5	342.6	354.4
Net Cash Flow from Investing Activities	557.7	(458.4)	(476.8)	(271.5)	(189.4)
Net Cash Flow from Financing Activities	(612.0)	13.1	139.4	(47.9)	(367.9)
Net Increase/(Decrease) in Cash Held	**314.4**	**6.5**	**(23.9)**	**23.2**	**(202.9)**

	FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP SUMMARY FINANCIAL POSITION $ MILLIONS	**2011**	**2010**	**2009**	**2008**	**2007**
Non-Current Assets	7,832.8	8,444.0	6,910.4	6,593.0	6,421.8
Current Assets	627.2	271.6	266.9	604.7	287.0
Total Assets	**8,460.0**	**8,715.6**	**7,177.3**	**7,197.7**	**6,708.8**
Non-Current Liabilities	2,959.0	3,087.9	2,536.4	2,247.5	2,085.6
Current Liabilities	569.7	557.0	356.8	745.6	221.4
Equity	4,931.3	5,070.7	4,284.1	4,204.6	4,401.8
Total Equity and Liabilities	**8,460.0**	**8,715.6**	**7,177.3**	**7,197.7**	**6,708.8**

		FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP STATEMENT OF CORPORATE INTENT (SCI) FINANCIAL MEASURES	**SCI ANNUAL TARGET**	**2011**	**2010**	**2009**	**2008**	**2007**
Equity to Total Assets	56.6%	58.3%	58.2%	59.7%	58.4%	65.6%
Return on Average Equity[1]	3.9%	6.1%	3.9%	2.1%	3.0%	5.6%
Underlying Return on Average Equity (excl. Revaluations)[1]	18.3%	18.5%	19.8%	15.6%	9.5%	14.6%
Underlying Return on Average Capital Employed (incl Revaluations)[1]	4.7%	5.7%	5.6%	4.9%	3.2%	3.0%
EBITDAF per MWh Generated ($ per MWh)	46.40	47.74	46.25	41.87	31.40	37.58
Net Debt/(Net Debt plus Equity) Gearing	25.6%	19.3%	22.4%	20.9%	18.3%	14.0%
Free Funds from Operations (FFO) Interest Cover (# of times)	4.6	4.9	5.7	5.4	5.0	5.9
EBITDAF Interest Cover (# of times)	5.4	5.9	6.7	5.9	6.0	7.7
Solvency	54.6%	109.8%	48.7%	71.8%	80.0%	129.6%

1 This includes the gain from the sale of the Tekapo power stations.

Segment Performance

The reporting of financial performance is segmented into wholesale, retail, international and other. Wholesale covers our New Zealand renewable development and electricity generation; retail includes our retail brands Meridian and Powershop and metering business Arc Innovations; international comprises our international generation development activities; and other includes our portfolio of energy-related subsidiaries.

THE EBITDAF PERFORMANCE OF OUR REPORTABLE SEGMENTS WAS:

WHOLESALE

$535.8m

RETAIL

$185.4m

INTERNATIONAL

$8.0m

OTHER SEGMENT

$(2.1)m

Dairy farm in Ashburton – our retail business achieved improvements in overall customer satisfaction and achieved a 7% growth in ICPs during the year.

Wholesale Performance

The renewable generation and development activities in our wholesale business are finely balanced to meet New Zealand's real-time and future demand for electricity. We strive to maintain and enhance our existing asset generation base to ensure optimal performance and return. With a strong portfolio of new generation options, we are well positioned to contribute to meeting the increase in demand expected in the medium to long-term.

	FINANCIAL YEAR ENDED 30 JUNE	
NEW ZEALAND WHOLESALE SEGMENT SUMMARY ($ MILLIONS)	2011	2010
Energy and Related Services Revenue	944.4	1,023.7
Other Revenue	7.9	7.6
Wholesale Revenue	**952.3**	**1,031.3**
Energy Related Expenses	(246.9)	(270.9)
Electricity Transmission and Distribution	(102.4)	(98.4)
Employee Expenses	(24.2)	(22.4)
Other Operating Expenses	(43.0)	(48.8)
Wholesale Operating Expenses	(416.5)	(440.5)
Wholesale EBITDAF	**535.8**	**590.8**
Key Statistics		
Wholesale EBITDAF per MWh Generated ($)	**39.25**	**42.62**
NZAS Contracted Electricity Sales GWh	4,861	4,763
Wholesale Electricity CfD Sales GWh	668	69
Total Electricity Sales (GWh)	**5,529**	**4,832**
Hydro Generation	12,629	12,857
Wind Generation	1,023	1,005
Total Generation (GWh)	**13,652**	**13,862**
Average Price per MWh Generated ($)	**41.57**	**48.33**

The wholesale segment includes New Zealand generation, wholesale electricity sales to Meridian's largest customer NZAS and the development and construction of domestic renewable generation options.

Wholesale EBITDAF was $535.8 million – a reduction of $55.0 million (9%) compared with last year. This result was primarily affected by a 14% reduction in wholesale electricity prices received for our generation from last year due to strong hydrology nationally and low demand growth reflecting a slow economic recovery, a relatively warm autumn and early winter and the Canterbury earthquakes.

These impacts were partially offset by the $28.1 million (net of legal expenses) settlement reached between Meridian and NZAS concerning liability for electricity during the 2008 pot line outage at the Tiwai Point smelter.

The settlement of the arbitration has allowed both parties to move on and continue their close working relationship. The regular reciprocal hosting and updates on respective business conditions are evidence of the strength of our relationship with our largest customer. Long-term arrangements with NZAS come into effect in 2013, giving both companies greater certainty for the future.

Employee and other operating expenditure reduced by $4.0 million (6%) from last year. Increased costs relating to the growth of our asset portfolio, through the first full year of operations at West Wind farm and the completion of Te Uku wind farm this year, were absorbed through prudent cost management.

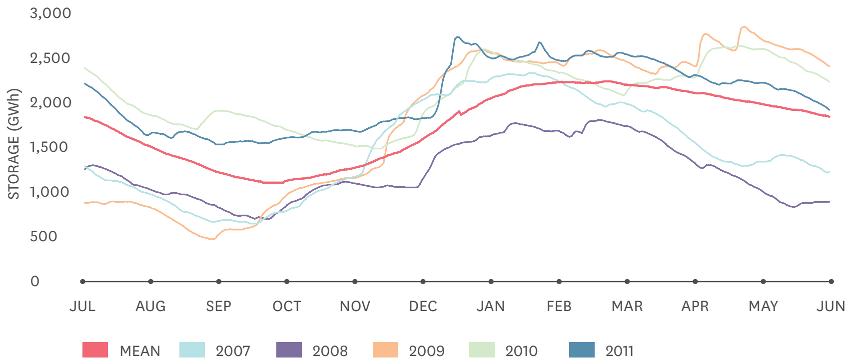
HYDRO STORAGE LEVELS

Meridian entered the financial year with above-average hydro storage levels. While storage remained above average, a dry sequence during spring and early summer combined with very low snow-pack was cause for some market concern in early December 2010, causing wholesale spot prices to rise. This position dramatically reversed in the Christmas holiday period when record rainfall across the country returned wholesale prices to low levels. This illustrates the highly volatile nature of the New Zealand electricity market.

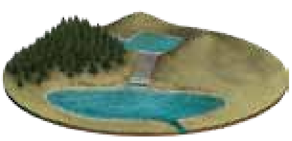
The high hydro storage levels, together with suppressed demand, resulted in a reduction of $6.8/MWh in average annual wholesale prices received for our generation compared with the previous financial year.

Average rainfall during the second half of the financial year kept storage lakes above average entering the 2012 financial year.

WAITAKI STORAGE CATCHMENT



AVERAGE WHOLESALE ELECTRICITY SALES PRICE (RECEIVED)	FINANCIAL YEAR ENDED 30 JUNE				
	2011 $/MWh	2010 $/MWh	2009 $/MWh	2008 $/MWh	2007 $/MWh
Quarter 1	46.24	26.80	132.00	55.84	67.73
Quarter 2	54.54	41.66	33.95	40.84	34.43
Half-year	**50.28**	**34.04**	**79.00**	**48.37**	**50.31**
Quarter 3	26.22	74.52	22.38	108.04	38.03
Quarter 4	39.65	50.35	22.97	260.19	66.90
Annual	**41.57**	**48.33**	**48.53**	**111.25**	**51.74**



Hydro Power

12,629GWh

generated in New Zealand
for the year ended 30 June 2011

Wind Power

1,023GWh

generated in New Zealand
for the year ended 30 June 2011

9%

REDUCTION IN WHOLESALE EBITDAF FROM LAST YEAR

14%

REDUCTION IN AVERAGE WHOLESALE ELECTRICITY PRICES RECEIVED FOR OUR GENERATION

4%

INCREASE IN TRANSMISSION EXPENSES DUE TO INCREASED HVDC CHARGES

Our hydro forced outage factor improved significantly, representing a world-class result. This exceptional performance is the result of a rigorous long-term maintenance strategy.

	FINANCIAL YEAR ENDED 30 JUNE					
PLANT PERFORMANCE	ANNUAL TARGET	2011	2010	2009	2008	2007
Plant Availability – Hydro	92.6%	93.1%	91.3%	92.6%	94.5%	93.5%
Plant Availability – Wind	96.2%	96.6%	96.0%	95.6%	96.9%	90.9%
Plant Forced Outage Factor	0.34%	0.18%	1.47%	0.43%	0.39%	0.36%

CHANGES TO GENERATION PORTFOLIO

This year, the commissioning of Te Uku wind farm, the refurbishment of Benmore and the sale of the Tekapo power stations significantly changed our generation portfolio.

The VAS agreement (long-term swaps of electricity) with Genesis Energy and Mighty River Power took effect on 1 January 2011. This, together with the sale of the Tekapo power stations, reduced our South Island generation while providing hedge cover for our growing customer base in the North Island. However the ‘lead-in hedge’ with Genesis Energy has provided a staged reduction rather than a sharp drop-off, leaving our portfolio well positioned and allowing time to realign our balance of customers with generation.

TRANSMISSION

Transmission reliability is of utmost importance to our business. Meridian welcomes Transpower’s construction of Pole 3 of the HVDC link between North Island and South Island, and other major transmission infrastructure investments, notably into Auckland. This remains critical to addressing the current transmission constraints and increasing capacity, as a strong transmission grid ensures a level national market. During the year, there were several instances of price separation between North and South Island.

Transmission and ancillary costs increased by $4.0 million from last year, driven by increases in HVDC charges. The delay in commissioning Pole 3 of the HVDC has resulted in the postponement of further transmission charge increases that were scheduled for 1 April 2011.

HVDC charges are currently paid by South Island generators. This issue, along with the overall transmission pricing framework, is the subject of a review being undertaken by the Electricity Authority supported by the Transmission Pricing Advisory Group (TPAG) and Meridian looks forward to this issue being resolved for the long term.

ASSET PERFORMANCE

The average availability of our hydro and wind assets improved from last year. Additionally, our hydro forced outage factor improved significantly from 1.47% to 0.18%, representing a world-class result. This exceptional performance is the result of a rigorous long-term maintenance strategy of ongoing monitoring and early action. This performance has been externally validated by a recent global hydro benchmarking study (published by *Generation Knowledge Service Hydro*), which placed Meridian assets at or near the top in their class in terms of cost and the efficiency of operations.

All our generation assets were undamaged in the Canterbury earthquakes. We remain vigilant and are prepared for any future natural disasters by regularly reviewing and practising emergency management plans at our assets.

The five-year Benmore refurbishment project, the first major upgrade in the power station’s 46-year history, was completed in May 2011 within budget, increasing generation efficiency by 2.8%. This equates to nearly 70GWh of additional energy, enough to power 7,000 average households from the same amount of water.

GENERATION VOLUMES

Overall, generation production reduced by 210GWh from last year as a consequence of both lower demand and lost generation from the sale of the Tekapo power stations on 1 June 2011. Overall our generation market share remained consistent with last year’s.

Wind volumes were not at the expected level for the year, and wind speeds were low for large parts of the year. This is not a pattern that we expect to continue.

MARKET TRADING

We are keen to see greater liquidity in the hedge market and support the Australian Securities Exchange (ASX), the agreed platform for New Zealand Electricity Futures trading. Although there was increased trading activity in the reporting period, the Government's Ministerial Review expectation of 3,000GWh of unmatched open interest by 1 June 2011 was not met. We anticipate increasing volumes exchanged on the ASX as new entrants (non-New Zealand generators and/or retailers) begin to trade.

RENEWABLE GENERATION GROWTH

Core to Meridian's strategy is the development of long-term renewable generation options, with the goal of being the premier Australasian developer of renewable generation assets.

As the largest renewable electricity generator in New Zealand, we are a significant contributor to the achievement of the Government's target of 90% of electricity from renewable generation by 2025.

We are continuing to develop a portfolio of value-enhancing options in wind, hydro and irrigation. At the same time, we keep a watching brief on geothermal opportunities and maintain market intelligence on future marine technology.

While demand growth for electricity has been relatively flat in the past two years, medium-to long-term forecasts anticipate solid growth based on economic fundamentals.

We believe that our generation development portfolio is well placed to contribute to meeting future demand.

We are developing our portfolio of options by securing resource consents and taking projects through to investment-ready status. The success of this strategy relies on the fine balance between pre-committal development activities and robust business cases that minimise investment risk. A cost-effective resource consent process is critical to this approach. Only the most economical of our investment options will proceed to build phase, and only when market conditions are right.

RENEWABLE PIPELINE

The major milestones for the period being reported are the full commissioning of Te Uku wind farm in March, achieving investment-ready status for Central Wind farm and being awarded resource consents for Pukaki Hydro.

The 64MW Te Uku wind farm, near Raglan, was opened by the Prime Minister the Rt Hon John Key on 10 February 2011. The project is a real success story – completed ahead of schedule and budget with great support from the local community and the council.

Meridian was granted resource consent in January 2010 for the 120-130MW Central Wind farm project located across five privately owned rural properties between Waiouru and Taihape. Market conditions will dictate when the time is right to start construction on this project.

Pukaki Hydro is the first new hydro power development for which Meridian has received full consent. Consents were issued, without a hearing, by Environment Canterbury and the Mackenzie District Council in June 2011 following a limited notification application process which received no opposition. This positive outcome was facilitated by Meridian's good relationships with the local community and organisations including Ngāi Tahu, the Department of Conservation (DOC) and Fish and Game.

The Environment Court hearing for the appealed Mill Creek wind farm proposal was completed in November 2010. The proposal was for a wind farm on private land near Wellington that would comprise 31 turbines with a combined full capacity of about 71MW, enough to power 35,000 average-sized homes. The Court's decision in August 2011 granted the consent for 26 turbines, a capacity of about 60MW.

Hunter Downs Irrigation is a community irrigation proposal with strategic benefits for Meridian, and has been developed jointly with South Canterbury Irrigation Trust. The project is progressing through the resource consent process. The proposed scheme would irrigate up to 40,000 hectares in an area from the Waitaki River to Otipua in South Canterbury.

In February 2011, we lodged a resource consent application with the Hurunui District Council and Environment Canterbury for the Hurunui wind farm in North Canterbury. Subsequently, given that an appeal would have been inevitable, we requested direct referral to the Environment Court. We believe this approach will achieve the best outcome for the community and minimise cost for the District Council, a significant consideration in a small community. The Council agreed to Meridian's request at an open extraordinary council meeting in June 2011.

The proposal for the Hayes wind farm in Otago has been in court processes since May 2008. After a favourable decision from the High Court appeal in late 2010, the project has been referred back to the Environment Court and is not likely to be heard until early 2012.

Work on site optimisation and design for the Maungaharuru wind farm in Hawke's Bay is progressing well. Engineers are reviewing the project design for the consents purchased in 2010 and are developing an enhanced proposal.

The Mokihinui hydro proposal gained resource consent in April 2010; however this was later appealed. We are preparing evidence for the Environment Court hearing, which is expected in the first half of the 2012 calendar year, and working towards gaining land access consent from the Minister of Conservation for the project.

The North Bank Hydro project, for a development on the north bank of the Waitaki River, gained consents for water takes and discharges in August 2010. Meridian is now engaging with landowners and other key stakeholders on a proposed design and preparing applications seeking the land use consents necessary to build the scheme.

Retail Performance

As a retailer, our focus is on offering the best service and packages to attract and retain customers in what is a highly competitive retail electricity market. Increased customer satisfaction ratings this year show we are making progress in lifting our customer game.

RETAIL SEGMENT SUMMARY ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE	
	2011	2010
Energy and Related Services Revenue	1,033.7	988.1
Other Revenue	4.8	5.5
Retail Revenue	**1,038.5**	**993.6**
Energy Related Expenses	(438.8)	(459.4)
Electricity Transmission, Distribution and Levies	(347.5)	(327.4)
Employee Expenses	(25.0)	(24.4)
Other Operating Expenses	(41.8)	(44.8)
Retail Operating Expenditure	**(853.1)**	**(856.0)**
Retail EBITDAF	**185.4**	**137.6**
Key Statistics		
Powershop Contracted Electricity Sales (GWh)	267	83
Meridian Retail Non-half-hourly Sales (GWh)	2,925	2,899
Meridian Retail Half-hourly Sales (GWh)	2,448	2,577
Meridian Retail Financial Contract Sales (GWh)	434	346
Meridian Retail Spot Electricity Sales (GWh)	1,796	1,835
Total Electricity Sales (GWh)	**7,870**	**7,740**
Average Retail Electricity Purchase Price ($ per MWh)	**51.65**	**58.05**

CUSTOMER SATISFACTION	FINANCIAL YEAR ENDED 30 JUNE		
	ANNUAL TARGET	2011	2010
Meridian Retail			
Business Customer Satisfaction[1]	58.0%	54.6%	53.1%
Rural Customer Satisfaction[1]	52.0%	51.3%	50.1%
Residential Customer Satisfaction[1]	55.0%	70.2%	51.0%
Perceived Leadership in Sustainable Electricity Supply	50.0%	58.0%	51.4%
Powershop – Residential[2]	92.0%	92.0%	-

1 Six-month rolling average of survey scores measuring the percentage of customers who rate Meridian as excellent or very good.
2 Based on score as to how likely customers are to recommend Powershop to a friend or colleague.

The retail segment includes Meridian's two retail electricity brands, Meridian and Powershop, and also includes Arc Innovations, our electricity meter services business.

Retail EBITDAF was $185.4 million – an increase of $47.8 million (35%) from last year. Retail's performance is significantly influenced by the average wholesale purchase price of electricity. This year the price was $6.4/MWh (11%) lower than in the previous financial year.

Removing the price volatility of spot wholesale market movements by substituting market prices with a fixed input price of $80/MWh, EBITDAF improved by $6.8 million from the previous financial year.

This improvement in retail performance recognises the increased contribution of our Powershop brand, a greater focus on optimising our customer portfolio, aligning our customer base to where we can add more value, and ongoing attention to reducing our cost to serve. This result was achieved despite the extremely competitive retail market, which increased retention and acquisition activity and drove up customer service costs.

Overall sales volumes for the year increased by 2% from last year, primarily driven through the growth of the Powershop customer base.

AVERAGE ELECTRICITY PURCHASE PRICE	FINANCIAL YEAR ENDED 30 JUNE 2011 $/MWh	2010 $/MWh	2009 $/MWh	2008 $/MWh	2007 $/MWh
Quarter 1	49.79	35.31	122.84	56.95	65.43
Quarter 2	61.18	52.25	41.84	45.90	40.15
Half-year	**55.48**	**43.20**	**82.62**	**51.54**	**53.38**
Quarter 3	50.47	84.14	34.16	116.54	44.12
Quarter 4	44.77	57.85	44.24	256.20	69.76
Annual	**51.65**	**58.05**	**62.13**	**121.42**	**55.38**

RETAIL MARKET

The retail market this year was extremely competitive, with high customer churn further stimulated in May 2011 by the switching campaign launched by the Electricity Authority. However, Meridian and Powershop combined recorded the highest customer gains for four consecutive months (February to May 2011), suggesting people are choosing us over our competitors.

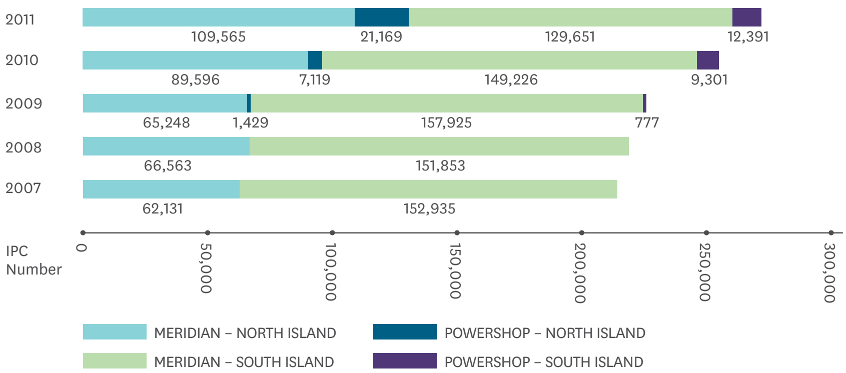
CUSTOMER GROWTH

Meridian, through its two retail brands, increased total ICPs by 17,534 (7%) in the year to 30 June 2011 and has a combined 14.2% share of the retail market. Powershop more than doubled its customer base in the year, reaching 33,560 ICPs by 30 June 2011.

The Meridian retail brand continued to optimise its customer portfolio following the sale of the Tekapo power stations, resulting

MERIDIAN ICP NUMBERS

Financial Year Ended 30 June



35%

INCREASE IN RETAIL EBITDAF FROM LAST YEAR

11%

REDUCTION IN THE AVERAGE WHOLESALE PURCHASE PRICE

2%

INCREASE IN SALES VOLUME FROM LAST YEAR

Consumers of both Meridian and Powershop have expressed increased satisfaction with our services, according to results of commissioned and independent surveys.

in a change in customer mix at both segment and location levels. The Meridian brand's ICPs declined in South Island by 19,575 (13%), while increasing by 19,969 (22%) in North Island following a successful acquisition campaign. Our rural customer base increased by 13%. This customer segment consumption profile is well matched to our generation profile.

PRICING

The average contracted sales price increased only slightly in the year. This was a reflection of the Meridian brand's residential price freeze that continued until March 2011. Following the earthquakes, this freeze was extended for a further six months for Christchurch customers, despite an increase in network distribution costs introduced during the freeze period.

The increase in sales price was driven by a change in portfolio mix in relation to customer location and segment.

CUSTOMER SATISFACTION

Customers of both Meridian and Powershop have expressed increased satisfaction with our services, according to the results of both our commissioned monthly surveys and independent surveys.

Powershop, for the second year running, took the top spot, achieving a customer satisfaction rating of 96% according to Consumer NZ. In the same survey the Meridian brand scored 81%, an improvement of 6% from the previous year.

Meridian's retail customer satisfaction as measured in a Colmar Brunton survey carried out in June 2011 also improved during the year, rising an average of 14% across all segments. These are customers who rate Meridian retail's service as excellent or very good.

These results are pleasing as they show we have been largely successful in 'lifting our customer game' during the year. We are still disappointed to have had periods when we had difficulty in maintaining our quality of customer service. In September 2010 and February 2011, the earthquakes in Canterbury disrupted Meridian's retail operations. The February event, in particular, hampered progress towards addressing teething problems following the implementation of the new Velocity billing system.

FOUNDATIONS FOR THE FUTURE

The Velocity billing system was implemented in December 2010, replacing a legacy system and improving the accuracy of customer bills. As the new system carries out an increased number of validations on customer bills, some teething problems resulted in billing delays for approximately 10% of Meridian retail customers. This was a disappointing short-term outcome.

These initial challenges with the system implementation have been largely resolved and we look forward to the significant longer-term benefits for us and our customers of improved bill accuracy.

Meridian is improving its online capability. This year the Meridian website was upgraded, providing a simpler 'join' process for new customers and a more engaging e-billing service.

Powershop continues to enhance its online offerings for business and residential customers. Business customers can now access multiple accounts from one screen, speeding up processing time. Further improvements are planned for the next year, which will allow billing to be allocated to separate business units or branches.

All customers have access to enhanced information through their unit balance page, allowing customers to track power usage better.

INNOVATION

We are constantly seeking to take advantage of advances in technology to deliver more flexible, customer-friendly and lower-cost services. We also aim to provide products and services that reinforce our sustainable position and promote energy efficiency.

Since its launch, Powershop has been using smart metering technology to give customers greater control of their energy usage and spend.

In the new financial year, Meridian will be offering a Daily Energy Report email service to its Christchurch customers with Arc Innovation smart meters. The daily emails will provide customers with information about their previous day's energy usage and cost. Following customer feedback, the plan is to extend the service to other regions and to customers with other types of smart meters.

EARTHQUAKE RESPONSE

Following the September earthquake in Canterbury, Meridian supplied small battery-powered transistor radios to customers in Christchurch and nationwide, helping customers to access emergency management information. Direct feedback and social media responses suggest the radios were well received.

After the February earthquake, once our Christchurch-based staff were all confirmed safe, calls were made to all our medically dependent customers in the area to check they had access to electricity. Our staff organised generators, medical help and water deliveries as necessary.

When Meridian's Christchurch office was closed after the February earthquake, the in-house customer contact centre was able to continue serving customers via a small team working from the Wellington office. We regret there was disruption for customers during this time while we worked to restore services.

Shortly after the February earthquake, Meridian announced financial relief for Christchurch-based customers, including extending payment due dates, giving rebates for periods without electricity and introducing a further six-month price freeze for Christchurch customers.

RESIDENTIAL

Meridian provides electricity to homes throughout New Zealand.

BUSINESS

Meridian provides electricity to many New Zealand businesses, from the largest corporations to the smallest enterprises.

RURAL

Meridian provides electricity to many farms in New Zealand, from dairy operations to lifestyle blocks.

International Performance

The international segment supports our aspiration to be regarded as the global reference company for renewable energy.

	FINANCIAL YEAR ENDED 30 JUNE	
INTERNATIONAL SEGMENT SUMMARY ($ MILLIONS)	**2011**	**2010**
Electricity Revenue	21.8	1.7
Other Revenue	-	(0.1)
International Revenue	**21.8**	**1.6**
Energy Related Expenses	(0.5)	-
Electricity Transmission and Distribution	(1.9)	(0.1)
Employee Expenses	(4.6)	(1.9)
Operating Expenses	(6.8)	(10.7)
International Operating Expenses	**(13.8)**	**(12.7)**
International EBITDAF	**8.0**	**(11.1)**
KEY STATISTICS		
Wind Generation	162	10
Solar Generation	10	2
Total Generation (GWh)	**172**	**12**

This segment includes Meridian's international generation and development businesses in Australia and the USA.

EBITDAF for the period was $8.0 million, which represents an improvement of $19.1 million on the loss the segment reported last year. Meridian's acquisition of the Mt Millar wind farm (70MW) in Australia and the construction of the CalRENEW-1 solar farm (5MW) in the USA were completed during the second half of the 2010 financial year.

Our Australian business continues to develop its generation pipeline and build its organisational capabilities. Ben Burge was appointed Chief Executive Officer for the Australian operations in November 2010.

The Mt Millar wind farm was successfully integrated into the business and we are now focused on increasing yield through improving operational performance.

In December 2010 ANZ was appointed lead arranger and underwriter of the project finance facility for the 420MW Macarthur wind farm, a joint venture with Australian energy company AGL Energy. The project financing is for up to $A386 million, to fund an expected project expenditure of approximately $A500 million and is expected to include a mix of banks and EKF (the Danish Export Credit Agency). Construction started on the wind farm in January 2011 and is scheduled for completion in 2013.

Meridian Energy USA's (MEUSA's) CalRENEW-1 solar facility in Mendota, California completed its first full year of operation in April 2011 and has performed in line with expectations.

MEUSA also focused on progressing development plans for a solar facility in Central Valley, California and is in the early stages of developing its San Luis Valley solar project in Colorado.

In March 2011 Meridian received environmental approvals from the Tongan Ministry of Environment and Climate Change and has completed the design and procurement for a proposed 1MW solar farm at Popua, Tongatapu, Tonga. The project has been submitted to the funding partners and the Government of Tonga for consideration.

We are continuing to explore further growth options for renewable energy assets in both Australia and the USA where there is strong regulatory support for renewable energy projects.

Other Segment Performance

Meridian actively invests in innovative energy technologies and solutions that we see as either complementing or hedging against risks to our core business.

OTHER SEGMENT SUMMARY ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2011	2010
Energy and Related Services Revenue	32.9	27.7
Other Revenue	3.6	7.3
Other Segment Revenue	**36.5**	**35.0**
Energy Related Expenses	(17.1)	(19.7)
Electricity Transmission and Distribution	0.2	-
Employee Expenses	(13.0)	(13.5)
Other Operating Expenses	(8.7)	(9.7)
Other Segment Operating Expenses	**(38.6)**	**(42.9)**
Other Segment EBITDAF	**(2.1)**	**(7.9)**

This segment includes Meridian's portfolio of energy related subsidiaries Energy for Industry (EFI), Damwatch, Right House and Whisper Tech, along with Meridian's Captive Insurance Company.

Despite a challenging environment, EBITDAF for this segment improved by $5.8 million against last year. This improvement was largely driven by the performance of EFI.

ENERGY FOR INDUSTRY

EFI, which became a subsidiary on 1 July 2010 (having previously operated as a business unit), provides energy services to industrial customers that utilise processed waste fuels and reduce overall environmental impacts and carbon emissions.

In the past year EFI continued to provide innovative clean energy solutions, including the completion of the Bromley Energy Centre drying plant in July 2010. This contributed to Christchurch City Council's sustainable cities initiatives and its winning of the Public Sector and Renewable Energy Award from the Energy Efficiency and Conservation Authority.

On 30 June 2011 EFI acquired the business assets of EDC Power Limited, which included a 93% share in the Silverstream landfill gas generation business, operated in a joint venture with Hutt City Council.

WHISPER TECH

Whisper Tech, through its investment in Efficient Home Energy, is now manufacturing a consistent and quality micro combined heat and power product and is focused on selling into the European market.

DAMWATCH

Damwatch continues to provide leadership in dam safety consultancy and monitoring services.

The 2011 financial year was challenging as a result of delayed contracts with several of its clients. Despite this, Damwatch was successful in undertaking a number of international assignments, including providing consultancy services to World Bank-funded hydro projects in Vietnam.

RIGHT HOUSE

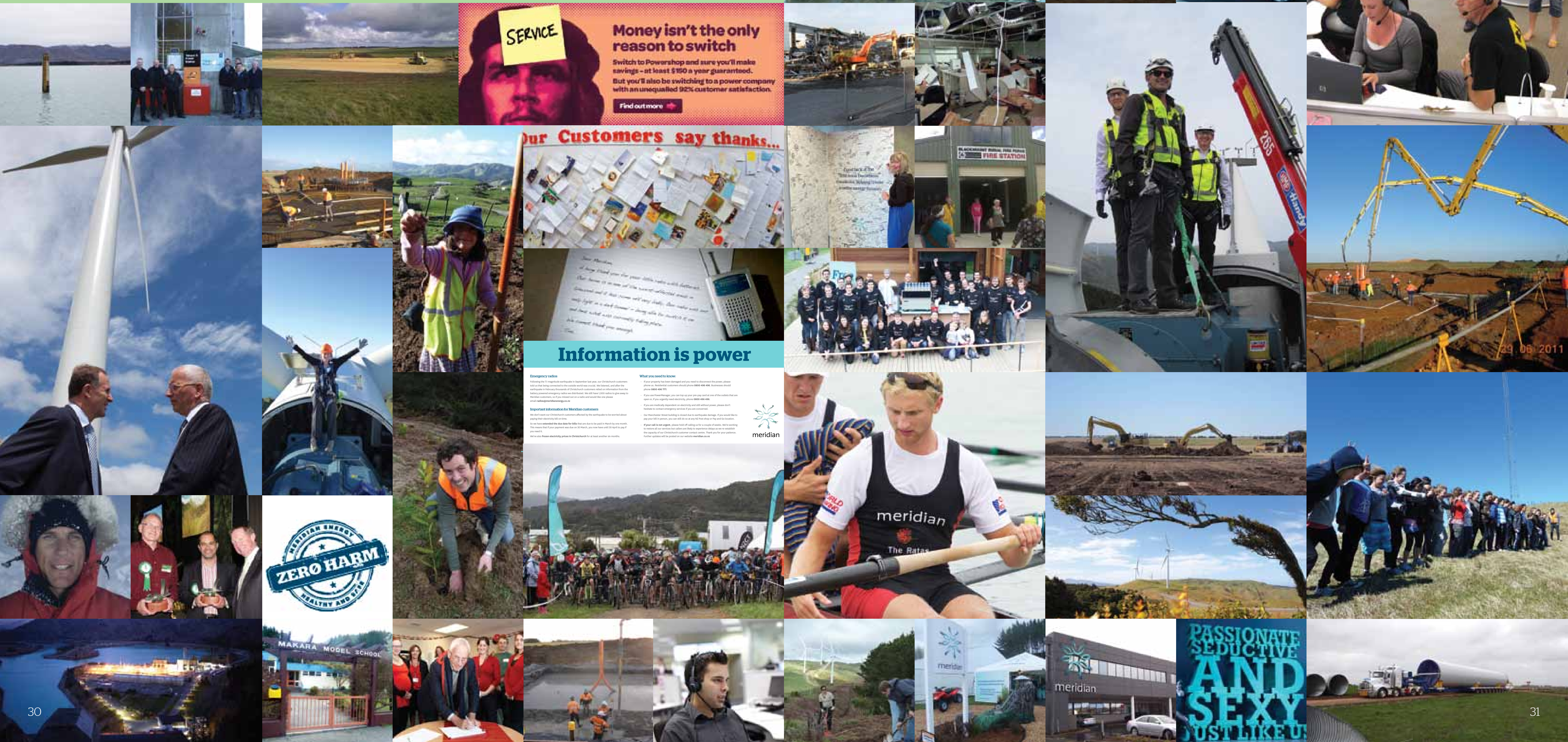
In May 2011 Meridian agreed to sell its Right House subsidiary to UK-based company Mark Group. The sale was completed on 1 July 2011.

Right House was established recognising the opportunity for improved energy efficiency in the residential sector.

We recognise that the further growth of this business can be better driven by an international business with specific expertise in this market.

A Year in Pictures

It's been quite a year. We've been making progress on many projects and initiatives, working with communities and stakeholders. Each photo tells a story about our journey towards creating a better energy future.



Our People and Health and Safety

The company's strong financial performance is testament to Meridian's exceptional people, especially given the major challenges we faced this year.

FOCUS ON CHRISTCHURCH

Christchurch is home to approximately 50% of our employees (and more than 37% of our overall customer base). The February earthquake left our office on Manchester Street uninhabitable, forcing us to relocate staff to other sites. Staff continued to work in hotel conference rooms, a chapel and staff members' homes, and a core group of our customer contact centre staff set up in our Wellington office.

Christchurch staff demonstrated great resilience and customer focus throughout this challenging time, working under difficult circumstances to maintain our business and continue serving our customers.

Meridian is committed to staying in Christchurch. In May, our staff moved into a refurbished building on Moorhouse Avenue.

HEALTH AND SAFETY

The safety of our staff is always our number one priority. Meridian's strong focus on driving improvements in health and safety performance was reinforced when we signed up to the Zero Harm Workplaces Pledge in 2010. The Pledge was developed by the Business Leaders' Health and Safety Forum and is a coalition of business and government leaders working to achieve improvements in health and safety across New Zealand.

Both the in-house and contractor workforce of our company are represented in a robust set of site committees that have accountabilities for health and safety improvements.

A number of safety initiatives and our continued drive for improvement has led to a reduction in the lost-time injury frequency rate (incidents per million hours worked) from 2.5 in the year to June 2010 to 1.8 this year. This is below the industry average and we are committed to maintaining the momentum to reduce this in future years to zero.

During this year two significant generation projects, the Te Uku wind farm construction and Benmore refurbishment, were completed with no lost-time injuries. Taken together this represents approximately 535,000 work hours without a lost-time injury.

PERFORMANCE CULTURE

At Meridian we strive to create a culture that is commercial, collaborative and growth oriented. This culture is integral to our daily work and the recruitment, selection and performance evaluations of staff and contractors.

Meridian aims to build a competitive advantage by enabling our leaders to realise their potential and that of their teams. We offer a range of initiatives to develop great leaders and strengthen our workforce capability. This year, the focus was on making improvements to our staff induction, leadership development, competencies, and learning and development initiatives.

Personal contribution and accountability are promoted at Meridian. Every member of staff has personal objectives with performance targets that align with the company's objectives and reflect our culture of respecting and caring for communities and the environment.

WINNING PEOPLE

We are proud of the recognition our people achieved in various industry awards this year.

In September 2010, Arc Innovation's Simon Clarke was named Young Executive of the Year and Powershop's Ari Sargent was named Energy Executive of the Year at the Deloitte Energy Excellence Awards.

STAFF ENGAGEMENT

It is pleasing that our engagement survey results improved again this year, but they are still not where we would like them to be for a company with our aspirations. The results in the 2011 financial year showed a 3.6 percentage point increase compared with the previous year.

ATTRACTING NEW TALENT

Our graduate and apprentice programmes continue to attract talented people to Meridian. We are working on extending the reach of our graduate programme to non-engineers, with the aim of making Meridian as attractive to corporate professionals as we are to engineers.

HEALTH AND SAFETY	YEAR TO 30 JUNE 2011	TARGET	YEAR TO 30 JUNE 2010	INDUSTRY AVERAGE
Number of Lost-Time Injuries	3	nil	5	N/A
Lost-time Injury Frequency Rate*	1.8	nil	2.5	6.3

** Meridian employee incidents per million hours worked.*

	FINANCIAL YEAR ENDED 30 JUNE			
	2011		2010	
MERIDIAN EMPLOYEES	GROUP	PARENT	GROUP	PARENT
Permanent	730	497	701	510
Fixed Term	70	53	103	64
Total Employees	**800**	**550**	**804**	**574**

Having a strong pipeline of new talent is important to enable us to maintain and grow our workforce. We are also cognisant that 10% of our staff may be close to retiring (in the 56-65 age group).

APPROACH TO REMUNERATION

Our remuneration strategy is designed to provide remuneration based upon achieving agreed performance targets. Our remuneration is made up of two components: fixed base salary and an at-risk performance incentive payment.

The at-risk performance incentive payment is calculated on the basis of overall company financial performance, and the achievement of team and individual objectives and a behavioural assessment.

The Chief Executive's total remuneration in the year to 30 June 2011 was $1,220,620 compared with $857,687 in the 2010 financial year.

The Chief Executive's remuneration was made up of $907,947 fixed base salary ($696,812 in 2010) and a variable at-risk performance incentive of $312,673 ($160,875 in 2010). At-risk incentive payments are related to the previous financial year. The increase in fixed remuneration follows a benchmarking exercise and performance review of all our staff carried out earlier in the year. The increase in the variable at-risk performance incentive payment reflects the large increase in underlying profitability in the year ended 30 June 2010 compared with the year ended 30 June 2009.

The total number of employees of Meridian Energy Limited and its subsidiaries (not including directors or the Chief Executive) who during the year received remuneration and other benefits exceeding $100,000 is outlined in the table to the right.

GROUP EMPLOYEE REMUNERATION
YEAR TO 30 JUNE 2011

SALARY BAND ($)	NUMBER OF STAFF
100,000 - 109,999	68
110,000 - 119,999	46
120,000 - 129,999	32
130,000 - 139,999	28
140,000 - 149,999	18
150,000 - 159,999	23
160,000 - 169,999	18
170,000 - 179,999	13
180,000 - 189,999	10
190,000 - 199,999	11
200,000 - 209,999	6
210,000 - 219,999	9
220,000 - 229,999	10
230,000 - 239,999	9
240,000 - 249,999	3
250,000 - 259,999	5
260,000 - 269,999	4
270,000 - 279,999	1
280,000 - 289,999	2
300,000 - 309,999	1
310,000 - 319,999	5
320,000 - 329,999	3
330,000 - 339,999	1
340,000 - 349,999	1
350,000 - 359,999	3
360,000 - 369,999	2
370,000 - 379,999	1
390,000 - 399,999	1
410,000 - 419,999	1
460,000 - 469,999	1
470,000 - 479,999	1
560,000 - 569,999	1
580,000 - 589,999	1
590,000 - 599,999	1

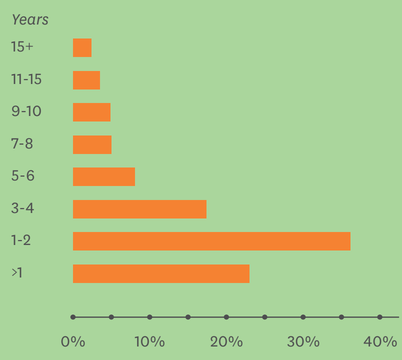
The safety of our staff is always our number one priority. This year we saw a significant improvement in health and safety.

MERIDIAN GROUP EMPLOYEES GENDER SPLIT

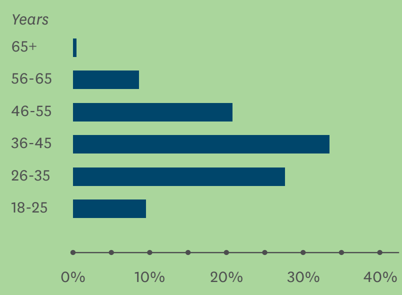
41%
FEMALE
(2010: 37%)

59%
MALE
(2010: 63%)

MERIDIAN GROUP EMPLOYEES – LENGTH OF SERVICE



MERIDIAN GROUP EMPLOYEES – AGE



Environment

Our generation business is dependent on harnessing the power of water, wind and sun. The responsible use of natural resources is at the very heart of our business.

Our main environmental impacts arise from the operation and development of our renewable generation assets. All of our generation facilities are operated in accordance with the relevant legislation including the resource consent requirements under the Resource Management Act (RMA). The RMA takes a precautionary approach to sustainable management. By complying with the RMA, our operations and environmental management also take a precautionary approach.

Environmental management begins at concept phase and continues through the consent to the construction and operational phases. Across all our resource consents, we actively monitor and manage to meet hundreds of conditions. There were very few non-compliant events noted this year, and these were minor in nature and resulted in no adverse environmental impacts. We aim to improve this in future years.

WORKING IN PARTNERSHIP

We build and maintain long-term relationships with local communities, environmental and recreational groups, tangata whenua and regulators who take an active interest in environmental issues. Meridian works alongside these groups on a range of initiatives to minimise our impacts and care for the environment. In the Waitaki Catchment, we have partnerships with Fish and Game and Ngāi Tahu on different projects to protect and increase the number of fish and eels.

Through our Community Funds and national sponsorships, we support organisations and initiatives that address environmental concerns. Along with the Department of Conservation (DOC), Meridian is a major sponsor of the community conservation initiative Living Legends, a joint venture between Project Crimson Trust and The Tindall Foundation, which launched in February 2011 and will manage 17 events to plant more than 85,000 native trees in New Zealand.

Having high standards in environmental responsibility is an expectation that extends to our contractors and suppliers. We encourage companies that we work with to have suitable sustainability policies, responsible purchasing policies and an awareness of environmental legislation, and their sustainability performance forms part of our selection decision-making.

ENVIRONMENTAL ACCOLADES

Effective environmental management is critical at all our generation sites. During the Te Uku wind farm construction the terrain, soil types, wet weather and scale of the site provided huge challenges. Meridian's innovative approach to civil design minimised the overall construction footprint. As testament to the high environmental standards achieved at Te Uku, Environment Waikato awarded the project the inaugural Earthworks of the Year Award. In August 2011, the project was announced the winner of the Environmental Excellence category at the Deloitte Energy Excellence Awards.

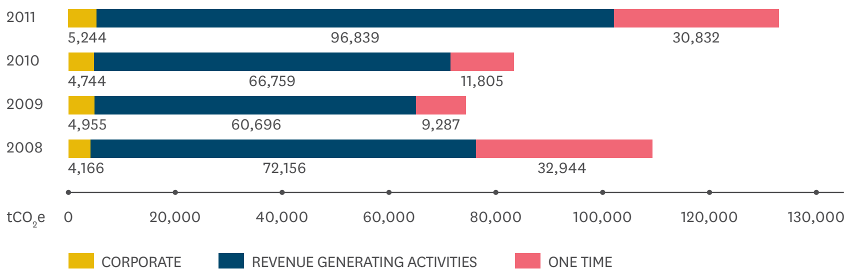
The Project River Recovery initiative, a 20-year partnership with DOC, was celebrated this year with a Green Ribbon Award in the Environmentally Responsible Large Organisation category. The project's goal is to research, restore and protect 100 hectares of the unique braided riverbeds and wetlands of the South Island's Upper Waitaki Basin. The project has been a positive outcome for Meridian, DOC and the community and for the biodiversity of the braided rivers.

WATER REFORM

As the largest user of freshwater in New Zealand, Meridian has been engaged in collaborative water reform forums reflective of our interest and ability to contribute. We have been an active participant in the Land and Water Forum at a national level and the Canterbury Water Management Strategy at catchment and regional levels. Given our experience, we are particularly interested and uniquely placed to assist in the consideration of water allocation reform options and ways to develop electricity and water infrastructure solutions for the future.

TOTAL GROUP EMISSIONS

Financial Year Ended 30 June



CARBON TRADING

Our Te Āpiti and White Hill wind farms continue to produce Kyoto-compliant carbon credits under the Projects to Reduce Emissions Scheme until the end of the 2012 calendar year. We do not participate in and have no liabilities under the Emissions Trading Scheme.

GREENHOUSE GAS EMISSIONS

Managing and reducing our greenhouse gas (GHG) emissions is an important part of our commitment to using natural resources wisely throughout our business. We certify our efforts through Landcare Research's Certified Emissions Management And Reduction Scheme (CEMARS®).

Total Group emissions increased by 60% from last year, and are 22% above our base year of 2007/08.

This result has been mainly driven by significant growth in Powershop's customer base in the past four years. As Powershop owns no generation assets, all the electricity bought to supply customers is accounted for at the emission intensity factor for New Zealand grid electricity.

Corporate emissions (from electricity use, business travel, waste and hydrofluorocarbons (HFCs)) remain the focus of our reduction efforts. For the parent company, our corporate emissions per full-time equivalent (FTE) were 6.4 tonnes of carbon dioxide equivalent (tCO_2e) per FTE in the base year (2007/08) and are now 6.6 tCO_2e/FTE, an increase of 2%. The increase in these emissions is primarily from increased air travel as we expand into overseas markets.

The majority of one-time emissions this year were again from the construction of new renewable energy generation capacity at Te Uku wind farm, which was completed in March 2011.

A detailed summary of our inventory is included later in this report.

REVENUE GENERATING EMISSIONS (tCO_2e) (SCOPE 1, 2 AND 3)	FINANCIAL YEAR ENDED 30 JUNE			
	2011	2010	2009	2008
EFI Electricity and Heat	59,639	47,965	50,988	59,515
Powershop Electricity	30,239	10,726	620	80
Meridian Electricity	1,845	2,461	2,253	9,260
Dairy Farms	3,619	4,668	6,260	3,174
Right House Installation	434	444	45	32
Whisper Tech Manufacture	916	494	530	95
Meridian Australia and USA	147	-	-	-
Total Revenue Generating Emissions	**96,839**	**66,759**	**60,696**	**72,156**

Green Ribbon Award jointly with DOC for Project River Recovery from the Ministry for the Environment

EARTHWORKS OF THE YEAR AWARD FOR THE TE UKU WIND FARM CONSTRUCTION FROM ENVIRONMENT WAIKATO

Environmental Excellence Award at the Deloitte Energy Excellence Awards (August 2011)

PARTICIPATION IN LAND AND WATER FORUM AND CANTERBURY WATER MANAGEMENT STRATEGY

CEMARS® certified organisation

Communities

Meridian is committed to creating a better energy future and acknowledges and supports the communities where our assets are located, where our customers live and work, and where we plan to develop generation facilities in the future.

It can take several years to gain resource consent and a few years to build, and assets can be operational for generations. This means Meridian invests in long-term relationships and partnerships with the people living alongside our assets, as well as with individuals and groups with an interest in our generation activities.

New generation assets often bring opportunities for tourism and employment to an area. Meridian aims to support regional economies by working with local suppliers. At Te Uku wind farm, we supported the local quarry to supply aggregate, rather than bringing it from a remote supplier, and a new nursery business opened locally to meet our need for seedlings.

While some people welcome our assets for these opportunities, we acknowledge and respect that not everyone feels that way.

Some of the local Makara community, near Wellington, were unhappy with the construction and operation of West Wind farm. In particular, there were complaints about the noise levels of the turbines, even though they were meeting consent conditions. Last year we went to much effort to understand the issues some members of the community were experiencing and worked with the turbine manufacturer to reduce the tonal effects. The sources of complaints received have reduced to just a handful of households.

This year we established a dedicated community liaison role with the intent to deliver on our commitment to being a good neighbour for the long term. In June 2011 we hosted the local community at a preview day for a new recreational area at West Wind, which will be open to the public towards the end of 2011.

Te Uku wind farm has been a huge success story in community engagement. Led from the top, the construction team built strong partnerships with local schools near the wind farm. Monthly barbeques were held at the local school as a health and safety educational fundraising activity and many on-site staff gave personal time in supporting local initiatives.

Through the Community Funds programme, Meridian is an active participant in community life and contributes to a great range of projects inspired by the people living near our power stations. We have Community Funds available to communities living near our Waitaki hydro stations, the Manapouri power station and the West Wind, White Hill and Te Āpiti wind farms. Each Fund is run by a panel of nominated community representatives and Meridian staff, who work together to review proposals and allocate funding.

The Community Fund committees awarded several grants throughout the year.

Makara Model School was the major beneficiary of the first round of funding from the Meridian West Wind Community Fund, receiving a grant for solar heating for the school pool. The Fund Committee awarded further grants throughout the year, including one to provide heating for the local community centre.

In communities such as Waitaki and Manapouri, where we are considered part of their history, we continue to support local projects. In July 2010 the Blackmount Volunteer Rural Fire Force received a grant from the Meridian Manapouri Te Anau Community Fund to develop a new, purpose-built operations centre, which opened in February 2011.

Based on experience, we understand there is a wide range of groups who have an interest in our business. We make every attempt to engage with people on matters that might concern them. The table to the right includes a list of key stakeholder groups and our approaches to engagement.

STAKEHOLDER ANALYSIS

STAKEHOLDER	KEY INTERESTS AND CONCERNS	OUR ENGAGEMENT AND RESPONSE
Generation communities	Consequences of our role as a generator within their communities including environmental, commercial, social and cultural impacts. Honest and open communication. Mutual respect.	Full participation as a member of the community where relevant and appropriate. Early and frank engagement. Newsletters. Community meetings. Open days. Drop-in hubs. Community liaison groups. Compliance with and management of resource consent conditions. Community celebrations for milestone events. Community Funds.
Tangata whenua	Tangata whenua – guardians of the natural resources within their rohe. Consequences of our role as a generator, including environmental, commercial, social and cultural impacts. Honest and open communication. Mutual respect.	Regular hui. Memoranda of understanding. Development of mitigation responses. Full consultation on management of natural resources. Partnership approaches to development of consent conditions that recognise iwi aspirations. Sponsorship opportunities pursued.
Customers	Affordable power, Customer service. Accurate billing. Security of supply (effects on price and potential blackouts). Energy efficiency. Renewable energy and sustainability.	Phone conversations. Newsletters. Website. Customer satisfaction surveys. Improved disconnection process. Action to limit price increases. Transmission events. Smart meters. Subsidiaries. Continual improvement of customer service. Assistance to customers during state of emergency.
Employees	An employment experience that delivers upon the initial promises made. An employer who genuinely cares for the wellbeing of staff. An employer who is well respected in the community.	Focus on leadership and performance (with programmes). Employee engagement surveys. Learning and development programme. Graduate and apprenticeship programme. Health and safety at work focus. Recognition of staff requirements during uncertain times – Canterbury earthquakes.
Shareholder	Commercial performance. Efficient delivery of services, transparency around drivers of performance/profit. Good employer.	Improved reporting. Lower corporate costs following 2009 restructure. Regular meetings with Government officials. Sound business planning based on long-term financial objectives. Annual report. Statement of Corporate intent.
Government and electricity sector	Contribution to economic growth by developing resources, promotion of energy security and affordability, efficient use of energy and environmental responsibility, fair and competitive market behaviour.	Policy submissions. Open engagement. Participation in appropriate forums.
Suppliers and contractors	Insights into timing and certainty of future work programmes and initiatives. Accurate and timely service request data. Open and equal procurement.	Notification of upcoming work programme and procurement requirements. Local purchasing. Procurement priorities.
General community	Security of supply. Leader in sustainability and renewable generation. Corporate responsibility. Contributor to communities from social, economic and environmental perspectives.	Brand campaigns. Website. Sponsorship. Annual Report. Media. Educational material. Public participation. Sustainability framework.
Local government	Responsible developer of infrastructure. Security of supply. Contribution to the local economy. Sustainably manage resources.	Meetings. Submissions. Hearing presentations. Working group and committee participation. Participation in local democratic process. Adherence to local policy re management of resources.
Non-government organisations	Impact on natural resources and local community.	Meetings. Correspondence. Joint memberships of forums. Presentations. Membership of organisations. Support for projects as appropriate.

Governance

Meridian is a limited liability company and a state-owned enterprise (SOE) under the State-Owned Enterprises Act 1986.

As an SOE, all of Meridian's shares are owned by the Crown. They 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 the Minister for State-Owned Enterprises.

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

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

The principal objective underpins the activities of the company.

Meridian's Board has a responsibility to protect and enhance the value of the Group in the interests both of the Group and of the Crown as shareholder. It is the overall and final body for all decision-making within the company.

Governance framework

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

The Board operates under the Crown Ownership Monitoring Unit (COMU) Owners' Expectations Manual, which sets out the Minister's expectations of the Board, including the reporting and accountability expectations and financial governance expectations.

Company 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 USA, the UK 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 the 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 most recently tabled Meridian SCI is available on Meridian's website.

The annual Business Plan is not a public document and is not tabled in parliament. Meridian prepares and provides quarterly operational reports near the end of the month following each quarter. These quarterly reports contain some financial information and commentary and non-financial performance measures and commentary.

The company also provides half-yearly and annual reports to shareholding Ministers, in a timely manner, which are then publicly disclosed. These, along with quarterly operational reports, are also available on Meridian's website.

BOARD OF DIRECTORS

Role and responsibilities 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. 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 efficiency, 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.

BOARD APPOINTMENTS, ATTENDANCE AND REMUNERATION

MEMBER	APPOINTMENT	CURRENT TERM EXPIRES	RESIGNED OR TERM EXPIRED	ATTENDANCE BOARD 14 MEETINGS	AUDIT AND RISK 10 MEETINGS	REMUNERATION AND HR 7 MEETINGS	2011 DIRECTOR'S FEE ($)
Chris Moller	May-09	Oct-13		(Chairman) 14		7	77,225
John Bongard	May-11	Apr-14		3		1	8,189
Wayne Boyd	Apr-05	Apr-11	Dec-10	5			50,075
Mary Devine	May-10	Apr-13		14		7	49,000
Catherine Drayton	May-06	Apr-12		14	10	(Chair) 1	50,075
Anake Goodall	May-11	Apr-13		3			8,189
Steve Reindler	Sep-08	Aug-14		14	10		49,000
Brett Shepherd	May-09	Apr-12	Mar-11	7	6		32,823
Anne Urlwin	Jan-05	Oct-13		14	(Chair) 10		51,650
Ray Watson	Jun-05	Apr-11	Apr-11	8		4	42,806
Peter Wilson	May-11	Apr-14		(Deputy Chairman) 3			8,632
						Total	**427,664**

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 2011, there were 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.

See above and page 109 for detail of the total remuneration paid to Meridian directors for the financial year ended 30 June 2011.

Shareholding Ministers' director appointment letters set out arrangements for directors' appointments, including the terms and conditions of their appointment, their duties, the term of appointment, the expectations of the role and their 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 year ended 30 June 2011, there were changes in the composition of the Board. Wayne Boyd's term of appointment ended on 31 December 2010, Brett Shepherd resigned from 3 March 2011, and Ray Watson's term ended on 30 April 2011. Chris Moller was appointed Chairman effective 1 January 2011 through to 30 October 2013.

Stephen Reindler was re-appointed for a further term of three years with effect from 1 May 2011. Peter Wilson, Anake Goodall and John Bongard were appointed from 17 May 2011.

Biographic 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. Chris Moller is the current Chair and has held this role since 1 January 2011.

Board meetings

The Board will normally hold up to eight scheduled meetings per year. In the year to 30 June 2011 the Board met 14 times. The Chief Executive and Chair establish meeting agendas to ensure adequate coverage of key issues during the year.

In addition the Board meets whenever necessary between the scheduled meetings for discussions on key strategic issues or urgent business. Directors generally receive materials for Board meetings three 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 sessions 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. The Board also has a business case approval function and is required to approve the funding of community and sponsorship initiatives. Any material non-compliance with policies or law is also reported to the Board.

The Board approves business cases for material investments on all new activities.

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 directors avoid conflicts of interest (both real and apparent) between their duty to Meridian and their own interests.

Directors are required to ensure they immediately advise the Board of any new or changed relationships. These are then recorded in the Board's interests register.

In accordance with the Companies Act 1993 the Board maintains an up-to-date interests register to ensure conflicts of interest are avoided. The changes in directors' interests are listed in the financial statements.

No director, or any member of the director's immediate family, may 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 the 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 the Board is kept appraised of the company's activities. At each meeting, the Board receives information on activities throughout the company through Group Scorecard Reporting.

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 they can perform their duties effectively.

All directors have access to members of the Management Team, including the General Counsel, to discuss issues or obtain information on specific areas or items to be considered at Board meetings 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 Chairman and each director.

In addition the Board regularly discusses governance and performance issues.

The collective results of the evaluation are reported to the Board and key learnings are summarised and reported to COMU.

Indemnities and insurance

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

From 1 May 2011, 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 particular committees. The two standing committees of the Board are the Audit and Risk Committee and the Remuneration and Human Resources Committee. In addition the Board creates ad hoc Committees to deal with specific matters from time to time.

Audit and Risk Committee

The Audit and Risk Committee sets the principles and standards for internal controls and accounting policies and the nature, scope, objectives and functions of external and internal audits.

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.

The Audit and Risk Committee members are Anne Urlwin (Chair), Steve Reindler, Peter Wilson and John Bongard.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee sets the principles and standards for remuneration structure, policy and practice and the human resources policy. It approves company-wide remuneration policy and reviews the 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 at-risk performance incentive scheme, which takes into account the financial and non-financial performance of the company.

The Remuneration and Human Resources Committee members are Catherine Drayton (Chair), Mary Devine and Anake Goodall.

Management's involvement with governance framework

All management personnel are employees of the company. Management is involved in the governance framework of the company to ensure that the company's objectives are met.

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 auditor.

The Audit and Risk Committee is responsible for making recommendations to the Board concerning the appointment of Meridian's external auditor and their terms of engagement. Under section 29 of the Public Finance Act 1989, the Auditor-General has 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 auditor, or by companies directly related to or controlled by Meridian's external auditor.

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 auditor reviews Board and Committee minutes and attends the Audit and Risk Committee meetings when required to do so. The external auditor's report is available in the financial statements.

Approach to risk management

Meridian has a systematic approach to risk management. It regularly identifies, assesses and manages key risks that may impact on 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 that management's risk management framework, including policies and procedures, is appropriate and that appropriately identifies, considers 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 2011, 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 2011 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 & Young, managed by Meridian's Group Financial Controller. Ernst & Young was appointed as Meridian's internal auditor in 2008.

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. This condition is in place to ensure 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 of 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 programme management, energy trading, purchasing cards, delegations and authority and ICT security.

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 how to achieve compliance in their particular areas, by ensuring that appropriate training and compliance information is available.

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

Whistleblowing 'speaking up' policy

Meridian has a strong commitment to ensuring 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 timeframes unless there is good reason to withhold information.

Statutory information

Statutory information is available in the financial statements.

Financial Statements

FOR YEAR ENDED 30 JUNE 2011

Lake Ruataniwha hydro lake, Twizel
Meridian is a proud sponsor of rowing in the South Island

Contents

Income Statement FOR THE YEAR ENDED 30 JUNE 2011

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

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

Statement of Comprehensive Income FOR THE YEAR ENDED 30 JUNE 2011

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

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

The Statement of Accounting Policies and Notes to the Financial Statements on pages 51 to 103 form an integral part of these Financial Statements

Statement of Financial Position AS AT 30 JUNE 2011

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

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

Chris Moller
Chairman, 22 August 2011

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

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

	GROUP									
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT $'000	SHARE OPTIONS VESTED $'000	NON-CONTROLLING INTEREST $'000	TOTAL $'000
Balance at 1 July 2009	**1,600,000**	**2,737,092**	**340**	**(5,525)**	**380**	**(50,648)**	**4,281,639**	**1,079**	**1,410**	**4,284,128**
Profit for the Period	-	-	-	-	-	184,852	184,852	-	(803)	184,049
Revaluation Gain on Property, Plant and Equipment	-	1,213,663	-	-	-	-	1,213,663	-	-	1,213,663
Cash Flow Hedges:										
Net Gain Taken to Equity	-	-	-	(24,279)	-	-	(24,279)	-	-	(24,279)
FECs Reclassified to Profit or Loss	-	-	-	33,087	-	-	33,087	-	-	33,087
Available for Sale Reserve:										
Net Gain Taken to Equity	-	-	-	-	8	-	8	-	-	8
Exchange Differences Arising from Translation of Foreign Operations	-	-	(3,060)	-	-	-	(3,060)	-	-	(3,060)
Asset Revaluation Reserve Transferred to Retained Earnings	-	(4,680)	-	-	(14)	4,694	-	-	-	-
Effect of Corporate Tax Rate Reduction on Deferred Tax	-	103,270	-	18	11	-	103,299	-	-	103,299
Income Tax Relating to Other Comprehensive Income	-	(362,694)	-	(2,642)	2	(1,404)	(366,738)	-	-	(366,738)
Total Comprehensive Income for the Period	**-**	**949,559**	**(3,060)**	**6,184**	**7**	**188,142**	**1,140,832**	**-**	**(803)**	**1,140,029**
Share Options Vested	-	-	-	-	-	-	-	19	-	19
Dividends Paid	-	-	-	-	-	(353,492)	(353,492)	-	-	(353,492)
Balance at 30 June 2010	**1,600,000**	**3,686,651**	**(2,720)**	**659**	**387**	**(215,998)**	**5,068,979**	**1,098**	**607**	**5,070,684**

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

The Statement of Accounting Policies and Notes to the Financial Statements on pages 51 to 103 form an integral part of these Financial Statements

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

	PARENT					
	SHARE CAPITAL $'000	REVALUATION RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	AVAILABLE FOR SALE RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance at 1 July 2009	**1,600,000**	**2,679,571**	**(5,532)**	**380**	**(82,836)**	**4,191,583**
Profit for the Period	-	-	-	-	235,631	235,631
Revaluation Gain on Property, Plant and Equipment	-	1,215,374	-	-	-	1,215,374
Cash Flow Hedges:						
Net Loss Taken to Equity	-	-	(24,269)	-	-	(24,269)
FECs Reclassified to Profit or Loss	-	-	33,087	-	-	33,087
Available for Sale Reserve:						
Net Loss Taken to Equity	-	-	-	8	-	8
Asset Revaluation Reserve Transferred to Retained Earnings	-	(4,680)	-	(14)	4,694	-
Effect of Corporate Tax Reduction on Deferred Tax	-	101,810	18	11	-	101,839
Income Tax Relating to Other Comprehensive Income	-	(363,208)	(2,645)	2	(1,404)	(367,255)
Total Comprehensive Income for the Period	**-**	**949,296**	**6,191**	**7**	**238,921**	**1,194,415**
Dividends Paid	-	-	-	-	(353,492)	(353,492)
Balance at 30 June 2010	**1,600,000**	**3,628,867**	**659**	**387**	**(197,407)**	**5,032,506**

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

The Statement of Accounting Policies and Notes to the Financial Statements on pages 51 to 103 form an integral part of these Financial Statements

Cash Flow Statement FOR THE YEAR ENDED 30 JUNE 2011

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

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

The Statement of Accounting Policies and Notes to the Financial Statements on pages 51 to 103 form an integral part of these Financial Statements

Contents

1. Summary of Accounting Policies

REPORTING ENTITY AND STATEMENT OF COMPLIANCE

Meridian Energy Limited is domiciled in New Zealand and registered under the Companies Act 1993. The registered office of the Company is Level 1, 33 Customhouse Quay, Wellington. The shares in Meridian Energy Limited are held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of Her Majesty the Queen in Right of New Zealand ('the Crown') under the State-Owned Enterprises Act 1986.

Meridian Energy Limited's core business is the generation of electricity (including the management of related assets) and the trading and retailing of electricity and wider complementary products and solutions.

The consolidated financial statements comprise those of Meridian Energy Limited (the 'Parent' or the 'Company') and its subsidiaries (together referred to as 'Meridian' or the 'Group').

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

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

The reporting period for these financial statements is the year ended 30 June 2011.

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

BASIS OF PREPARATION

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

These financial statements are presented in New Zealand dollars rounded to the nearest thousand ($'000).

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

The same accounting policies, presentation and methods of computation have been applied consistently to all periods presented in these consolidated financial statements except for the additional new Standards as listed below. The revised NZ IAS 24 was early-adopted in 2010, and simplifies some of the disclosure requirements in relation to transactions with the Crown reporting entity. The revised Standard has had no impact on the reported results or financial position of Meridian. The additional new Standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations are as follows:

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

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

ADOPTION STATUS OF RELEVANT FINANCIAL REPORTING STANDARDS

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

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

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

NZ IFRS 9 requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. This may impact the classification of certain available for sale investments in the financial statements. The financial statement impact of adoption of these other standards has not yet been analysed.

JUDGEMENTS AND ESTIMATIONS

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

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

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in relation to forecast earnings and multiples used to value the generation structures and plant assets and price path estimates, including electricity, aluminium and estimates for inflation and discount rates, which have been used to fair value the energy derivatives. In addition, accounting judgements are made in respect of the hedge designation of certain financial instruments, assessment of hedge effectiveness, determination of useful lives of Property, Plant and Equipment and the impact of tax rate changes on deferred tax balances.

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

Subsidiaries

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

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

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

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

Common Control Amalgamation Transactions

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

Operating Segments

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

Joint Ventures

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

Under the equity method, investments in joint ventures are carried in the consolidated Statement of Financial Position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Company's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture) are not recognised unless there is a legal or constructive obligation incurred by Meridian on behalf of the joint venture.

Jointly Controlled Assets

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

Foreign Currency

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

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

Property, Plant and Equipment

Meridian's generation structures and plant assets (including land and buildings) are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are performed by an independent valuer with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.

As disclosed in Note 19, the fair value of generation assets was determined using an income approach. In using the income approach, consideration was given to application of either net present value of expected future cash flows or capitalisation of earnings approach, whichever was more appropriate.

Any revaluation increase arising on the revaluation is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged to the income statement to the extent it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

Subsequent additions to generation structures and plant assets are recorded at cost, which is considered fair value, including costs directly attributable to bringing the asset to the location and condition necessary for its intended service. The cost of assets constructed includes all expenditure directly related to specific contracts including financing costs where appropriate.

Financing costs for qualifying assets are capitalised at the average cost of borrowing. Costs cease to be capitalised as soon as the asset is ready for use.

All other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

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

Assets Classified as Held for Sale

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

Immediately before classification as held for sale, the assets (or disposal group) are re-measured in accordance with Meridian's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

FINANCE LEASE

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Meridian recognises assets held under finance lease arrangements as a receivable or payable at an amount equal to the present value of the minimum lease payments. Finance lease receipts are apportioned between principal repayments, relating to the lease receivable, and interest revenue. The interest revenue reflects a constant periodic rate of return on Meridian's net investment over the term of the lease. Finance leases are classified as loans and receivables.

INTANGIBLE ASSETS

Customer Acquisition Costs

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

Computer Software

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

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

Patents and Trademarks

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

Licence Agreement

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

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

Research and Development Costs

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

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

Development costs that meet these criteria are amortised on a straight-line basis over their estimated useful lives. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs incurred that cannot be separately identified from the physical asset are included in the item of property, plant and equipment being developed and depreciated over the useful life of the asset. If the recognition criteria are not met, development expenditure is recognised as an expense as incurred.

Impairment of Non-Financial Assets other than Goodwill

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

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

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

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

Goodwill

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

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

The recoverable amount of goodwill in respect of Meridian Energy USA Inc. (formerly named Cleantech America Inc.) and Mt Millar Wind Farm Pty Ltd is fair value less costs to sell.

FINANCIAL INSTRUMENTS

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

Financial Assets

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

Available for Sale Investments

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

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

Investments in Subsidiaries and Joint Ventures

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

Trade Receivables

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

Construction Work in Progress

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

Cash and Cash Equivalents

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

Financial Liabilities

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

Borrowings

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

Trade Payables

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

Emission Rights

Meridian receives tradable emission rights from specific energy production levels of certain renewable generation facilities. The future revenue arising from the sale of these emission rights is a key matter in deciding whether to proceed with construction of the generation facility and is considered to be part of the value of the generation assets recorded in the Statement of Financial Position. Proceeds received on the sale of emission rights are recorded as deferred income in the Statement of Financial Position until the committed energy production level pertaining to the emission right sold has been generated.

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives include cross currency interest rate swaps ('CCIRSs'), interest rate swaps ('IRSs') (including forward rate agreements and interest rate options, foreign exchange contracts (including currency options ('FECs')) and electricity contracts for differences ('CFDs')).

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

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

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

Some derivatives are not in a designated hedging relationship

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement in net change in fair value of financial instruments within other finance related expenses with respect of CCIRSs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Interest expense on the loans designated as hedged items in fair value hedges is recognised in finance costs.

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

Cash Flow Hedge

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

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

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

However, if Meridian expects that all or a portion of a deferred loss previously deferred in equity will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified into Profit or Loss immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives not Designed as Hedges

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting or for which hedge accounting is not actively sought are recognised immediately in the income statement within operating profit in respect of CFDs and FECs or within finance costs in respect of IRSs. Cash settlements on such derivatives will adjust the price of the underlying item to which they relate. Where relevant the cost of an electricity option is recognised within 'Net Change in Fair Value of Financial Instruments'.

Day 1 Adjustment

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

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

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

Fair Value Estimation

The fair value of financial assets and financial liabilities, including derivative instruments, must be estimated for recognition and measurement, or for disclosure purposes.

The fair value of instruments traded in active markets (such as electricity futures traded on commodity markets) is based on closing market prices at balance date.

The fair value of instruments that are not traded on an active market (IRSs, CCIRSs, FECs, CFDs) is determined using various valuation techniques which include assumptions on both observable data when such data is available (IRSs, CCIRSs, FECs, some CFDs) and non-observable data (some CFDs) in all other instances. The fair value of IRSs, CCIRSs, FECs and CFDs is based on the discounted value of future cash flows. Assumptions on the determination of future cash flows are based on the publicly available forecast prices where available and internal models approved by the Board when a forecast price is not available.

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

- Forecast of the forward wholesale electricity price for the non-observable period based on a fundamental analysis of expected demand and cost of new supply
- Forecast of the aluminium price (based on the London Metal Exchange (LME)) for the non-observable period using a historical trend analysis to form future price expectations
- Forecast CPI or proxy for price inflation
- All CFDs run to full term
- In the case of one CfD, 572 MW continuous consumption

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

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

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

The valuations determined for instruments not traded on an active market, particularly in respect to CFDs can vary significantly based on assumptions in relation to the forecast electricity price and interest rates. In addition, the fair value of the NZAS Pricing Agreement, can also vary based on the price of aluminium published on the LME. The sensitivity to changes in assumptions for level 3 financial instruments is quantified in Note 24 – Financial Risk Management.

Reserves

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

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

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

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

TAXATION

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

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

Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where Meridian is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Meridian intends to settle its current tax assets and liabilities on a net basis.

EMPLOYEE BENEFITS

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

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

GOODS AND SERVICES TAX (GST)

The income and cash flow statements are prepared on a GST exclusive basis. All items in the Statement of Financial Position are stated net of GST, except for receivables and payables, which both include GST.

INVENTORIES

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

PROVISIONS

Provisions are recognised when Meridian has a present obligation as a result of a past event, and it is probable that Meridian will be required to settle that obligation and the amount has been reliably estimated.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material.

WARRANTIES

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

RESTRUCTURING

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

OPERATING LEASES

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

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

GOVERNMENT GRANTS

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

REVENUE RECOGNITION

Sale of Energy and Other Related Services

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

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

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

Dividend Income

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

Interest Income

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

Energy Related Costs

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

Construction Contracts

When earnings on construction contracts can be reliably estimated, contract revenue and costs are determined using the percentage-of-completion method at balance date. This is measured as the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. Management exercises its professional judgement to assess both the physical completion and the forecast financial result of the contract. Provision is made for estimated future losses on the entire contract from the date it is first recognised that a contract loss may be incurred.

Share-Based Payments

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

CASH FLOW STATEMENT

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

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

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

2. Segment Reporting

Management has determined the operating segments based on the reports reviewed by the Chief Executive to assess performance, allocate resources and make strategic decisions.

The Chief Executive assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment without the allocation of central administration costs, Directors' fees, share of profits of joint ventures, change in fair value of financial instruments, finance costs and income tax expense.

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

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

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

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

Wholesale Segment

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

Wholesale revenues received from generation reflect the spot price received from the wholesale electricity market at the relevant grid injection point, and revenue received from large industrial customers.

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

Retail Segment

The Retail segment encompasses activity associated with the purchase of electricity from the wholesale electricity market, the retail sale of electricity to customers and metering services.

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

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

International Generation Segment

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

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

Other Segments

Other operations, which are not considered reportable segments, include Meridian's portfolio of subsidiaries that provide micro combined heat and power technologies, home energy efficiency products and services, energy solutions to industry and dam consultancy services. The results of these segments are included in Other Segments.

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

Unallocated

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

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

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

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

2. Segment Reporting (continued)

The Segment Information Provided to the Chief Executive for the Reportable Segments for the Year Ended 30 June 2010 is as follows:

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

Information Relating to Geographical Area Operations

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

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

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

2. Segment Reporting (continued)

Reconciliation of EBITDAF to Profit before tax provided as follows:

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

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

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

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

3. Expenses

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

1 Includes office of the Auditor General overhead contribution of $28.5 thousand (2010: $27.0 thousand)
2 In addition to the audit of the Financial Statements, Deloitte performed Other Services as follows:
- *Review of interim financial statements*
- *Audit of carbon emissions*
- *Review of prospectus documents*
- *Trustee reporting.*

4. Finance Costs

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

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

5. Interest Income

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

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

6. Income Tax Expense

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

A reduction in the corporate tax rate from 30% to 28% was announced in the 2010 Budget and has been passed and received Royal Assent. For the Group, this reduction will be effective 1 July 2011. Management has used judgement with regard to determining temporary differences expected to reverse before this date and as at 30 June 2010 estimated that temporary differences would not change. The effect of any change since 30 June 2010 is recognised in the income statement and statement of comprehensive income.

Also announced in the 2010 Budget was the discontinuation of tax depreciation on buildings with a useful life of greater than 50 years effective for the Group on 1 July 2011. The effect of this change was reflected in the Income Statement in 2010. Management has used judgement in regard to the tax definition of buildings with the above ground structure of Generation Structures and Plant being treated as buildings.

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

6. Income Tax Expense (continued)

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

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

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

7. Earnings per Share

Basic and Diluted Earnings Per Share

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

8. Equity

SHARE CAPITAL

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

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

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

Whisper Tech Limited share options convertible to ordinary shares

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

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

8. Equity (continued)

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

The $1 options are all fully vested. On 3 December 2009 Whisper Tech Limited varied the terms of these options, extending the exercise date from 31 December 2009 to 31 March 2013. In recognition of this time extension, the holders of these options agreed to reduce the number of options that each held.

NZ IFRS 1 grants an exemption from valuing options that were granted on or before 7 November 2002. Meridian has chosen to take this exemption in relation to its $1 options. No vesting of these options occurred during the year ended 30 June 2011 or the comparative year.

The fair value of the options is calculated by applying the Black-Scholes option pricing model. The model inputs were the share price at grant date of $366.83, exercise price of $366.83, expected volatility range of 25% to 40%, no expected dividends, two years (2010: three years) to the maturity date of the option, and a risk free interest rate range of 4.75% p.a. to 4.81% p.a.

Number of Options Vested

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

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

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

9. Dividends

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

10. Cash and Cash Equivalents

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

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

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

11. Accounts Receivable and Prepayments

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

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

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

11. Accounts Receivable and Prepayments (continued)

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2011 trade receivables of $39.0 million (2010 $20.5 million) were past due but not impaired. These relate to energy sales to a number of independent customers for whom there is no recent history of default.

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

Meridian maintains a doubtful debt provision that reflects the limited likelihood of payment defaults. Meridian considers the carrying amount of accounts receivable approximates their fair values. Trade receivables written off during the year were $4.3 million for the Group (2010 $4.9 million) and $4.1 million for the Parent (2010 $4.7 million).

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

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

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

No retentions are held by customers for any construction work in progress.

All amounts included in Accounts Receivable and arising from construction contracts are due for settlement within the following 12 months.

12. Inventories

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

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

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

Certain inventory items are subject to retention of title clauses.

13. Finance Lease Receivable

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

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

14. Assets and Liabilities Classified as Held for Sale

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

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

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

15. Investments in Subsidiaries

Investments in subsidiaries comprise shares at cost less impairments

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

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

15. Investments in Subsidiaries (continued)

Controlled Entities (Other Subsidiaries)

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

1 Whisper Gen Ltd holds 70.23% of Whisper Tech Limited with the Parent holding 23%.
2 During the Reporting period Meridian Wind Macarthur Holdings Pty Limited changed its name from Meridian Energy Australia Pty Limited and Meridian Energy Australia Pty Limited changed its name from Meridian Renewables Pty Limited.
3 Members of Guaranteeing Group.

15. Investments in Subsidiaries (continued)

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

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

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

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

Summary of the effect of amalgamation companies:

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

The assets and liabilities have been bought into the Parent's financial statements at their carrying amounts and there was no cash effect. The operating results of the amalgamated companies after the amalgamation have been included in the income statement of the Parent since 31 May 2011. The balance on amalgamation has been recognised in the statement of changes in equity of the Parent.

There was no effect on the Group's financial statements.

ACQUISITION OF MERIDIAN ENERGY USA INC. (FORMERLY NAMED CLEANTECH AMERICA INC.)

On 19 August 2009, Meridian acquired 100% of the outstanding shares of Meridian Energy USA Inc. a US based solar development company. The acquisition provided Meridian with a high quality solar development team and a pipeline of future solar development opportunities. The development pipeline included the CalRENEW-1 project, a five megawatt solar development in Mendota, California. Construction of this project was completed in April 2010.

The acquisition date fair value of the total consideration transferred was US$5.4 million (NZ$8.3 million).

Further consideration of up to US$6.0 million is payable, subject to the achievement of future milestones. These contingent milestones relate to the execution of several Power Purchase and Interconnection Agreements within a two year time frame. The basis for determining the payment is a specified amount per megawatt of power purchase contract capacity or interconnection provided.

The amount of contingent consideration, based on management's best estimate, recognised at acquisition date was US$2.0 million (NZ$3.1 million).

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

15. Investments in Subsidiaries (continued)

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

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

The allocation of purchase price is as follows:

	GROUP 2010 $'000
Net Assets Acquired	2,895
Goodwill	8,457
	11,352

The net assets acquired on 19 August 2009 consisted of the following:

	GROUP 2010 $'000
Prepaid Expenses and Other Current Assets	42
Work In Progress	3,020
Fixed Assets	107
Total Assets Acquired	3,169
Accounts Payable	(21)
Accrued Expenses	(253)
Total Liabilities Acquired	(274)
Net Assets Acquired	**2,895**

Meridian allocated $8.5 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. This goodwill balance is made up of intangible assets that do not qualify for separate recognition such as contracts under negotiation, identified business development opportunities and assembled workforce. Goodwill arising from the acquisition is not deductible for tax purposes.

The results of Meridian Energy USA Inc. that were included in Meridian's consolidated results from 20 August 2009 for the 2010 year are as follows: Revenue $0.6 million and Net Loss after Tax of $4.7 million.

If the acquisition of Meridian Energy USA Inc. had occurred as of the beginning of the 2010 annual reporting period Meridian would have reported consolidated revenue of $2,061.9 million and Net Profit after Tax of $183.0 million for the year ended 30 June 2010.

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

15. Investments in Subsidiaries (continued)

MT MILLAR WIND FARM PTY LTD

On 31 May 2010, Meridian acquired 100% of the outstanding shares of Mt Millar Wind Farm Pty Ltd. The acquisition provided Meridian a fully operational wind farm with a generating capacity of 70 megawatts per year.

The acquisition date fair value of the total consideration transferred was AUD$191.2 million (NZD$237.5 million).

The total consideration related to the acquisition was as follows:

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

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

The allocation of the purchase price was as follows:

	GROUP 2010 $'000
Net Assets Acquired	172,518
Property, Plant and Equipment	65,026
Deferred Tax Liability	(2,613)
Goodwill	2,613
Total Purchase Consideration	**237,544**

The carrying value of the net assets acquired on 31 May 2010 consisted of the following:

	GROUP 2010 $'000
Accounts Receivable	1,395
Prepaid Expenses and Other Current Assets	86
Property Plant and Equipment	173,937
Total Assets Acquired	**175,418**
Accounts Payable	(2,715)
Accrued Expenses	(185)
Total Liabilities Assumed	**(2,900)**
Net Assets Acquired	**172,518**

Meridian has allocated $2.6 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible assets acquired. Goodwill arising from the acquisition is not deductible for tax purposes.

The carrying value of the accounts receivable were the gross contractual amounts and considered to be the fair value of the receivables acquired.

Upon acquisition Mt Millar Wind Farm Pty Ltd. has adopted Meridian's Group accounting policies in respect of generation assets and financial instruments carried at fair value. The impact of adopting these policies was a fair value adjustment to Property, Plant and Equipment of $65.0 million and no change to the carrying value of financial instruments.

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

If the acquisition of Mt Millar Wind Farm Pty Ltd had occurred as of the beginning of the annual reporting period then Meridian would have reported consolidated revenue of $2,079.0 million and Net Profit after Tax of $209.5 million in 2010, based on the completion accounts of the acquired entity.

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

IMPAIRMENT OF INVESTMENTS AND ADVANCES TO SUBSIDIARIES

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

15. Investments in Subsidiaries (continued)

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

WHISPER TECH LIMITED

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

MEL SOLAR HOLDINGS LIMITED

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

RIGHT HOUSE LIMITED

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

16. Equity Accounted Joint Ventures

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

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

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

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

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

The total consideration paid is as follows:

	2011 $'000
Cash	4,000
	4,000

The provisional allocation of purchase price is as follows:

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

16. Equity Accounted Joint Ventures (continued)

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

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

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

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

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

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

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

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

17. Available for Sale Investments

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

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

Available-for-sale assets are carried at fair value except for the investments in Carbon Flow Inc. and EnergyHedge Limited. These investments consist of shares in privately owned companies for which there are no market or quoted prices. Therefore the fair value of these shares cannot be measured reliably and the carrying amount has been determined by the cost of acquiring the shares in the company.

18. Intangible Assets

	GROUP						
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS AND TRADEMARKS $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2009	34,572	6,981	22,380	1,210	401	65,174	130,718
Acquisitions	8,761	11,120	-	256	-	-	20,137
Transfer From Property, Plant and Equipment	17,136	-	-	-	-	-	17,136
Disposals	(44)	-	-	-	-	-	(44)
Balance at 30 June 2010	60,425	18,101	22,380	1,466	401	65,174	167,947
Balance at 1 July 2010	60,425	18,101	22,380	1,466	401	65,174	167,947
Acquisitions	12,686	-	-	135	-	1,765	14,586
Transfer to Assets Classified as Held for Sale	(1,112)	-	-	-	-	-	(1,112)
Foreign Currency Exchange Rate Movements	-	141	-	-	-	-	141
Other Movements	-	(2,301)	-	-	-	-	(2,301)
Disposals	(531)	-	-	(105)	-	-	(636)
Balance at 30 June 2011	**71,468**	**15,941**	**22,380**	**1,496**	**401**	**66,939**	**178,625**
Accumulated Amortisation and Impairment							
Balance at 1 July 2009	(20,759)	(25)	(6,714)	(423)	(401)	(58,763)	(87,085)
Amortisation during Year	(7,564)	(124)	(2,238)	(147)	-	(3,639)	(13,712)
Impairment	(17,136)	-	-	-	-	-	(17,136)
Disposals	39	-	-	-	-	-	39
Balance at 30 June 2010	(45,420)	(149)	(8,952)	(570)	(401)	(62,402)	(117,894)
Balance at 1 July 2010	(45,420)	(149)	(8,952)	(570)	(401)	(62,402)	(117,894)
Amortisation during Year	(9,831)	-	(2,238)	(200)	-	(2,772)	(15,041)
Transfer to Assets Classified as Held for Sale	571	-	-	-	-	-	571
Disposals	531	-	-	138	-	-	669
Balance at 30 June 2011	**(54,149)**	**(149)**	**(11,190)**	**(632)**	**(401)**	**(65,174)**	**(131,695)**
Net Book Value							
Net Book Value 30 June 2009	13,813	6,956	15,666	787	-	6,411	43,633
Net Book Value 30 June 2010	15,005	17,952	13,428	896	-	2,772	50,053
Net Book Value 30 June 2011	**17,319**	**15,792**	**11,190**	**864**	**-**	**1,765**	**46,930**

18. Intangible Assets (continued)

	PARENT				
	SOFTWARE $'000	LICENCES $'000	CUSTOMER ACQUISITION COSTS $'000	PATENTS AND TRADEMARKS $'000	TOTAL $'000
Cost or Fair Value					
Balance at 1 July 2009	33,676	401	65,174	-	99,251
Acquisitions	8,461	-	-	19	8,480
Transfer From Property, Plant and Equipment	17,136	-	-	-	17,136
Balance at 30 June 2010	59,273	401	65,174	19	124,867
Balance at 1 July 2010	59,273	401	65,174	19	124,867
Acquisitions	11,573	-	-	11	11,584
Amalgamation of Subsidiary Companies	144	-	-	-	144
Disposals	(531)	-	-	-	(531)
Balance at 30 June 2011	**70,459**	**401**	**65,174**	**30**	**136,064**
Accumulated Amortisation and Impairment					
Balance at 1 July 2009	(20,509)	(401)	(58,763)	-	(79,673)
Amortisation During Year	(7,302)	-	(3,638)	(1)	(10,941)
Impairment	(17,136)	-	-	-	(17,136)
Balance at 30 June 2010	(44,947)	(401)	(62,401)	(1)	(107,750)
Balance at 1 July 2010	(44,947)	(401)	(62,401)	(1)	(107,750)
Amortisation During Year	(9,460)	-	(2,773)	(3)	(12,236)
Amalgamation of Subsidiary Companies	(92)	-	-	-	(92)
Disposals	531	-	-	-	531
Balance at 30 June 2011	**(53,968)**	**(401)**	**(65,174)**	**(4)**	**(119,547)**
Net Book Value					
Net Book Value 30 June 2009	13,167	-	6,411	-	19,578
Net Book Value 30 June 2010	14,326	-	2,773	18	17,117
Net Book Value 30 June 2011	**16,491**	**-**	**-**	**26**	**16,517**

GOODWILL

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

WHISPER TECH LIMITED

For the purpose of impairment testing, all goodwill is allocated to the cash generating unit of Whisper Tech Ltd that includes its interest in Efficient Home Energy S. L., the European based manufacturing and distribution joint venture for the AC WhisperGen micro-CHP device. The impairment test is based on a value in use discounted cash flow valuation. Cash flow projections are based on Whisper Tech's five year financial forecast.

Key assumptions in the value in use calculation for the Whisper Tech cash generating unit are shown in the table below:

ASSUMPTIONS	METHOD OF DETERMINATION
Sales volumes	Minimum volumes as agreed in signed distribution agreements complemented with forecast volumes for additional distribution agreements. The forecast element is based on volume growth to 3.0–5.0 per cent of the European boiler market
Sales price	Prices as agreed in signed distribution agreements
Costs	Review of actual costs of production and consideration of impact in a mass production environment
Discount rates	Cash flow projections are discounted using post-tax discount rate scenarios of 12.5 – 25.0 per cent.

18. Intangible Assets (continued)

MERIDIAN ENERGY USA INC. (FORMERLY NAMED CLEANTECH AMERICA INC.)

On 19 August 2009, Meridian acquired 100% of the outstanding shares of Meridian Energy USA Inc., a US based solar development company (see note 15).

Meridian has allocated $6.2 million (2010: $8.5 million) to goodwill, which represents the excess of the purchase price over the fair value of the net tangible assets acquired and relates to the development pipeline, including contracts under negotiation.

For the purpose of impairment testing, the goodwill is allocated to the Meridian Energy USA Inc. Group. The impairment test is based on comparing the carrying amount of goodwill to the recoverable amount, which is fair value less costs to sell.

MT MILLAR WIND FARM PTY LTD

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

Meridian has allocated $2.7 million to goodwill, which represents the excess of the purchase price over the fair value of the net tangible assets acquired.

For the purpose of impairment testing, the goodwill is allocated to the Mt Millar Wind Farm. The impairment test is based on comparing the carrying amount of goodwill to the recoverable amount, which is fair value less costs to sell.

19. Property, Plant and Equipment

	GROUP						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2009	6,164,614	35,635	11,995	8,586	174,200	677,980	7,073,010
Additions	-	-	-	-	134	207,108	207,242
Additions from Business Combinations	236,410	-	-	-	60	-	236,470
Transfers from Capital Work in Progress	542,971	5,988	869	-	34,602	(584,430)	-
Transfers to Assets Classified as Held For Sale	-	2,865	323	-	81	-	3,269
Transfer to Intangible Assets	-	-	-	-	-	(17,136)	(17,136)
Disposals	(2,352)	(2,562)	-	-	(2,424)	-	(7,338)
Reclassification	2,362	(1,481)	(372)	-	(509)	-	-
Revaluation Increase	805,813	-	-	-	-	-	805,813
Balance at 30 June 2010	7,749,818	40,445	12,815	8,586	206,144	283,522	8,301,330
Balance at 1 July 2010	7,749,818	40,445	12,815	8,586	206,144	283,522	8,301,330
Additions	-	22	-	-	487	251,267	251,776
Foreign Currency Exchange Rate Movements	6,689	-	-	-	(782)	-	5,907
Transfers from Capital Work in Progress	236,684	-	437	6,139	15,149	(258,409)	-
Transfers to Assets Classified as Held For Sale	-	-	-	-	(4,659)	(117)	(4,776)
Disposals	(651,618)	-	(944)	(50)	(13,963)	-	(666,575)
Government Grant	(8,398)	-	-	-	-	-	(8,398)
Revaluation Increase	(36,116)	-	-	-	-	-	(36,116)
Balance at 30 June 2011	**7,297,059**	**40,467**	**12,308**	**14,675**	**202,376**	**276,263**	**7,843,148**

19. Property, Plant and Equipment (continued)

	GROUP						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Accumulated Depreciation and Impairment							
Balance at 1 July 2009	(260,394)	-	(1,893)	(1,680)	(65,928)	-	(329,895)
Depreciation Expense	(150,756)	-	(406)	(175)	(22,981)	-	(174,318)
Additions from Business Combinations	-	-	-	-	(3)	-	(3)
Disposals	2,254	-	-	-	1,372	-	3,626
Reclassification	(56)	-	17	-	39	-	-
Transfer to Assets Classified as Held For Sale	-	-	(39)	-	(24)	-	(63)
Offset of Accumulated Depreciation on Revalued Assets	407,850	-	-	-	-	-	407,850
Impairment of Property, Plant and Equipment	-	-	-	-	-	(1,200)	(1,200)
Balance at 30 June 2010	(1,102)	-	(2,321)	(1,855)	(87,525)	(1,200)	(94,003)
Balance at 1 July 2010	(1,102)	-	(2,321)	(1,855)	(87,525)	(1,200)	(94,003)
Depreciation Expense	(184,515)	-	(399)	(329)	(24,040)	-	(209,283)
Exchange rate movements	147	-	-	-	2	-	149
Disposals	6,723	-	321	50	12,748	-	19,842
Transfer to Assets Classified as Held For Sale	-	-	-	-	1,233	-	1,233
Offset of Accumulated Depreciation on Revalued Assets	165,789	-	-	-	-	-	165,789
Impairment of Property, Plant and Equipment	-	-	-	-	(4,939)	(1,129)	(6,068)
Balance at 30 June 2011	**(12,958)**	**-**	**(2,399)**	**(2,134)**	**(102,521)**	**(2,329)**	**(122,341)**
Net Book Value							
Net Book Value 30 June 2009	5,904,220	35,635	10,102	6,906	108,272	677,980	6,743,115
Net Book Value 30 June 2010	7,748,716	40,445	10,494	6,731	118,619	282,322	8,207,327
Net Book Value 30 June 2011	**7,284,101**	**40,467**	**9,909**	**12,541**	**99,855**	**273,934**	**7,720,807**

19. Property, Plant and Equipment (continued)

	PARENT						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2009	5,786,798	34,153	11,622	8,586	165,115	171,538	6,177,812
Additions	-	-	-	-	-	53,695	53,695
Transfers from Capital Work in Progress	38,378	5,988	869	-	28,975	(74,555)	(345)
Transfers to Assets Classified as Held For Sale	-	2,865	323	-	81	-	3,269
Transfer to Intangible Assets	-	-	-	-	-	(17,136)	(17,136)
Disposals	(2,351)	(2,562)	-	-	(2,059)	-	(6,972)
Revaluation Increase	884,944	-	-	-	-	-	884,944
Balance at 30 June 2010	6,707,769	40,444	12,814	8,586	192,112	133,542	7,095,267
Balance at 1 July 2010	6,707,769	40,444	12,814	8,586	192,112	133,542	7,095,267
Amalgamation of Subsidiary Companies	968,954	-	-	-	175	19,824	988,953
Additions	-	22	-	-	-	66,706	66,728
Transfers from Capital Work in Progress	35,920	-	177	6,139	7,082	(49,379)	(61)
Disposals	(651,526)	-	(1,441)	(50)	(36,077)	(6,899)	(695,993)
Revaluation Increase	(36,116)	-	-	-	-	-	(36,116)
Balance at 30 June 2011	**7,025,001**	**40,466**	**11,550**	**14,675**	**163,292**	**163,794**	**7,418,778**

	PARENT						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Accumulated Depreciation and Impairment							
Balance at 1 July 2009	(221,745)	-	(1,876)	(1,680)	(62,554)	-	(287,855)
Depreciation Expense	(110,940)	-	(406)	(175)	(21,462)	-	(132,983)
Disposals	2,255	-	-	-	1,057	-	3,312
Transfer to Assets Classified as Held For Sale	-	-	(39)	-	(24)	-	(63)
Offset of Accumulated Depreciation on Revalued Assets	330,430	-	-	-	-	-	330,430
Impairment of Property, Plant and Equipment	-	-	-	-	-	(1,200)	(1,200)
Balance at 30 June 2010	-	-	(2,321)	(1,855)	(82,983)	(1,200)	(88,359)
Balance at 1 July 2010	-	-	(2,321)	(1,855)	(82,983)	(1,200)	(88,359)
Amalgamation of Subsidiary Companies	(41,576)	-	-	-	(70)	-	(41,646)
Depreciation Expense	(130,936)	-	(352)	(329)	(20,064)	-	(151,681)
Disposals	6,723	-	321	50	11,139	-	18,233
Offset of Accumulated Depreciation on Revalued Assets	165,789	-	-	-	-	-	165,789
Impairment of Property, Plant and Equipment	-	-	-	-	(4,659)	(1,129)	(5,788)
Balance at 30 June 2011	**-**	**-**	**(2,352)**	**(2,134)**	**(96,637)**	**(2,329)**	**(103,452)**
Net Book Value							
Net Book Value 30 June 2009	5,565,053	34,153	9,746	6,906	102,561	171,538	5,889,957
Net Book Value 30 June 2010	6,707,769	40,444	10,493	6,731	109,129	132,342	7,006,908
Net Book Value 30 June 2011	**7,025,001**	**40,466**	**9,198**	**12,541**	**66,655**	**161,465**	**7,315,326**

19. Property, Plant and Equipment (continued)

GENERATION STRUCTURES AND PLANT VALUATION

The fair value of generation structures and plant assets is determined by using independent valuers in accordance with the property, plant and equipment accounting policy.

Generation structures and plant assets (including land and buildings) were valued at 30 June 2011 by PricewaterhouseCoopers ('PwC'). The generation structures and plant assets are stated at fair value. The valuation resulted in an increase of $93.0 million net of tax (Gross $129.7 million) to the asset revaluation reserve.

PwC calculated values for Meridian's business operations as at 30 June 2011 using both the capitalisation of earnings and the discounted cash flow ('DCF') methodology.

The capitalisation of earnings methodology calculates value by reference to an assessment of future maintainable earnings and capitalisation multiples observed from comparable publicly traded companies.

The DCF methodology calculates value based on the present value of the cash flows that the asset or entity can be expected to generate in the future.

In preparing the capitalisation of earnings valuation, PwC analysed a range of companies with broadly comparable operations to Meridian to determine an EBITDAF multiple range at which to capitalise Meridian's historical and forecast earnings. The EBITDAF multiples used by PwC were in the range of 10 times to 13 times EBITDAF, and were applied to the business as a whole.

In forming their view on the value of the generation structures and plant assets, PwC considered the valuations calculated using both the DCF methodology and capitalisation of earnings methodology, applied to Meridian as a whole, the general movement in the market prices of listed companies, and the potential performance of the New Zealand economy in the near term. PwC's view was that a value weighted more towards the capitalisation of earnings range was appropriate to determine fair value.

PwC concluded that the value of the generation structures and plant assets as at 30 June 2011 was in the range of $7.0 billion to $7.3 billion.

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

As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil at 30 June 2011 in line with treatment prescribed under NZ IAS 16: Property, Plant and Equipment. There is no depreciation impact of this revaluation in the Income Statement.

At 30 June 2011 had the generation structures and plant been carried at historical cost less accumulated depreciation and accumulated impairment losses their carrying amount would have been approximately $2.9 billion (2010: $2.9 billion).

Valuation sensitivities:

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

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

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

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

SALE OF TEKAPO A AND B

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

CAPITALISED INTEREST

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

GOVERNMENT GRANTS

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

IMPAIRMENT

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

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

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

The 2010 impairment totalling $1.2 million reflects the partial write-off of expenditure in the Wholesale segment in relation to the application for the consent of Project Hayes, a wind farm project in North Otago, following the Environment Court declining Meridian's resource consent application.

19. Property, Plant and Equipment (continued)

LAND

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

20. Payables and Accruals

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

21. Provisions

	GROUP			PARENT		
	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000	RESTRUCTURING $'000	WARRANTIES $'000	TOTAL $'000
Balance at 1 July 2009	514	858	1,372	514	-	514
Additional Provision Recognised	8,215	-	8,215	8,215	-	8,215
Amount Utilised	(8,496)	(355)	(8,851)	(8,496)	-	(8,496)
Balance at 30 June 2010	233	503	736	233	-	233
Balance at 1 July 2010	233	503	736	233	-	233
Additional Provision Recognised	-	26	26	-	26	26
Amount Utilised	(233)	(435)	(668)	(233)	-	(233)
Balance at 30 June 2011	**-**	**94**	**94**	**-**	**26**	**26**

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

The restructuring provision reflects the restructuring of Meridian's Corporate Services and Retail Operating segment that occurred during 2010 following reviews of both areas that focused on improving services. The opening provision as at 1 July 2009 related to the restructuring of the business operations of ARC Innovations, which was amalgamated with the Parent on 30 June 2009.

22. Deferred Tax

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

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

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

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

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) for Statement of Financial Position purposes:

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

22. Deferred Tax (continued)

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

23. Borrowings

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

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

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

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

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

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

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

24. Financial Risk Management

a) Capital Risk Management Objectives

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

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

Meridian monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital.

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

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

24. Financial Risk Management (continued)

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

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

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

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

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

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

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

b) Financial Risk Management

Meridian's activities expose it to a variety of financial risks: liquidity risk, market risk (including electricity and other price risk, currency risk, interest rate risk, cash flow risk) and credit risk. Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. Meridian uses derivative financial instruments to hedge certain risk exposures such as: foreign exchange contracts and options ('FECs'); cross currency interest rate swaps ('CCIRSs'); interest rate swaps ('IRSs') including forward rate agreements; and electricity and aluminium contracts for differences ('CFDs') to hedge certain risk exposures.

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

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

c) Liquidity Risk

Meridian maintains sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions as part of its management of liquidity risk. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by keeping committed surplus credit lines available of at least $250 million to ensure it has sufficient headroom under normal and abnormal conditions.

24. Financial Risk Management (continued)

Funding Facilities

The table below analyses the Groups funding facilities:

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

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

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

24. Financial Risk Management (continued)

Contractual Maturities

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

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

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

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

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

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

24. Financial Risk Management (continued)

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

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

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

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

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

24. Financial Risk Management (continued)

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

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

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

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

MARKET RISK

d) Foreign Exchange Risk

Meridian borrows in foreign currencies and is exposed to foreign exchange risks, primarily in respect of the US and Australian dollar. In addition, the Group incurs capital and operating expenditure denominated in foreign currencies which exposes the Group to foreign exchange risk primarily in respect of US dollars, Australian dollars and the Euro. Meridian does not enter into FECs for speculative purposes.

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

Meridian establishes a combination of both cash flow and fair value hedges for the CCIRSs and the foreign denominated borrowings (refer to Note 25 - Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRSs at 30 June 2011 was $704.6 million (30 June 2010 $704.6 million).

In respect of foreign exchange exposures on capital and operating expenditures denominated in foreign currencies, Meridian hedges the foreign exchange risk through a combination of foreign exchange forward contracts (FECs) and options. Capital projects which are approved by the Board are hedged 100% whilst capital projects which are anticipated but not approved are hedged up to 50% based on treasury limits. All committed foreign currency exposures of greater than $100,000 NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FECs at 30 June 2011 was $88.9 million (30 June 2010 $139.0 million).

In cases where the capital expenditure qualifies as a highly probable transaction, Meridian establishes a combination of both cash flow and fair value hedges. To the extent these hedges are effective, gains and losses on the derivatives are included as a component of the cost of the capital expenditure. In instances where the forecast capital expenditure does not meet the highly probable requirements, hedge accounting is not sought and the derivatives are classified as held for trading (refer to Note 25 - Financial Instruments).

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

24. Financial Risk Management (continued)

The value of foreign currency derivatives are sensitive to changes in the forward prices for currencies. The following table summarises the impact of a 20% increase/decrease in the New Zealand dollar against the forward price of the U.S. dollar and the Euro as at 30 June, on the Group's profit and equity on the assumption that all other variables are held constant.

As previously noted, Meridian's CCIRS and foreign denominated borrowings are in a combination of a fair value hedge and cash flow hedge relationship.

A 20% increase/decrease in movement in currency does not materially impact NPAT or Equity.

Sensitivity Analysis – Foreign Currency

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

e) Cash Flow and Interest Rate Risk

Meridian's primary interest rate risk arises from long term borrowings which are sourced at both fixed interest rates and floating interest rates. In addition, as described in the section above, the combination of foreign denominated borrowings and the CCIRSs result in an exposure to floating New Zealand interest rates. Borrowings in floating New Zealand interest rates expose Meridian to cash flow risks whilst borrowings issued at fixed interest rates expose Meridian to risk of changes in the fair value of the debt issued.

Meridian does not enter into interest rate hedges for speculative purposes.

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

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

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

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

Sensitivity Analysis-Interest rates

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

f) Price Risk

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

The CFDs include both forward contracts traded with reference to the short term energy hedge market and bi-lateral CFDs with other electricity generators and major customers. Meridian estimates both expected generation and electricity purchase requirements and determines its net position of generation less sales.

Based on this net position, Meridian enters into CFDs to protect against price volatility within trading parameters set and monitored by the Board. Although Meridian considers itself economically hedged in relation to electricity price risk, it has decided, effective 1 January 2009 to no longer meet the requirements to enable it to adopt hedge accounting for any of its CFDs. Consequently, for accounting purposes, from 1 January 2009 all of the CFDs are classified as held for trading with movements in fair value recognised in the income statement. Upon cessation of hedge accounting the balance held in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

The value of the CFDs are sensitive to changes in the forward prices for electricity, interest rates and, in the case of one CfD (NZAS contract), the aluminium price published on the London Metal Exchange ('LME'). Meridian is progressively mitigating some of this exposure through the use of Aluminium Commodity Swaps ('ACS') as economic hedges against the aluminium price component of the NZAS contract. The ACS swaps are not designated as hedging instruments and are therefore classified as held for trading.

24. Financial Risk Management (continued)

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

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

The table below summarises the impact of increases / decreases in changes to certain assumptions as at 30 June on Meridian's profit and equity, on the assumption that all other variables are held constant and Meridian's current accounting policies are followed as stated.

Post tax profit and equity would increase (decrease) as shown in the table below due to unrealised gains/losses on CFDs and ACS held for trading.

Sensitivity Analysis-Electricity and Aluminium price risk

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

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

g) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including derivatives which have a positive value, outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits by wholesale customers is regularly monitored by line management. Credit risk surrounding the sales to retail customers is predominately mitigated by the accounts being settled on a monthly basis. Retail credit management continually monitors the size and nature of the exposure and acts to mitigate the risk deemed to be over acceptable levels.

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

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

25. Financial Instruments

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 7 provides for a three-level fair value hierarchy of valuation data inputs that requires financial instruments inputs to be categorised as follows:

- Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs - Either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs other than quoted prices included in Level 1
- Level 3 Inputs - Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

- forward price curve; and
- discount rates

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

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

25. Financial Instruments (continued)

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

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

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

25. Financial Instruments (continued)

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

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

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

25. Financial Instruments (continued)

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

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

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

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

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

The table below shows the aggregate difference between fair value and the amount that would be recognised using a valuation technique, yet to be recognised in Profit or Loss:

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

25. Financial Instruments (continued)

B) NZAS AGREEMENT

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

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

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

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

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

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

Accounting Treatment of NZAS Contract

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

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

At 30 June 2011, the carrying value of the CfD is as follows:

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

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

[1]**Day 1 Adjustment – NZAS Pricing Agreement**

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

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

	GROUP AND PARENT 2011 $'000	2010 $'000
Opening Balance	**514,970**	514,970
Additions During the Year	**-**	-
Amortised During the Year	**-**	-
Closing Balance	**514,970**	514,970

This contract does not come into effect until 1 January 2013.

25. Financial Instruments (continued)

C) CASH FLOW HEDGING

Cash Flow Hedges – CFDs

Meridian currently sells and purchases electricity at spot prices from the market exposing it to changes in the price of electricity. As described in note 24 – Financial Risk Management, it is Group policy to manage this risk on a net basis by entering into CFDs which swap receipt (payment) of spot electricity prices based on a specified volume of electricity with fixed electricity payments (receipts) for an equivalent volume. Cash settlements are made on these instruments on a monthly basis and impact income on an accrual basis. As discussed in Note 24 – Financial Risk Management, for accounting purposes, from 1 January 2009 all of the CFDs are classified as held for trading with movements in fair value recognised in the income statement. Upon cessation of hedge accounting the balance in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

Cash Flow Hedges – FECs

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

Cash Flow Hedges – CCIRSs

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

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

	GROUP AND PARENT				
	FECs $'000	DEBT – CFH OF MARGIN $'000	CFDs $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2009	(9,094)	4,024	(2,823)	2,368	(5,525)
Amount Recognised in Equity	(29,449)	(1,429)	-	9,150	(21,728)
Amount Removed from Equity:					
- Amortised to Profit or Loss[1]	-	-	1,625	(455)	1,170
- Included in Initial Cost of Assets	4,974	-	-	(1,393)	3,581
- Reclassified to Profit or Loss[2]	33,087	-	-	(9,926)	23,161
Closing Balance at 30 June 2010	(482)	2,595	(1,198)	(256)	659
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	(304)	-	-	-

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

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

25. Financial Instruments (continued)

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

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

	GROUP AND PARENT 2010			
	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	GREATER THAN 5 YEARS $'000
CfDs	(1,518)	(754)	1,074	-
CCIRSs	-	(112)	109	2,598
FECs	(430)	(45)	(3)	(4)
Total	(1,948)	(911)	1,180	2,594

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

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

27. Commitments

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

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

	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Capital Expenditure Commitments				
Property, Plant and Equipment	532,944	107,375	7,729	6,322
Software	10,823	11,485	10,823	11,485
	543,767	118,860	18,552	17,807
Less than One Year	474,197	113,354	9,452	12,301
Between One and Five Years	69,570	5,506	9,100	5,506
More than Five Years	-	-	-	-
	543,767	118,860	18,552	17,807

Guarantees

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

28. Related Party Transactions

Transactions with Related Parties

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

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

Other Transactions involving a Related Party

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

ENTITY	TRANSACTION	$'000	NATURE OF TRANSACTION
Damwatch Services Limited	Consultancy Services	$1,949	Damwatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $1.9 million (2010 $2.8 million).
Meridian Energy Captive Insurance Limited	Insurance Services	$3,169	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties (2010: $3.2 million).

Subsidiaries Loan Facilities and Advances

Advances to Subsidiaries are repayable on demand and are unsecured. Interest is charged at an annually set base rate plus a margin and is payable on demand. Advances from Subsidiaries are repayable on demand, are unsecured and attract a market rate of return. Interest is paid on demand.

	PARENT	
	2011 $'000	2010 $'000
Loan Facilities and Advances to Subsidiaries		
Loan to MEL Holdings Limited	-	116,811
Loan to MEL (Te Āpiti) Limited	-	256,000
Loan to MEL (West Wind) Limited	-	469,355
Loan to Three Rivers No 1 Limited	237,604	-
Loan to WhisperGen Limited	12,211	41,677
Loan to Meridian Energy Captive Insurance Limited	50	50
Loan to MEL (White Hill) Limited	-	144,000
Loan to Whisper Tech Limited	3,418	7,750
Loan to MEL (Te Uku) Limited	-	113,874
Loan to MEL Solar Holdings Limited	56,473	60,048
Other Advances to Subsidiaries	16,952	117
Total Advances to Subsidiaries	326,708	1,209,682
Advances from Subsidiaries		
Loan from Meridian Energy International Limited	219,163	219,163
Loan from Right House Limited	-	3,727
Loan from Powershop New Zealand Limited	-	1,400
Loan from Energy for Industry Limited	9,305	-
Other Advances from Subsidiaries	99	117,643
Total Advances from Subsidiaries	228,567	341,933

28. Related Party Transactions (continued)

Impairment

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

Compensation of Key Management Personnel

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

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

29. Subsequent Events

On 22 August 2011 the Board declared a dividend of $69.4 million payable on 31 October 2011. The dividend has not been included as a liability in these financial statements. The payment of the dividend will not have tax consequences for the Group other than reducing the imputation credit balance.

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

30. Contingent Assets and Liabilities

CONTINGENT ASSETS

There were no contingent assets at 30 June 2011.

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

CONTINGENT LIABILITIES

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

Independent Auditor's Report

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

The Auditor-General is the auditor of Meridian Energy Limited (the 'Company') and Group. The Auditor-General has appointed me, Jamie Schmidt, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on her behalf.

We have audited the financial statements of the Company and Group on pages 45 to 103, that comprise the Statement of Financial Position as at 30 June 2011, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and Cash Flow Statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion on the financial statements

In our opinion the financial statements of the Company and Group on pages 45 to 103:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
- financial position as at 30 June 2011; and
- financial performance and cash flows for the year ended on that date.

Opinion on other legal requirements

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

Our audit was completed on 22 August 2011. This is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

An audit also involves evaluating:

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

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

Independent Auditor's Report (continued)

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditors

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

Independence

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

In addition to the audit, we have carried out other assurance assignments for the Company and Group in the areas of carbon emissions audit, review of the interim financial statements, Trustee reporting and review of prospectus which are compatible with those independence requirements. Partners and employees of our firm deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group.

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

Jamie Schmidt
Deloitte

On behalf of the Auditor-General
WELLINGTON, New Zealand

Matters relating to the electronic presentation of the audited financial statements

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

Group Directors

Chris Moller
Chairman (from 01/01/11)
Appointed 01/05/09

John Bongard
Director
Appointed 17/05/11

Wayne Boyd
Chairman (from 01/07/05)
Appointed 05/04/05
Expiry of term 31/12/10

Mary Devine
Director
Appointed 01/05/10

Catherine Drayton
Director
Appointed 01/05/06

Anake Goodall
Director
Appointed 17/05/11

Steve Reindler
Director
Appointed 01/09/08

Brett Shepherd
Director
Appointed 01/05/09
Resigned 03/03/11

Anne Urlwin
Director
Appointed 01/01/05

Ray Watson
Deputy Chair (from 01/05/06)
Appointed 22/06/05
Expiry of term 30/04/11

Peter Wilson
Deputy Chair (from 17/05/11)
Appointed 17/05/11

Subsidiary Company Directors

NEW ZEALAND SUBSIDIARIES

Blue Green Windfarm Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

Damwatch Services Limited
Peter Amos
Neal Barclay
Michael Campbell
Carole Durbin
Brian Vass

Energy for Industry Limited
Warren McNabb
Linda Robertson
Brian Vass
(Appointed 10/02/11)
Andrew Robertson
(Resigned 10/02/11)
Guy Waipara
(Appointed 26/10/10)
(Resigned 12/04/11)

MEL (Central Wind) Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

MEL Holdings Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

MEL (Mill Creek) Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

MEL Solar Holdings Limited
Tim Lusk
Andrew Robertson

MEL (Te Āpiti) Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

MEL (Te Uku) Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

MEL (West Wind) Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

MEL (White Hill) Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

Meridian Energy Captive Insurance Limited
Paul Chambers
Andrew Robertson

Meridian Limited
Paul Chambers
Andrew Robertson

Meridian Energy International Limited
Paul Chambers
Andrew Robertson

Meridian International No. 1 Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

Meridian International No. 2 Limited
– Struck off (31/05/11)
Paul Chambers
Ken Smales

Meridian (Whisper Tech No. 2) Limited
Jason McDonald
Brian Vass

Meridian (Whisper Tech) Limited
Jason McDonald
Brian Vass

Powershop New Zealand Limited
John Journee
Jason McDonald
Brian Vass

Right House Limited
Richard Carver
Jason McDonald
Paul Smart
Brian Vass

Three River Holdings (No. 1) Limited
Paul Chambers
Ken Smales

Three River Holdings (No. 2) Limited
Paul Chambers
Ken Smales

WhisperGen Limited
Jason McDonald
Brian Vass

Whisper Tech Limited
Jason McDonald
David Moriarty
John Punter
Paul Smart
Brian Vass

Note: On 31 May 2011, MEL (Central Wind) Limited, MEL Holdings Limited, Blue Green Windfarm Limited, MEL (Te Āpiti) Limited, MEL (Te Uku) Limited, MEL (West Wind) Limited, MEL (White Hill) Limited, MEL (Mill Creek) Limited, Meridian International No. 1 Limited, Meridian International No. 2 Limited were amalgamated into Meridian Energy Limited (Parent).

Subsidiary Company Directors (continued)

AUSTRALIAN SUBSIDIARIES

Damwatch Pty Limited
Peter Amos
Stanley Brogan

Meridian Australia Holdings Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Meridian Wind Macarthur Holdings Pty Limited (renamed from Meridian Energy Australia Pty Limited, effective 27 October 2010)
Paul Chambers
Peter Lowe
Andrew Robertson
Ken Smales

Meridian Energy Australia Pty Limited (renamed from Meridian Renewables Pty Limited, effective 27 October 2010)
Paul Chambers
Peter Lowe
Jason Stein

Meridian Finco Pty Limited
Paul Chambers
Peter Lowe
Jason Stein

Note: MEL Meridian Australia Partnership
This is a limited liability partnership under Australian law and not a subsidiary company. However the general partner of the MEL Meridian Australia Partnership is Meridian Energy Australia Pty Limited, whose directors are noted above.

Meridian Wind Australia Holdings Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Meridian Wind Australia Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Meridian Wind Macarthur Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Meridian Wind Monaro Range Holdings Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Meridian Wind Monaro Range Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Mt Mercer Windfarm Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson

Mt Millar Wind Farm Pty Limited
Paul Chambers
Peter Lowe
Andrew Robertson
Jason Stein

USA SUBSIDIARIES

CalRENEW-1 LLC
Andrew Robertson
Guy Waipara

Hatterson Solar Farm LLC
Andrew Robertson
Guy Waipara

Jacob Canal Solar Farm LLC
Andrew Robertson
Guy Waipara

Laural East Solar Farm LLC
Andrew Robertson
Guy Waipara

Laurel West Solar Farm LLC
Andrew Robertson
Guy Waipara

Meridian Energy USA
Steve Barrett
Andrew Robertson
Guy Waipara

San Luis Valley Solar Farm LLC
William Overholt
Guy Waipara

UK SUBSIDIARIES

WhisperGen (UK) Limited
Jason McDonald
David Moriarty

Interests Register

DISCLOSURE OF DIRECTOR INTERESTS

Directors disclosed, pursuant to section 140 of the Companies Act 1993, interests or cessations of interest in the following entities during the year ended 30 June 2011.

DIRECTOR	ENTITY	RELATIONSHIP
John Bongard	Tourism Holdings Limited	Director
	H.J. Asmuss Limited	Director
	Netball New Zealand	Director
	Counties Manukau Pacific Trust Board	Trustee
	The Rising Foundation	Trustee
	South Auckland Partners – BNZ	Chairman
	Meridian Energy	Bondholder
Mary Devine	J. Ballantyne & Co. Limited	Managing Director
	Hockey New Zealand	Director
Catherine Drayton	Keith Douglas Drayton Trust Fund (removed from the register)	Trustee
Anake Goodall	General Electric	Shareholder
	Blackrock New Energy Technology Subscription	Shareholder
	Blackrock New Energy Technology	Shareholder
	Environmental Protection Authority	Establishment Board Member
	Canterbury Earthquake Recovery Authority	Review Panel Member
	Youth Guarantee Advisory Group	Member
	Kaupapa Uka Limited	Chairman
	Manawapopore Trust	Trustee
	Rorotoka Management Limited	Director and Shareholder
	Hillary Institute of International Leadership	Trustee
Chris Moller	New Zealand Cricket Inc.	Chairman
	International Cricket Council	Director
	ICC Development (International) Limited	Director
	Westpac New Zealand Limited	Director
	Woodside Petroleum	Shareholder
	Blackrock New Energy Subsidiary	Shareholder
	Synlait Limited	Ceased to be a director
Steve Reindler	Institution of Professional Engineers New Zealand	President
	Stevenson Group Limited	Director
Anne Urlwin	Naylor Love Limited	Chairman
	Invest South GP Limited	Ceased to be a Director
Peter Wilson	Westpac Banking Corporation	Director
	Westpac New Zealand Limited	Chairman
	Kermadec Property Fund Limited	Chairman
	Farmlands Trading Society Limited	Director
	New Zealand Markets Disciplinary Tribunal	Member
	New Zealand Markets Disciplinary Tribunal Special Division	Chairman

Directors' Remuneration – Meridian Energy Limited

DIRECTOR'S REMUNERATION – MERIDIAN ENERGY LIMITED	PARENT 2011 DIRECTOR'S REMUNERATION ($'000)
John Bongard	8.2
Wayne Boyd (Term ended Dec 2010)	50.1
Mary Devine	49.0
Catherine Drayton	50.1
Anake Goodall	8.2
Chris Moller	77.2
Steve Reindler	49.0
Brett Shepherd (Resigned Mar 2011)	32.8
Anne Urlwin	51.7
Ray Watson (Term ended April 2011)	42.8
Peter Wilson	8.6
Total	**427.7**

Directors' Remuneration – Subsidiaries

DIRECTORS REMUNERATION – SUBSIDIARIES	SUBSIDIARIES 2011 DIRECTOR'S REMUNERATION ($'000)
Stanley Brogan (Damwatch Pty Limited)	3.9
Richard Carver (Right House Limited)	40.0
Carole Durbin (Damwatch Services Limited)	42.5
John Journee (Powershop Limited)	44.8
Peter Lowe (Meridian Energy Australia Pty Limited and Meridian Wind McArthur Pty Limited)	136.6
Warren McNabb (Energy for Industry)	21.0
John Punter (Whisper Tech Limited)	50.0
Paul Smart (Right House Limited and Whisper Tech Limited)	45.0
Total	**383.8**

Note that Meridian executives appointed to be directors of subsidiaries do not receive any directors' fees.

Greenhouse Gas Inventory (GHG)

This section provides a summary of the Meridian Energy Group GHG Inventory for the period 1 July 2010 to 30 June 2011.

This inventory is split into 10 ‘facilities’ that represent different areas of business activity (see page 111 for a description of each facility).

GREENHOUSE GAS EMISSIONS (tCO_2e)	MERIDIAN ELECTRICITY	AGRICULTURE	ARC INNOVATIONS	DAMWATCH	EFI	MERIDIAN AUSTRALIA	MERIDIAN USA	POWERSHOP	RIGHT HOUSE	WHISPER TECH	2010/11 tCO_2e	2009/10 tCO_2e	2008/09 tCO_2e	2007/08 tCO_2e
Operational Greenhouse Gas Emissions														
Direct Emissions (Scope 1) from														
Stationary Combustion	93	-	-	-	54,350	-	-	-	-	807	55,250	42,475	44,364	47,042
Mobile Combustion	954	46	14	8	146	4	2	3	434	24	1,635	1,385	1,036	886
Fugitive Emissions	425	3,464	-	-	-	-	-	-	-	-	3,889	4,922	6,087	3,133
	1,472	3,510	14	8	54,497	4	2	3	434	831	60,774	48,782	51,487	51,061
Energy Indirect (Scope 2) Emissions from														
Purchased Electricity	1,900	14	58	10	953	140	3	9	16	124	3,226	3,555	3,533	8,517
Other Indirect (Scope 3) Emissions from														
Business Travel	1,989	-	63	219	111	197	48	67	49	217	2,960	2,912	3,235	2,801
Stationary Combustion	-	-	-	-	-	-	-	-	-	-	-	-	1,984	6,089
Electricity Purchased and Resold	-	-	-	-	3,264	-	-	30,239	-	-	33,503	14,434	4,040	6,206
Line Losses	35	2	5	1	77	24	0	1	1	10	155	141	151	38
Waste	12	-	-	1	5	-	-	-	-	4	22	33	23	707
Operational Maintenance Activities	173	33	32	-	-	8	137	-	-	-	383	260	381	273
Freight	3	-	-	-	993	-	-	-	-	-	996	1,227	709	628
Purchased Feed	-	59	-	-	-	-	-	-	-	-	59	154	109	-
	2,211	94	100	221	4,451	228	186	30,307	50	230	38,078	19,160	10,631	16,742
Total Operational Greenhouse Gas Emissions	**5,583**	**3,619**	**173**	**239**	**59,901**	**373**	**191**	**30,319**	**501**	**1,186**	**102,085**	**71,503**	**65,651**	**76,320**
Greenhouse Gas One Time Emissions from														
Business Travel	185	-	-	-	-	-	-	-	-	-	185	63	41	10
Mobile Combustion	1,511	-	-	-	-	736	-	-	-	-	2,248	2,552	4,488	3,712
Major Construction Materials	25,333	-	-	-	332	-	-	-	-	-	25,665	8,661	2,083	29,076
Freight	2,733	-	-	-	-	-	-	-	-	-	2,733	527	2,675	146
Total Greenhouse Gas One Time Emissions	**29,762**	**-**	**-**	**-**	**333**	**737**	**-**	**-**	**-**	**-**	**30,832**	**11,805**	**9,287**	**32,944**
Total Greenhouse Gas Emissions	**35,345**	**3,619**	**173**	**239**	**60,234**	**1,110**	**191**	**30,319**	**501**	**1,186**	**132,917**	**83,308**	**74,938**	**109,264**
Less Emissions already Offset											-	(4,845)	(4,688)	(183)
Emissions After Intra Group Offsets	35,345	3,619	173	239	60,234	1,110	191	30,319	501	1,186	132,917	78,463	70,250	109,081
CO_2 Emissions from Wood Pulp/Wood Chip	-	-	-	-	76,256	-	-	-	-	-	76,256	63,886	66,283	89,418
CO_2 Emissions from Landfill Gas	-	-	-	-	3,321	-	-	-	-	-	3,321	4,231	3,537	1,870
CO_2 Emissions from Sludge	-	-	-	-	5,867	-	-	-	-	-	5,867	3,430	2,903	-

Greenhouse Gas Inventory (continued)

Responding to the global issue of climate change caused by escalating greenhouse gas (GHG) emissions presents opportunities for the Meridian Energy group of companies (Meridian) as a renewable energy organisation. There is momentum world-wide among governments and other agencies to adopt economic incentives for industries and for consumers to reduce such emissions.

Meridian has calculated its own 'carbon footprint' since 2001. In the 2010/11 year Meridian is applying for Landcare Research's CEMARS certification for two of its entities – Meridian Energy Ltd (MEL) which includes the Meridian Electricity, Agriculture and Arc Innovations facilities, and EFI.

Our inventory reports (of which this is a summary) and emissions classifications are consistent with international protocols and standards (such as International Standards Organisation ISO 14064-1). In addition, the inventories of MEL and EFI have been prepared consistent with the inventory requirements of the CEMARS certification applications.

ORGANISATIONAL BOUNDARIES

The organisational boundary determines the parameters for GHG reporting in the Meridian Group GHG inventory. This boundary encompasses the operations owned or controlled by Meridian, its subsidiaries, associate companies and 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 GHG emissions from all activities within its corporate boundary and a percentage of the emissions from entities in which it has an equity interest according to its share of equity in the entities.

FACILITIES

Meridian Electricity Facility – Includes emissions arising from Meridian's core activities associated with renewable energy electricity generation and the retail of electricity.

Agriculture – Includes emissions from Meridian's South Island share-milking dairy farms.

Arc Innovations – Develops, deploys and manages Advanced Meter Infrastructure (AMI) technology and services.

Damwatch – Consultancy services relating to dam safety and surveillance that take place in Damwatch Services Limited and Damwatch Pty Limited (incorporated in Australia).

Energy for Industry (EFI) – Acts as an independent investor in on-site energy centres and related energy efficiency solutions, supplying heat and power to largely industrial and institutional energy market customers from a variety of fuel sources based at different sites.

Meridian Australia – Owns and develops renewable energy generation facilities in Australia. Currently this facility owns one wind farm, Mt Millar, which is 70MW in size.

Meridian USA – Owns and develops renewable energy generation facilities in the USA. Currently this facility has one solar power plant, CalRENEW-1, which is 5MW in size.

Powershop – Conducts energy retailing activities within Powershop New Zealand Limited under the Powershop brand.

Right House – Independent supplier of energy efficiency advice, solutions and installations in the residential housing market.

Whisper Tech – A 93.23% Meridian-owned subsidiary company that manufactures and sells micro-combined heat and power systems, and has a 40% share in a Spanish manufacturing plant.

BASE YEAR AND CHANGES TO REPORTING

The base year is 1 July 2007 to 30 June 2008. The methodology used to prepare the GHG inventories is unchanged. The base year for the Meridian Electricity facility was restated in 2009/10 to include emissions from electricity purchased and resold due to dry weather conditions (6,126 tCO_2e).

NOTES ON ELECTRICITY THAT IS PURCHASED AND ON-SOLD TO END USERS

From time to time Meridian Energy (Electricity facility) purchases electricity from the grid to supply to its retail customers in excess of the electricity supplied by Meridian to the grid. If, on an annual basis, the amount purchased is more than the amount supplied, Meridian reports the net difference as a source of Scope 3 emissions. This emissions source occurred in the 2007/08 year, leading to a restatement as discussed above.

The annual netting off approach has been approved by the CEMARS programme and conforms with green energy programme precedents in the USA (Green-e), Australia (Greenpower), and Europe (Eugene). This calculation includes an allowance for transmission losses in the National Grid and is based on the amount purchased at the entry point for local network distribution, thereby taking into account losses due to distribution.

As Powershop is classified as a separate facility for the purposes of greenhouse gas accounting, the electricity it purchases from the wholesale market for resale is not included in the annual netting off process described above.

EXCLUSIONS – SCOPES 1, 2 AND 3

EMISSIONS SOURCE	SCOPE	FACILITY	REASON FOR EXCLUSION
Electricity consumed at Manapouri power station	Scope 2	Meridian Electricity	Consumption is netted off the generation produced by the station before it is exported Estimated to be de minimis
Electricity consumed at Ross Island power station	Scope 2	Meridian Electricity	No emissions factor available Estimated to be de minimis
Contractor fuel for meter reading	Scope 3	Meridian Electricity	Too difficult to measure Estimated to be de minimis
Fugitive emissions from air-conditioning at hydro power stations (HFCs)	Scope 1	Meridian Electricity	Too difficult to measure Estimated to be de minimis
Freight (courier packages)	Scope 3	Meridian Electricity	Too difficult to measure Estimated to be de minimis
Waste from earthquake damage to goods, fittings and fixtures	Scope 3	Meridian Electricity	Too difficult to measure Estimated to be de minimis
Emissions from minor investigation work	Scope 3	Meridian Electricity	Too difficult to measure Estimated to be de minimis
Water use	Scope 3	Agriculture	Not included in the Lincoln Agricultural Carbon Calculator
Waste to landfill (ash from sites)	Scope 3	EFI	No emissions factor available
Electricity (offices)	Scope 2	EFI	Included in Meridian Electricity facility
Some gases used in NZ research and development	Scope 1	Whisper Tech	No emission factors available These gases make up less than 0.1% of gases used Estimated to be de minimis
Car travel (taxis)	Scope 3	Meridian Australia, Whisper Tech	Estimated to be de minimis
Operational maintenance activities (contractor fuel)	Scope 3	Damwatch, EFI, Meridian Australia, Meridian USA, Powershop, Right House, Whisper Tech	Too difficult to measure
Waste to landfill	Scope 3	All except Meridian Electricity, Damwatch and EFI	Too difficult to measure Estimated to be de minimis
Freight	Scope 3	All except Meridian Electricity	Too difficult to measure Estimated to be de minimis
Fugitive emissions (HFCs)	Scope 1	All except Meridian Electricity	Estimated to be de minimis

ONE-TIME EMISSIONS

In New Zealand we voluntarily report our one-time emissions from our construction projects which is a significant expansion of the Scope 3 boundary. One-time emissions are not accounted for in our overseas activities apart from contractor fuel.

EMISSION FACTORS

Emission factors were sourced from Landcare where available, or alternatively from a relevant and reputable source approved by the Landcare Research programme. These are expressed in terms of total tonnes of carbon dioxide equivalent and as such, all calculations in this report are expressed in total tonnes of carbon dioxide equivalent.

VERIFICATION OF 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 CEMARS verifier. A reasonable level of assurance has been given over the assertions and quantifications included in the full GHG inventory report.

Deloitte is also the financial auditor of Meridian Energy Limited on behalf of the Office of the Auditor-General.

Global Reporting Index

ABOUT THIS REPORT

This report is an integrated review of the Meridian Group's financial and sustainability performance in the period 1 July 2010 to 30 June 2011. For this reporting year, the Meridian Group included the parent company Meridian Energy and subsidiaries Powershop, MEUSA, Meridian Australia, Damwatch, Whisper Tech, EFI and Right House. We report our performance in full each year, and issue reports on aspects of our performance throughout the year.

The principles of the Global Reporting Initiative (GRI) and AA1000 have been followed in determining the contents of this report. Material issues have been identified and prioritised for their influence on Meridian's current and future performance and their importance to our stakeholders. More information on our stakeholders, their key interests and our response can be found on page 37.

We have self-assessed this report as meeting a Level C application level. We have not sought assurance of our GRI application level this year, although we are considering this for future years. Our GHG inventory for the Meridian Group has been audited and verified by Deloitte.

Care has been taken to ensure that all data in this report is as accurate as possible. Where assumptions, estimations or restatements have been made, they are clearly stated and explained.

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 Chief Executive and Chairman	YES	6	
2	**Organisational profile**			
2.1	Name of reporting organisation	YES	2	
2.2	Primary brands, products and/or services	YES	2, 29, 38	
2.3	Operational structure of the organisation	YES	10, 11, 18	
2.4	Location of the organisation's headquarters	YES	116, 115	
2.5	Countries in which the organisation operates	YES	2, 38	
2.6	Nature of ownership and legal form	YES	38	
2.7	Markets served	YES	iv, v	
2.8	Scale of the reporting organisation	YES	3, 14, 24-29	
2.9	Significant changes in size, structure or ownership	YES	32	Move to new office in Christchurch
2.10	Awards received in the reporting period	YES	29, 32, 34	
EU1	Installed capacity	YES	iii, iv	
EU2	Net energy output	YES	iii, iv	
EU3	Number of customer accounts	PARTIALLY	3	
EU4	Length of transmission and distribution lines	N/A		Length not significant
EU5	Allocation of CO_2e emissions allowances	YES	35	
3	**Report parameters**			
3.1	Reporting period	YES	113	
3.2	Date of most recent previous report (if any)	YES	113	
3.3	Reporting cycle (annual, biennial etc)	YES	38, 113	
3.4	Contact point for questions regarding the report or its questions	YES	115	
3.5	Process for defining report content	YES	113	
3.6	Boundary of the report	YES	113	
3.7	Specific limitations on the scope or boundary of the report	N/A		No significant limitations
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities	YES	113	
3.9	Data measurement techniques and the basis of calculations	YES	113	Throughout this report
3.10	Explanation of the effect of any restatements	YES	59	EFI moved from wholesale segment to other segment
3.11	Significant scope, boundary or measurement changes	N/A		No changes
3.12	GRI index table	YES	113	
3.13	External assurance policy and practice	YES	113	
4	**Governance, commitments and engagement**			
4.1	Governance structure of the organisation	YES	38-42	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	YES	39	

Global Reporting Index (continued)

KEY: YES | PARTIALLY | NO | N/A (Not Applicable)

PROFILE DISCLOSURE		STATUS	PAGE	COMMENT
4.3	Independence of the Board	YES	39	
4.4	Mechanisms to provide recommendations to the Board	YES	39, 40	
4.5	Linkage between performance and compensation	YES	32, 41	
4.6	Processes for avoiding conflict of interest	YES	40	
4.7	Processes for determining qualifications and expertise of the members of the Board	N/A	39	Board appointed by the Govt
4.8	Corporate mission or values	PARTIALLY	6	
4.9	Board-level processes for managing economic, environmental and social performance	YES	40, 41	
4.10	Processes for evaluating the Board's own performance	YES	40	
4.11	How the precautionary principle is addressed	YES	34	
4.12	External charters	PARTIALLY	32, 34	
4.13	Memberships of associations	NO		
4.14	List of stakeholder groups engaged by the organisation	YES	37	
4.15	Identification and selection of stakeholders	YES	36	
4.16	Approaches to stakeholder engagement	YES	37	
4.17	Key topics and concerns from stakeholder engagement	YES	37	
ECONOMIC				
Main economic impacts of the organisation throughout society, flow of capital amongst stakeholders				
EC6	Spending on locally-based suppliers	PARTIALLY	36	
EU6	Approach to electricity availability and reliability	YES	23	
EU10	Planned capacity against demand	PARTIALLY	23	
ENVIRONMENTAL				
Impacts on living and non-living natural systems				
EN13	Habitats protected or restored	YES	34	
EN16	Greenhouse gas emissions (Scope 1 and Scope 2)	YES	110	
EN17	Other relevant indirect greenhouse gas emissions (Scope 3)	YES	110	
EN28	Fines and sanctions for non-compliance with environmental laws and regulations	YES	34	No significant fines in this reporting period
LABOUR PRACTICES AND DECENT WORK				
Adherence to internationally recognised universal standards				
EU14	Programmes and processes to ensure the availability of a skilled workforce	PARTIALLY	32	
EU15	Percentage of employees eligible to retire	PARTIALLY	33	
LA1	Total workforce by employment type, employment contract, and region	PARTIALLY	32	
LA6	Percentage of total workforce represented in formal health and safety committees	YES	32	
LA7	Injury, absenteeism and fatality data	PARTIALLY	32	
LA12	Percentage of employees receiving regular performance and career development reviews	YES	33	
LA13	Composition of governance bodies and breakdown of employees	PARTIALLY	33	
SOCIETY				
Impacts on communities in which we operate and risks of unethical behaviour				
EU19	Stakeholder participation in the decision-making process	PARTIALLY	36	
EU21	Disaster/emergency planning and response	PARTIALLY	32	
SO1	Programmes and practices that assess and manage the impacts of operations on communities	PARTIALLY	36	
SO5	Public policy positions and participation in public policy development and lobbying	PARTIALLY	34	
SO6	Financial contributions to political parties	YES	42	Meridian does not make donations to political parties
PRODUCT RESPONSIBILITY				
Effects of our products/services upon customers				
EU23	Programmes to improve or maintain access to electricity and customer support services	PARTIALLY	27	
PR5	Customer satisfaction practices and measures	YES	24, 26	
EU30	Average plant availability factor	YES	22	

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Kate Peterson
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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 meridian.co.nz

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